SMALL BUSINESS ADVISORY COMMITTEE

FASB Offices
Norwalk, Connecticut

December 12, 2008

Agenda*

9:00 am — Introductory Remarks (Ms. Leslie Seidman)

9:00 – 10:15 am — Topic 1: Credit Crisis Update, Disclosure Requirements, and Training and Education

Session Objectives: To provide SBAC members' input on:

- ♦ *The affects and financial reporting implications for small businesses and banks.*
- ♦ *Liquidity versus credit risk and the concept of net realizable value versus fair value.*
- ♦ *New disclosure requirements for year end (Interpretation 46R amendments).*
- ♦ *Whether the FASB should be further engaged in education initiatives for small companies related to new or existing financial reporting requirements. And, if so, the timing and methods that would be the most effective.*

10:15 – 10:30 am — BREAK

10:30 – 11:45 am — Topic 2: Disclosures About Loss Contingencies

Session Objective: To provide SBAC members' input on an alternative model that the FASB directed the staff to prepare to address the concerns raised about June 2008 Exposure Draft.

11:45 am — LUNCH

12:45 – 1:45 pm — Topic 3: Semi-Annual Status Reports

- Report of the FASB Chairman (Mr. Bob Herz)
- Report of the SEC (Ms. Jenifer Minke-Girard)
    - Update on Recent Releases and Initiatives
    - Roadmap and Proposal on IFRS
- Report of the PCAOB (Mr. Greg Fletcher)
- Report of the PCFRC (Ms. Judy O'Dell)

1:45 – 2:45 pm	Topic 4: Future Financial Reporting for Small or Private Entities *Session Objectives: To continue the discussion from the June meeting by providing SBAC members' input on:* ♦ *The potential implications of the SEC proposal in the context of the broad range of all nongovernmental entities including public issuers, private entities of all different sizes, and not-for-profit organizations.*
2:45 pm	Other issues and closing remarks
3:00 pm	ADJOURNMENT

***Times are approximate.**

ATTACHMENT 1

CREDIT CRISIS UPDATE, RELATED DISCLOSURES, AND TRAINING AND EDUCATION

Small Business Advisory Committee
December 12, 2008

Objective

To provide SBAC members' input on:

- ♦ The affects and financial reporting implications for small businesses and banks.
- ♦ Liquidity versus credit risk and the concept of net realizable value versus fair value.
- ♦ New disclosure requirements for year end (Interpretation 46R/140 amendments).
- ♦ Whether the FASB should be further engaged in education initiatives for small companies related to new or existing financial reporting requirements. And, if so, the timing and methods that would be the most effective.

The information below includes both a summary of the financial reporting issues that have been raised over the past few months, a summary of the current risk disclosure requirements (SOP 94-6), and a summary of new related disclosure requirements for year end. The financial reporting issues identified in Section 1 will be considered and further discussed by the FASB and IASB, as well as by the Global High-Level Advisory Group (described below). At the upcoming advisory meeting, we plan to focus our discussion on the implications of current and future requirements for small businesses.

Section 1: FASB-IASB Approach to Identifying and Considering Global Issues

Over the past few months a number of significant initiatives have been underway to consider issues related to the credit crisis. To provide the context for our discussion, below are brief summaries of FASB projects and initiatives underway, as well as some of the requests that have been made. As with any issue, the fact that an issue has been raised does <u>not</u> necessarily mean that:

- ♦ A project automatically will be added to the FASB's agenda to address the issue—it depends on the issue. Under the FASB's due process, the FASB

Note: These materials are provided to facilitate understanding of the issues to be addressed at the December 12, 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.

Chairman makes the determination of which issues to add to the agenda, after appropriate consultation.

- A specific resolution will occur—the guidance issued on any issue depends on the FASB's deliberations and evaluation of the issues, the alternatives, and includes information from investors, preparers, and others in that process.

The IASB and the FASB are pursuing a joint approach to dealing with reporting issues arising from the global financial crisis. At their joint meeting in October, the Boards:

- Reiterated the importance of working cooperatively and in an internationally coordinated manner to consider accounting issues emerging from the global crisis.
- Emphasized the role of high quality financial reporting in helping enhance confidence in the financial markets by responding in a timely manner that improves transparency and provides greater global consistency in financial reporting.

The Boards' joint approach includes the rapid appointment of a high-level joint advisory group, a series of public roundtables, and the development of common long-term solutions to the reporting of financial instruments.

Global Credit Crisis Accounting Advisory Group

The primary function of this global advisory group is to advise the FASB and IASB about standard-setting implications of (1) the global financial crisis and (2) potential changes to the global regulatory environment. This high-level advisory group will consider how improvements in financial reporting could help enhance investor confidence in financial markets. The group also is charged with identifying the significant accounting issues requiring urgent and immediate attention of the Boards, as well as issues for longer-term consideration.

The advisory group is jointly co-chaired by Harvey Goldschmid, former Commissioner of the US SEC, and Hans Hoogervorst, Chairman of the Netherlands Authority for the Financial Markets (AFM), the Dutch securities regulator. The global advisory group members are senior leaders with broad international experience with financial markets. The advisory group also will draw upon work already underway in a number of jurisdictions on accounting and the credit crisis.

Public Roundtables on Credit Crisis Issues

The purpose of the public roundtables on credit crisis issues was to gather input on reporting issues emanating from the current global financial crisis—including responses by governments, regulators and others. The input from the roundtables will assist the Boards and the advisory group to advance discussions. The IASB and FASB held roundtables in three locations—London (November 14), Norwalk (November 25), and Tokyo (December 3). The topics that were discussed at the roundtables include:

1. Impairment Issues
    a. Triggers for recognition and calculation of impairment losses related to financial instruments
    b. Subsequent accounting for impairment losses
        - Fair value model versus incurred loss model
        - Reversals of impairment losses
2. Fair Value Measurement
    a. How to measure fair value
        - Inactive markets, distressed sales
    b. When fair value should be used
3. Reclassification of Financial Instruments
    a. Within fair value option
    b. Within investment categories
4. Disclosures
    a. Financial instruments and fair value disclosures
    b. Impairment disclosures
5. Other Issues
    a. Strengthening transparency and accountability
    b. Allowance for loan losses
    c. Accounting for government transactions with the private sector
    d. Consolidation and derecognition

Long-term Solutions on the Accounting for Financial Instruments

In addition to considering the potential for short-term responses to the credit crisis, the FASB and IASB are committed to developing common solutions aimed at providing greater transparency and reduced complexity in the accounting of financial instruments. The Boards will use their joint discussion paper, *Reducing Complexity in Reporting Financial Instruments*, the responses received to the discussion paper, and the deliberations of the high-level advisory group as starting points for this longer term objective. The Boards will reconsider the composition of the existing IASB Financial

Instruments Working Group to ensure that working group provides appropriate and balanced advice to both Boards.

At an informational session at the joint meeting on Tuesday, October 21, the FASB and IASB discussed comment letters received on their joint Discussion Paper, *Reducing Complexity in Reporting Financial Instruments*, and the FASB Exposure Draft, *Accounting for Hedging Activities*. The Boards discussed how to move forward with the projects on a joint basis. An 8-page summary that includes additional details about the comment letters received on those projects is available at:

http://www.iasb.org/NR/rdonlyres/89672D67-1C26-4C8C-AEC1-88E33F2059AB/0/FI0810jointb08handoutobs.pdf

Section 2: Existing Disclosure Requirements About Risks (AICPA Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties)

The reasons for issuing SOP 94-6 are included in the introduction to that guidance:

> The volatile business and economic environment underscores a need for improved disclosure about the significant risks and uncertainties that face reporting entities. In 1987, the AICPA issued the Report of the Task Force on Risks and Uncertainties (the Report), which was intended to help standards-setting bodies and others identify practical methods of improving the information communicated to users of financial statements to help them assess those risks and uncertainties. This statement of position (SOP) is largely based on the Report. . .

SOP 94-6 applies to nongovernmental entities that issue full interim or annual financial statements. Paragraph .08 of SOP 94-6 requires disclosure of:

> [R]isks and uncertainties existing as of the date of those statements in the following areas:
>
> a. Nature of operations
> b. Use of estimates in the preparation of financial statements
> c. Certain significant estimates
> d. Current vulnerability due to certain concentrations.

The disclosure requirements apply broadly, with a notion that the disclosures would be limited to those matters that are significant to a particular entity. The disclosure requirements in SOP 94-6 do not encompass risks and uncertainties that might be associated with management or key personnel, proposed changes in government regulations, proposed changes in accounting principles, deficiencies in the internal control structure, or the possible effects of acts of God, war, or sudden catastrophes.

The disclosure requirements in SOP 94-6 "in many circumstances are similar to or overlap the disclosure requirements in certain pronouncements" of the FASB or SEC. Attachment 2-A includes the conclusions of the AICPA's Accounting Standards Executive Committee (AcSEC) in SOP 94-6, as well as the background and basis for their conclusions.

The FASB issued SOP 94-6-1 (December 2005) in response to inquiries from constituents and discussions with the SEC staff and regulators of financial institutions about loan products whose contractual features may increase the exposure of the originator, holder, investor, guarantor, or servicer to risk of nonpayment or realization. The FSP addresses the following questions:

a. Question 1:
In what circumstances, if any, do the terms of loan products give rise to a *concentration of credit risk* as that term is used in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*?

b. Question 2:
What disclosures or other accounting considerations apply for entities that originate, hold, guarantee, service, or invest in loan products whose terms may give rise to a concentration of credit risk?

The FSP discusses nontraditional loan products such as option adjustable-rate mortgages and interest-only loans. The FSP summarizes and reaffirmed the application of the existing applicable accounting literature that a company must consider (including SOP 94-6) and emphasizes the requirement to assess the adequacy of disclosures for all lending products and the effect of changes in market or economic conditions on the adequacy of those disclosures.

Section 3: New Related Disclosure Requirements for Year-End

In addition to the required disclosures in FASB Statement No. 157, *Fair Value Measurements,* other improvements to disclosures are required for fiscal years beginning after November/December 2008. Many of the significant improvements are included in:

- **FAS 161,** *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 (Issued March 2008).*
  - **Scope.** Same scope as Statement 133. Applies to all entities and to all derivative instruments.
  - **Disclosure Objectives.** Amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of:

    a. How and why an entity uses derivative instruments

    b. How derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations

    c. How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

    To meet those objectives, Statement 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

  - **Effective Date.** Effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.

