

MINUTES



To: Board Members
From: Belot (ext. 363)
Subject: Minutes of the February 4, 2004 Board Meeting **Date:** February 11, 2004
cc: Bielstein, Leisenring, Petrone, Smith, Swift, Polley, Gabriele, Project Team (Belot, N. Campbell, Cassel, Coburn, J. Johnson, Rohrkemper, Thomas, Vincent), Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Sutay

Topic: Issues Relating to Drafting of Proposed Statement on Liability Classification

Basis for Discussion: Memorandum dated February 3, 2004

Length of Discussion: 9:30a.m. to 10:20 a.m.

Attendance:

Board members present: Herz, Batavik, Crooch, Schieneman, Schipper, Seidman, and Trott

Board members absent: None

Staff in charge of topic: J. Johnson

Other staff at Board table: Belot, Bielstein, Cassel, and Coburn

Outside participants: None

Summary of Decisions Reached:

The Board discussed several remaining issues relating to the draft of the proposed Statement on liability classification. The Board decided:

1. The guidance in FASB Technical Bulletin No. 79-3, *Subjective Acceleration Clauses in Long-Term Debt Agreements*, is consistent with the decisions made in the short-term convergence project and should be carried forward into the proposed Statement. The Board directed the staff to clarify that entities are required to assess at each reporting date the likelihood that a creditor will assert that a subjective acceleration clause has been breached.
2. The proposed Statement will include guidance that encourages disclosure of events occurring after the balance sheet date that affect liquidity, similar to the disclosures required in paragraph 67 of IAS 1, *Presentation of Financial Statements*.
3. To delay issuance of the Exposure Draft to allow the Board time to consider the possible expansion of the scope of this project to include fundamental reconsideration of the definition of working capital and current assets in ARB No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities." Prior to making that decision, the Board directed the staff to research how those definitions are currently being applied in practice, particularly by reporting entities with a normal operating cycle of longer than one year.
4. The comment period for the first four proposed Statements issued as a result of the short-term convergence project will end April 13, 2004, as originally announced. The proposed Statement on liability classification will have a comment period of 90 days beginning from the date that document is issued.

Matters Discussed and Decisions Reached:

Mr. Johnson stated that some Board members previously expressed the desire to reconsider additional aspects of ARB 43, Chapter 3A. Those Board members would like to change the definition of working capital by eliminating the notion of an operating cycle. Mr. Johnson also noted that eliminating the operating cycle notion from working capital would necessitate amending the definitions and guidance for current assets and current liabilities.

All Board members agreed that ARB 43, Chapter 3A should be revised with more relevant and up-to-date examples. Board members expressed a desire for more information relating to how the operating cycle notion is being applied in practice, particularly by reporting entities with a normal operating cycle of longer than one year. Mr. Cassell expressed concern that there may be a discrepancy in the application of the operating cycle notion between assets and liabilities, and that discrepancy would diminish the usefulness of the information. Some Board members also expressed concern [GJB, LFS, and RHH] that a comprehensive reconsideration of ARB 43, Chapter 3A is not within the scope of the short-term international convergence project. The Board decided to delay issuance of the proposed Statement to allow time for the Board to consider the possible expansion of the scope of this project to include fundamental reconsideration of the definitions of working capital and current assets in ARB 43, Chapter 3A. The Board directed the staff to research how those definitions are currently being applied in practice, particularly by reporting entities with a normal operating cycle of longer than one year.

Mr. Johnson introduced the issue of whether Technical Bulletin 79-3 should be retained as a Technical Bulletin, incorporated into the proposed Statement on liability classification, or rescinded. He recommended that because the guidance is consistent with the decisions made in the short-term convergence project, it should be retained and incorporated into the proposed Statement on liability classification.

Ms. Seidman expressed concern that the guidance in Technical Bulletin 79-3 is inconsistent with the language in paragraph 1 of the proposed Statement on liability classification, which states that “a balance sheet represents a moment in time and should be consistent with the conditions existing at the balance sheet date.” Ms. Seidman stated that the guidance in Technical Bulletin 79-3, including an assessment of whether “prospects are bright,” does not represent a condition that exists at the balance sheet date. The staff explained that an assessment of whether a breach of a covenant exists is required for covenants that are objectively determinable as well as those that are subjective. The difference is a matter of degree of judgment required. All Board members agreed to elevate the guidance in Technical Bulletin 79-3 to level A GAAP and to update the guidance to clarify that it requires a periodic assessment of the likelihood that a creditor will assert that a subjective acceleration clause has been breached.

Additionally, the Board decided that the proposed Statement on liability classification should encourage disclosure of events occurring after the balance sheet date that affect liquidity, similar to the disclosures required in paragraph 67 of IAS 1. Finally, the Board agreed that commentators will have 90 days to comment on the proposed Statement on liability classification from the date that document is issued.

Follow-Up Items:

The staff will research how the definitions of working capital and current assets are currently being applied in practice, particularly by reporting entities with a normal operating cycle of longer than one year.

General Announcements:

None.