SMALL BUSINESS ADVISORY COMMITTEE

FASB Offices
Norwalk, Connecticut

June 27, 2008

Agenda*

9:00 am	Introductory Remarks (Mr. George Batavick)
9:05 am	Semi-Annual Status Reports • Report of the FASB Chairman (Mr. Bob Herz) • Report of the SEC (Mr. Ashley Carpenter) • Report of the PCAOB (Mr. Greg Fletcher) • Report of the PCFRC (Mr. Paul Glotzer)
10:15 am	BREAK
10:30 am	Convergence: Implementation and Application Guidance, Timing Considerations, and Approach for US Private Companies and Not-for-Profit Organizations *Session Objective: To obtain SBAC members' input on specific convergence issues.*
12:30 pm	LUNCH
1:30 pm	Contingency Disclosures (Mr. David Elsbree) *Session Objective: To obtain SBAC members' input on the operationality of the disclosures proposed in the project.*
2:45 pm	Other issues and closing remarks
3:00 pm	Adjournment

**Times are approximate.*

ATTACHMENT A-1

SBAC MEETING

FASB CHAIRMAN'S REPORT

JUNE 27, 2008

- **TECHNICAL ACTIVITIES**
- **INTERNATIONAL**
- **WASHINGTON, D.C.**
- **PEOPLE AND PROCESS MATTERS**

REPORT OF THE CHAIRMAN OF THE FASB

TO THE FINANCIAL ACCOUNTING FOUNDATION

February 1, 2008 through April 30, 2008

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

a. Documents issued:

1. Final Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities.*
2. Final FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.*
3. Final FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets.*
4. Final FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13.*
5. Final FSP FAS 157-2, *Effective Date of FASB Statement No. 157.*
6. Final FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises.*
7. Final FSP SOP 90-7-1, *An Amendment of AICPA Statement of Position 90-7.*
8. Final FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1.*
9. Proposed FSP FAS 117-a, *Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures.* The comment period ended April 18, 2008.
10. Proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*. The comment period ends May 2, 2008.
11. Invitation to Comment, *Reducing Complexity in Reporting Financial Instruments.* The comment period ends September 19, 2008.

b. Projects added to the Board's agenda:

1. Project to address a conflict between AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code,* and other authoritative accounting standards that expressly prohibit early adoption.
2. Project to reconsider FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. This will be addressed together with the existing project on potential changes to Statement 140 on transfers of financial assets.

3. Project to consider improvements to disclosures about credit derivatives accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

c. A project that would have created one definition of a public/nonpublic entity to be used throughout all FASB literature was removed from the Board's agenda.

d. Emerging Issues Task Force (EITF):

1. At the March 26, 2008 Board meeting, the Board ratified the consensus reached at the March 12, 2008 EITF meeting on Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships."

2. The Board also ratified the consensuses-for-exposure reached by the Task Force on Issues No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits," and No. 08-4, "Transition Guidance for Conforming Changes to EITF Issue No. 98-5. The comment period for the draft abstracts posted to the FASB website for each of those Issues ends on May 5, 2008.

3. All seven Board members participated in the March EITF meeting.

4. The EITF chairman and several members of the staff met with the EITF Working Group on Issue 07-5.

e. Seven Board members, several staff members, and invited guests participated in the March meeting of the Financial Accounting Standards Advisory Council. For the closed portion of the meeting, the FASB directors provided an overview of the FASB's structure, procedures, and technical agenda. Members of the FASB's technical staff gave brief updates on major projects, such as the conceptual framework, financial statement performance, revenue recognition, and liabilities and equity.

f. Two Board members and staff held a closed meeting with the Senior Roundtable Steering Committee of the National Investor Relations Institute to discuss several topics, including financial statement presentation, revenue recognition, and liabilities and equity.

g. Three Board members, a director, and eight staff members met in a closed session with representatives of the Equipment Leasing and Finance Association (ELFA) to discuss the leases project.

h. Two Board members and the director of MP&T met in a closed meeting with the Investor Technical Advisory Committee. That committee provided investor perspectives on a variety of on-going Board projects including international convergence, improvements to Statement 140, and a potential project to provide a framework for disclosures.

i. The chairman, one Board member, the director of TA&I, and the director of PD&S met with representatives of the Big 4 firms to discuss fair value practice issues.

j. The TA&I director and staff met with the Valuation Resource Group to discuss Statement 157 implementation issues.

k. A staff member participated in a meeting of the Connecticut UPMIFA Working Group.

<u>INTERNATIONAL ACTIVITIES</u>

a. The chairman participated in the Global Public Policy Symposium of the major international audit networks in New York.

b. The FASB and the IASB held a semiannual joint meeting in London. The Boards' discussions included various technical issues on the Boards' joint projects on the conceptual framework and revenue recognition, discussions also included the updated Memorandum of Understanding and the Boards' responses to reporting issues arising from the credit crisis.

c. FASB staff participated in IASB Board meetings and discussed various technical issues on the Boards' joint projects on revenue recognition, amendments to IFRS 5, and financial statement presentation.

d. The FASB's conceptual framework Board advisors met with the IASB via video conference and discussed technical matters.

e. The FASB and IASB directors continued their ongoing series of weekly conference calls to discuss technical and administrative matters.

f. The chairman and a staff member participated in the IASC Foundation Conference in Toronto.

g. A staff member participated in the Insurance Working Group meeting in London.

h. The chairman and two Board members met with a delegation from the Ministry of Finance (China) to discuss matters relating to international convergence of accounting standards.

i. The chairman, two FASB staff members, and an IASB staff member met with representatives of EFRAG to discuss several matters, including the FASB Preliminary Views, *Financial Instruments with Characteristics of Equity*.

<u>OTHER ACTIVITIES</u>

a. The following professional development sessions were presented to the Board and staff:

1. The Proposed IFRS for Small- and Medium-Sized Entities. Paul Pacter, Director of Standards for Small and Medium-sized Entities (SMEs) at the IASB, and Director of Global IFRS Office of Deloitte Touche Tohmatsu in Hong Kong, discussed the need for and the benefits of global standards for SMEs. In his presentation he also discussed issues raised in the course of the deliberations leading up to the February 2007 Exposure Draft, how the full IFRS was adapted to SMEs, comments received on the Exposure Draft, field test results, and the world's movement toward adoption. He also covered the next steps in issuing a final standard.

2. Accounting for and in the Subprime Loan Crisis. Dr. Stephen Ryan, Professor of Accounting, Peat Marwick Faculty Fellow—New York University, Leonard N. Stern School of Business discussed the accounting for and in the subprime loan crisis. He also covered issues relating to fair value such as fair valuing assets in illiquid markets. In addition, he discussed the effect of the subprime crisis on securitizations and the application of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

3. NY Law and Ethics. Timothy F. Gearty, Becker Gearty CPE, presented a course on New York Law and Ethics. This course met the specific state ethic requirements for the State of New York and also satisfied most states' ethics requirements where general ethics courses are acceptable.
4. Transitioning Canada into IFRS. Peter Martin, Accounting Standards Director, and Karen McCardle, Principal of the Canadian Accounting Standards Board, discussed the CICA's plan for incorporating IFRSs into Canadian GAAP. The presentation highlighted the challenges Canada's Accounting Standards Board faced in its decision to adopt IFRSs to replace Canadian GAAP and the plan the Board developed to ensure the country will be ready for the changeover by 2011. The presentation included a discussion of how Canada decided when to adopt IFRSs, how to adopt them (in stages or all at once), who should be required to prepare financial statements in accordance with IFRS, what resources would be needed to ensure a successful transition, and a number of other key areas in the transition process.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

a. All Board members attended the February FAF Trustees meeting.

ITEM 3: WASHINGTON ACTIVITIES

a. The chairman conferred with Members of the United States Senate and with Congressional staff members on international convergence, major project activities, and other technical activities of the Board.

b. Staff members met in separate meetings with various staff of Congressional committees and representatives of Washington, DC-based trade associations to discuss the role of the FASB, various current projects, and other matters of mutual interest.

c. The chairman participated as an official observer to the SEC Advisory Committee on Improvements to Financial Reporting. Board members are also acting as observers to the subcommittees of this committee.

d. The TA&I director participated as a senior advisor to the SEC Advisory Committee on Improvements to Financial Reporting.

e. The chairman participated as an official observer to the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession. Board members are also acting as observers to the subcommittees of this committee.

f. The chairman, two Board members, the director of TA&I, the director of MP&T, and a staff member held quarterly meetings with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.

g. The chairman provided a lengthy written letter to Senator Reed in response to the Senator's inquiries relating to various reporting issues arising from the credit crisis.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the February 2008 through April 2008 period include:

- AICPA Webcast
- AICPA Webcast on Endowments, IPMIFA & Proposed FSP FAS 117-c
- American Accounting Association –APLG/FSA Meeting
- American Accounting Association – Midwest Regional Meeting
- American Bar Association's Section of Business Law
- American Council of Life Insurers (ACLI)
- American Enterprise Institute (AEI) Fair Value Accounting Conference
- API Accounting Committee
- Becker Gearty for Professor and Students
- Bentley College
- Brigham Young University Advanced Financial Reporting Conference
- Center for Business Intelligence – Pharmaceutical Accounting & Reporting Congress
- College of Business, DeKalb, IL
- CPE Inc. 2008 Conference on Fair Value Accounting
- Connecticut State Society's Not-for-Profit Committee
- Deloitte & American Accounting Assoc. Trueblood Seminars for Professors
- Directors Roundtable National Conference
- EuroFinance Conferences Ltd. International Cash & Treasury Management Conference
- Financial Executives International (FEI) Central PA Chapter
- Financial Executives International – FEI/CCR Meeting
- Financial Executives International Oklahoma City Chapter
- Financial Executives International Pittsburgh Chapter

- Financial Institutions Accounting Committee (FIAC) of Financial Managers Society
- Global Public Policy Committee
- IASC Foundation & CICA
- Kent State University 34th Annual Meonski Ohio Council IMA Professional Development
- National Association of College and University Business Officers (NACUBO)
- NACUBO Webcast on Endowments, UPMIFA & Proposed FSP FAS 117-c
- NAREIT's Annual Law and Accounting Conference
- National Association of Regulatory Utility Commissioners
- Pace University—The Lubin School – Forum on Contemporary Accounting Issues
- PCAOB 2008 Annual Inspections Division Training
- PCAOB 2008 Symposium
- Reuters Regulatory Summit
- Standard & Poor's Credit Market Services
- Tax Executives Institute (TEI)
- The National Academies (Science, Technology, and Economic Policy)
- University of Oklahoma, Price College of Business, School of Accounting
- University of Fairfield Beta Alpha SSI
- University of Illinois at Urbana-Champaign Professional Lyceum
- University of Mississippi Accountancy Weekend
- University of Tulsa Conference of Accountants
- Virginia Tech. Department of Accounting and Information Systems
- Wayne State University School of Business Administration

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

a. The FASB, through the Communications Department, issued the following nine press releases: *FASB Staff Position FIN 48-2,* Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises, *Issued (2/1/08); FASB Issues Proposed FASB Staff Position FAS 117-a*, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures *(2/22/08); The Financial Accounting Foundation Board of Trustees Approves Changes to Oversight, Structure and Operations of FAF, FASB and GASB (2/26/08); FASB Issues Proposed FASB Staff Position (FSP) No. 132(R)-a,* Employers' Disclosures about Postretirement Benefit Plan Assets *(3/19/08); FASB Issues Statement No. 161,* Disclosures about Derivative Instruments and Hedging Activities *(3/19/08); FASB Issues Invitation to Comment,* Reducing Complexity in Reporting Financial Instruments, *including IASB Discussion Paper,* Reducing Complexity in Reporting Financial Instruments *(3/28/08); SEC Content Released onto the* FASB Accounting Standards Codification™ *for the Verification Phase (4/3/08); The Financial Accounting Foundation and the Financial Accounting Standards Board to Host* High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial

Reporting *(4/17/08);* and *The Financial Accounting Standards Board and the China Accounting Standards Committee Sign Memorandum of Understanding (4/28/08).*

b. The Communications Department spent a significant amount of time on media issues on fair value accounting and its role in the economic downturn. In addition to interviewing key FASB members and staff to prepare talking points and related materials on the subject, the department participated in publicizing a CFA Institute Media Roundtable on the subject, which counterbalanced criticism of fair value with input from the investor point of view. Media inquiries from a large number of publications were also handled, including an interview with Bob Herz by Ian Katz of Bloomberg and a NY Times interview with Russ Golden.

c. At the conclusion of the first quarterly FAF Trustee meeting of 2008, the Communications Department hosted a press conference at the Roosevelt Hotel in New York City to discuss acceptance by Trustees of proposed improvements to the FAF, FASB, and GASB.

d. The FASB and the Communications team continued to educate reporters from key outlets on the Board's activities and mission and independent process. Specific meetings or conference calls were held with reporters on IFRS (Bob Herz interviewed by CFO.com on February 1; business combinations project (Sue Bielstein interviewed for Accounting and Business Magazine and FEI publication); Bob Herz profile (NJ CPA magazine); auction rate securities (Wall Street Journal interview with Russ Golden); VIEs (Dow Jones Newswire interview with Chris Roberge); participating securities (Compliance Week interview with Christopher Bolash); non-profit accounting issues (Investment News interview with Jeffrey Mechanick); Statement 161 (CFO.com and Business Week interviews with Kevin Stoklosa); FSP 157-c (CFO.com interview with Ron Maples); XBRL (Thomson Tax & Accounting interview with Dennis Chookaszian); and derivatives (Asset & Securitization Report interview with Bob Bhave).

e. The Communications Department worked with the FASB on developing and promoting the second FASB webcast held on March 13, 2008, titled "The Move to Codification of U.S. GAAP."

f. On April 30, the Department provided a tour to a group of accounting students from Nyack College.