- **FAS 163,** ***Accounting for Financial Guarantee Insurance Contracts****—an interpretation of FASB Statement No. 60 (Issued May 2008).*
  - **Scope.** Limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by *enterprises included within the scope of Statement 60*
  - **Disclosure Objective.** Requires an insurance enterprise to disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

- **Effective Date.** Effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Disclosure requirements in paragraphs 30(g) and 31 are effective for the first period (including interim periods) beginning after issuance of the Statement. Except for those disclosures, earlier application is not permitted.

The FASB also announced its plans to issue a final FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities,* by December 15, 2008. The purpose of the FSP is to improve disclosures by **public entities and enterprises** about (1) transfers of financial assets and variable interests in qualifying special-purpose entities and (2) their involvement with variable interest entities. The final FSP will increase disclosure requirements for public companies for reporting **periods that end after December 15, 2008**. A summary of the Board's decisions related to this FSP can be accessed at the FASB website at:
http://www.fasb.org/project/fin46randfas140_disclosure_requirements.shtml

Discussion Questions

There are many features of a financial reporting system that are needed to maintain the transparency of information for market participants, including (but not limited to):

- High-quality financial accounting and reporting standards
- Faithful, professional, and rigorous application of those standards
- Readable and well-designed communication of the resulting financial information that is disclosed and presented
- Strong internal controls and audit procedures
- Appropriate review, risk management, and oversight from corporate governance bodies
- Appropriate review and enforcement by regulatory bodies.

The focus of our discussion will be on the first feature—financial accounting and reporting standards.

Discussion Question 1: What issues or questions would you like to raise about the affects and financial reporting implications for small businesses and banks in these areas?

Discussion Question 2: Are the improvements to the *disclosures about risks* (including liquidity and credit risks) primarily needed in the financial reporting standards or in the other features of the financial reporting system?

Discussion Question 3: If there are needed improvements to the required risk disclosures (in SOP 94-3 or in other financial reporting standards) what types of changes should be made? What priority should be given to any needed improvements?

Discussion Question 4: Are there any issues or questions about the new disclosure requirements for this year end that are important for the Board to be aware of from a small business perspective?

Discussion Question 5: Broadly speaking, should the FASB be further engaged in education initiatives for small companies related to new or existing financial reporting requirements? And, if so, what timing and methods that would be the most effective for significant changes? For more immediate/urgent improvement needs?

Excerpt from AICPA SOP 94-6 (footnotes omitted)

Conclusions

.08 The Accounting Standards Executive Committee (AcSEC) of the AICPA has concluded that reporting entities should make disclosures in their financial statements beyond those now required or generally made in financial statements about the risks and uncertainties existing as of the date of those statements in the following areas:

a. Nature of operations
b. Use of estimates in the preparation of financial statements
c. Certain significant estimates
d. Current vulnerability due to certain concentrations

These four areas of disclosure are not mutually exclusive. The information required by some may overlap. Accordingly, the disclosures required by this SOP may be combined in various ways, grouped together, or placed in diverse parts of the financial statements, or included as part of the disclosures made pursuant to the requirements of other authoritative pronouncements.

.09 The following detailed discussion of the four areas of disclosure enumerated in paragraph .08 should be read in conjunction with the "Illustrative Disclosures" in appendix A [paragraph .27] of this SOP, which provide guidance for implementing them.

Nature of Operations

.10 Financial statements should include a description of the major products or services the reporting entity sells or provides and its principal markets, including the locations of those markets. If the entity operates in more than one business, the disclosure should also indicate the relative importance of its operations in each business and the basis for the determination—for example, assets, revenues, or earnings. Not-for-profit organizations' disclosures should briefly describe the principal services performed by the entity and the revenue sources for the entity's services. Disclosures about the nature of operations need not be quantified; relative importance could be conveyed by use of terms such as predominately, about equally, or major and other.

Use of Estimates in the Preparation of Financial Statements

.11 Financial statements should include an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates.

Certain Significant Estimates

.12 Various accounting pronouncements require disclosures about uncertainties addressed by those pronouncements. In particular, paragraphs 9 through 12, and 17b, and footnote 6 of FASB Statement No. 5 specify disclosures to be made about contingencies that exist at the date of the financial statements. The disclosure requirements of paragraphs 9 through 12 of Statement No. 5 are further clarified in FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. In addition to disclosures required by FASB Statement No. 5 and other accounting pronouncements, this SOP requires disclosures regarding estimates used in the determination of the carrying amounts of assets or liabilities or in disclosure of gain or loss contingencies, as described below.

.13 Disclosure regarding an estimate should be made when known information available prior to issuance of the financial statements indicates that both of the following criteria are met:

a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

b. The effect of the change would be material to the financial statements.

.14 The disclosure should indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term. If the estimate involves a loss contingency covered by FASB Statement No. 5, the disclosure also should include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made. Disclosure of the factors that cause the estimate to be sensitive to change is encouraged but not required.

.15 Many entities use risk-reduction techniques to mitigate losses or the uncertainty that may result from future events. If the entity determines that the criteria in paragraph .13 are not met as a result of risk-reduction techniques, the disclosures described in paragraph .14 and disclosure of the risk-reduction techniques are encouraged but not required.

.16 This SOP's disclosure requirements are separate from and do not change in any way the disclosure requirements or criteria of FASB Statement No. 5; rather, the disclosures required under this SOP supplement the disclosures required under Statement No. 5 as follows:

- If an estimate (including estimates that involve contingencies covered by FASB Statement No. 5) meets the criteria for disclosure under paragraph .13 of this SOP, this SOP requires disclosure of an indication that it is at least reasonably possible that a change in the estimate will occur in the near term; FASB Statement No. 5 does not distinguish between near-term and long-term contingencies.

- An estimate that does not involve a contingency covered by Statement No. 5, such as estimates associated with long-term operating assets and amounts reported under profitable long-term contracts, may meet the criteria in paragraph .13. This SOP requires disclosure of the nature of the estimate and an indication that it is at least reasonably possible that a change in the estimate will occur in the near term.

.17 Whether an estimate meets the criteria for disclosure under this SOP does not depend on the amount that has been reported in the financial statements, but rather on the materiality of the effect that using a different estimate would have had on the financial statements. Simply because an estimate resulted in the recognition of a small financial statement amount, or no amount, does not mean that disclosure is not required under this SOP.

.18 The following are examples of assets and liabilities and related revenues and expenses, and of disclosure of gain or loss contingencies included in financial statements that, based on facts and circumstances existing at the date of the financial statements, may be based on estimates that are particularly sensitive to change in the near term:

- Inventory subject to rapid technological obsolescence
- Specialized equipment subject to technological obsolescence
- Valuation allowances for deferred tax assets based on future taxable income
- Capitalized motion picture film production costs
- Capitalized computer software costs
- Deferred policy acquisition costs of insurance enterprises
- Valuation allowances for commercial and real estate loans
- Environmental remediation-related obligations
- Litigation-related obligations
- Contingent liabilities for obligations of other entities
- Amounts reported for long-term obligations, such as amounts reported for pensions and postemployment benefits
- Estimated net proceeds recoverable, the provisions for expected loss to be incurred, or both, on disposition of a business or assets
- Amounts reported for long-term contracts

The above list is not intended to be all-inclusive.

.19 Paragraph 5 of FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, provides examples of events or changes in circumstances that indicate that the recoverability of the carrying amount of an asset should be assessed. [Revised, April 1996, to reflect conforming changes necessary due to the issuance of recent authoritative literature.]

Current Vulnerability Due to Certain Concentrations

.20 Vulnerability from concentrations arises because an entity is exposed to risk of loss greater than it would have had it mitigated its risk through diversification. Such risks of loss manifest themselves differently, depending on the nature of the concentration, and vary in significance.

.21 Financial statements should disclose the concentrations described in paragraph .22 if, based on information known to management prior to issuance of the financial statements, all of the following criteria are met:

a. The concentration exists at the date of the financial statements.

b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

.22 Concentrations, including known group concentrations, described below require disclosure if they meet the criteria of paragraph .21. (Group concentrations exist if a number of counterparties or items that have similar economic characteristics collectively expose the reporting entity to a particular kind of risk.) Some concentrations may fall into more than one category.

a. Concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor. The potential for the severe impact can result, for example, from total or partial loss of the business relationship. For purposes of this SOP, it is always considered at least reasonably possible that any customer, grantor, or contributor will be lost in the near term.

b. Concentrations in revenue from particular products, services, or fund-raising events. The potential for the severe impact can result, for example, from volume or price changes or the loss of patent protection for the particular source of revenue.

c. Concentrations in the available sources of supply of materials, labor, or services, or of licenses or other rights used in the entity's operations. The potential for the severe impact can result, for example, from changes in the availability to the entity of a resource or a right.

d. Concentrations in the market or geographic area in which an entity conducts its operations. The potential for the severe impact can result, for example, from negative effects of the economic and political forces within the market or geographic area. For purposes of this SOP, it is always considered at least reasonably possible that operations located outside an entity's home country will be disrupted in the near term.

.23 Concentrations of financial instruments, and other concentrations not described in paragraph .22, are not addressed in this SOP. However, these other concentrations may be required to be disclosed pursuant to other authoritative pronouncements, such as FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments, as amended by FASB Statement No. 126, Exemption From Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities. [Revised, June 2004, to reflect conforming changes necessary to reflect the issuance of FASB Statement No.133, as amended by FASB Statements No. 137, No. 138, and No. 149.]

.24 Disclosure of concentrations meeting the criteria of paragraph .21 should include information that is adequate to inform users of the general nature of the risk associated with the concentration. For those concentrations of labor (paragraph .22c) subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country (paragraph .22d) that meet the criteria of paragraph .21, the following specific disclosures are required:

- For labor subject to collective bargaining agreements, disclosure should include both the percentage of the labor force covered by a collective bargaining agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire within one year.

- For operations located outside the entity's home country, disclosure should include the carrying amounts of net assets and the geographic areas in which they are located.

Adequate information about some concentrations may already be presented in diverse parts of the financial statements. For example, adequate information about assets or operations located outside the entity's home country may be included in disclosures made to comply with FASB Statement No. 131. In accordance with paragraph .08 of this SOP, such information need not be repeated. [Revised, June 2004, to reflect conforming changes necessary due to the issuance of FASB Statement No. 131.]

