

MINUTES



To: Board Members

From: Revenue Recognition Team (B. Wilson, ext. 275)

Subject: Minutes of the September 18, 2002 Joint FASB/IASB Board meeting **Date:** September 25, 2002

Code: A: RR

cc: Leisenring, Bielstein, T. Johnson, Smith, Petrone, MacDonald, Mahoney, Swift, Polley, Thompson, Gabriele, Bean (GASB), Slayton, Such, Manders, Boelter, B. Wilson, Cohen, Lapolla, Intranet

Topic: Revenue Recognition — The Issues Related to Pursuing a Joint Project

Basis for Discussion: Two memorandums dated September 4, 2002 and a memo dated September 11, 2002

Length of Discussion: 3:10 p.m. to 4:50 p.m.

Attendance:

Board members present: FASB: Herz, Crooch, Foster, Schieneman, Schipper, and Wulff

IASB: Tweedie, Barth, Bruns, Cope, Garnett, Gélard, J. Smith, Jones, Leisenring, McGregor, O'Malley, Schmid, Whittington, Yamada

Board members absent: FASB: Trott

Staff in charge of topic: T. Johnson

Other staff at Board table: FASB: Slayton, Such, Manders, B. Wilson, IASB: Stevenson, Upton

Outside participants: None

MATTERS DISCUSSED, DECISIONS REACHED, AND FOLLOW-UP ACTION

At the joint meeting held on September 18, 2002, the FASB and the IASB considered pursuing their revenue recognition projects jointly. The Boards discussed administrative matters relating to the joint project and shortcomings of the existing conceptual criteria for revenue recognition. The Boards also discussed examples illustrating the differences between a revenue recognition approach that focuses on changes in assets and liabilities (consistent with FASB Concepts Statements No. 6, *Elements of Financial Statements*, and the definition of income in the IASB *Framework for the Preparation and Presentation of Financial Statements*) and an approach that focuses on an earnings process that overrides changes in assets and liabilities (consistent with FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and the acknowledgement in the IASB *Framework* that being earned is an application of its recognition criteria). The Boards directed the staff to explore the use of an approach focusing on changes in assets and liabilities.

DISCUSSION

In his opening remarks, the meeting chairman discussed the international importance of revenue recognition. The chairman briefly noted the needs for consistency of measuring and recording revenue and for a conceptual approach to revenue recognition as being matters of high interest to both Boards. The staff began the discussion by focusing on issues that were principally administrative in nature, particularly the policies governing joint projects involving the IASB and national standards setters. The staff also discussed a principle-based approach to developing a new standard, which necessitates sound underlying concepts. The staff believes that developing sound underlying concepts begins with a review of the existing FASB and IASB conceptual guidance pertinent to revenue recognition.

Most members of the two Boards were supportive of the staff's efforts and approach. Initial discussion focused on scope issues, such as the need to consider the distinction between revenue and gain recognition and recording revenues at either their gross or net

amounts. Other Board members were concerned with predictability and other display issues. Some Board members suggested that the display issues be addressed in the projects on performance reporting. Several Board members noted that the timing of revenue recognition and gain recognition would likely be the same.

A number of the Board members addressed administrative matters concerning the schedule and scope of the joint project. Some of the Board members suggested scheduling a Board meeting near the end of the deliberations of the technical issues to discuss scope issues. Some Board members, while favoring the asset and liability approach, suggested that the proposed conceptual guidance be tested early in the project against difficult revenue recognition issues, such as insurance contracts and leasing agreements. Their rationale was to ensure that the conceptual guidance is robust enough to handle most of the difficult revenue transactions. However, other Board members cautioned about taking, as one member described, “long walks” involving such issues. Members expressed concerns that difficult items should not be scoped out too hastily and that the approach to testing be done in an agreed manner. The final suggestion was to apply the working criteria against candidates for scope exclusions earlier in the project but not make a final decision on excluding any items until later in the project.

The timing of the two Boards’ discussion of technical issues was of concern to some of the Board members, given the fact that the FASB generally is scheduled to address those issues before the IASB. The staff explained that the attempt was to achieve contemporaneous Board discussions to the extent possible. Some of the Board members suggest that the IASB take the lead in addressing issues that are unique to or more prevalent in countries other than the United States.

After the staff provided clarification concerning certain administrative matters, discussion focused on the examples illustrating the differences between the current guidance and the revenue recognition approach based on changes in assets and liabilities. Some Board members suggested the need to amend or modify either Concepts Statement 5 or Concepts Statements 6, or both, to reflect consistent terminology and measurement technologies now available. It was noted that measurement techniques have improved

since the Concepts Statements were written and that accounting conventions impacted by reliability of measurement might therefore be changed.

After the Board members clarified their positions regarding preliminary differences in the two approaches, discussion of the case examples began focusing on the multiple-elements components of the extended warranty example. Board members disagreed about the amounts that should be recognized for revenue and the liability recorded for servicing the warranty. Many of the Board members acknowledged that, with an asset and liability approach, revenue may be recognized earlier than under a realization and earnings approach. The meeting chairmen concluded the discussion by acknowledging that the approach potentially could lead to significant changes and improvements, and that the direction the staff proposed taking was appropriate.

OTHER TOPICS OF DISCUSSION

None

GENERAL ANNOUNCEMENTS

None

SUMMARY FOR ACTION ALERT

See first paragraph.