<u>ITEM 6: GASB LIAISON ACTIVITIES</u>

a. FASB meeting minutes were sent to the GASB RTA director and certain GASB staff.

b. GASB meeting minutes were sent to the FASB chairman and two staff directors.

c. The GASB RTA director and the FASB PD&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.

d. The FASB staff distributed the following drafts to the GASB for review:

- Final Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*
- Final Statement, *Accounting for Financial Guarantee Insurance Contracts*

- Final Statement, *The Hierarchy of Generally Accepted Accounting Principles*
- Final FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*
- Final FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*
- Final FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*
- Final FSP SOP 90-7-1, *An Amendment of AICPA Statement of Position 90-7*
- Final FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*
- Proposed revised Statement, *Earnings per Share*
- Proposed Statement, *Disclosure of Loss Contingencies*
- Proposed FSP FAS 117-a, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*
- Proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*
- Proposed FSP ARB 43-a, *Amendment of ARB No. 43*
- Proposed FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations.*
- Invitation to Comment, *Reducing Complexity in Reporting Financial Instruments*

e. The FASB staff received the following GASB draft for review:

- Exposure Draft, *Service Efforts and Accomplishments Reporting*.

Private Company Financial Reporting Committee
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 203-956-5218
e-mail: jhodell@fasb.org Fax: 203-849-9714
JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights January 10-11, 2008

New York, New York

All PCFRC members were in attendance except Carl Bagge, Marco Kichler, and Maryann Lawrence.

Financial Accounting Standards Board ("FASB") Staff: Paul Glotzer
American Institute of Certified Public Accountants ("AICPA") Staff: Bob Durak and Dan Noll

Committee Matters

Mr. James Stevenson was introduced as a new member of the PCFRC, replacing Kathy Barry who has rotated off the committee. Also, Marco Kichler resigned from the PCFRC and a process is underway to replace him.

FASB FIN No. 48

The PCFRC discussed proposed FASB Staff Position No. FIN 48-b, *Effective Date of FASB Interpretation No. 48 for Nonpublic Enterprises* ("FSP FIN 48-b"). This proposed FSP will defer the effective date of FIN 48 for nonpublic entities to periods beginning after December 15, 2007. Questions exist among the PCFRC's constituents about the particulars in FSP FIN 48-b, especially concerning the definition of adopting FIN 48 when interim financial statements or financial information have been issued.

The PCFRC recognized that numerous private companies are prepared to issue financial statements and are waiting for the final FSP to be issued. As such, the PCFRC decided to issue a letter to the FASB, urging the immediate finalization and issuance of FSP FIN 48-b.

The FIN 48-related survey, prepared by the PCFRC, has been issued and delivered to key constituent organizations for distribution to their memberships. This survey will accumulate data about the usefulness, costs, and benefits of the disclosure and presentation requirements of FIN 48, as well as the challenges associated with those requirements. The survey is expected to remain open until approximately the middle of February. Any further recommendations developed by the PCFRC about FIN 48 will be based on the results of this survey.

If you are primarily a "user" of private company financial statements, please take the survey at http://vovici.com/wsb.dll/s/4e5ag2fdca.

If you are primarily a "preparer" of private company financial statements, or are primarily a "CPA practitioner", please take the survey at http://vovici.com/wsb.dll/s/4e5ag2fd0e.

FASB FIN No. 46R

Focus groups of user constituents will be formed to provide evidence about the costs and benefits of FIN 46R. After the results of those focus groups have been obtained, the PCFRC will decide on a further course of action.

Financial Accounting Foundation ("FAF") proposed changes to oversight, structure, and operations of the FAF, FASB, and Governmental Accounting Standards Board ("GASB")

The PCFRC reviewed and discussed the merits of the FAF proposal to change the oversight, structure, and operations of the FAF, FASB, and GASB.

FASB Project on Financial Statement Presentation

The PCFRC task force for this project presented a draft action plan to the PCFRC. After some discussion, the PCFRC decided to take the following steps:

1. Develop a letter to FASB expressing concern about the lack of private company representation on the advisory groups associated with this project, and suggest that the Notice to Recipients in the related Preliminary Views document ask readers to consider if private companies should be exempted from the scope of this project.
2. Develop a template article about the project to be used to inform PCFRC constituents about the project.
3. Email the PCFRC Resource Group to alert them to the Financial Statement Presentation project.

Differential Accounting Standards

The PCFRC engaged in a discussion about recent developments related to the setting of accounting standards, such as the convergence between U.S. GAAP and International Financial Reporting Standards ("IFRS"), the International Accounting Standards Board's ("IASB") development of IFRS for Small- and Medium-Sized Entities ("draft IFRS for SMEs"), and the increasing complexity of accounting standards and their relevance to private companies. Given the rapid pace of recent developments and the substantial effect such developments have on private company financial reporting, the PCFRC agreed to continue to discuss and determine what changes, if any, are in the best interests of private company constituents.

Draft IFRS for SMEs

Paul Pacter, Director of Standards for SMEs at the IASB, called into the meeting. He talked extensively to the PCFRC about the draft IFRS for SMEs, including its history and objectives, its makeup, and next steps in the project. Mr. Pacter also answered questions about the project.

FASB's Liabilities and Equity Project

The PCFRC task force on this project discussed with the PCFRC the recently issued FASB Preliminary Views document titled, *Financial Instruments with Characteristics of Equity*. The basic ownership approach for distinguishing between equity and liabilities or assets was reviewed as well as the changes from the current model to the basic ownership approach. The effect of the Preliminary Views document on private companies was also addressed. The PCFRC task force will meet again and develop possible comment points to be reviewed at the next PCFRC meeting.

Business Combinations and FASB Statement Nos. 141R and 160

The PCFRC task force on this project led a discussion about the requirements of the recently issued FASB Statement No. 141R, *Business Combinations*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. The PCFRC decided to table further work on the business combinations project because at present no unique private company issues have been identified. The task force will continue to monitor the implementation of the new FASB standards.

FASB's Standards Release Process

A letter to the FASB about improvements to its standards release process was reviewed. A final letter will be distributed to the PCFRC for approval and then will be issued to the FASB.

Communicating PCFRC Activities and Expanding the Resource Group

Joel Allegretti, Director of Media Relations at the AICPA, joined the meeting and engaged the PCFRC in a discussion about ways to improve the PCFRC's communication efforts and expand its Resource Group and outreach efforts. The PCFRC will provide Mr. Allegretti with a list of goals and milestones to help him formulate an action plan for the PCFRC. Also, the PCFRC discussed and identified changes to its web site, now that the PCFRC has entered its second year of operation.

Working with the Small Business Advisory Committee ("SBAC")

Earlier, the PCFRC and the SBAC agreed to establish a closer working relationship. The PCFRC talked about ways in which the two bodies could work together and decided upon the initial steps of 1) ensuring that all SBAC members are included in the PCFRC Resource Group, 2) inviting the SBAC members to join PCFRC task forces, and 3) utilizing the SBAC as a sounding board for some PCFRC ideas.

Next PCFRC Meetings

The PCFRC will hold its next meeting on April 24-25, 2008 in San Diego, California. In addition, the PCFRC has tentatively scheduled brief conference calls for February and March of 2008. Beyond April, the PCFRC has set the following tentative meeting dates and places. All meetings are open to the public (conference calls are not open to the public.)

June 19-20, 2008 – Atlanta
September 18-19, 2008 – Boston
November 13-14, 2008 – New Orleans

These dates and places are subject to change.

Private Company Financial Reporting Committee
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 203-956-5218
e-mail: jhodell@fasb.org Fax: 203-849-9714
JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights April 24-25, 2008

San Diego, California

All PCFRC members were in attendance.

Financial Accounting Standards Board Staff: Paul Glotzer
American Institute of Certified Public Accountants Staff: Bob Durak and Dan Noll

Committee Matters

Mr. James K. Smith was introduced as a new member of the PCFRC. Tentative meeting dates for 2009 were set and they are listed at the end of these highlights.

Roadmap Ahead for Private Company Accounting Standards

The PCFRC reviewed recent events and trends affecting the setting of accounting standards in the U.S. and abroad. The Committee then engaged in a discussion about possible scenarios of how accounting standards for U.S. private companies could be set in the future. Various models were considered and PCFRC members expressed their initial preferences. The roadmap ahead for private company accounting standards will continue to be discussed at future PCFRC meetings. At the June 2008 meeting, the Committee will review the differences between U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS").

FIN 48

The results of the PCFRC's extended outreach about FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") were reviewed. Outreach responses indicated that the disclosure and presentation provisions of FIN 48 are not very relevant or useful to private company financial statement users. In addition, the outreach responses indicated that financial statement preparers and CPA practitioners found the disclosure and presentation provisions of FIN 48 especially challenging to prepare, audit, review, or compile. The extended outreach results reveal that the benefits of complying with the disclosure and presentation requirements of FIN 48 fail to justify the related compliance costs.

Based on the PCFRC's consideration of the extended outreach results, on other feedback from its Resource Group, and on its own experiences and knowledge, the PCFRC decided to issue a recommendation letter to the Financial Accounting Standards Board ("FASB"), seeking an exemption from FIN 48 requirements for private companies.

FASB FIN No. 46R

The cost of complying with FASB Interpretation No. 46 (R*), Consolidation of Variable Interest Entities*, ("FIN 46R"), was identified, by the PCFRC, as a major issue among private companies, especially smaller entities. Diversity in practice exists and there is an increasing use of GAAP exceptions related to FIN 46R in the private company arena. Because user needs appear to be diverse depending on the nature of various structures, and based on its consideration of the issues that private company constituents are facing with FIN 46R, the PCFRC decided to issue a recommendation letter to the FASB recommending the allowance in GAAP of parent-only financial statements for private companies. Allowing parent-only financial statements will reduce costs for private company financial statement preparers and practitioners, will reduce diversity in accounting practice, and will allow private companies to best meet user needs by providing parent-only and/or consolidated financial statements as warranted

Financial Instruments with Characteristics of Equity

The Liabilities & Equity Project task force of the PCFRC led the committee through an analysis of the FASB Preliminary Views document titled *Financial Instruments with Characteristics of Equity*. The PCFRC decided to issue a letter to the FASB offering recommendations and observations about the Preliminary Views document. Specifically, the PCFRC observes that under the Basic Ownership approach there could be unintended effects on private companies as a result of classification of financial instruments as liabilities, the complexity infused into the model due to the measurement requirements, and the introduction of charges to the income statement related to ownership.

Additionally, the PCFRC believes that the FASB should address the effect of the proposals in the Preliminary Views document on Employee Stock Ownership Plans. Finally, the PCFRC will recommend that the Ownership-Settlement approach appears to be a foundation of principles that can be built upon to improve financial reporting without adding complexity.

FASB-IASB Project on Financial Statement Presentation

The PCFRC reviewed its recent efforts related to the Financial Statement Presentation project, including 1) its recent letter to the FASB expressing concern about the lack of private company representation on the advisory groups associated with this project, and its suggestion that the Notice to Recipients in the related Preliminary Views document ask readers to consider if private companies should be exempt from the scope of this project; 2) a recently published article (http://www.pcfr.org/downloads/RMA_Journal_Article_-_FASB-IASB_Propose_a_Complete_Change_to_Financial_Reporting.pdf) in the Risk Management Association Journal, authored by a PCFRC member, about the Financial

Statement Presentation project; and, 3) PCFRC efforts to alert its Resource Group to the importance of the project.

The Committee decided to begin reaching out to certain private company constituent organizations and committees in an effort to involve those organizations with the work of the PCFRC on this project.

FASB Statement No. 123R, Goodwill, and Long-term Asset Valuation and Impairment Issues

The leader of the PCFRC task force addressing FASB Statement 123R, goodwill, and long-term asset valuation and impairment issues discussed his year-end experiences with complying with FASB Statement 123R. After that discussion, the PCFRC decided to continue to accumulate feedback from its Resource Group volunteers on this project and determine next steps based on that feedback.

Next PCFRC Meetings

The PCFRC will hold its next meeting on June 19, 2008 in Atlanta, Georgia. Beyond June, the PCFRC has set the following tentative meeting dates and places.

September 18-19, 2008 – Boston
November 13-14, 2008 – New Orleans
January 8-9, 2009 – Location to be determined
April 23-24, 2009 - Location to be determined
June 25-26, 2009 - Location to be determined
August 6-7, 2009 - Location to be determined
October 15-16, 2009 - Location to be determined
December 3-4, 2009 - Location to be determined

These dates and places are subject to change.

PRIVATE COMPANY FINANCIAL REPORTING COMMITTEE
Meeting
June 19 2008
Hilton Atlanta
Atlanta, Georgia
Start 8:00AM; End 5:15PM

June 19

<u>MEETING OPEN TO PUBLIC</u>

I. Welcome and committee housekeeping matters (Judy) 8:00-8:15
   a. Feedback from recent presentations and other matters

II. FASB Update (Paul Judy) 8:15-8:30
   a. Status of recently issued recommendation letters
   b. FASB developments
   c. New Committee projects/new task force assignments

III. Review of the International Accounting Standards Board (“IASB”) and the International Financial Reporting Standards (“IFRS”) (Tom and Maryann) 8:30-11:15
   a. Background on IASB and IFRS
   b. Differences with U.S. GAAP
   c. Small- and Medium-Sized Entities Standard
   d. Commenting on the FASB-IASB Conceptual Framework
   e. What’s Ahead

BREAK 10:00-10:15

IV. Roadmap ahead for private company accounting standards (Judy and Bob) 11:15-12:30
   a. Update on recent events and latest assumptions
   b. Report on FASB June 16th Forum
   c. Review of reporting model preferences
   d. Continue discussion

LUNCH 12:30-1:30

V. FASB 123R, goodwill, L-T asset valuation & impairment project (Judd and Bob) 1:30-2:15
   a. Review results of volunteer group
   b. Determine next steps

VI. FASB 161, Disclosures about Derivative Instruments and Hedging Activities (Maryann and Bob) 2:15-2:45

a. Overview of standard and possible issues
b. Determine next steps

VII. Revenue Recognition project (Jerry and Bob) 2:45 – 3:30
a. Overview of project and FASB decisions to date
b. Determine direction of task force work

BREAK 3:30-3:45

VIII. Audience open microphone related to agenda topics 3:45-4:00

MEETING CLOSED TO PUBLIC

IX. Communicating with Constituents (Bob) 4:00-5:00
a. Public Relations plan and presentation

X. Review Next Steps and To-Dos Before Next Meeting (Judy) 5:00-5:15

XI. Adjourn 5:15

SMALL BUSINESS ADVISORY COMMITTEE

CONVERGENCE: IMPLEMENTATION AND APPLICATION GUIDANCE, TIMING CONSIDERATIONS, AND APPROACH FOR US PRIVATE COMPANIES

June 27, 2008

Objective

To obtain SBAC members' input on the following financial reporting issues related to international convergence:

1. Implementation and application guidance
2. Timing considerations
3. Approach for US Private Companies.

Background

The FAF-FASB held a forum called the "High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting" on June 16, 2008 at Baruch College. The purpose of the forum was for the FAF and the FASB to open a dialogue with constituents about whether and how to continue to move the U.S. toward high-quality global accounting standards. Panelists included users of financial statements, representatives of small and large companies both public and private, auditors, regulators, educators, and others representing facets of the U.S. economy that would be affected if there were a move from U.S. Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS).