Application of Disclosure Criteria

.25 An assessment of whether a disclosure is required should not be found to be in error simply as a result of future events. For example, reporting a concentration not followed by a severe impact does not imply that the disclosure should not have been made, because something that has only a reasonably possible chance of occurring obviously might not occur. Similarly, the occurrence of a severe impact related to a concentration not disclosed in the prior-year financial statements would not suggest noncompliance with this SOP's requirements if an appropriate judgment had been made that a near-term severe impact was not at least reasonably possible at the prior reporting date. In addition, a severe impact may arise from a concentration of which management did not have knowledge at the time the financial statements were issued.

DISCLOSURE OF CERTAIN LOSS CONTINGENCIES

Small Business Advisory Committee
December 12, 2008

Objective

The objective of this session is for SBAC members to provide the FASB Board and staff feedback on the direction of the project *Disclosure of Certain Loss Contingencies*.

Recent Developments

Attached is a slide deck that describes recent developments in the project.

At its September 24, 2008 meeting, the Board directed the FASB staff to develop an alternative set of disclosures from those included in the Exposure Draft to address significant concerns raised in comment letters. The Board directed the staff to field test both and to obtain financial statement user feedback on the results of the field test.

The Alternative Model

The alternative model represents a collection of ideas that the staff would like to field test. The results of the field test and input from users would be used by the Board during its redeliberations. Accordingly, it is not intended to represent either the staff's or the Board's proposal for a final Statement. A final Statement may incorporate elements from both the Exposure Draft model and the alternative model. Because the alternative model does not represent a formal Board proposal, it is not being broadly distributed, nor will it be available for public comment.

Issues for Discussion

Question 1: Do the alternative disclosures provide useful information? What information is missing?

Question 2: What other approaches to disclosure on loss contingencies do you recommend that the staff consider?

Question 3: Are the proposed disclosures in the alternative model relevant to users of the financial statements of small businesses?

Question 4: Are there aspects of the alternative model that small businesses are likely to have difficulty implementing?

Note: These materials are provided to facilitate understanding of the issues to be addressed at the December 12, 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.

Financial Accounting Standards Board

Disclosure of Certain Loss Contingencies

1

Disclaimer

The views expressed in this presentation are my own and do not represent positions of the FASB.

Positions of the FASB are arrived at only after extensive due process and deliberations.

2

Disclosure of Certain Loss Contingencies

3

Disclosure of Certain Loss Contingencies

- Project added to Board's agenda in September 2007 to address financial statement users' concerns
- Exposure Draft issued in June 2008 proposed significant additional disclosure requirements
- Comment letters raised concerns about prejudicial information, attorney-client privilege, and work-product doctrine

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September 24, 2008 Board Meeting Decisions

- Delayed proposed effective date to no sooner than fiscal years ending after December 15, 2009
- Directed the FASB staff to
  - develop an alternative model to address concerns raised in comment letters
  - field test both the ED model and the alternative model

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Alternative Model for Field Test

- Represents a collection of ideas the FASB staff would like to field test, rather than a draft pronouncement
- Does not represent either the staff's or the Board's proposal for a final Statement
  - A final Statement may incorporate elements from both the Exposure Draft model and the alternative model

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Alternative Model for Field Test

- Focuses on factual qualitative and quantitative information about the contingency
- Requires disclosure of information about the likely outcome, factors affecting the outcome, and assumptions only if it would not be prejudicial to disclose
- Provides examples of the type of disclosure sought

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Quantitative Disclosure under Alternative Model

- Disclosure should give the reader "a sense of the potential magnitude" of the loss contingency
- Examples:
  - "Although the complaint does not specify the amount of damages sought, we have received a report prepared by the plaintiff's expert setting forth damages of $100 million."
  - "In the event of a ruling against the entity, we will be subject to fines and penalties of up to $20 million under the law."

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Alternative Model – Other Disclosures

- Assertions made against the entity and the entity's response
- Qualitative description of potential effect of a negative outcome on operations and liquidity
- Information about a large number of similar claims (from SAB 92)
- Information about the class period for class action securities litigation

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Next Steps

- Field test expected to be completed by first week in January
- Public Roundtable discussions expected in March 2009
- Board redeliberations to begin shortly after Roundtable discussions

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Presenter's contact details

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ATTACHMENT 3-A

FASB CHAIRMAN'S REPORT

Small Business Advisory Committee
December 12, 2008

- **TECHNICAL ACTIVITIES**
- **INTERNATIONAL**
- **ACTIVITIES RELATING TO THE GLOBAL FINANCIAL CRISIS**

REPORT OF THE CHAIRMAN OF THE FASB

TO THE FINANCIAL ACCOUNTING FOUNDATION

August 1, 2008 through October 31, 2008

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

a. Documents issued:

1. FSP FAS 117-1, *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 for All Endowment Funds*
2. FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*
3. FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*
4. Proposed FSP FAS 140-e and FIN 46(R)-e, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities*
5. Revised Exposure Draft, *Accounting for Transfers of Financial Assets*
6. Exposure Draft, *Amendments to FASB Interpretation No. 46(R)*
7. Exposure Draft, *Going Concern*
8. Exposure Draft, *Subsequent Events*
9. Revised Exposure Draft, *Earnings per Share*
10. Proposed FSP FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*
11. Discussion Paper, *Preliminary Views on Financial Statement Presentation*.

b. Agenda decisions to add projects:

1. *Subsequent Events* and *Going Concern.* These projects were added back on the Board's agenda to provide appropriate visibility to the new guidance for constituents. The guidance will issued as new standards.
2. *FIN 48—Applicability to Private Entities.* A project was added to the Board's agenda to consider whether a deferral of or any other modifications to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, should be provided for private companies. That agenda decision was made in response to requests from several constituents, including the Private Company Financial Reporting Committee (PCFRC).
3. *Determining Fair Value in a Market That Is Not Active.* A project was added to the Board's agenda to provide additional guidance needed to aid practitioners in estimating the fair value of assets in markets that are not active via application of the principles contained in FASB Statement No. 157, *Fair Value Measurements.*

4. *Assets and Liabilities Arising from Contingencies in a Business Combination.* A project was added to the Board's agenda to reconsider the guidance in FASB Statement No. 141 (revised 2007), *Business Combinations,* related to preacquisition contingencies.
5. *Insurance Contracts.* The FASB will join the IASB in its accounting for insurance contracts project, which will become a joint project going forward.

c. Agenda decision to remove a project:

   1. *Fair Value Options (phase 2)*. The second phase of the fair value options project was removed from the Board's agenda.

d. Emerging Issues Task Force (EITF):

   1. At the September 24, 2008 Board meeting, the Board ratified the consensus reached at the September 10, 2008 EITF meeting on Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement."
   2. The Board also ratified the consensuses-for-exposure reached by the Task Force on Issues No. 08-6, "Equity Method Investment Accounting Considerations," No. 08-7, "Accounting for Defensive Intangible Assets," and No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary." The comment period for the draft abstracts posted to the FASB website for each of those Issues ended on October 22, 2008.

e. Four Board members participated in the September EITF meeting.

f. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:

   1. AICPA PCPS Technical Issues Committee
   2. CFA Institute.

g. On September 8, 2008, the Board held public roundtable discussions to listen to the views of and obtain information from respondents to the November 30, 2007 FASB Preliminary Views, *Financial Instruments with Characteristics of Equity*.

h. Five Board members, several staff members, and invited guests participated in the September meeting of the Financial Accounting Standards Advisory Council.

i. Two Board members, several staff members, and an invited guest met in a closed meeting with the Investors Technical Advisory Committee in September in New York City. That Committee provided investor perspectives on a variety of topics including convergence with IFRS, the use of fair value, and improvements to Statement 140 and Interpretation 46(R).

j. One Board member and several staff members participated in a meeting with members of the American Gas Association and the Edison Electric Institute in August. Committee members provided a briefing on the electric and gas industry and their views on how regulated entities fit in the conceptual framework, accounting for hedging activities, and the implementation of Statement 161.

k. Two Board members, the technical director, and several staff members participated in a meeting with members of the Financial Reporting Committee of the Institute of Management Accountants in September. The Committee provided its views on convergence with IFRS, plans to integrate Codification into standards setting, and views on the Board's projects on accounting for hedging activities and disclosures of loss contingencies. Several staff members also met in a closed educational meeting with the Committee members on various projects.

l. Four Board members and several staff members met with members of the CFA Institute's Corporate Disclosure Policy Committee in October. That Committee provided investor perspectives on international convergence, fair value, derecognition and consolidation, and contingencies, as well as an update of recent survey results and implications for standards setting. Several staff members also met in a closed educational meeting with the Committee members on various projects.

m. Various Board members and staff participated in four field tests on distinguishing mergers from acquisitions in connection with the NFP M&A project.

n. Three Board members, two IASB members, the technical director, an assistant director, and staff participated in the October 7, 2008 Joint Lease Accounting Working Group Meeting at the FASB offices in Norwalk to discuss a draft of the leases Discussion Paper. In attendance, either in person or via phone, were 12 working group members, which included representatives from the lessee community, the lessor community, an academic, an analyst, an auditor, and an observer from the International Organisation of Securities Commissions (IOSCO).

o. The financial statement presentation project team is conducting a field test of the proposed presentation model in the IASB/FASB Discussion Paper, *Preliminary Views on Financial Statement Presentation*. More than 20 participants from North America, Europe, and Asia are recasting their financial statements for two years using the Boards' preliminary views as guidance.

p. A staff member attended a meeting with the Private Company Financial Reporting Committee to discuss issues of concern to private companies including Interpretation 48, Interpretation 46(R), the conceptual framework for financial reporting, revenue recognition, subsequent events, going concern, and the potential effect on U.S. private company reporting of a movement toward IFRS for U.S. public companies.

<u>INTERNATIONAL ACTIVITIES</u>

a. The FASB and the IASB held a semiannual joint meeting in Norwalk. The Boards' discussions included various technical issues on the Boards' joint projects on conceptual framework—elements; consolidations; derecognition; fair value measurement; financial instruments—complexity; emissions trading; and liabilities. The Boards agreed to hold a third face-to-face joint meeting in July of each year, to be held in London, and to reserve several hours monthly for a joint video-teleconference meeting at which the Boards would discuss and resolve differences arising in their separate meetings. The Boards also agreed to establish a strategy group comprising members and staff of both Boards that would meet monthly to discuss significant issues of mutual interest.

b. The chairman and a Board member attended the World Standard Setters meeting in London.

c. A Board member attended the Consolidated Financial Statements roundtable meeting in London.

d. A Board member attended the IFRS Conference in Beijing.

e. A Board member met with the Chinese Accounting Standards Board in China.

f. A staff member participated in the IASB Expert Advisory Panel—Measuring and disclosing the fair value of financial instruments in markets that are no longer active in London.

