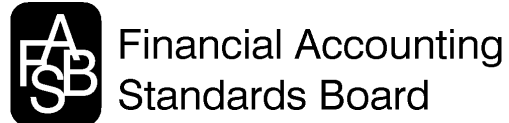


MINUTES



To: Board Members

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

Subject: Minutes of the April 9, 2003 Board Meeting **Date:** April 11, 2003

cc: Leisenring, Bielstein, T. Johnson, Smith, Petrone, MacDonald, Mahoney, Swift, Polley, Thompson, Gabriele, Sutay, Patton (GASB), Slayton, Such, Manders, Wilson, Kazazean, Cohen, Cropsey, Lapolla, Intranet

Topic: The Definition of Revenue

Basis for Discussion: Memorandums dated March 28, 2003

Length of Discussion: 9:00 a.m. to 9:50 a.m.

Attendance:

Board members present: FASB: Herz, Crooch, Foster, Trott, Schipper, Wulff

IASB: Leisenring

Board members absent: Schieneman

Staff in charge of topic: T. Johnson

Other staff at Board table: Bielstein, Slayton, Cropsey, Manders, Wilson, Kazazean

Outside participants: Paul (by Phone)

Summary for ACTION ALERT:

The Board continued its discussion of issues related to the definition of revenues by comparing four alternative views of revenues. The Board decided to eliminate two of those views from consideration and focus only on the liability extinguishment and broad performance views. Under the liability extinguishment view, revenues arise from extinguishment, through performance, of obligations to the reporting entity's customer for which it is primarily liable (the primary obligor). Under the broad performance view, revenues arise from the reporting entity's *output of assets* in the form of its goods or services that it ultimately sacrifices by transferring them to customers. The Board asked the staff to further explore the implications of different combinations of the two views for purposes of definition, recognition, and display, with the definition of revenue being based on one view, and the recognition or display of revenue in the income statement being based on the other view.

Matters Discussed and Decisions Reached:

The primary purpose of the discussion was for the Board to reach a decision about which of the four views identified by the staff for defining revenue should be used as the basis for further developing that definition. The terms that describe the four alternative views of revenue are the gross inflow view, the liability extinguishment view, the value-added view, and the broad performance view. The staff noted the gross inflow and value-added views are likely to produce revenue results that differ significantly from those reported today. It is also not clear that the gross inflow or value-added views provide superior information or that they are either conceptually superior or easier to implement than the other two alternative views of revenue.

The staff proposed focusing on the liability extinguishment and broad performance views and eliminating the other two views from further consideration. Under the liability extinguishment view, revenues arise from extinguishment, through performance, of obligations to the reporting entity's

customer for which it is primarily liable (the primary obligor). Under the broad performance view, revenues arise from the reporting entity's output of assets in the form of its goods or services that it ultimately sacrifices by transferring them to customers.

The Board agreed with the staff's recommendation to eliminate the gross inflow and value-added views from consideration and focus only on the liability extinguishment and broad performance views. [6 agreed; GSS absent] Board members also discussed the notion of incorporating activity into the definition of revenue. Mr. Foster expressed his belief that the level of activity is important in the definition of revenue because revenue is a function of activity and users of financial statements expect the reported revenue to represent the activities of the reporting entity.

Board members expressed their approval for restricting the views for defining revenue to liability extinguishment and broad performance for varying reasons. Mr. Wulff was pleased with this focus because it allows for the opportunity to address constructive obligations, economic compulsion, and accounting symmetry.

Ms. Schipper expressed several cautionary observations. She noted that the liability extinguishment view places a heavy reliance on legal arrangements, and the Board should consider approaches that do not rely exclusively on legal definitions in determining assets and obligations. The Board may wish instead to expand, and rely on, the accounting definitions of these items. In addition, she believes that the broad performance view accounts for the customer receiving something of value in addition to assets that are currently recognized under today's accounting model. She added that the Board should consider simplicity, practicality, ease of application, and generalizability when deciding which of the two views is preferable.

Other Board members noted that the liability extinguishment and broad performance views may be easier to apply when cash is exchanged in advance

of performance by the seller. Mr. Herz also noted his concern with recognizing revenue from a selling effort.

The Board asked the staff to further explore the implications of different combinations of the liability extinguishment and broad performance views for purposes of definition, recognition, and display of revenue. The Board also asked the staff to compile a list of terms that would need to be defined under the two remaining views.

Follow-up Items:

None

General Announcements:

None