At the June SBAC Meeting, a brief oral summary of highlights from that meeting will be provided.

Part 1: Implementation and Application Guidance

IASB's Approach

At the FAF-FASB Forum, *High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting*, Patricia (Trish) O' Malley[1] commented about the IASB's approach to implementation guidance.

The IASB issues International Financial Reporting Standards (IFRS). In addition to the accounting and reporting requirements within the standard section, those IFRS include:

- Application guidance that is mandatory, which is considered "an integral part of the IFRS and
- Illustrative examples that are not mandatory, which "accompany, but are not part of" IFRS.

Interpretative guidance is provided either within the IFRS or by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC looks to whether reasonable people with reasonable judgment and good faith application would get significantly different financial reporting results. Attachment C-1 is a copy of IFRIC's template for submission of a potential agenda item.

Very few issues are added to IFRIC's agenda and some have observed that the IASB is reluctant to answer lots of questions.

Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters (February 2006)

The IASB and a group of national standard-setters worked together to develop best practices. Those practices were "based on the premise that, in order to achieve the above aims for the benefit of constituents, it is essential that the IASB and other accounting standard-setters work together in a spirit of openness and close co-operation." The best practices are published on the IASB's website and are subject to future review and change. Paragraph 1.1 provides the following background about the purpose of the best practices:

---

[1] Patricia O'Malley assumed the position of International Financial Reporting Interpretations Committee (IFRIC) Coordinator in July 2007 at the completion of her six-year term as a member of the International Accounting Standards Board.

This Statement records an understanding between the International Accounting Standards Board[1] (IASB) and other accounting standard-setters.[2] It is particularly relevant to standard-setters in jurisdictions that have adopted or converged with International Financial Reporting Standards (IFRSs),[3] or are in the process of adopting or converging with IFRSs. It identifies a range of activities that the IASB and other accounting standard-setters believe should be undertaken by them in the interests of facilitating the ongoing adoption of or convergence with IFRSs.[4] Some accounting standard-setters may find it difficult to undertake certain of those activities with the resources at their disposal, but will use their best endeavours to do so.

----

1 This Statement also relates to the International Accounting Standards Committee (IASC) Foundation in respect of education.

2 The expression 'other accounting standard-setters' refers to organisations that have responsibility for setting accounting standards at a national level, including those whose responsibilities include but are broader than convergence with or adoption of IFRSs, and at an international level, specifically the International Public Sector Accounting Standards Board. It also includes those organisations that have responsibility for, and those with a direct role in facilitating, the setting of accounting standards across a number of countries in a region.

3 International Financial Reporting Standards (IFRSs) are defined as Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
(a) International Financial Reporting Standards;
(b) International Accounting Standards; and
(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). [IFRS 1 *First-time Adoption of International Financial Reporting Standards*, Appendix A]. However, where necessary to enhance readability, separate reference is made to Interpretations.

4 These activities are shown in italicised text.

Sections 6 through 8 of the Statement of Best Practice are quoted below. The full text of the best practices is available on the IASB's website at: http://www.iasb.org/About+Us/About+IASB/Working+Relationships+with+Domestic+Standard+Setters.htm

6 Interpretation

6.1 Inevitably, questions of interpretation will arise when IFRSs are applied. *Accordingly, other accounting standard-setters should be familiar with the implementation of IFRSs in their jurisdictions*. This familiarisation process may involve, or depend upon, close liaison with local capital market and industry regulators.

6.2 *If a standard-setter believes that an issue requires interpretation of IFRSs, it should request the IFRIC to address the issue.* The IFRIC or IASB staff may decide that an amendment to an IFRS is the more appropriate course to follow. As part of this process, other accounting standard-setters that face a common issue could work together to formulate a possible approach to the issue for resolution by the IFRIC or the IASB.

6.3 IFRSs are intended to apply worldwide regardless of local legislative and regulatory environments. However, some issues may affect only one or two jurisdictions and may relate to particular legislative or other local requirements—for example, a tax law that is unique to a jurisdiction. In these cases, which are likely to be rare, other accounting standard-setters may decide to issue their own interpretations. Care needs to be exercised, however, to ensure that the issues are not more widely relevant. *In considering their own issues, other accounting standard-setters should liaise with the IFRIC, and if they believe it is necessary to issue an interpretation, they should avoid incompatibility with IFRSs.*

6.4 *If the IFRIC decides not to address an issue that has been considered for inclusion on its agenda, a public explanation should be given so that the basis for the decision is clear*.[11]

----

[11] This could include the explanation that the issue is already dealt with in existing IFRSs. There would be no need for an explanation if the issue were considered trivial.

7 Working with regulators

7.1 Financial reporting regulation in many jurisdictions is linked to other forms of regulation. For example, accounting standards may be given legal status under legislation that also sets out a broad framework for financial reporting. *Other accounting standard-setters can help to identify and promote the removal of domestic or regional regulatory barriers to adopting or converging with IFRSs, such as legislative impediments.* In many cases, this will require the co-operation of regulators (including relevant legislators). The IASB can also facilitate the removal of regulatory barriers through its relationships with international and regional capital markets and industry regulatory bodies.

7.2 In some jurisdictions, financial reporting regulation is the first form of regulation that is being harmonised or is converging internationally. *Other accounting standard-setters should keep those domestic regulators that regulate in areas related to financial reporting informed of relevant IASB initiatives and encourage them to embrace international convergence efforts in their own regulatory areas.* This may help to remove potential barriers to adopting IFRSs, because there are sometimes linkages between financial reporting and other regulatory reporting. This is not to say that all forms of reporting need to converge, because they will often be different to suit different objectives.

8 Education

8.1 *Other accounting standard-setters should make the IASC Foundation aware of educational needs in their jurisdictions and provide information about the types of programmes that are likely to be most useful and successful in their jurisdictions, and the IASC Foundation should be sensitive to those needs.*

8.2 *Other accounting standard-setters should also provide the IASC Foundation with material that they believe may be helpful in creating educational materials, such as guidance they have used in their jurisdictions in the past on particular topics.*

8.3 Other accounting standard-setters may find it useful to develop their own educational material as regards the implementation of IFRSs—for example, in order to cater for local needs and issues. *Because the material may have relevance to other jurisdictions, standard-setters should keep the IASC Foundation informed of any such material.*

The Canadian Standard-Setters Approach to Current Guidance (Including Implementation and Application Guidance)

As part of their national strategic plan, the Canadian Accounting Standards Board undertook a review of Canadian GAAP. The objective of that review was to consider whether any of the issues addressed in Canadian GAAP should either be referred to the global standard setter (IASB or IFRIC) or be the subject of guidance issued by the Canadian Board because of considerations that are unique to Canada's legal, tax, or regulatory environment. Attachment C-2 is the Canadian Board's project update, which includes more information about the process and the final decisions.

Live Case: Current Application and Implementation of Joint FASB/IASB Standards in the US

The FASB and IASB have shared the same long-term strategic priority for years—a common set of high quality global standards. At their joint meeting in September 2002, the FASB and IASB pledged to "use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained."

FASB Statement No. 141 (revised 2007), *Business Combinations,* was issued together with the IASB's IFRS 3, Business Combinations (as revised in 2007). The issuance of those standards was a joint effort by the FASB and the IASB to improve financial reporting about business combinations and to promote the international convergence of accounting standards. Both the US and the International standards:

- Require use of the acquisition method rather than the pooling-of-interests method to account for business combinations

- Include the same conclusions on the more significant issues involving application of the acquisition method of accounting for a business combination.

Appendix G of Statement 141(R) describes the substantive differences between this Statement and IFRS 3.

Depending on the questions raised by constituents, the U.S post-issuance activities in general have included a mix of authoritative, non-authoritative, and educational activities, such as the:

- Issuance of additional guidance by the FASB (e.g., FSPs or EITF consensus')
- Narrowing of acceptable alternatives by regulators (e.g., industry-specific)
- Answering of technical inquiries
- Development of educational, industry-wide, and firm-wide resources.

Part 1 Discussion Questions: Implementation and Application Guidance

Current US Financial Reporting

Discussion Question 1: Should application and implementation issues be addressed by the FASB after the completion of a joint (converged) project?

Discussion Question 2: Using 141(R) as a model, if no authoritative application and implementation guidance is provided by standard-setters for this statement, how will the US financial reporting system handle this change?

Future Financial Reporting Strategy for IFRS in the US

Discussion Question 3: Is there a need for a formal/informal national mechanism for surfacing application and implementation issues for a global standard-setter's consideration? If so, who should be involved with the process and how would the process work?

Discussion Question 4: Should a process, similar to the one undertaken by the Canadian Accounting Standards Board, be undertaken to determine an action plan for any legacy US GAAP? Who should lead or participate in that process and when should that project begin?

Part 2: Timing Considerations

At the FAF-FASB Forum, there seemed to be broad support for a specific and certain date for IFRS conversion by US public companies. Participants discussed the current state of readiness and preparations that would be needed before that date, including action items related to: practicing US CPAs, corporate management/accountants, CPA exam and licensing, investor education, auditing standards, university education, securities regulation, banking regulation, interaction of US tax code and GAAP, technology and information systems, and contract provisions and covenants based on GAAP. In thinking about timing considerations, we would like advisory group members input about standard-setting timing implications to the technical work plan.

FASB-IASB Memorandum of Understanding

In February 2006, the IASB and the FASB issued a Memorandum of Understanding (MOU) that described a joint work plan to expedite global convergence in accounting standards and established a series of milestones to be reached by 2008. Most of those milestones have now been reached or are due to be reached during 2008.

A number of jurisdictions have announced their intention to adopt or converge with IFRSs in the next five years. The chairmen of the IASB and the FASB agreed that the timeline contained within the existing MOU should be updated. Doing so will help to direct the work plan of the two Boards through to at least 2011. The two chairmen asked a small team of representatives from the IASB and the FASB to produce a paper on the subject for discussion at the joint board meeting.

At the April 21, 2008 FASB/IASB Joint Board Meeting, the two Boards discussed that paper at their joint meeting and accepted the broad principles recommended in it. The Boards directed the staff to develop details for consideration in the technical plan update session at the IASB's Board meeting in June. The FASB and IASB intend to publish an updated work plan after that meeting. Attachment C-3 is a copy of the April discussion paper. The focus of that memo was major agenda projects, rather than what have been called "short-term convergence" projects.

Live Cases: US Approach for Certain MOU items

In some of the short-term convergence projects, the project objectives can be met through different approaches. For example:

> Income Tax Project: The objective of the Income Tax project is to improve the accounting for income taxes, while reducing the existing differences between FASB Statement No. 109, *Accounting for Income Taxes,* and IAS 12, *Income Taxes.* The FASB and the IASB (Boards) started the project as a short-term convergence project that was focused on a narrow set of differences. In the meantime: (1) the FASB issued FASB Interpretation No. 48, *Accounting for*

Uncertainty in Income Taxes and (2) the IASB decided to rewrite IAS 12 and to improve its guidance on uncertain tax positions in a way that may result in a different approach than FIN 48. There are other differences in tax-related guidance that reside in other accounting standards, such as the tax treatment of share-based compensation arrangements.

Some alternative approaches include:

- Approach A: Amend Statement 109 to improve the accounting and reduce the differences by proceeding with the short-term convergence changes (gradual convergence through improvement and adoption). Under this approach, the accounting for income tax uncertainties could be different, depending on the IASB's decisions.
- Approach B: Consider whether to adopt the improved version of IAS 12 and replace Statement 109 in its entirety (piecemeal convergence through the adoption of an improved IFRS standard). Under this approach, the accounting for income tax uncertainties would be the same for both U.S. GAAP and IFRS, but may be different from FIN 48, depending on the IASB's decisions.
- Approach C: Same as Approach B, except defer the effective date until IFRS is required/permitted in the US (a single omnibus adoption). Under this approach, the FASB would effectively remove the income tax project from its agenda and the changes to income taxes would occur when full IFRS is required/permitted.

Other potential examples of piecemeal convergence through the adoption of an IFRS standard include:

- Considering whether to adopt IAS 38, *Intangible Assets*, which includes a different approach to the accounting for in-process research and development than US GAAP
- Considering whether to adopt IAS 40, *Investment Property*, which requires a policy election approach for the measurement of investment property
- Considering whether to adopt IAS 17, *Leases*, for the accounting by lessors at the same time as any improvement for lessee accounting (Attachment C-3 recommends that the Boards improve lessee accounting by the mid-2011 goal. It observes that lessor accounting is an application of revenue recognition and should be dealt with in a manner that reflects the decisions reached in that project. That likely means that improved standards for lessor accounting would be completed after 2011.)

Part 2 Discussion Questions: Timing Considerations

Discussion Question 5: Using a 5-year time frame as a basis for public company adoption of IFRS, what projects on the MOU need to be completed beforehand to best serve US investors and other constituents? Are other improvements to IFRS needed before the US adopts IFRS more broadly?

<u>Discussion Question 6</u>: Prior to the adoption of IFRS, what approach should the FASB take on these types of projects (such as short-term convergence projects) in the meantime and why? Should the FASB amend US GAAP to improve and converge, adopt high-quality IFRS standards on a piecemeal basis, or defer all changes to a single omnibus adoption?