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

<u>OTHER ACTIVITIES</u>

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

    1. Terrell Blodgett, the Mike Hogg Professor Emeritus in Urban Management at the Lyndon B. Johnson School of Public Affairs, University of Texas at Austin, discussed how city managers use financial and performance information. Professor Blodgett's talk was based upon his years of experience in public administration, as a city manager, and as a writer.

    2. Marc Siegel, formerly of RiskMetrics and a recently appointed Board member, educated the staff on examples of manipulation of the metrics that are most important to shareholders. As investors and analysts have little time to dig deeply into each company in which they invest, they often times focus on a subset of key performance indicators to ascertain the operating health of a business. They then use the historically provided information to create forward estimates and models to value the companies. This seminar used case examples to note how metrics such as revenues, margins, cash flows, and non-GAAP operational metrics might be flattered through aggressive techniques. Participants learned tools to identify these techniques through financial analysis.

3. Lin Zhu, International Fellow from the Accounting Regulatory Department, Ministry of Finance, P.R. China, gave an overview of the Chinese accounting profession and its regulation. The presentation highlighted the Chinese accounting standards and its international convergence.

4. Chandy Smith, FASB Senior Technical Advisor, and Paul Glotzer, FASB Project Manager, discussed the process for collecting and analyzing input from users of financial statements for use in the standard-setting process. Users' informational needs vary widely depending upon the users' objective and approach to analyzing financial statements. Understanding these differences is critical to identifying the right users, communicating with them effectively, and analyzing their input appropriately. They discussed ways to find high-quality sources of input and how to engage users in the standard-setting process. They walked through basic steps in equity and credit analysis with a focus on some of the key information users evaluate when making investment decisions.

5. Randall Sogoloff and DJ Gannon, Partners, Deloitte and Touche, LLP, enhanced participants' understanding of important accounting issues and developments pertaining to the development and use of International Financial Reporting Standards (IFRS), the SEC's proposed IFRS Roadmap, and the SEC's proposed rule changes. The objective of this session also was to understand the models in IAS 27, *Consolidated and Separate Financial Statements*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*. These models were applied to case studies and examples. The session helped participants understand the key differences between the IFRS and U.S. generally accepted accounting principles (GAAP) models in these areas.

6. Patricia Donoghue and Christopher Roberge, FASB Project Managers, provided an overview of the changes to provisions of Statement 140 and Interpretation 46(R), as well as an overview of the proposed FSP.

<u>EXTERNAL CONFERENCES</u>

1. Some staff attended KPMG's 20th Annual Insurance Industry Conference in New York.

<u>ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES</u>

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

<u>ITEM 3: WASHINGTON ACTIVITIES</u>

a. A Board member testified before the Subcommittee on Securities, Insurance and Investment of the Senate Committee on Banking, Housing, and Urban Affairs on Transparency in Accounting: Proposed Changes to Accounting for Off-Balance Sheet Entities.

b. The chairman conferred with Congressional staff members on international convergence, major project activities, and other technical activities of the Board.

c. 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.

d. 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.

e. The chairman, other Board members, and senior staff members held a number of meetings and discussions with the U.S. Department of the Treasury and financial institution regulators about accounting and reporting issues emanating from the credit crisis.

f. Staff members conferred with officials of the U.S. Department of the Treasury regarding implementation of the Emergency Economic Stabilization Act of 2008.

g. The chairman, two Board members, the technical director, director of planning and support, and a staff member held quarterly meetings with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the August 2008 through October 2008 period include:

- AICPA 2008 Annual Credit Union Conference
- AICPA 2008 Annual Health Care Industry Conference
- AICPA FMD National Conference on the Securities Industry
- AICPA National Governmental and Not-for-Profit Training Program
- Association of Financial Professionals
- Baylor University Hankmer School of Business
- Center for Corporate Reporting & Governance – Cal State Fullerton
- CT State Society of CPAs, Financial Executives Cabinet
- ELFA Lease and Finance Accountants Conference
- Executive Enterprise Institute (EEI)
- Financial Executives International (FEI) New York Chapter
- Florida Gulf Coast Accounting & Tax Conference
- Florida Institute of Certified Public Accountants (Ft. Lauderdale)
- Florida Institute of Certified Public Accountants (Gainesville)
- Harvard Business School
- IAS/International Accounting Section Mini Plenary Conference
- Illinois CPA Society
- Institutional Investors Annual Corporate Financial Executive Roundtable
- KPMG/JAAF 2008 Conference, NYU Stern School of Business

- Michigan Accountancy Foundation Annual Symposium
- MSNA Audit & Accounting Conference
- NACACT Annual Conference
- National Association of State Boards of Accountancy (NASBA)
- NYSSSA Annual Conference
- Pensions & Investments Money Management newspaper
- PriceWaterhouseCoopers Structured Finance Conference
- PriceWaterhouseCoopers Symposium
- Schiff Consulting – Women in Finance Leadership Conference
- SEC Institute
- The Conference Board – Council of Chief Legal Officers
- Thomson Reuters Webcast
- University of Iowa, National Speaker Series RSM McGladrey Institute for Accounting Education and Research
- University Foundation Financial Officers Group
- University of California 19th Annual Conference on Financial Reporting
- University of Florida Accounting Conference
- University of Tennessee

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

a. The FASB Communications Department issued the following press releases:

1. FASB Issues Staff Position FAS 117-1, *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 for All Endowment Funds* (8/6/08)
2. FASB Issues Revised Exposure Draft on *Earnings per Share* (8/7/08)
3. Business Combinations Topic Released onto the *FASB Accounting Standards Codification*™ for the Verification Phase (Media Advisory, 8/21/08)
4. Update: Forthcoming Issuance of Exposure Drafts to Amend Statement 140 and Interpretation 46(R) (Media Advisory, 9/3/08)
5. IASB and FASB Publish Update to 2006 Memorandum of Understanding (9/11/08)
6. FASB Issues FASB Staff Position (FSP) No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (9/12/08)
7. FASB Issues Exposure Drafts to Amend Statement 140 and Interpretation 46(R) (9/15/08)
8. FASB Chairman Robert Herz Delivers Insights About Current Financial Crisis in Speech to Diverse Group of Executives (Media Advisory, 9/18/08)
9. Insurance Industry Topic Released onto the *FASB Accounting Standards Codification*™ for the Verification Phase (Media Advisory, 9/19/08)
10. FASB Proposes Improvements to Reporting of a Discontinued Operation (9/25/08)
11. Financial Accounting Foundation Appoints Marc A. Siegel to the Financial Accounting Standards Board (9/26/08)

12. SEC Office of the Chief Accountant and FASB Staff Clarifications on Fair Value Accounting (9/30/08)
13. Change in agenda for FASB Wednesday, Oct. 1 Board meeting (Media Advisory, 9/30/08)
14. FASB Issues Exposure Drafts on *Going Concern* and *Subsequent Events* (10/9/08)
15. IASB and FASB Launch Consultation on Proposed Enhancements to the Presentation of Financial Statements (Joint Release with IASB, 10/16/08)
16. IASB and FASB Create Advisory Group to Review Reporting Issues Related to Credit Crisis (Joint Release with IASB, 10/16/08)
17. IASB and FASB Commit to a Global Approach to Enhance Market Confidence (Joint Release with IASB, 10/20/08).

b. The department distributed the *FASB Report* in August 2008. Articles focused on the June forum on high-quality international accounting standards and XBRL.

c. The department worked with the Washington team about the credit crisis and related political activities relating to accounting standards.

d. The department handled a published RHH response to an op-ed in the WSJ about proposed accounting changes in lawsuit disclosures.

e. The department handled responses to a massive nationwide blitz of media calls about fair value guidance during the credit crisis and the faltering stability of Fannie/Freddie. The department also educated reporters and participated in interviews on various other issues ranging from convergence to XBRL. They included an XBRL interview with Emily Pickrell of Thomson Reuters; credit derivatives (Pickrell, Thomson Reuters; Steve Burkholder, BNA); SEC IFRS Road Map ((Nicholas Moody, International Accounting Bulletin); Codification (Professor Bill Thomas); FSP FAS 133-1 (Marine Cole, Financial week); loss contingencies (Barry Burr, Pensions and Investments; Glenn Cheney, Accounting Today); earnings per share (Marie Leone of CFO.com, Tammy Whitehouse of Compliance Week); FSP FAS 144-d (Cheney, Accounting Today); financial statement presentation project (Cheney, Accounting Today).

f. The department hosted preliminary meetings with Peppercom, a strategic communications firm hired to measure the effectiveness of FASB public relations programs.

g. Preliminary meetings were also held to plan the creation of the 2008 FAF Annual Report. Meetings included discussions with David Dann, who will be drafting the Chair’s annual report letter, as well as representatives of design firm Inergy.

h. The department worked with FASB project manager Paul Glotzer and Mitchell Slepian and Robert Durak of AICPA to create a press kit for PCFRC.

i. The department worked with FASB senior project manager Kim Petrone, and Mark Byatt, Sonja Horn, and Denise Gomez of the IASB, to create talking points, Q and As, and a "snapshot" document in anticipation of the October release of the financial statement presentation discussion paper.

j. The department worked with Tom Hoey, Larry Smith, and Ron Guerrette to create a press release and informational document announcing that the FASB Codification is expected to go "live" on July 1, 2009.

k. The department hosted meetings with Dr. Masahiro Makita of Ritsumeikan Asia Pacific University, who is researching international convergence of accounting standards and the FASB's financial statement presentation project.

l. The department coordinated the FASB's presence at the Greater Norwalk Chamber of Commerce Congressional Debate luncheon in October.

ITEM 6: GASB LIAISON ACTIVITIES

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 directors.

c. The GASB RTA director and the FASB planning & support 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 FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*
- Final FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*
- Proposed Revised Statement, *Accounting for Transfers of Financial Assets*
- Proposed Statement, *Amendments to FASB Interpretation No. 46(R)*
- Proposed Statement, *Going Concern*
- Proposed Statement, *Subsequent Events*
- Proposed FSP FAS 140-e and FIN 46(R)-e, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities*
- Proposed FSP FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operations*
- Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*.

e. The FASB staff received a GASB draft for review on GASB Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting*.

ATTACHMENT 3-C

Addendum to the REPORT OF THE CHAIRMAN OF THE FASB TO THE SMALL BUSINESS ADVISORY COMMITTEE
Due Process Documents Expected for Issuance: 4Q 2008 and 1Q 2009
(As of December 2, 2008) Source: www.fasb.org

	2008	2009	Estimated Issuance of Final Document
JOINT FASB/IASB PROJECTS:*	**4Q**	**1Q**	
Standards Projects:			
Leases		DP	2011
Revenue Recognition	DP		2011
FASB PROJECTS:			
ARB 43—Accounting for Trading Inventory		F	2009
FAS 157—Measurement of Liabilities		F	2009
Mergers and Acquisitions by a Not-for-Profit Organization		F	2009
FAS 132(R)—Disclosures about Plan Assets	F		2008
Reconsideration of Interpretation 46(R)	C,R	F	2009
FIN46(R) and FAS140—Disclosure Requirements**	C,F		2008
Statement 140 Implementation: Transfers of Financial Assets	C,R	F	2009
FIN46(R) and FAS140—Disclosure Requirements**	C,F		2008
FIN 48—Applicability for Private Entities **Deferral of FIN 48 for All Nonpublic Entities (Phase 1)** (*FSP FIN48-c issued 11/3/08*)	E	F	2009
FIN 48—Applicability for Private Entities **Pass-Through Entities & Amendments to Existing Disclosure Requirements (Phase 2)**		E,F	2009
Going Concern (*Exposure Draft issued 10/9/08*)	E,C	F	2009
Subsequent Events (*Exposure Draft issued 10/9/08*)	E,C	F	2009
Technical Corrections to FASB Statements	E	F	2009
Statement 133 Hedging		F	2009
Loan Loss Disclosures		E	2009
Disclosure of Certain Loss Contingencies		R	2009
FAS 141(R)—Assets & Liabilities Arising from Contingencies in a Business Combination (*Added to agenda October 2008*)	E	F	2009

*The FASB and IASB met in October 2008 at a joint Board meeting. The Boards discussed the timing of documents of various joint projects and the technical plan will be updated accordingly.

**A single final FSP amending disclosure requirements for both the FIN46(R) and FAS 140 projects is expected.

C – Comment Deadline; **R –** Roundtable
DP – Discussion Paper ; **E –** Exposure Document
F – Final Document

ATTACHMENT 3-D

SEMI-ANNUAL STATUS REPORTS: PCFRC

Small Business Advisory Committee
December 12, 2008

As part of the Status Reports, Judy O'Dell, Chair of the Private Company Financial Reporting Committee, will provide an update. Attached is the PCFRC meeting agenda from their November meeting and highlights from PCFRC's September and June 2008 meetings.

PRIVATE COMPANY FINANCIAL REPORTING COMMITTEE
Meeting
November 13-14, 2008
Hilton New Orleans Riverside
Two Poydras Street
New Orleans, Louisiana
On November 13, start 8:30 AM/end 5:00PM
On November 14, Start 8:30AM/end 12:00 PM

November 13

I. Administrative Matters (closed to public) (Judy and Paul) 8:30-9:00

MEETING OPEN TO PUBLIC

II. Welcome and Committee housekeeping matters (Judy) 9:00-9:15
   a. Feedback from recent presentations & interviews

III. Updates on the status of PCFRC letters and FASB projects and activities (Paul, Bob) 9:15-9:45
   a. FIN 48
      i. Status of FSPs related to deferral, disclosure relief, and guidance
   b. FIN 46R (discussion of status only)
      i. October 30, 2008 letter
      ii. July 18, 2008 letter
   c. Conceptual framework comment letters
   d. Disclosures about loss contingencies – August 7, 2008 letter
   e. Financial Instruments with Characteristics of Equity – May 23, 2008 letter
   f. Financial Statement Presentation – February 8, 2008 letter
   g. Other FASB projects and activities

IV. Subsequent Events Exposure Draft and Going Concern Exposure Draft (Daryl and Bob) 9:45-10:15
   a. Review Exposure Drafts and identify any issues and need for PCFRC comment letters

BREAK 10:15-10:30

V. Joint Meeting with Technical Issues Committee 10:30-12:00
   a. FIN 48
   b. FIN 46R
   c. Financial Statement Presentation
   d. Improvements to FASB's Standard Setting Process
   e. Roadmap ahead for private company financial reporting

f. New User Panel
g. Revenue Recognition
h. Hedging

LUNCH 12:00-1:00

VI. FIN 48 (Judy and Bob) 1:00-2:30
  a. Strategize next steps
  b. Pass-through entity examples and issues for FASB
  c. Discuss need for additional outreach

VII. Financial Statement Presentation (Mike and Bob) 2:30-3:45
  a. Overview of Discussion Paper
  b. Discussion of Issues

BREAK 3:00-3:15

VIII. Review of FSP FAS 157-c, *Measuring Liabilities under FASB Statement No. 157* (Judy and Bob) 3:45-4:00

IX. Review of Technical Issues Committee's letter on Hedging Activities (Judy and Bob) 4:00-4:30
  a. Review content of TIC letter and consider issuing a supporting letter.

X. Audience open microphone related to agenda topics 4:30-5:00

November 14

<u>MEETING OPEN TO PUBLIC</u>

XI. FIN 46R (Judy, Daryl, Paul and Bob) 8:30-10:00
  a. Strategize next steps
  b. Discuss need for additional outreach
  c. Examples for FASB staff

BREAK 10:00-10:15

XII. Update on other task force projects (Various and Bob) 10:15-10:30
  a. Discontinued Operations
  b. IFRS for Private Entities
  c. Revenue Recognition
  d. Leases

XIII. Discussion of fair value accounting in the private company sector (Judy and Bob) 10:30-11:30

XIV. Set meeting locations for 2009 (Judy) 11:30-11:45

XV. Review Next Steps and To-Dos Before Next Meeting (Judy) 11:45-12:00

XVI. Adjourn 12:00

Private Company Financial Reporting Committee
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e-mail: jhodell@fasb.org Fax: 203-849-9714
JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights September 18-19, 2008

Boston, Massachusetts

All PCFRC members, except Carisa Wisniewski and Judd Rabb were in attendance.

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

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48")

The PCFRC discussed recent developments related to FIN 48, including the results of a panel of private company financial statement users which met at the FASB to discuss their unique needs and FIN 48. The PCFRC's ongoing and recent interaction and communication from its constituents made clear the need for the FASB to decide directly whether it will honor the PCFRC's May 30th recommendation (see http://www.pcfr.org/downloads/PCFRC_Recommendation_Letter_issued_to_FASB_FIN_48.pdf) to exempt private companies from FIN 48. As a result, the PCFRC decided to issue another letter (http://www.pcfr.org/downloads/PCFRC_September_23_letter_to_FASB_on_FSP_FIN_48.pdf), asking the FASB to decide quickly about the PCFRC's May 30th recommendation letter. Further, the letter would state that if an exemption is not granted, the FASB should reconsider the disclosure requirements of FIN 48 for all private companies. FASB should also consider, for pass-through entities, exemption from FIN 48 or implementation guidance.

Subsequent to the PCFRC issuing this letter, the FASB met on October 1, 2008 and, among other things, discussed the applicability of FIN 48 to private companies. See a summary of the FASB's decisions on the PCFRC web site at http://www.pcfr.org/downloads/Current_News.pdf

FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities ("FIN 46(R)")

The PCFRC continued its discussion about FIN 46(R) and the issuance by the FASB of an exposure draft to amend it. The Committee's task force on FIN 46R will begin work on examining the exposure draft and preparing a comment letter.

Conceptual Framework for Financial Reporting

Two FASB-IASB documents were discussed by the PCFRC:

- Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*
- Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*

The PCFRC decided to issue letters to the FASB on both documents and developed comment points for the letters. Those comment letters were finalized and issued after the meeting. They are available at http://www.pcfr.org/recommendations.html.

Project Planning

The PCFRC engaged in project planning and reviewed the current projects on the FASB's agenda. After ensuring it identified all the projects it needs to be addressing, the PCFRC made the following decisions:

- The Committee task force on the Financial Statement Presentation project will be expanded.
- The PCFRC will review the letter that the AICPA's Technical Issues Committee ("TIC") issued to the FASB about the Exposure Draft, *Accounting for Hedging Activities*. After review, the PCFRC will decide whether it will issue a letter to the FASB in support of TIC's position.
- Proposed FSP FAS 157-c, *Measuring Liabilities under FASB Statement No. 157,* will be reviewed by the PCFRC to identify any issues that may be of concern to private companies.

Revenue Recognition

The Committee conducted an educational session about the joint FASB-IASB project on revenue recognition. Recent project activity was reviewed. Given the great importance of this project and its vast impact, PCFRC members were of the opinion that field testing the eventual standard would be worthwhile. Committee members decided to submit to the FASB staff revenue recognition examples.

FASB Project on Subsequent Events and Going Concern

The PCFRC discussed the FASB's plans for incorporating guidance on subsequent events and going concern into the FASB Accounting Standards Codification, and concluded that any remaining issues in these areas exist primarily in the attestation professional literature. The PCFRC will review the proposed guidance when issued by the FASB.

International Financial Reporting Standards ("IFRS") for Private Entities

The PCFRC reviewed recent developments in the International Accounting Standards Board's IFRS for Private Entities project. Given the potential importance of this proposed international standard for U.S. companies, the PCFRC will continue to monitor its progress. Also, the PCFRC suggested that a limited field test of the final IFRS for Private Entities in the United States might be helpful in assessing its pros and cons. Information about this project is found at . http://www.iasb.org/Current+Projects/IASB+Projects/Small+and+Medium-sized+Entities/Small+and+Medium-sized+Entities.htm

Discontinued Operations

The objective of this FASB project is to develop a converged definition of a *discontinued operation* with the IASB along with converged disclosure requirements for all components of an entity that have been (or will be) disposed of. The FASB staff updated the PCFRC about the project. The Committee is of the opinion that any final standard or guidance should not refer to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* as this Standard is not applicable to private companies. Instead, any final issuance on discontinued operations should be self-contained. The PCFRC will monitor this project.

Lease Accounting

Recent developments in the FASB's project on lease accounting were reviewed by the PCFRC. A Preliminary Views document is expected to be issued during the last quarter of 2008. The Committee will review that document and determine whether any recommendations are necessary.