<u>Discussion Question 7</u>: On projects that are on the IASB's agenda, but are not on the FASB's agenda, should the FASB expose the documents resulting from those projects to solicit US-based constituents input?

Part 3: Private Companies in the US

Acceptance of the Concept of a Single Set of High Quality Global Standards

From a standard-setting perspective, many agree with the concept of a single set of high-quality global accounting standards for public companies. In the preliminary results of the 2008 Annual Survey on the Priorities of the FASB,[2] nearly all respondents support a single set of high-quality international accounting standards as the preferred outcome for U.S. financial reporting in the future. Some respondents provided important stipulations about the conversion process and suggestions and concerns about the conversion timing and process.

The major themes in respondents' support for the ultimate desired outcome of a single set of high-quality standards were global: **comparability, efficiency, portability**, and **acceptance**. Some observed that there is no conceptual basis for differences in accounting standards for U.S. companies versus those in the rest of the world. Respondents commented that most of the world already uses (or will use) IFRS and that IFRS have the traction to be the global accounting standards; whereas, U.S. GAAP may eventually be obsolete for issuers. Many commented that the use of a single set of standards reduces:

- Barriers for competition for worldwide capital,

---

[2] The survey of the views of FASAC and other FASB advisory group members and others on the priorities of the FASB provides valuable perspectives and observations about the Board's process and direction. The 2008 survey asked Council and other FASB advisory group members, Board members, and other interested constituents for their views on:

- The FASB's role in the future direction of financial accounting and reporting,
- The FASB's current agenda priorities, and
- Future and past financial reporting issues.

Final survey results will be made public and are forthcoming.

- Costs and complexities for users, preparers, auditors, and regulators over the long term, and
- Operational risk, in comparison to a multi-GAAP environment.

Does the Concept Apply to Private Companies in the US?

In the preliminary results of the 2008 Annual Survey, the responses about whether all authoritative guidance in the U.S. for public, private, and not-for-profit organizations ultimately should emanate from the global accounting standard setter were mixed. Respondents had differing views on the costs and benefits of applying U.S. accounting guidance versus IFRS to certain types of entities, including private companies, not-for-profit organizations, and small and medium sized entities. Many supported global standards in the U.S. for public companies. Many also suggested that further study is necessary to explore the optimal answer for private companies and not-for-profit organizations. While the financial reporting for not-for-profit organizations is an important issue, the focus of the June 2008 discussion is on private entities. Attachment C-4 is a summary of international private company accounting efforts (IASB, Canadian, Australian, UK, and New Zealand) from the April 2008 PCFRC materials.

Some of the areas raised for further consideration were the needs of non-issuers and the importance of global comparability or a single set of accounting standards for certain entities.

Many commented that a delayed (or phased) approach for private entities might be appropriate because:

- Those entities will need longer to transition (e.g., resource constraints around the world)
- Focusing on public capital markets first may help overcome resistance, increase users' acceptance, and provide opportunities for sufficient training of preparers and auditors in those sectors.

Respondents that supported the use of global accounting standards for all entities agree with the concept that the needs of capital providers (investors, creditors, other external users) are generally the same, regardless of their ownership structure or size. They commented that maintaining two sets of accounting requirements:

a. Results in unnecessary costs and confusion to the financial reporting system,

b. Significantly increases the cost of capital formation (e.g., a private company that becomes a public issuer would need to convert to IFRS),

c. Reduces company-to-company comparability.

Respondents that supported the continuation of guidance emanating from a U.S. standard setter commented that application of a global standard to private companies in the U.S. would be too ambitious and would result in minimal benefit to the financial statement users of those entities. Comments supporting the (limited or infinite) continuance of U.S. accounting standards for private companies or small companies addressed:

- ♦ Different sources and demands for financial reporting information
- ♦ Geographic proximity and perceived responsiveness and acceptance of a local (National) standard setter versus a global organization
- ♦ The capacity (resources, attention, and efforts) and perceived priorities of a global standard setter
- ♦ The potential need for national level standards for certain sectors, until resources become available on a global level for that sector
- ♦ The capacity of, time needed, and anticipated costs for these entities to adapt to a new principle-based accounting regime
- ♦ The potential challenges of understanding and addressing the diverse, and perhaps inconsistent, needs of a very wide range of financial statement users across the globe
- ♦ View that the costs of the change to IFRS may outweigh the benefits.

Some respondents also suggested that further consideration be given to whether IFRS or IFRS-SME standards (currently an IASB agenda project and recently renamed to the Private Entities Project) are appropriate for U.S. private companies.

Alternatives Identified by the PCFRC

At the April 2008 meeting of the Private Company Financial Reporting Committee (PCFRC),[3] committee members discussed five possible financial reporting models for private companies in the US:

Model 1:	IFRS with SME (now called "Private Entities")
Model 2:	U.S. Adapted version of IFRS for SME (adaptations set by U.S. Board)
Model 3:	IFRS with differential reporting (differential reporting set by U.S. Board)
Model 4:	Separate U.S. private company GAAP – revised (major revision of U.S. GAAP performed)
Model 5	Separate U.S. private company GAAP – maintained and updated in the future (no major revision of U.S. GAAP performed).

Based on the PCFRC's preliminary vote in April on the models, the results were:

Model 1 – 0 votes; Model 2 – 3 votes; Model 3 – 6 votes; Model 4 – 1 vote; Model 5 – 2 votes.

Part 3 Discussion Questions: Private Companies in the U.S.

Discussion Question 8: Should there be a comprehensive examination of the needs of the financial statement users of private companies in the U.S. to determine the most appropriate financial reporting approach (e.g., US GAAP, IFRS, IFRS SME reporting)? If yes, who should lead or participate in that process and when should that project begin?

Discussion Question 9: Should private companies be required/permitted/encouraged to use IFRS (or IFRS SME reporting, when finalized)? If yes, who should lead or participate in that process and when should further work in this area begin?

---

3 The PCFRC represents all non-public business entities regardless of size. Its members focus on how standard-setting affects day-to-day technical activities and procedures from a cost/benefit perspective. The PCFRC sets its own agenda and makes specific technical recommendations for possible modifications for private companies on existing or developing FASB standards. The PCFRC consists of 12 members plus a chair. The 12 members comprise four users, four preparers, and four CPA practitioners. Sponsored by the FASB, the PCFRC receives additional administrative support from the American Institute of Certified Public Accountants.

International Accounting Standards Board®

Template for submission of a potential agenda item request to the IFRIC

Any individual or organisation may put forward suggestions of potential agenda items for consideration by the IFRIC. Anyone doing so is asked to submit a brief proposal, which will be presented to the IFRIC without identifying the submitter.

The proposal should include the following:

1 **The issue**. A description of the issue including, where relevant, any aspects that should be addressed separately.

2 **Current practice**. A brief description of current or emerging accounting practices, outlining the major alternatives, and referring to the relevant IASB pronouncements.

3 **Reasons for the IFRIC to address the issue**. The issue should be evaluated using the following criteria:

(a) Is the issue widespread and practical?

(b) Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?

(c) Would financial reporting be improved through elimination of the diversity?

(d) Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the *Framework for the Preparation and Presentation of Financial Statements*, but not so narrow that it is inefficient to apply the interpretation process?

(e) If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project? (The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC would require to complete its due process.)

A template is set out below. Please submit the completed template by either email to ifric@iasb.org or post to:

IFRIC Co-ordinator
International Accounting Standards Board
First Floor
30 Cannon Street
London EC4M 6XH
United Kingdom

IFRIC POTENTIAL AGENDA ITEM REQUEST

<u>The issue:</u>

<u>Current practice:</u>

<u>Reasons for the IFRIC to address the issue:</u>

<u>Submitted by</u>

Name:

Organisation:

Address:

Telephone:

Email:

ATTACHMENT C-2

EIC Abstracts Review — IFRS Adoption

Status: Review completed. Final decisions posted.

Background

The AcSB's Strategic Plan includes a decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted, high-quality standards, namely, International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). This convergence strategy implies that Emerging Issues Committee (EIC) Abstracts will no longer be applicable to publicly accountable enterprises at the changeover date to IFRSs. (This change does not affect private enterprises or not-for-profit organizations, pending determination by the AcSB of the strategies for those entities.)

Purpose

A review of all EIC Abstracts resulted in recommendations to the AcSB concerning whether any issues addressed in the Abstracts should either be:

(a) referred to the IASB or the International Financial Reporting Interpretations Committee (IFRIC); or
(b) the subject of guidance issued by the AcSB because the issue is affected by specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and, therefore, will not be addressed by the IASB. For example, the issue of when changes in tax legislation are considered substantively enacted in Canada may fall into this category.

Process

A Task Force of accountants with expertise in both Canadian GAAP (including EIC Abstracts) and IFRSs was formed to assist AcSB staff in this review.

The review of the issues addressed by each EIC Abstract considered whether:

(a) IFRSs provide adequate guidance on the issues. In some cases, IFRSs may explicitly address the issues. Alternatively, there may be sufficient guidance provided in IFRSs to permit financial statement preparers and auditors to deal with the issues even though they are not specifically addressed.
(b) the issues would meet the criteria of the IFRIC to issue an interpretation, or of the IASB to amend a standard (for instance, through the annual improvements process). IFRIC has rejected issues proposed to it on the grounds that they represent implementation or application guidance rather than an interpretation of IFRSs.
(c) the issues currently remain significant, given that some EIC Abstracts were issued as much as 19 years ago.

The review commenced in December 2007 and was completed in May 2008.

Final Decisions

The Task Force proposed that guidance should be provided on the issues addressed by EIC-111, "Determination of Substantively Enacted Tax Rates under CICA 3465," EIC-146, "Flow-

Mining Operation." The AcSB decided that:

- the issues addressed by EIC-111 should be considered by the AcSB's planned forum for the discussion of financial reporting issues arising from the application of IFRSs;
- the issues addressed by EIC-146 should be included in staff's review of the IASB's exposure draft on income taxes, which is expected to be issued this summer; and
- the issues addressed in EIC-160 should be referred to the International Financial Reporting Interpretations Committee as there is a lack of guidance in IFRSs on accounting for stripping costs.

The AcSB previously decided that, on adoption of IFRSs, GAAP financial statements for pension plans should continue to be prepared in accordance with Section 4100, *Pension Plans*, rather than IAS 26, *Accounting and Reporting by Retirement Benefit Plans*. EIC-116, "Pension Plans — Disclosure Requirements for Income from Investments in Segregated Funds," and EIC-168, "Accounting by Pension Plans for Transaction Costs," will therefore be retained.

Issues in some EIC Abstracts might be helpful in the development of current IASB projects and, as a result, AcSB staff was requested to communicate these issues to the appropriate IASB staff, which have been identified as follows:

Common Control Transactions

EIC-66	Transfer of a Business Between Enterprises Under Common Control
EIC-89	Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries
EIC-145	Basis of Accounting for Assets Acquired Upon the Formation of an Income Trust
EIC-170	Conversion of an Unincorporated Entity to an Incorporated Entity

Earnings per Share

EIC-155	The Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share

Fair Value Measurement Guidance

EIC-136 Income Tax Considerations in Applying the Goodwill Impairment Test in CICA 3062

Leases

EIC-25 Accounting for Sales with Leasebacks

Liabilities and Equity

EIC-148 Accounting for Shares that Provide Investors with a Sale Right

Contact Information

To obtain further information about this project, contact:

Nancy A. Estey, CA
Principal, Accounting Standards
Telephone: +1 (416) 204-3271
Fax: +1 (416) 204-3412
Canadian Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2 Canada

Financial Accounting Standards Board

International Accounting Standards Board

401 Merritt 7, PO Box 5116, Norwalk, CT 06856, USA
Tel: +1 203 847 0700
Fax: +1 203 849 9714
Website: www.fasb.org

30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Website: www.iasb.org

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: **21 April 2008, London**

Subject: **Completing the February 2006 Memorandum of Understanding: Developing a progress report and timetable for convergence between IFRSs and US GAAP (Agenda paper 3)**

---

1. Earlier this year, Bob Herz and David Tweedie agreed that the Boards should provide a progress report and develop a work plan for the completion of the February 2006 Memorandum of Understanding (MOU). When issued, the MOU set out joint project priorities and milestones only through 2008. Both Chairs agreed that constituents would want to know how the Boards intend to proceed beyond 2008 towards completion.

2. To develop the progress report, the Chairs agreed on the need to lay out the updated MOU through at least 2011 and called upon a small team (the Group) to set forth proposals, which are outlined in this paper. In developing proposals, the Chairs asked the Group to identify the relative priority of needed financial reporting improvements, the time frames for completing them, and the major milestones along the way. The two Chairs also agreed that the Boards should consider whether process changes can or should be implemented to reduce the time required to develop standards.

3. While the long-term objective of the MOU to develop improved and converged standards for IFRSs and US GAAP remains relevant, the Group recognized that a previous objective already has been achieved: progress toward improving standards so that the SEC would feel comfortable removing the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States.[1] With the removal of the reconciliation, the Group decided that a logical starting point for any MOU progress report and completion plan (referred to as the MOU completion plan throughout) is to update the Boards' medium-term objective. The Group recommends the following objective:

> To outline the improvements to existing IFRS that are needed to facilitate mandatory adoption of IFRS in all major capital markets.

4. The Group was tasked with developing recommendations consistent with the following two assumptions:
    a. For capital markets not yet adopting IFRSs, the target date of mandatory adoption is no later than 2013.
    b. A "quiet period" of at least a year before that date is provided.