Reliability Project of the Accounting and Review Services Committee ("ARSC")

The Committee learned about the progress of the ARSC's Reliability project**.** This project aims to change the performance and reporting of review engagements. Information about this project is found at http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/ARSC+Reliability+Project.htm

Creation of PCFRC User Panel

A panel of private company financial statement users will be formed by the PCFRC to help the Committee better understand and analyze the need for differential accounting as it addresses prospective and existing accounting standards. The panel will be formed from existing PCFRC Resource Group members and the PCFRC will broadly seek other members. This user panel will be solicited for specific opinions and advice on the PCFRC's projects.

Administrative Matters

PCFRC member Thomas A. Ratcliffe, Ph.D., CPA is rotating off the committee. The PCFRC is thankful to Tom for his valuable service on the Committee. His insightful opinions, years of experience, and accounting knowledge helped lead and shape the PCFRC's work during its first two years. His friendship and sense of humor was much appreciated by the Committee. The PCFRC wishes him well and hopes he will continue to be a resource to the Committee.

Joining the PCFRC is Thomas J. Groskopf CPA, MBA, CVA. Tom is currently the Accounting and Audit Technical Director (Partner) at Barnes, Dennig & Co., Ltd., based in Cincinnati, Ohio. He was recently Chairman of Zone 1 (Accounting Standards) of the AICPA's PCPS Technical Issues Committee. The PCFRC welcomes Tom and looks forward to working with him.

Next PCFRC Meetings

The PCFRC will hold its next meeting on November 13-14, 2008 in New Orleans, Louisiana. Beyond November, the PCFRC has set the following tentative meeting dates and places.

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
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JUDITH H. O'DELL
Chair

PCFRC Meeting Highlights June 19, 2008

Atlanta, Georgia

All PCFRC members, except James Stevenson, were in attendance.

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

FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities ("FIN 46(R)")

The PCFRC continued its discussion about FIN 46(R) and the related issues and concerns of private company financial reporting constituents. The PCFRC voted (12-1) to issue a letter to the FASB, recommending that the FASB allow stand-alone parent-only financial statements under GAAP for private companies.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48")

The PCFRC discussed its recent recommendation letter to the FASB about FIN 48 (see http://www.pcfr.org/downloads/PCFRC_Recommendation_Letter_issued_to_FASB_FIN_48.pdf), and the necessity of the FASB addressing the recommendation letter promptly. Private companies will expend time and money during the summer to learn about and comply with FIN 48. If private companies are ultimately exempted from the requirements of FIN 48 or if an additional deferral of the effective date of FIN 48 is granted to private companies, the expenditure of time and money during the summer would be inefficient. The PCFRC will speak with FASB members and staff to communicate its concern.

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

Results from the private company volunteer group working with the PCFRC to identify costs and issues related to FASB Statement No. 123R, goodwill, and long-term asset valuation and impairment issues were reviewed. After discussing this topic, conducting outreach, and reviewing the input received from the volunteer group, the PCFRC did not identify any recommendations to issue to the FASB.

FASB Exposure Draft, *Disclosure of Certain Loss Contingencies*

An Exposure Draft was issued by the FASB on June 5, 2008 that would amend FASB Statement No. 5, *Accounting for Contingencies*, and FASB Statement No. 141(R), *Business Combinations*. After discussing the Exposure Draft, the PCFRC decided that its provisions would significantly affect private company financial reporting constituents. Moreover, the proposed Statement would be effective for fiscal years ending after December 15, 2008. Given the nearness of that effective date, many private company financial reporting constituents may not have time to learn about and implement the proposed Statement.

The PCFRC will prepare a letter to the FASB about the Exposure Draft, expressing its concerns and addressing specific points and questions in the Exposure Draft.

FASB Exposure Draft, *Accounting for Hedging Activities*

On June 6, 2008, the FASB released an Exposure Draft, which would amend FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The PCFRC reviewed the proposed provisions of the Exposure Draft and decided that no significant private company-related issues required the PCFRC's attention.

Conceptual Framework for Financial Reporting

Two recent Exposure Drafts issued jointly by the FASB and the IASB were discussed by the PCFRC. They are:

- Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information
- Conceptual Framework for Financial Reporting: The Reporting Entity

The PCFRC formed a task force to address these Exposure Drafts. The task force will report to the PCFRC at the next meeting.

International Financial Reporting Standards ("IFRS") Educational Session

A PCFRC member conducted an educational session for the PCFRC, focused on the background of the International Accounting Standards Board and IFRS, key differences between IFRS and U.S. GAAP, and the IFRS for Private Entities project.

Roadmap Ahead for Private Company Accounting Standards

The PCFRC reviewed recent events and trends affecting the setting of accounting standards in the U.S., including the June 16th FASB forum titled *High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting*. The committee recognized the importance of having the Securities and Exchange Commission set a timetable and plan for the adoption of International Financial Reporting Standards by U.S. public companies. Having a certain plan and timetable in place for public companies would facilitate the effort to map out the future of accounting standards for private companies.

Follow-up on Letter to FASB about Improvements to the Standards Release Process

On February 1, 2008, the PCFRC issued a letter to the FASB suggesting improvements to the accounting standards release process (see http://www.pcfr.org/downloads/PCFRC_final_letter_to_FASB_about_standards_release_process_2-1-08.pdf). FASB staff informed the PCFRC at the meeting that the FASB will consider the needs of private company financial reporting constituents on a standard-by-standard basis, as they decide upon the release date of a standard and its effective date. FASB staff attached to the PCFRC will explore the possibility of having the chairman of the PCFRC provide an educational session to the FASB on private company concerns about the standards release process.

FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*

The provisions of this recently issued standard were discussed by the PCFRC. No unique private company-related issues were identified and the committee decided not to pursue any further work on this Statement.

Communicating with Constituents

Members of the AICPA Communication team presented their plan -

- To convey the PCFRC's achievements/successes to help increase awareness of the PCFRC and its work;
- To help the PCFRC increase members of its Resource Group, especially private company financial statement users; and,
- To increase media coverage of the PCFRC's activities.

The PCFRC staff will work with the Communication team to achieve these objectives.

Next PCFRC Meetings

The PCFRC will hold its next meeting on September 18-19, 2008 in Boston, Massachusetts. Beyond September, the PCFRC has set the following tentative meeting dates and places.

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.

FUTURE FINANCIAL REPORTING FOR SMALL OR PRIVATE ENTITIES

Small Business Advisory Committee
December 12, 2008

Objective

To continue the discussion from the June 2008 SBAC meeting by asking members for their input on:

> The implications on private and small entities of the possible use of IFRS by all US public companies.

Since the June 2008 SBAC meeting, four major changes have occurred that have implications for the future direction of financial reporting in the US:

1. The SEC released a proposed rule on IFRS.
2. The credit crisis continued and deepened, with significant affects on global market liquidity.
3. The election significantly changed the officials in the US Executive and Legislative branches, which in turn will result in many changes in leadership of governmental agencies (including the SEC Chairman).
4. The awareness has increased about the AICPA's decision to change its ethics rules to permit private companies to report financial information on the basis of IFRS as issued by the IASB.

Included as background materials are: an overview of the SEC proposal and a summary of the discussion from the June 2008 SBAC meeting. Attachment 4-A is an excerpt from the SBAC June minutes.

SEC Proposal on the Use of IFRS

On Friday, November 14, the SEC released a proposed rule entitled "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers." The comment period ends on February 19, 2009.

The proposal is consistent with how SEC staff described it at the August 27, 2008 meeting at which the SEC Commissioners voted unanimously to issue it. The Overview of the 165-page proposal states:

> The Commission is proposing this Roadmap towards requiring the use of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")[28] by U.S. issuers[29] as part of its consideration of the role a single set of high-quality accounting standards plays in investor protection and the efficiency and effectiveness of capital formation and allocation. As capital markets have become increasingly global, U.S. investors have a corresponding increase in international investment opportunities. In this environment, we believe that U.S. investors would benefit from an enhanced ability to compare financial information of U.S. companies with that of non-U.S. companies. The Commission has long expressed its support for a single set of high-quality global accounting standards as an important means of enhancing this comparability.[30] We believe that IFRS has the potential to best provide the common platform on which companies can report and investors can compare financial information.
>
> This proposed Roadmap first addresses the basis for considering the mandatory use of IFRS by U.S. issuers. It then sets forth seven milestones which, if achieved, could lead to the use of IFRS by U.S. issuers in their filings with the Commission.[31] The Commission in 2011 would determine whether to proceed with rulemaking to require that U.S. issuers use IFRS beginning in 2014 if it is in the public interest and for the protection of investors to do so. These milestones relate to:
>
> - improvements in accounting standards;
> - the accountability and funding of the IASC Foundation;
> - the improvement in the ability to use interactive data for IFRS reporting;

[28] As used in this release, the phrase "IFRS as issued by the IASB" refers to the authoritative text of IFRS, which, according to the Constitution of the International Accounting Standards Committee Foundation ("IASC Foundation"), is published in English. See "International Financial Reporting Standards, including International Accounting Standards and Interpretations as at 1 January 2007," Preface to International Financial Reporting Standards, at paragraph 23. Unless otherwise noted, the phrase "IFRS" refers to IFRS as issued by the IASB.

[29] The terms "U.S. issuer" and "domestic issuer" are used interchangeably in this release. Although there is no specific definition of those terms under the Exchange Act or the Securities Act, they are used in this document to refer to any issuer that files annual reports pursuant to the Exchange Act on Form 10-K [17 CFR 249.310] or a registration statement under the Securities Act for which foreign private issuer status is not an eligibility requirement. For purposes of this release, the terms U.S. issuer and domestic issuer also include a foreign issuer or foreign private issuer, as defined in Rule 3b-4 under the Exchange Act [17 CFR 240.3b-4(c)] and in Rule 405 under the Securities Act [17 CFR 230.405], that elects to file on domestic forms.

[30] See, for example, Release No. 33-6807 (November 14, 1988) [53 FR 46963 (November 21, 1988)].

[31] This release does not address the method the Commission would use to mandate IFRS for U.S. issuers. One of the options would be for the Financial Accounting Standards Board ("FASB") to continue to be the designated standard setter for purposes of establishing the financial reporting standards in issuer filings with the Commission. In this option our presumption would be that the FASB would incorporate all provisions under IFRS, and all future changes to IFRS, directly into generally accepted accounting principles as used in the United States ("U.S. GAAP"). This type of approach has been adopted by a significant number of other jurisdictions when they adopted IFRS as the basis of financial reporting in their capital markets.

- education and training relating to IFRS;
- limited early use of IFRS where this would enhance comparability for U.S. investors;
- the anticipated timing of future rulemaking by the Commission; and
- the implementation of the mandatory use of IFRS by U.S. issuers.

After describing the milestones, this proposed Roadmap also discusses how IFRS reporting by U.S. issuers may affect other participants in the capital markets.

As a step along this Roadmap, this release then describes proposed amendments to permit a U.S. issuer that is among the largest companies worldwide within its industry, and whose industry uses IFRS as the basis of financial reporting more than any other set of standards, to elect to use IFRS beginning with filings for fiscal years ending on or after December 15, 2009. These amendments include a process by which U.S. issuers would seek confirmation from Commission staff that they are eligible to use IFRS in their Commission filings. This release also seeks comment on two alternative proposals under which U.S. issuers that elect to use IFRS would disclose U.S. GAAP information.

Key Topics from the June 2008 SBAC meeting

At the June 2008 meeting, SBAC members discussed:

1. Results and perceptions from the FASB Forum on Convergence
2. Whether IFRS for Private Entities (proposed by the IASB) would or should be accepted by preparers
3. Implementation guidance
   a. The US demand for detailed implementation guidance and possible causes of that demand
   b. The nature of the US legal system (versus other parts of the world) and its potential impact on implementation guidance
   c. Possible mechanisms to provide implementation guidance in the future (nonauthoritative or authoritative)
4. Factors that affect the timing and conditions on when and how to adopt IFRS
   a. The decreasing use (and supplementary use) of US GAAP in other parts of the world
   b. The need for US constituents to participate in the international standard-setting process in the future, possibly through an established organization (such as the FASB) to gain credibility at that level
   c. The desirability to have larger public companies implement IFRS to help in the understanding about IFRS by small and private companies
   d. The level of convergence between US GAAP and IFRS that should be attained before converting to IFRS and the level of due process needed if IFRS were embedded into US GAAP
   e. The impact to the FASB's agenda and resources and the types of projects that the FASB needs to concentrate on in the future

f. The practicability and cost of maintaining both US GAAP and IFRS for a period of time

g. The expectations about the level of comparative data that would be needed upon initial adoption of IFRS and systems implications

5. Training implications for the US professional (audit, investor, preparer, etc) and educational system under a system that maintains both US GAAP and IFRS for a period of time
6. Increasing awareness about IFRS and differences between IFRS and US GAAP
7. The need for a national plan to address IFRS adoption and the role of the FASB in that process
8. Views about desired end-results
   a. IFRS for Private Entities (pros and cons)
   b. Role of the accounting firms and banks in that selection
   c. How different versions of IFRS could affect certain types of entities
   d. Future role of OCBOA.

Discussion Questions

Questions for SBAC Members Involved with Small <u>Public</u> Companies:

a. How (if at all) have your views about the adoption of global accounting standards in the US and the FASB's plans/agenda/operations changed since the SBAC meeting in June?

b. The proposal limits early (optional) adoption of IFRS to the largest entities within an industry group. The SEC's objective in providing optional early use is to improve comparability of financial reporting internationally. What are your reactions to the proposal for optional early use of IFRS? Are there reasons why the option should or should not be extended to small private companies?

c. What do you see as the costs and benefits of the adoption of IFRS by small public companies?

d. Assuming that US public companies were required to adopt IFRS:

   - Does the proposed phased adoption make sense from a small public company perspective?

   - What IFRS accounting standards should small public enterprises use?

Questions for SBAC Members Involved with Small Private Companies:

a. How (if at all) have your views about the adoption of global accounting standards in the US and the FASB's plans/agenda/operations changed since the SBAC meeting in June?

b. What do you see as the potential implications of the SEC proposal on financial reporting by small private companies?

c. What issues or questions do you have about the SEC rule proposal?

d. What standards should private companies use? What role, if any, should the FASB play in solving accounting standard setting problems for SBAC constituents?

e. In light of the AICPA decision to change its ethics rules to permit private companies to report financial information on the basis of IFRS as issued by the IASB:

    - What factors might cause a private company to adopt IFRS now or in the future?

    - What are the practical implications of the AICPA's option to permit the use of either US GAAP or IFRS for financial reporting by private companies (comparability, training, systems, etc)?

IFRS Question (Time Permitting):

At the outset of their project, the IASB chose the term 'SME' because it is widely recognised. However, roughly one-third of the respondents to the IASB's Exposure Draft said that 'SME' was not appropriate because

(a) 'Small' and 'medium' imply a size test when, in fact, there wasn't one and

(b) The term SME already has precise (and differing) quantified definitions in many jurisdictions.

In May 2008, the IASB tentatively changed the title to IFRS for Private Entities.

Should the name of the IASB's standard:

1. Give an indication of the size of the entity the standard is aimed at (note that the standard does not contain a size test) - 'SME', 'smaller entities', etc.?
2. Try to describe the entity - 'private interest', 'non-publicly accountable', 'restricted accountability', etc.?
3. Describe what the Board has done, that is, the nature of the standards - 'simplified', 'concise', etc.?

Direct Excerpt from the June 2008 SBAC Meeting Minutes

(Excerpt of paragraph 22 – 74 on International Convergence)

22. Mr. Batavick began this part of the meeting by observing that discussion on international convergence has increased dramatically over the past year. He also noted that the FASB held a forum last week to address international convergence. He asked Ms. Seidman to report on the results of that forum.

23. Ms. Seidman commented that the results of the forum were as follows:
    a. Public companies support, or at least accept, the move toward one set of high-quality, global accounting standards. However, these companies want an established date for when the change will occur in order to stimulate action within these organizations.
    b. Private companies prefer not to adopt IFRS as it currently exists. Rather, they would prefer to use IFRS as a foundation and modify it to address concerns specific to private companies. Further, these companies believe that both U.S. GAAP and IFRS are still too complex for them.
    c. Small companies and their auditors will need more time to prepare for IFRS adoption than larger public companies. Further, it appears these companies are less aware of the talks surrounding international convergence than other companies. These companies suggested that a staggered transition to IFRS would allow small companies to learn from the experiences of larger companies and would keep them from competing with the larger companies for resources.
    d. Not-for-profit organizations find the discussion of international convergence premature because it is unclear as to what the implications would be if they adopt IFRS. (IFRS does not address not-for-profit entities.)
    e. Some systemic issues that arise as a result of adopting IFRS are:
        i. Addressing the book/tax conformity issue as a result of IFRS's not having a "last in, first out" (LIFO) principle for inventory
        ii. Addressing other tax policy issues
        iii. Updating the U.S. educational system and CPA exam
        iv. Reeducating personnel.
    f. Some company-specific issues that arise as a result of adopting IFRS are:
        i. Amending or renegotiating debt covenants and royalty contracts that have references to GAAP
        ii. Updating company financial-reporting and management-accounting systems.
    g. None of the issues listed in (e) and (f) are viewed as insurmountable; however, sufficient time will be needed to plan and implement the necessary changes.
    h. There is a general consensus that it will take two to three years for a company to switch over to IFRS. There was also a general consensus that an adoption date should be set so that, on a going-forward basis, companies could capture the necessary data in their systems to be able to provide for comparative financial information when adoption occurs.
    i. There is general support of setting a date that will provide three to five years of lead time prior to adoption.

24. Mr. Batavick asked Mr. Thrower, a participant at the forum, to share his thoughts on the forum. Mr. Thrower reported the following:
    a. There are parts of IFRS for Private Entities that private companies may not like. For example, there are expansive disclosure requirements.
    b. At the forum, Mr. Thrower discussed the differences between public and private company users to educate forum participants as to why there should be consideration of separate standards for private companies.
    c. There appears to be a contradiction in that, at the forum, no one viewed adopting IFRS as a bad idea; but, at the same time, there is an insatiable demand in the U.S. for more implementation guidance. This raises the question as to whether the United States will be able to adopt IFRS without the demand for more implementation guidance. And, if implementation guidance is given, who will provide it?

25. Mr. Batavick commented that the issuance of FASB Statement No. 141 (revised 2007), *Business Combinations*, and IFRS 3, *Business Combinations*, provides a test case for the FASB. The FASB is seeking the committee's thoughts on which Board, if any, should provide implementation guidance for questions that arise during adoption. Mr. Batavick observed that the IASB usually turns down requests from constituents for implementation guidance, whereas the FASB has mechanisms in place to provide such guidance. Ms. Seidman observed that FASB Statement No. 123(revised 2004), *Share-Based Payment*, is another test case because Statement 123(R) is largely convergent to its IASB counterpart. She noted that for this Statement, each Board separately addressed implementation issues.

26. One SBAC member observed that the rest of the world does not appear to be using U.S. GAAP. Mr. Herz commented that other parts of the world have implemented IFRS, but still continue to look to U.S. GAAP to implement various aspects of IFRS. He further noted that looking to U.S. GAAP is permitted by IFRS. The SBAC member commented that other countries have organizations that provide their accountants with guidance and it would appear that the U.S. may need something similar. Mr. Herz pointed out that the IASB would prefer that national standard setters in countries where IFRS has been adopted bring any issues raised directly to the IASB. The IASB (or IFRIC) would then decide whether or not to address the issue.

27. One member noted that the private sector also provides unofficial implementation guidance. Mr. Batavick questioned whether in situations where insufficient implementation guidance is provided, the Big 4 accounting firms would become de facto standard setters. This member thought it was possible.

28. Mr. Golden asked why the implementation guidance provided by the private sector is so expansive for Statement 141(R), when there was not as much guidance provided for Statement 141. One member noted that Statement 141(R) requires an acquirer to measure the acquiree using a fair value measurement, which adds additional complexity. Mr. Golden asked if the explosion in accounting guidance is a result of the accounting standards or more as a result of a cultural issue where people want to have the right answer and are unwilling or are afraid to make a judgment. Many members of the committee said that the increase in guidance is a result of the cultural issue identified by Mr. Golden.

29. Mr. Batavick asked what type of mechanism committee members would like to see in the U.S. to handle accounting issues, assuming that the IASB will provide implementation

guidance. A member commented that there needs to be an established organization with some credibility to enable U.S. constituents' voices to be heard at the international level.

30. Mr. Golden asked whether preparers would exercise more judgment if the IASB and FASB decided to issue less implementation guidance. One member commented that the litigious nature of a country will drive the need for implementation guidance. He preferred having a national organization to address implementation issues rather than relying on the IASB.