5. Those assumptions mean that the MOU completion plan should describe progress to be made between now and around mid-2011, a period of about 3 years (36 months). Three years sounds like a long time until you do some math:
    a. Issuing a due process document usually takes about 12 months away from deliberations/analysis—on average, it takes 3 months to prepare and ballot a due process document, 6 months for exposure, and another 3 months to read and summarize comments.
    b. If major projects (except those of exceptionally urgent nature) require two due process documents to complete it (a discussion paper and exposure draft), that leaves about 12 months for Board deliberations, ignoring preparation and

---

[1] In April 2005, SEC Chief Accountant Don Nicholaison gave a speech that outlined a "roadmap" for removal of the 20-F reconciliation. That roadmap said that removal of the reconciliation would depend on, among other things, measurable progress in addressing priority issues on the IASB-FASB convergence work programme. The Boards developed the MOU to describe for the SEC and others the progress the Boards planned to achieve by 2008.

balloting of the final standard (36 months total less 24 months of due process). The Boards have yet to deliberate any phase of a joint project in less than 12 months (not even short- term convergence projects). It took 18 months to take business combinations from ED to final, and we didn't even converge on all points.

c. Fortunately, discussion papers already have been issued (liabilities and equity) or will be issued by mid-2008 on several major projects (revenue recognition and financial statement presentation). The Boards should have at least 24 months to deliberate issues in those projects. However, the Boards have been deliberating issues in many of those projects for at least five years. The issues are many and controversial, and completing them in two years represents a significant challenge.

6. So, regardless of the type of project, a mid-2011 completion date goal requires that the Boards work more efficiently than they ever have. Discussions around improving efficiency of projects often revolve around issues of project administration—meeting frequency, staffing, or other work methods issues. Those are all worthy of discussion, and we will discuss them during the administrative portion of the joint meeting. However, there is another fundamental reason why projects take as long as they do: The Boards (and members within each Board) sometimes don't agree on what they are trying to fix and how to fix it.

    a. There are often differences in views over issues of agenda size and project scope—progress is slowed by discussions about whether a project is worthwhile, or whether the issues within a project are worthwhile resolving, or often, expansion of project scope. Short-term convergence projects are good examples of this. Financial statement presentation might be another example of scope "creep" (the scope of the project expanded to include revisions to segment disclosures based on the view that existing segment disclosures were deficient).

    b. A second source of difference is over the approach to be taken, usually, differences in views about the need to develop a conceptual model as the basis for the revised standard. Revenue recognition is an example. Some see the problem as a lack of a robust conceptual model on which to base a principles-based standard, while others seem to see the problem as the lack of standards-level guidance in specific areas such as multiple-element transactions for which a more focused patch-up effort is appropriate (or, in the US, an effort to codify and rationalize existing practices into three or four models).

c. A third is what we call "cross-cutting" issues—differences in views about whether and how similar issues in active projects should be resolved consistently. If internal consistency is the goal, no project can move any faster than any other to which it is related (for example, under this view, the IASB's replacement business combination standard couldn't be issued until the IASB completed fair value measurement).

7. Each of those differences essentially relates to the project objective—the deficiency the Boards are trying to fix and the way of fixing it. A significant amount of Board time is consumed re-debating those same issues.

8. The Group thus decided that if the Boards are going to be successful completing some set of projects by mid-2011, agreeing on project objectives in April is critical. Board members and staff on the losing end of those debates need to be willing to work hard to achieve an objective with which they don't fully agree. We simply do not have time for "do-overs." For that reason, the Group focused first on identifying and articulating project objectives—the improvements it believes can be accomplished by the mid-2011 goal date. The Group notes, however, that more will be required than defining project objectives. Meeting those improvement goals will require improving our meeting and work processes on some projects too.

9. As we analyzed projects, we found that our priorities, and we suspect the views of Board members, may be driven by two potentially conflicting views:

   a. The IASB agenda priorities should limit the possibility that a company adopting IFRS in 2013 would undergo two changes in a relatively short period (the first change being the adoption of IFRS and the second change being a major revision of an IFRS standard). Thus, work completed by 2011 should be designed to remain in place for three or more years after completion; any other changes to IFRS during the 3-year period after 2011 should be modest. Under this view:

      i. Significant, fundamental weaknesses in existing IFRS need to be prioritized for completion by mid-2011.

ii. Worthwhile improvements to IFRS can be deferred beyond 2011 if the existing IFRS and US standards are similar (leasing would be an example of this).

b. The IASB always should seek to improve financial reporting, regardless of the timing of IFRS adoption, whether by the US or any other major capital market. This suggests that the IASB should emphasize projects in which major improvements are needed. Under this view:

i. Significant, fundamental weaknesses in existing IFRS need to be prioritized for completion by mid-2011.

ii. Worthwhile improvements should not be delayed. For example, if leasing is broken, it should be fixed.

10. The Group concluded that achieving a mid-2011 completion goal will require revisions to scopes and objectives of at least some projects. Thus, the Group's recommendations also considered a pervasive constraint. That is, the Group considered whether the changes that the Boards could reasonably expect to achieve by 2011 are a sufficient improvement in financial reporting to justify the cost those changes might impose on users and preparers of financial statements.

11. In analyzing the individual projects, the Group found it useful to divide them into three categories, listed below in what we see are their relative order of priority:

a. Projects that address areas where fundamental improvement in IFRS and possibly US GAAP are needed. This category includes revenue recognition and fair value measurement guidance. Given the current situation surrounding the credit crisis, we also include in this category consolidations (with special attention to special-purpose entities) and derecognition.

b. Projects that address areas for which there is a significant need for improvement in both IFRS and FASB standards. This group generally includes the balance of the MOU.

c. Projects that address areas in which IFRS currently does not provide guidance. This group includes insurance accounting and accounting for extractive industries. We have not included a separate discussion of this category in this memorandum. We question whether the insurance project can be completed by 2011, given the significant political opposition and demands for additional field testing. A project on extractive industries is certainly beyond our ability to complete by 2011. At best, the IASB might agree to publish a discussion document on extractive industries prepared by the existing working group of national standards setters, so long as doing so does not consume any Board or staff resource.

The Group notes that it is not exactly true that IFRS does not provide guidance in these areas. IFRS 4 and IFRS 6 contain guidance that enables companies to continue reporting under their existing accounting policies, a status quo situation that new adopting countries presumably would accept. Moreover, provisions within those standards preclude voluntary accounting changes in accounting policies other than those that produce more relevant and no less reliable information. Those provisions should be an adequate safeguard against the adoption of IFRS resulting in a step backward in information content or quality.

12. Group members have different views whether some or all of the Framework should be included in the MOU completion plan.

    a. Some think that the MOU completion plan should focus on standards-level projects. The obstacles faced by companies in switching to IFRS in the near future will be at the standards level. Notwithstanding the hierarchy and IAS 8, work on the Framework, while important, has little effect on a company implementing IFRS.

    b. Others think that some of the Framework, in particular measurement and a disclosure Framework, should be included in the MOU completion plan. The Framework will be the basis for developing standards in the future, and it is important that those major gaps be filled before mandatory adoption of IFRS is required.

13. Another question is whether the MOU completion plan should include other projects on which the Boards have committed to work jointly but were not included in the MOU. We also have not addressed these projects in this memorandum, including those like emission rights on which the Boards hope to work together. The importance of the 2011 date is such that all of those projects must take a subsidiary role to the ones addressed in this memorandum. For their part the IASB and FASB directors intend to make the projects in this memorandum their primary staffing priority. If necessary, they will remove staff

from other projects to serve the projects addressed in this memorandum and will not staff other projects unless and until staff become available.

14. Some Group members think the Boards should actively consider and make decisions about those other joint projects. The purpose of the MOU completion plan is to focus the agenda. If there is insufficient staff or Board time to focus on other joint projects, the Boards should consider removing them from the agenda or formally suspending them. Retaining projects on the agenda that the Boards do not plan to actively work on creates uncertainty for our constituents and can be demoralizing to the staff assigned to them.

15. One other note bears mention before we turn to the detailed analysis of projects. For some projects, the end game is clear and there appears to be significant Board support for achieving that objective. Defining the scope for these projects that can be achieved by 2011 is straightforward. For other projects a solution that would constitute a sufficient improvement in financial reporting is not clear. Those projects are more problematic and, in some cases, we have suggested that some specific decisions may need to be deferred to the October joint meeting.

16. In summary, the Group recommends that the Boards reach a decision on the scope of the MOU completion plan—whether it should include the Boards' joint agenda in full and describe priorities, milestones, and completion dates for each project, or whether it should include only a priority subset of the joint agenda (as was the case with the MOU).

Projects that address fundamental deficiencies in IFRS that require completion as a high priority

17. **Revenue recognition.** We view completing the project to be critical to U.S. adoption of IFRS—revenue is fundamental to financial statement analysis, and the existing guidance in IAS 18 is incomplete, insufficient, and internally inconsistent. We need to recognize that IAS 18 often is applied with US GAAP as a backstop. Preparers who do not find a ready answer in IAS 18 often resort to the detailed guidance provided in US GAAP, so long as that guidance is not inconsistent with IAS 18.

18. In our view, the broad project objective is to develop a single model of revenue recognition that can be applied to a variety of transactions and can resolve current revenue recognition issues consistently.

Recommendation

19. A majority of Board members appear to support (or at least would not object to) the so-called customer consideration approach to measuring performance obligations. We, therefore, recommend that the Boards proceed on that basis. Building on that recommendation, the Boards should move expeditiously to address the following areas:

    a. The definition of a performance obligation

    b. When/how performance obligations are satisfied/extinguished

    c. When, if ever, the initial amount assigned to a performance obligation should change for reasons other than performance (for example, the accounting for arrangements with variable consideration such as volume or milestone-based pricing)

    d. The accounting for conditional obligations such as rights of return

    e. Disclosure

    f. Testing the conclusions reached against existing practice problems. A new revenue recognition model that does not resolve the practice problems recently raised for EITF or IFRIC consideration would not, in our view, represent an improvement in practice. The FASB staff, with its greater experience in topics considered by the EITF, is probably better positioned to perform this part of the work.

20. In our view, the items above (especially items a and b) must be resolved before the Boards issue a discussion document.

21. Given the number of significant issues outstanding, completing a revised revenue recognition standard by mid-2011 represents a major challenge. Focused effort is required to achieve it.

Alternatives considered

22. We also considered an option that focuses on improving disclosures. At the December 2007 FASB-AAA conference, many users identified inadequate disclosures as a glaring weakness of both US GAAP and IFRS. They said improving disclosures should be a

priority. An option for the Boards is to focus on improving disclosures about revenue by 2011, to be followed at a later date by improved standards of recognition and measurement. A primary disadvantage of this approach is that (a) disclosure is a poor substitute for recognition and measurement and (b) disclosure projects tend to reduce the interest in solving the more difficult standards issues.

23. We also observed that users' comments about the need for disclosure tend to focus on the revenue recognition for a particular type of transaction. Crafting a disclosure package that would provide sufficient information about an entity that has perhaps 100 or more different revenue transactions would be daunting. It is not clear the result would satisfy the needs of users.

24. We considered a narrower scope, aimed at making targeted improvements to IAS 18. While a narrow scope might seem appealing, we rejected it. The Boards have not devoted any significant attention to identifying the targeted improvements to IAS 18 that might prove useful. Doing so would constitute a major change in course and would set aside much of the work that already has been done. Nor do we see the possibility that targeted changes might constitute a sufficient improvement in IAS 18 to overcome concerns expressed by the SEC and others.

25. **Fair value measurement.** The Group thinks this project is critical to the adoption of IFRS. Like US GAAP before the issuance of Statement 157, IFRS lacks a consistent/robust definition of fair value. Moreover, members of the FASB Investors Technical Advisory Committee have said the lack of "Statement 157 disclosures" in IFRS is a significant issue for investors.

Recommendations

26. The Group thinks this project should be completed by mid-2011 by limiting its objective to the following:

   a. Amending existing IFRS to replace the various measurement terms used with either entry price or exit price based on the intent of the existing standard

   b. Defining exit price identically to Statement 157

c. Defining a comparable entry price, and providing disclosures about entry and exit price measurements.

27. In our view, this project cannot be completed by 2011 if the IASB seeks to reconsider fundamental features of the FASB standard. Those include, for example, the idea of a market participant view, highest and best use, and principal market.

28. Board discussions of fair value easily and often migrate into conceptual discussions of matters such as

    a. Which measurement attribute *should* be used, rather than what existing standards require

    b. Whether gains on initial recognition are ever appropriate

    c. Is an entity-specific measure an attribute—what does an entity-specific measurement mean?

29. Completing a fair value measurement standard by 2011 requires that the Boards leave those conceptual discussions for the Conceptual Framework or other standards-level projects.

30. **Consolidation Policy.** The FASB has added a project to address identified weaknesses in FIN 46R and Statement 140. (However, that project is limited to narrow improvements and does not address the more basic needs.) The SEC and others expect those improvements to be completed within a year.

31. The IASB continues to discuss improvements to IAS 27. The critical issues are improved guidance relating to effective control and special-purpose entities. Most IASB members seem to agree that analysis of SPEs requires a risk and rewards as an indicator of control; however, some seem to be unsure about whether the principles developed to date would produce appropriate financial reporting results in all circumstances.

Recommendations

32. The goal by 2011 should be a consolidation policy standard that embraces the idea of effective control. A small group of IASB Board members and staff have held preliminary

discussions and outlined an approach. The team should bring that approach to the Board for consideration at the earliest possible time.

33. One possible way of accelerating progress on SPE's might be to retain those who were intimately involved in developing FIN 46R to develop and articulate a set of principles that underpins FIN 46R that would retain the approach but reduce the standard's complexity and perhaps make it suitable for international application. This analysis also should consider deficiencies identified by the FASB in its recent efforts to improve FIN 46R

34. **Derecognition.** The Boards decided in 2006 that both of our derecognition standards needed improvement. Statement 140 was then deemed to be irretrievably broken, and still is despite ongoing repair and maintenance work. IAS 39 was then, and still is, viewed by many as internally inconsistent and anecdotal evidence indicates that it is inconsistently applied in practice. For those reasons, the Boards decided that jointly developing a replacement for both standards was the best path forward.

35. The perceived need for replacement standards has not changed since 2006; however, the current economic situation has changed the relative priority of that project. The US securitization market is several multiples the size of the market in other parts of the world, even recognizing the current credit crunch. Adoption of IAS 39 and SIC 12 by the US marketplace would likely trigger an avalanche of application inquiries and put a spotlight on inconsistent practices.

36. Significant progress toward a replacement standard has been made in the form of a staff research paper developed in consultation with a team of Board advisors. More work is needed, however, primarily to address securitization issues. In particular, the focus now is on who collects the cash, which causes issues in principal-agent relationships. Staff turnover has resulted in a loss of momentum, and progress will be slowed as new staff get up to speed.

Recommendations

37. The Financial Stability Forum has indentified addressing off-balance sheet exposures as an urgent priority, in light of the ongoing credit crisis, and urged standard setters to make improvements on an accelerated basis. This may require making an exposure draft the first document provided for public commentary.

38. We recommend the Boards do so by undertaking the following actions steps in the very near term:

    a. Complete the staff research paper. This will require assigning more experienced staff to address the principal-agent issues. We cannot afford the luxury of waiting for the newly assigned staff to get up to speed on these issues.

    b. Consider comment letters on the FASB proposed revisions to Statement 140 for further insights.

    c. Based on steps a. and b., determine next steps at the October joint board meeting for accelerating development of a new standard.

    d. Consider establishing a small, focused working group of experienced investors, preparers, and auditors that can advise the staff, starting its work during the comment period.

Projects that address areas for which there is a significant need for improvement in IFRS

39. **Financial statement presentation.** The stated purpose of this project is to develop standards for presentation of financial information within the primary financial statements. Many Board members seem to agree that this project is important because of the potential it holds to increase the understandability of financial information produced by the use of fair values within the mixed-attribute measurement system.

40. The most challenging/contentious issue is whether to retain "net income/profit and loss" or some other intermediate measure of performance and the related recycling issue. The Boards need to decide when and where they want to tackle this issue.

a. Some seem to think that the issue is beyond the scope of a presentation project. They believe changes to “net income/profit and loss” are recognition matters to be dealt with in other projects.

b. Others seem to think that “net income/profit and loss” is a presentation issue. It is a matter of disaggregating comprehensive income into components or categories—net income/profit loss is no different than requiring an operating, financing, or discontinued operations category.

Recommendations

41. The project should not seek to determine whether a net income/profit and loss subtotal should be reported and, if so, the nature of the items that should be excluded from it. Financial statement presentation would not result in established principles that other projects would use in determining whether any recognized amounts should be reported outside of earnings (e.g., projects such as postretirement benefits and financial instruments.) We recognize the implication of this recommendation, that being the continued acceptance of an ad hoc approach to items reported outside of net income and differences in our approach to recycling. (See discussion of pensions below.)

42. The project scope should be returned to its original focus on presentation on the face of the financial statements and a limited number of disclosures directly related to presentation issues. Other issues such as improved segment/liquidity disclosures should be addressed in separate projects based on an evaluation of the relative need for improvement in those or other areas.

43. **Postretirement benefits.** The IASB recently has issued a discussion paper on phase 1 of its project focused on measuring cash balance plans, elimination of so-called smoothing devices, and income statement presentation of changes in plan assets and benefit obligations. The measurement issues for cash balance plans are challenging. The Group thinks resolution of those issues should be deferred, if necessary, to issue a final standard on other issues by 2011.

Recommendations

44. The IASB should continue its work on phase 1 of the project. If the issues surrounding cash balance plans prove to be as daunting following the discussion period as they were in the lead up to the discussion paper, then the IASB should consider dropping cash balance plans from the current project. Alternatively, the IASB may consider a definition that while less conceptually pure, leaves promises like those in career average plans untouched.

45. Phase 2 of this project should be suspended and staff resources allocated to MOU projects. The IASB should consider whether to restart work after phase 1 of its project is complete. The research work currently under way by the UK ASB and other national standard setters might be used to jump start progress on phase 2 once it commences.

46. The FASB continues to evaluate how changes in plan assets and benefit obligations would be presented under the proposed presentation principles developed in the financial statement presentation project. That work should continue and can assist the IASB in resolving the open questions of presentation in its discussion document.

47. **Leasing.** The serious deficiencies in existing standards make the leasing project a priority for many. Significant lessee obligations are excluded from corporate balance sheets, distorting financial ratios and complicating financial analysis for investors. Lessor accounting raises many derecognition and revenue recognition issues, but appears to be a relative lower priority for investors and some Board members.

48. There seems to be little dispute that the "right to use" is an asset of the lessee, but the Boards have yet to resolve the difficult issues of the accounting for options (rights to terminate or renew), contingent rent, and other conditional obligations. Nor have the Boards made decisions on the fundamental issue in lessor accounting—whether the lessor should derecognize a portion of the asset subject to lease or recognize a long-term performance obligation.

Recommendations

49. The Boards should improve lessee accounting by the mid-2011 goal. Lessor accounting is an application of revenue recognition and should be dealt with in a manner that reflects the decisions reached in that project. That likely means that improved standards for lessor

accounting would be completed after 2011. We accept as a consequence of this recommendation that there may be a lack of symmetry and a different unit of account between lessee and lessor accounting for some time. We weighed that consequence against the improvement in financial reporting that would come from recognizing lease obligations in lessee's financial statements.

50. In regards to lessee accounting, the Boards should pursue an approach that results in on-balance-sheet presentation of leases. In our view, an approach that views the substantive lease term as the unit of account offers significant promise. In effect, our recommendation would leave the classification of finance leases in IAS 17 unchanged. What were previously operating leases would then be reflected as the acquisition of an intangible asset—the right of use inherent in the lease.

51. We recommend that the Boards proceed without debating changes to amortization and depreciation accounting. We note that many in the leasing business are far more concerned with the pattern of recognized expense (straight line) than with the balance sheet presentation. This should come as no surprise to the IASB following the debate on service concession agreements or to the FASB following its recent meeting with the Equipment Leasing Finance Association.

52. The Boards should avoid reconsidering areas for which current lease accounting provides answers, even though those answers are imperfect. In particular we recommend that the Boards proceed using current definitions of what constitutes a lease and the treatment of contingent rentals.

53. The Group considered whether the Boards should publish the two G4+1 documents on lease accounting as the first stage of due process. We had serious reservations about whether a lease accounting project as currently described can be completed by 2011 if we must draft a new discussion document from scratch. However, we concluded that those documents will not provide a reasonable basis for comment if the Boards accept the idea that the substantive lease term is the unit of account. In our view, a limited project along the lines described above could be captured in a short discussion document without significantly imperilling our ability to make the 2011 deadline.

54. **Financial instruments.** The IASB has issued its discussion paper on complexity in the reporting of financial instruments. The FASB also has issued its comparable Invitation to

Comment. The multiple ways of measuring similar instruments is a source of complexity for many investors. Much of the existing complexity from a preparer perspective arises from existing hedge accounting requirements. The FASB has an active short-term project to address aspects of that complexity. While the discussion paper is open for comment, the IASB should hold education sessions on the FASB's proposed approach.

55. In any event, the changes that the Boards might make to financial instrument accounting could be limited to simplifying hedge accounting and perhaps implementing some of the simplifications in measurement classification described in the discussion paper (a.k.a. the Ron Lott approach). We recommend that the Boards consider carefully whether those steps would meet the sufficient improvement constraint discussed at the beginning of this memorandum. In our view, any changes in financial instrument accounting made between now and 2011 could well be embedded in the literature for 10 years or more. Given that, it might be better to do nothing rather than to continue with a suboptimal solution, albeit one that is perhaps simpler than the solutions we have today.

56. We considered whether the Boards should press ahead with full fair value for all financial instruments. In our view, there are no significant technical obstacles to doing so. The obstacles that exist lie in the area of presentation and the Boards' willingness to deal with the political outcry that would no doubt accompany such a move. We did not make this recommendation because we concluded that there is insufficient Board support for moving to a full fair value solution at this time.

57. In view of that conclusion, we have not identified any major changes to financial instrument accounting that would satisfy our constraint of significant improvements in financial reporting. There may be some changes that can be made, perhaps in hedge accounting or in measurement classification. Until we have received comments on the discussion document and seen the progress of the FASB's work on simplifying hedge accounting, we do not have a basis for making a recommendation in this area. As with derecognition, we recommend that the Boards defer a decision on this topic to the October joint Board meeting when this additional information is available.

58. **Liabilities and equity.** This project is a priority for some in the US because US GAAP is complex, difficult to apply, and needs almost constant maintenance. It may be less of an issue internationally.

Recommendations

59. This is a high-priority project; however, our ability to make progress will depend on whether we can come to an early decision from among the three models included in the discussion paper. We recommend that the IASB focus its efforts during the comment period on developing a view with regard to the following:

    a. Does the IASB support the narrow view of equity adopted by the FASB? While the IASB has had an education session on the topic, it is not deliberated the point.

    b. Can the inconsistency that some perceived between the narrow view of equity and the Framework definition of a liability be resolved? Jim Leisenring has a suggested revision to the liabilities definition that might overcome the inconsistency.

    c. Would a standard based on the narrow view of equity preserve the solution to puttable shares recently published by the IASB? Tom Linsmeier and Sue Bielstein indicate that the FASB's model espousing the narrow view of equity is not incompatible with the IASB conclusions. In addition, that model should be able to be tweaked to make this a non-issue.

60. Consistent with our view that we must come to a common conclusion from among the models, we recommend that the project team identify "lightning rod" instruments that are likely to prove difficult. The comment letters will make the population of those instruments obvious, and we should be able to begin Board discussions shortly before the analysis of comment letters is complete.

SHORT-TERM CONVERGENCE PROJECTS

61. **Earnings per share.** Like it or not, many investors think earnings per share is an important metric, and they would be better served if US GAAP and IFRS at least produced the same denominator in most cases (the goal of the short-term project). Moreover, the Boards' proposed changes would simplify the EPS computation in some cases. That said, some respondents to past FASB exposure drafts think the proposals do not go far enough in simplifying the existing standards and recommend that the Boards reconsider EPS more fundamentally. Such a project would be a natural fit with the

Boards' project on liabilities and equity. If that approach were taken, the Boards should consider whether narrow changes to converge EPS in the interim meet the sufficient improvement constraint described at the beginning of this paper.

62. We are of two views on this project. Some group members maintain that the work done to date would improve financial reporting. Other group members maintain that the computation of earnings per share necessarily will change as a result of the projects on liabilities and equity and financial statement presentation. Those members prefer deferring the work on earnings per share and including it in an exposure draft on liabilities and equity.

63. **Joint ventures.** The IASB should be able to complete this project if it stays true to the original objective of eliminating the option of using proportionate consolidation for joint ventures. The IASB should refrain from tinkering or reconsidering the equity method—that issue should be addressed either through the consolidations project or a financial instruments project.

64. **Taxes.** The Group supports continuing work on the income tax convergence project. The IASB made a commitment to its constituents to develop a principles-based replacement to the existing standard. The FASB may propose adopting the proposed IFRS as a demonstration of the move to a common, global, principles-based standard. Tom Linsmeier and Sue Bielstein observe that the issue of uncertain tax positions is of critical importance in the US context. The IASB always has been willing to address issues that are particularly important in certain jurisdictions, as was the case with puttable shares. While the IASB's upcoming exposure draft does not take the same approach on uncertain tax positions as did the FASB, it is nonetheless important to US adoption that IFRS address this issue.

65. **Other short-term convergence.** The MOU includes possible projects on impairment, a second stage of the fair value option, and research and development. The milestone required by the MOU was a decision about whether differences in those areas should be eliminated through one or more short-term standard-setting efforts. For two reasons, we recommend that the Boards not undertake those standard-setting efforts. First, we believe the Boards' resources would be better spent on the other improvement priorities identified earlier in this memo. Second, the plan assumes that the remaining major capital markets,

including the US, will be adopting IFRSs in the next five years or so. Adoption of IFRS seems to eliminate the need to converge narrow differences in specific standards.

A note on cross-cutting issues

66. Earlier in this paper we acknowledge the importance of cross-cutting issues and the way failure to resolve those issues can slow progress. We acknowledge that IASB members have expressed a desire to separately address a number of cross-cutting issues. This almost certainly reflects frustration over the lack of significant progress in the Conceptual Framework. However, we are reluctant to recommend that any significant resources be devoted to this exercise. We observe that no Board of which we are aware has been able to approach cross-cutting issues outside of the context of individual projects and develop answers that "stick."

67. In our view, achieving progress by 2011 means making some trade-offs, and one of those is the internal consistency of the resulting standard with other IFRS and the current and developing Framework. Internal inconsistencies are not new—they result from taking an incremental approach to improving standards in the absence of a robust Conceptual Framework. We realize our recommendations continue that practice. We are comfortable with that because we believe the results will be meaningful, although imperfect, improvements to financial reporting

68. The recommended approaches in this memorandum do require that the Boards resolve some questions that certainly qualify as cross-cutting issues. For example, we cannot resolve revenue recognition without a definition of a performance obligation (and thus a better definition of a liability). However, on balance, our recommendations minimize the impact of cross-cutting issues.

69. As we consider the staffing implications of our recommendations, it seems clear to us that directors and senior project managers are critical to our ability to complete our work by 2011. The IASB's current plan was to divert one or two senior project managers to work on cross-cutting issues. That no longer seems to us the best use of resources. While it may be possible to single out one or two cross-cutting issues, we ask that the IASB reconsider its earlier decision to devote significant resources to cross-cutting issues.

Private Company Financial Reporting Committee
International Private Company Accounting Efforts
April 2008

IASB EFFORTS

Draft IFRS for SMEs

- Intended for entities that do not have public accountability and do publish general purpose financial statements for external users.
- Provides underlying concepts and principles and addresses specific accounting topics.
- Principles based.
- Self-contained, 200 pages. 85% reduction from full IFRS.
- Based on full IFRS.
- Historical cost is main accounting convention. Accrual basis.
- Modifications based on user needs and cost-benefit considerations.
- Based on assumption that user needs are focused on short-term cash flows, liquidity, and solvency; less interest in long-term earnings forecast.
- Five types of simplifications based on user needs and cost-benefit:
  a. Some topics in IFRS not included if irrelevant to SME, but if encountered, required to look to full IFRS.
  b. Where IFRS has options, include only simpler option, but SME may use complex option by following full IFRS.
  c. Many recognition and measurement simplifications.
  d. Reduced disclosures from about 3,000 items to about 400 items.
  e. Simplified drafting.
- Maintenance – Biennial, but exceptions allowed.
- Progress and Future
  - Staff analyses of comments and field tests, and staff recommendations for changes to the ED to Board 1Q 2008.
  - Working Group meet 10-11 April, recommendations to Board.
  - Final IFRS by end of 2008

CANADIAN EFFORTS

1. Publicly accountable enterprises – IFRS adoption
2. Non-publicly accountable (“private”) enterprises – Unresolved. Models being considered.