31. Mr. Herz observed that a general concern of the IASB and the rest of the world is that the U.S. adoption of IFRS, due to the U.S.'s highly regulated nature and litigation environment, may create difficulties for other nations that adopt IFRS.

32. A member observed that the reason why small and private companies are hesitant about IFRS is that they are often not knowledgeable enough to understand the implications of IFRS prior to implementation. These companies seem to be waiting for the larger public companies to adopt IFRS before adopting it themselves.

33. Another member commented that if adoption of IFRS were promoted as adoption of "International GAAP," then the idea of adoption would be much more palatable. He also commented that adoption of IFRS should not occur until the FASB standards are more converged with IFRS.

34. One member commented that IFRS for Small and Medium-sized Entities can be understood by accountants. He also observed that the adoption of IFRS seems to hinge on getting banks to agree to the switch.

35. Mr. Batavick asked committee members what methodology should be used to move toward adoption. He commented that the SEC road map will not require that the projects on the FASB's MoU be completed prior to the SEC's mandating entities to adopt IFRS.

36. One member commented that if the FASB continues to work on projects on its agenda that the IASB does not plan on addressing in the foreseeable future, such projects would constrain the FASB's resources and would raise difficulties for practitioners and preparers who might then have to make changes if IFRS standards are different. This member noted that the FASB should also continue to work on emergency-type projects.

37. One member commented that the FASB needs to concentrate its efforts on strategically determining whether the U.S. will have a standard-setting body after adoption of IFRS that will represent U.S. accounting concerns at the international level.

38. Mr. Batavick asked committee members whether they thought the FASB should continue to pursue FASB-only (vs. joint) projects. He noted that the Board thinks the current FASB-only projects on its agenda would improve financial reporting. However, he pointed out that these projects may result in U.S. GAAP becoming more divergent with IFRS.

39. One member commented that the FASB needs to organize a way to bring important accounting issues to the attention of the IASB after the U.S. has adopted IFRS. He noted that what the FASB considers important should also be important to the IASB. Another SBAC member agreed. One member urged the FASB to develop a mechanism that will give the FASB, and more generally the U.S., a voice in the future standard-setting process.

40. Ms. Seidman noted that after the U.S. has adopted IFRS, it may become difficult to persuade the IASB to change its standards over the concerns of only one country.

41. Mr. Herz commented that the U.S. capital markets don't appear to be able to wait for timely implementation guidance, whereas other countries seem to be able to.

42. One member commented that he is fine with having FASB-only projects when those projects were aimed at fixing current accounting issues.

43. Mr. Herz noted that adoption of IFRS by private companies would probably not occur for another 7 to 10 years. An SBAC member asked whether Mr. Herz's observation implied that the U.S. educational system would have to teach two sets of accounting standards to students for a time. Mr. Herz observed that the U.S. will have to operate in a "two-GAAP world" for a while.

44. One member commented that private companies will likely be drawn toward adoption of IFRS fairly quickly. He thinks adoption will occur a lot quicker than 7-10 years. This member also commented that the SEC should set an IFRS adoption date for a segment of the market (for example, public companies) because that mandate will motivate people to start taking action. And then, when the time comes for private companies to adopt, accountants will already be trained in IFRS. He noted that it will be difficult for individuals to be trained on two sets of GAAP.

45. One member stated that the FASB should not work on any projects that lead to more divergent standards. Rather, the FASB should focus its efforts on converging as much as possible so that when adoption occurs, the transition to IFRS is smooth.

46. Mr. Herz asked this SBAC member whether he would agree with the idea of having the FASB address emergency projects; for all other projects, the FASB would look first to IFRS. This member agreed with the idea.

47. Mr. Golden asked the member whether he would still agree with Mr. Herz if, in the absence of the FASB promulgating new standards, the public accounting firms became de facto standard setters and excluded preparers from providing input. Mr. Golden observed that he thinks that is what will happen if the FASB stops issuing new standards. He noted that the ideal solution would be to have preparers make an appropriate judgment call.

48. Mr. Herz noted that the SEC's Advisory Committee on Improvements to Financial Reporting will recommend that the SEC and the PCAOB issue policy statements regarding the use of professional judgment in order to better its sound use by preparers and auditors. Then, if practice became too diverse, a standard setter would step in to address the matter.

49. One member observed that from a private-entity and regional-audit-firm perspective, both bankers and CPAs will need to be reeducated to be able to understand IFRS-based financial reports. This member noted that the cost of such reeducation is not inconsequential and that people will not be willing to incur such costs unless they are forced to do so. This member also observed that the population of peer reviewers is shrinking.

50. Another member commented that the committee may be underestimating the capability of accountants to work with two sets of accounting standards. This member also observed that a large majority of private companies are probably unaware of the move toward adoption of

IFRS. This member commented that private companies need to be educated to help them avoid being caught off guard by the substantial costs associated with adoption.

51. Mr. Herz commented that the FASB believes there should be a national plan in place to address IFRS adoption, which should ensure that people are aware and that all the major issues surrounding adoption are being addressed. He noted that everyone needs to help in the awareness efforts.

52. Mr. Noll commented that the AICPA agrees adoption of IFRS should be treated as a project. He asked Mr. Herz who he thought should take ownership of the project. Mr. Herz observed that the FASB/FAF is probably the right group to take ownership because the FASB's constituents are those who will be affected by the project.

53. An SBAC member asked whether companies must have three years of comparative data when initially adopting IFRS. If so, does that imply companies will have to run parallel accounting systems for three years? This member observed that the costs of running parallel systems is substantial. He also noted that the practical implications of adoption need to be considered.

54. Mr. Golden noted that as part of the MoU, the FASB has a project addressing financial statement presentation. Software providers will be involved in this project to help their clients implement any changes that arise from this project. On the issue of having to provide three years of comparative data, Mr. Golden noted that the SEC has not yet determined whether it will waive that requirement.

55. One member commented that one of his key takeaways from this meeting is the need to get educated on the differences between IFRS and U.S. GAAP. He asked whether there was a place he could find such information. Mr. Batavick noted that all of the large accounting firms have that type of information. Ms. Seidman encouraged the SBAC member to have the American Bankers Association prepare something for its members on IFRS.

56. One member commented that the FASB should stop worrying about U.S. GAAP and start taking a leadership role in moving the country toward IFRS adoption. He suggested changing the name of the FASB to the "U.S. Accounting Standards Board." He noted that such a change would send a message to the rest of the country that the FASB is embracing IFRS adoption. This member also encouraged the FASB to take an advocate role for the U.S. on what needs to be addressed in IFRS.

57. One member observed that IFRS accounting software is already available. This member also noted that the IMA and the NYSSCPA are aware of the move toward IFRS. Educators are also aware of the move and are starting to talk about it.

58. Ms. Seidman commented that at an IMA conference one member said that nothing will get done until a mandatory adoption date is set.

59. Mr. Golden asked committee members what could be done to build more demand for adoption of IFRS.

60. One member commented that he believes convergence is the answer. The FASB should take its time and make the differences between U.S. GAAP and IFRS smaller. This member also noted that the FASB needs to stop giving implementation guidance.

61. Another SBAC member commented that the FASB should be spending its time and resources on convergence projects so that when adoption occurs, the transition will be smooth. This member noted that IFRS adoption shouldn't be difficult for the Big 4 accounting firms and large public companies; however, the rest of the world needs more time. This member wondered whether an FASB Staff Position could be used as a tool to move toward convergence without going through the FASB's normal due process procedures. Convergence done over time should alleviate some of the demand on company resources when adoption occurs.

62. Ms. Seidman asked committee members to share their thoughts on a proposed change to the FASB's bylaws that would allow the FASB to modify its due process procedures if the sole purpose of a project was convergence. She noted that she is uncertain how the FASB will achieve convergence on those issues that the FASB will likely not entertain comments on.

63. One member commented that such a change needs to occur. Ms. Seidman noted they she is worried some constituents may be displeased by the FASB's change in its due process procedures.

64. One member commented that the FASB's projects should be focused on convergence. This member believes constituents will embrace such an approach.

65. Another member commented that people need to be given a reason to embrace adoption of IFRS. For example, one set of accounting standards would benefit the international capital markets. Giving people a reason why adopting IFRS is beneficial is something that could be done to build demand for adoption.

66. Mr. Batavick commented that for the last 15 minutes of the meeting the committee will discuss what the committee wants as the end result. For example, should private companies adopt full IFRS, IFRS for private entities, or something else?

67. One member commented that he thinks IFRS for Private Entities was a good option. Another member agreed. Mr. Herz observed that there are parts of IFRS for Private Entities that the PCFRC did not like. One member noted that he thinks the accounting firms and the banks will end up determining what version of IFRS private companies adopt.

68. One member commented that the PCFRC doesn't like IFRS for Private Entities because under those standards an entity would have to provide full GAAP financial statements, whereas in the U.S. there are alternatives.

69. One member commented that he would prefer adoption of IFRS for Private Entities.

70. One member noted that IFRS for Private Entities tells preparers that when IFRS for Private Entities is silent on an issue, then preparers have to figure out how to address that issue. This member questioned whether bankers would be comfortable with such a provision. This member also highlighted that IFRS differs from U.S. GAAP in its treatment of loan covenant violations.

71. One member commented that rather than thinking about what end result committee members want, a more appropriate exercise would be to think about how different versions of IFRS affect certain types of entities. This member observed that the elimination of the LIFO provision could hurt certain entities. This member further commented that without showing

people the differences between U.S. GAAP and IFRS, people will not embrace adoption of IFRS.

72. One member observed that if IFRS were superior to U.S. GAAP, then there wouldn't be any differences between them. This member commented that the differences between U.S. GAAP and IFRS need to be reconciled prior to adoption.

73. One member observed that IFRS for Private Entities states that it adheres to the IFRS Framework; however, the Framework is changing as part of the Conceptual Framework project. This member commented that either IFRS for Private Entities will need to be updated to stay current with the changes resulting from the Conceptual Framework project or IFRS for Private Entities will have to ignore its claim about adhering to the IFRS Framework. In response, another SBAC member noted that the IASB will update IFRS for Private Entities every three years.

74. One member asked whether private entities would still have the ability to report under an other comprehensive basis of accounting ("OCBOA") after general adoption of IFRS. Mr. Golden noted that this member may be right in asserting that private companies could still report under an OCBOA. This member commented that private companies may end up reporting under U.S. GAAP as it exists today.