1. Publicly accountable enterprises

- IFRS will become Canadian accounting standards for publicly accountable enterprises on January 1, 2011. This includes preparation of comparative figures for 2010. Earlier adoption possible.
    - Private enterprises and NPOs not included. But they can elect to follow IFRS.
- Intention is to adopt IFRS in full, without modification. The experience of other countries has indicated that country-specific variation is counterproductive.
- By May 2008, Canadian Accounting Standards Board (AcSB) will issue an omnibus exposure draft, *Adopting IFRSs in Canada*, which contains all IFRS as of January 1, 2007.
    - Respondents asked to identify difficulties in applying IFRS to Canadian situations and making the transition.
- Industry groups currently addressing transition issues.

2. Private enterprises

- Early 2008, AcSB issued an Invitation to Comment on three proposed GAAP options for non-publicly accountable enterprises with significant external users. The AcSB later decided to discuss a possible simplified form of GAAP for all non-publicly accountable enterprises.

- Models under consideration include:

    1. Development of a set of Canadian accounting standards for private businesses. This model might be similar to the existing model, or could be a simplified version, reflecting the perceived reduced information needs of users of the financial statements of privately owned businesses.
    2. Adoption of the draft IFRS for SMEs.
    3. Adoption of a version of IFRS that continues the Canadian practice of providing "differential reporting" options for companies based on the information needs of their shareholders.
    4. Framework for Owner Managed Enterprises (FOME) (see details below)

- CICA believes the ideal solution is an approach that allows for two reporting models under GAAP – IFRS for publicly accountable enterprises and another comprehensive and self-contained simplified framework for all non-publicly accountable entities, potentially including many not-for-profit organizations.
- CICA research showed little or no support for different standards for private companies <u>with</u> significant external users of their financial statements and those <u>without</u> significant external users

Canada – Framework for Owner Managed Enterprises (FOME)

- Intended for entities that do not have public accountability and do not have significant external users.
- No intention to scope out enterprises that are not always owner managed.
- Research showed that creditors are making lending decisions based on a portfolio risk approach, and have no need for GAAP financial statements.
- Framework largely based on existing accounting sections of the Handbook.
- Some elements and sections of the IASB SME document have been incorporated into the Framework.
- Principles based
- Provides underlying concepts and principles and addresses specific accounting topics.
- Intention is to develop implementation guidance.
- Maintenance – Biennial.
- Progress and future
    - Comment period on proposed framework ended January 31, 2008.

AUSTRALIAN EFFORTS

- Since 2002, the Australian Accounting Standards Board (AASB) has been implementing the adoption of IFRS for application to periods beginning on or after 1 January 2005.
- The AASB decided to continue to issue sector-neutral standards, that is, standards applicable to both for-profit and not-for-profit entities, including public sector entities.
    - Except for standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using IFRS as the “foundation” standards to which it adds material detailing the scope and applicability of a standard in the Australian environment.
    - Additions are made, where necessary, to broaden the content to cover sectors not addressed by IFRS and domestic, regulatory or other issues.
- A dominant item on the AASB’s agenda is to review the differential reporting regime in Australia. This review can be expected to result in a new approach to differential reporting.
- The AASB discussed its tentative decisions in December 2007 that there should be two tiers of reporting in respect of for-profit Corporations Act entities:
    - (a) Tier 1: full IFRS for publicly accountable entities; and
    - (b) Tier 2: a choice for an entity that is not publicly accountable to elect either of the following:
        - IFRS for SMEs
        - Full IFRS recognition and measurement requirements plus limited specified disclosures.

- The AASB considered an issues paper on the second option in tier 2 and decided to defer further consideration of the issues until the final outcome of the IASB's IFRS for SMEs is known. The Board noted that a final decision on its approach depends on the nature and extent of disclosures required by the forthcoming IFRS for SMEs.

U.K. EFFORTS

- Since 2005, all listed companies (listed on an EU regulated Stock Exchange) across the European Union have to prepare their consolidated financial statements based upon IFRS.
- Government bodies will be required to adopt IFRS for their 2009/10 financial statements.
- All UK companies not using IFRS for their accounts will be expected to continue to comply with UK GAAP and the accounting requirements of the Companies Act.
- UK Accounting Standards Board(ASB) continues to consider a strategy for the convergence of UK GAAP with IFRS
- In 2007, the Financial Reporting Standard for Smaller Entities (FRSSE) became effective.

    - The FRSSE presents simplified and modified UK GAAP for smaller entities. The basic measurement requirements in the FRSSE are the same as those in other accounting standards (although with some slight simplifications), but many of the disclosure and presentation requirements of other standards have not been included in the FRSSE.

    - The FRSSE is a standard that may be applied by companies that qualify as small under the Companies Act 1985 and other entities that would have qualified as 'small' had they been incorporated. The Companies Act definition of 'small' encompasses most companies with an annual turnover of up to £5.6 million.

    - Entities adopting the FRSSE are exempt from applying all other accounting standards. This considerably reduces the volume of accounting standards those entities need to comply with or refer to.

    - It remains open to them to choose not to adopt the FRSSE and to comply with the other UK accounting standards instead or, if they are companies, international accounting standards.

- UK Consideration of draft IFRS for SME:

    - The UK ASB is of the opinion that there are three main implications that need to be considered by constituents.

        - 1) Constituents need to consider what other role the IFRS for SMEs may play within the UK ASB's convergence project
            - Is it suitable for a mid-tier of companies above the current range for the FRSSE but below those currently required to apply full IFRS?
        - 2) Is the IFRS for SMEs an appropriate replacement for the FRSSE?
        - 3) If the IFRS for SMEs is to be considered a suitable basis for middle tier companies, or as a replacement for the FRSSE, what changes will need to be made to it?
    - The UK ASB is inviting constituents' views on these implications, which also includes a question on the relative costs and benefits of the ASB adopting the proposed IFRS for SMEs.

NEW ZEALAND EFFORTS

- In 2002, the New Zealand Accounting Standards Review Board (ASRB), decided that all New Zealand entities that prepare general purpose financial statements were required to adopt NZ IFRS for periods beginning January 1, 2007.
    - In 2004, the ASRB approved the stable platform of New Zealand equivalents to IFRS (NZ IFRSs).
- Since that decision was made, there has been much debate about the applicability of NZ IFRS to small entities, particularly small family-owned businesses and not-for-profit organizations.
- A government review of the financial reporting requirements applying to small and medium-sized companies under the Financial Reporting Act will commence in mid-2008.
    - It is possible this review could remove the legislative requirement for many small companies to prepare GAAP-compliant financial reports.
    - As a result, the ASRB has decided that mandatory adoption of NZ IFRS should be delayed for some small companies.

A "PRINCIPLES-BASED" DISCLOSURE STANDARD TEST CASE: DISCLOSURE OF CERTAIN LOSS CONTINGENCIES

Small Business Advisory Committee
June 27, 2008

Objective

The objective of this meeting is two-fold: (a) for the FASB staff to obtain SBAC members' input on the operationality and decision-usefulness of the recently issued Exposure Draft of the proposed FASB Statement, *Disclosure of Certain Loss Contingencies,* and (b) for SBAC members to consider the contingency disclosure project in light of the proposal by the Investors Technical Advisory Committee (ITAC) for a "principles-based" disclosure standard (the Disclosure Framework proposal).

ITAC's Proposal for a Disclosure Framework

Attachment D-1 includes a copy of ITAC's letter to FASB Chairman Bob Herz dated December 11, 2007, proposing that the Board pursue a Disclosure Framework project. The Framework would set forth the disclosures that would be required for significant balance sheet, income statement, and cash flow items. Disclosures about a particular account would be divided into three broad categories: (a) general, covering the basis for presentation for that account; (b) composition, providing detail about what is included in the account and reconciling from the prior period to the current period when appropriate; and (c) assumptions and uncertainties, consisting of a qualitative discussion. For more detail on ITAC's proposal, see Attachment D-1.

About the Exposure Draft

In September 2007, the Board added a project to its agenda to reconsider FASB Statement No. 5, *Accounting for Contingencies,* to be conducted in phases. In the first phase, the Board intends to improve the quality of financial reporting by expanding disclosures required about certain loss contingencies. Investors and other users of financial information expressed concerns that current disclosures made under Statement 5 do not provide sufficient information in a timely manner to assist users of financial statements in assessing the likelihood, timing, and amount of future cash flows associated with loss contingencies. This proposed Statement attempts to expand disclosures about certain loss contingencies in the scope of Statement 5 or FASB Statement No. 141 (revised 2007), *Business Combinations*. The staff drafted its

Note: These materials are provided to facilitate understanding of the issues to be addressed at the June 27, 2008 SBAC meeting. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

proposal to the Board with ITAC's proposed Disclosure Framework in mind. Attachment D-2 provides a summary of the key features of the Exposure Draft.

Issues for Discussion

Question 1: To what extent would the disclosure project for loss contingencies have been necessary if a Disclosure Framework were in place? Would it not have been necessary at all, or would it have been required to clarify the application of the Disclosure Framework to loss contingencies?

Question 2: How would a Disclosure Framework apply to different classes of similar liabilities? For example, should the disclosures required for asset retirement obligations accounted for under FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* be the same as those for litigation reserves?

Question 3: Do you agree that an entity should disclose all loss contingencies whose resolution is expected to occur in the *near term* and could have a *severe impact* on the entity, regardless of the likelihood of loss?

Question 4: Do you believe a prejudicial exemption should be provided as described in the Exposure Draft? If not, what approach would you recommend and why?

Question 5: Do you agree with the quantitative disclosure requirements in the proposed Statement? If you disagree with the proposed requirements, what quantitative disclosures do you believe would best fulfill users' needs for quantitative information and at the same time not reveal significant information that may be prejudicial to an entity's position in a dispute?

Question 6: Do you believe there are issues relating to loss contingency disclosures that are unique to small businesses or private entities? If so, what are they?

Investors Technical Advisory Committee

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | Phone: 203 956-5311 Fax: 203 849-9714

Via Email

December 11, 2007

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Disclosure Framework Proposal

Dear Chairman Herz,

The Investors Technical Advisory Committee (ITAC) has developed a proposal for the promulgation of a "principles-based" disclosure standard under U.S. Generally Accepted Accounting Principles (U.S. GAAP). We recommend that the Financial Accounting Standards Board (FASB, or the Board) add a "fast-tracked" project, intended to enhance the disclosure framework currently residing within U.S. GAAP to its working agenda. This new "principles-based" ***disclosure framework establishes a framework to be used for disclosures in FASB standards***. This letter outlines the details of our proposal and its rationale[1].

If pursued, we believe our proposal will serve to remedy many perceived critical shortcomings in the FASB's existing financial reporting framework. It will enhance the quality, consistency, and format of financial information provided to users and has the potential to yield significant efficiencies in the Board's standard setting activities by meaningfully reducing the time required to develop new standards. We further believe the proposal has great potential to meaningfully enhance the usefulness of financial statements in the short term, and accordingly suggest the Board assign a high priority to its consideration. Most importantly, it can be achieved in a reasonably short time, without greatly encumbering the Board's staff resources.

Proposal Details

The envisioned framework encompasses the types of disclosures necessary for significant balance-sheet, income-statement, and statement-of-cash flow items. It also includes disclosures necessary to provide investors a transparent picture of the potential future impact on earnings and cash flows from financial transactions. The framework would articulate the principal disclosure requirements, and use examples from existing

[1]This letter represents the views of the Investors Technical Advisory Committee ("ITAC" or "Committee") and does not necessarily represent the views of its individual members or the organizations by which they are employed. ITAC views are developed by the members of the Committee independent of the views of the FASB and its staff. For more information about the ITAC, including a listing of the current members and the organizations in which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml

disclosure guidance for illustration (although this might require a bit of tailoring, we do not expect it to result in a cumbersome rework).

The disclosed information requirements for a particular account (assuming it is considered material to the reader of the financial statements) will include:

- The accounting principles used to account for the items and activity in the account(s), and the basis for their selection.
- Sufficient detail about the account to permit a user to understand the composition and nature of the items included (and/or netted) within a specific caption.
- A roll-forward of the activity in the account balances from period to period showing gross (un-netted) changes by the nature of the change (e.g., change in balance resulting from new issuances, repurchases, changes in interest rates and changes in credit quality).
- The principal estimates and assumptions used.
- The basis for selecting a particular assumption and any changes in assumptions that have a material impact in the determination of the underlying data and estimates.
- Risks and uncertainties related to the applicable account (unless immaterial or remote), including an estimate of the range of the potential impact those items could have on the results of operations, financial condition, or liquidity, in either a favorable or unfavorable manner.
- The nature and magnitude of nonrecurring transactions.
- For nondiscretionary or other commitments requiring use (or receipt) of resources (e.g., capital commitments, on or off the balance sheet financings, and pensions) that are considered likely to occur, a disclosure of the best estimate of the amount of those commitments for each of the next five years and in the aggregate thereafter.
- A "catch-all" proviso mandating that, when a transaction is not covered by a specific accounting standard, if information regarding it is considered material to investors, disclosure of the nature and magnitude of the transaction is required to keep the financial statements from being misleading.

The above could be presented by a company using a multi-layered approach to assist users in navigating the notes in a consistent fashion. In the future, it will allow users (with the aid of technology – e.g., XBRL) to suppress or present information pertinent to their analysis, thereby mitigating and managing information-overload concerns, without compromising the robustness and comprehensiveness of information provided in financial statements.

For example, the above information could be presented in three predominant areas as follows:

- ***"General"*** **–** outlining the basis of presentation for that particular account/financial statement line item (e.g., in a manner similar to information presented currently under "significant accounting policies" – this will serve to replace or substitute the information currently presented in that caption);

- ***"Composition"* –** outlining what is included in the account/line item (e.g., item breakdown and netting – such as loans net of provisions) and also providing a roll-forward when appropriate (including amounts attributed to increases or decreases arising from changes in estimates), and
- ***"Assumptions and Uncertainties"* –** outlining principal assumptions, estimates, sensitivity analyses, and a qualitative discussion regarding risks and uncertainties and the potential of the amounts to change over time.

We appreciate that some of this information already is provided in significant accounting policies and/or critical accounting policies sections, and can be built on and modified. We believe a more consistent disclosure framework, capturing all the above elements, is needed, because companies often still do not provide adequate information under today's prevailing piecemeal disclosure guidance. See Appendix for an illustration of a possible approach to applying our concept.

As proficient and experienced users of financial statements, the ITAC's members believe inclusion of additional information is essential to help users better understand financial risks and benefits, and provide them with a more complete picture of a company's business prospects and the key assumptions used in reporting its financial performance. We believe this proposed disclosure standard could replace the disclosure guidance within existing individual standards and the need for specific guidance in new ones. Our goal is for the Board to create a framework requiring further disclosure of information reasonably prudent preparers already have on hand -- we view current disclosures as lacking or incomplete under the current financial framework.

The ITAC believes a new disclosure standard could be drafted using concepts already in place in existing standards (such as Statements 123(R), 132(R), 157, and 159). We hope this standard could be developed and implemented in a relatively short (one to two year) timeframe, and would address numerous perceived deficiencies related to the lack of transparent disclosures, while allowing the FASB the flexibility to move ahead with the longer-term projects already in process.

Rationale

As background to our recommendation, the ITAC believes disclosures are a critical and integral part of the overall financial statements. The quality and completeness of disclosures continues to be an area of concern from the various users of financial statements, especially considering recent equity and debt market events that underscore the importance of robust disclosures (e.g., composition, sensitivity, and valuation methodologies) in addition to merely providing a financial statement amount. It would be helpful for users to be able to discern the potential for the financial-statement's amount to change over time, especially given the vast complexity of the business environment and the broader migration toward fair-value measurements in financial reports.

We view the disclosure of composition, valuation assumptions, and potential future cash flow implications as equally applicable to all line items in the financial statements and not to only particular line items for which current 'expanded' disclosure requirements exist within GAAP (e.g., for securities measured at fair value, assumptions underlying stock-options grant or pension assets and obligations). For example, we believe this need is evidenced by the scrutiny of loan-loss metrics and commitments/contingencies where investors, regulators, and politicians perceive disclosures to be vastly lacking or incomplete.

To illustrate our vision of how one principle-based standard could streamline the reporting process while providing additional information, consider the topics of manufacturer's warranty, product return provisions, and price concession reserves. Currently, we believe the specific disclosure requirements for these accounts is not as useful and certainly not as detailed when compared with, for example, those related to pension or asset-retirement obligations. Under existing practice, changes to guidance to formalize disclosure requirements would need to be made in both areas (warranty and contingent liabilities). However, if one standard along the lines we suggest was in place, companies that deem these items to be significant to users, would be required to apply the disclosure requirements.

The recommended disclosure framework should give regulators a more complete codification of disclosure rules as well as direct auditors to focus greater attention to disclosures. In our view, our proposal can also minimize financial reporting arbitrage, because pertinent information will be disclosed in the notes rather than hidden behind the numbers. We believe if investors were informed about a particular risk or an economic position (whether as part of the basic financial presentation or the disclosures); the unfortunate high level of financial reporting engineering that we currently observe will likely diminish. To illustrate, consider how uninformed users were about unconsolidated VIEs prior to implementation of FIN 46 disclosure requirements – since the assets or liabilities of VIEs (or SPEs at the time) were "off books" and disclosures sparse, investors were unaware of these risks, and financial-reporting arbitrage persisted.

The ITAC believes past attempts from various constituents to expand disclosure guidance have failed, because preparers typically do not include additional information if not required to do so. Accordingly, instead of expanding a particular disclosure standard, which may be inefficient and relatively slow (e.g., developing FAS 132(R)), we believe this shortfall should be addressed with a more encompassing separate and distinct principles-based standard.

The heightened focus on disclosure ultimately will lead to a more efficient and self correcting mechanism to financial reporting pursuant to which companies will receive market feedback and inquiries that would likely lead to companies providing more detailed and meaningful disclosures regarding items or transactions.

Timing & Costs/Benefits Considerations

Improved disclosures, consistent with those urged above, have been recommended in the past by such groups as the Cohen Commission of the 1970s, and the international auditing firms in proposals to the SEC in the 1980s and 2001. In light of the continued lack of a disclosure framework, which has contributed to the lack of transparency surrounding the current sub prime financial reporting issues, we believe it is appropriate for the Board to now undertake a project to remedy these disclosure shortcomings and more broadly, enhance the information disseminated to investors in financial statements.

We understand the Board currently is addressing the topic of disclosures as part of other projects in various stages of exploration or progress (both the joint FASB/IASB project on the Conceptual Framework and the FASB Financial Statement project). ITAC welcomes the opportunity to participate in reviewing the disclosure sections of each project and assist the Board in its activities regarding those projects as they progress. However, financial statement constituents require more immediate improvements while appreciating that similar concept will ultimately be incorporated in the other longer-term projects. Accordingly, we urge the Board to ***add to its agenda our proposed project in advance of completion of other FASB as well as the joint FASB/IASB conceptual framework project*** currently in process. We believe the concepts underpinning our proposal fit well within the to-be-developed joint conceptual framework with minor modifications, if any.

As part of our deliberations, we also contemplated the potential cost/benefit attributes we anticipate. As far as potential benefits, in addition to furthering users' ability to assess the financial picture, risk assumptions, and key estimates more clearly, other benefits of our proposal include:

- Consideration of user concerns for more/better information regarding risk and judgmental areas of accounting estimates;
- Elimination of redundancies between the current critical accounting policy section of the management discussion and analysis (MD&A) section of SEC filings and the overall financial statements;
- Fostering of efficiency in FASB activity from the reduction of efforts to have disclosure requirements within each individual standards. This will substantially accelerate the "time-to-market" of new accounting standards and free Board resources to focus more promptly on emerging issues; and
- The heightened focus on disclosure will ultimately enforce a more efficient and self correcting mechanism.

We feel that the information to be disclosed under a new framework is substantially available already, as most of the data typically is required for sound management of a company and is a part of a company's normal data set, reconciliation, and presentation processes. Further, the proposed framework would not be prescriptive as to a particular format or content requirements (although we believe that over time certain consistency and best practices may be observed). For non-registrants, some required disclosures might already be made under SOP 94-3 covering risks and uncertainties. In addition, for SEC registrants, information often is also found under the critical accounting policies and estimates disclosures in their MD&A section. However, based on our experience, disclosures are (unfortunately) inconsistent and incomplete – so a new standard may, indeed, entail additional preparer costs. We believe these additional costs may be (already) required today as the current guidance is not fully or optimally complied with. Using materiality considerations (consistent with the current notion of materiality in financial reporting) would clearly be a factor to be considered which could limit any additional cost or time burden.

Thank you for your consideration of our proposal, which we view as critical in shoring the foundation of a robust financial reporting system designed to be useful to investors. If you need further information or require additional information, please feel free to contact any member of ITAC's Disclosure Subgroup. We would be happy to discuss our proposal and recommendations with members of the Board or its staff.

Sincerely,

Mike Gyure

Investors Technical Advisory Committee
By: Mike Gyure, Member

Cc: International Accounting Standards Board -- Mr. Wayne Upton, Director of Research

Appendix:

General:

Describe significant accounting policies underpinning a particular financial statement's account or line item. For example, for an account that includes benefits/deferred compensation it should describe the accounting policies for pensions, stock based compensation arrangements, and other incentive compensation calculations.

Composition:

Includes the account composition and what comprises this line item -- for example, as it relates to benefits/deferred compensation it may include:

Pension liabilities	XXX
Pension assets	(XXX)
Pension obligations net	XXX
Deferred compensation:	
Restricted shares	XXX
Long term incentive-pay	XXX
Total benefits/deferred compensation	XXX
	====

This section will also include roll-forwards for assets and liabilities in a manner similar to that required by Statement 132(R) and FAS 158.

Assumption and Uncertainties:

Includes a discussion of main assumptions and estimates in a manner similar to what is required by Statements 132(R) for postretirement and 123(R) for stock-based compensation, coupled with information on measurement attributes (e.g., Statement 157) as well as additional disclosures on future cash flows and sensitivities (some of which currently may be required).

Application of our approach:

As part of the (to be developed) Principles-Based Disclosure Statement we envision, the Board will prepare several examples (3-4) of disclosures to be included in the proposed statement to illustrate its application. We believe preparers will be able to easily apply the principles by analogy to other circumstances using these examples. Accordingly, an auto manufacturer, for example, that has meaningful warranty and return reserves (and these are part of its significant accounting policies) should be required to apply the standard and provide details on the composition of these accounts as well as main estimates, components of the accounts, expectations and changes thereof. This information, which we believe is substantially lacking today, would be of great use to financial statement users.

SUMMARY OF EXPOSURE DRAFT:

DISCLOSURE OF CERTAIN LOSS CONTINGENCIES

Small Business Advisory Committee
June 27, 2008

Background on Disclosure Project

At the September 6, 2007 meeting, the Board decided to add to its technical agenda a comprehensive project on accounting for contingencies, consisting of two phases: (a) a short-term phase to enhance the disclosure requirements for certain loss contingencies and (b) a long-term phase to comprehensively reconsider the recognition and measurement of certain nonfinancial liabilities, including contingencies. On June 5, 2008, in connection with the short-term phase, the FASB issued an Exposure Draft of the proposed FASB Statement, *Disclosure of Certain Loss Contingencies.*

Significant Disclosure Amendments

The following paragraphs summarize and describe the proposed disclosure requirements included in the Exposure Draft.

Scope of Proposed Statement

The proposed Statement would apply to all loss contingencies that are within the scope of either FASB Statement No. 5, *Accounting for Contingencies,* or No. 141 (revised), *Business Combinations,* except for:

a. Loss contingencies that are (or would be) recognized as asset impairments in a statement of financial position. Such loss contingencies shall continue to be disclosed in accordance with Statement 5. Creditors shall continue to disclose information about impaired loans in accordance with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan.*

b. Guarantees within the scope of the disclosure requirements of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* including guarantees that are recognized either initially or subsequently based on the Statement 5 accounting guidance.

c. Liabilities for unpaid claim costs related to insurance contracts or reinsurance contracts of an insurance entity or a reinsurance entity within the scope of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises,* No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments,* No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts,* No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts,* or No. 163, *Accounting for Financial Guarantee Insurance Contracts*.

d. Liabilities for insurance-related assessments within the scope of AICPA Statement of Position 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*.

e. Liabilities for employment-related costs, including pensions and other postemployment benefits. However, obligations that may result from withdrawal from a multiemployer plan for a portion of its unfunded benefit obligations would be disclosed in accordance with the proposed Statement.

Threshold for Disclosure—General Rule

The proposed Statement would recharacterize the existing threshold for disclosure in Statement 5. Rather than disclosing a loss contingency "when there is at least a reasonable possibility that a loss or an additional loss [beyond the amount accrued] may have been incurred" (existing paragraph 10), entities would be required to disclose a loss contingency unless management has made an assessment and determined that the likelihood of an unfavorable outcome is remote. It is understood that loss contingencies that are not material would not be disclosed, consistent with the statement at the end of each FASB pronouncement that the guidance need not be applied to immaterial items. Additionally, the separate threshold for disclosure of unasserted claims and assessments would be retained.

Threshold for Disclosure—Near Term and Severe Impact

In addition to the general rule stated above, the proposed Statement would require that an entity also disclose a loss contingency, or a combination of loss contingencies, regardless of the likelihood of loss if (a) the contingency or contingencies are expected to be resolved in the *near term,* and (b) the contingency or contingencies could have a *severe impact* on the entity's financial position, cash flows, or results of operations.

Qualitative Information

The proposed Statement would require an entity to provide qualitative information sufficient to enable users to understand the risks posed to the entity. At a minimum, an entity would be required to provide information including a description of the contingency, factors that are likely to affect the ultimate outcome of the contingency, and a qualitative assessment of the most likely outcome of the contingency (see paragraph 7(b) in the Exposure Draft for a complete list). Additionally, an entity would be required to provide qualitative information about recoveries such as relevant insurance or indemnification arrangements.

Quantitative Information

One of financial statement users' most significant concerns about disclosures under Statement 5's requirements is that the disclosures rarely include quantitative information. Rather, entities often state that the possible loss cannot be estimated. The proposed Statement would require an entity to disclose the amount of the claim against the entity or, if there is no claim amount, the entity's best estimate of its maximum exposure to loss from the contingency. Additionally, an entity would be permitted, but not required, to disclose the possible loss or range of loss if it believes that the claim amount or its estimate of the maximum exposure to loss is not indicative of its actual exposure.

Aggregation

Under the proposed Statement, an entity would be allowed to aggregate the qualitative and quantitative disclosures described above by the nature of the loss contingency (for example, product liability or antitrust matters).

Tabular Reconciliation

Under the proposed Statement, an entity would be required to include a tabular reconciliation of recognized loss contingencies in both interim and annual financial statements, isolating key reasons for increases in total recognized loss contingencies and key reasons for decreases in total recognized loss contingencies. Amounts would be segregated into aggregate totals for loss contingencies recognized under Statement 5 and those recognized under Statement 141(R).

Prejudicial Exemption

The proposed Statement would provide a limited exemption from disclosing information that would be prejudicial to an entity's position in a dispute. If information required to be disclosed under the proposed Statement is considered prejudicial, an entity would aggregate the disclosures at a higher level than otherwise allowed so that the information could not be linked to its specific case by a counterparty. However, if even the aggregated disclosure would be prejudicial, an entity would be allowed to forgo disclosing only the information that would be prejudicial. An entity would still be required to disclose certain information about the loss contingency. The circumstances under which disclosure may be forgone are characterized in the Exposure Draft as *rare*.