

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members  
**From:** Debbeler (ext. 353)  
**Subject:** Minutes of the February 10, 2010 Board Meeting: Subsequent Events **Date:** March 11, 2010  
**cc:** FASB: Golden, Bielstein, Lott, Stoklosa, Proestakes, C. Smith, Posta, Chookaszian, Glotzer, Mechanick, Gabriele, Sutay, Klimek, McGarity, Maroney, Debbeler, FASB Intranet; GASB: Reese; IASB: Leisenring

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

Topic: Comment letter summary and redeliberations

Basis for Discussion: Memorandums 9–11

Length of Discussion: 9:15 to 10:00 a.m. (Eastern)

Attendance:

Board members present:	Herz, Linsmeier, Seidman, Siegel, and Smith (all by phone due to office closure)
Board members absent:	None
Staff in charge of topic:	Maroney
Other staff at Board table:	Golden, Mechanick, and Proestakes (by phone)
Outside participants:	None

Summary of Decisions Reached:

The Board discussed a summary of comments received on its proposed Accounting Standards Update, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. The [comment letter summary](#) has been posted to the FASB's website.

The Board also redeliberated issues raised by respondents and made the following decisions.

The Board decided to clarify which entities are required to evaluate subsequent events through the date the financial statements are issued as either:

1. An entity that files or furnishes financial statements with the SEC (or another regulator if such filing satisfies the SEC's requirements); or
2. An entity that is a conduit bond obligor for conduit debt securities that are traded in a public market.

Other entities will evaluate subsequent events through the date the financial statements are available to be issued.

The Board decided that all entities, other than conduit debt obligors, will be required to apply this new guidance for financial statements originally issued or reissued after the date the final amendments are issued. Conduit debt obligors will be required to apply the guidance in fiscal years ending after June 15, 2010.

The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot.

Objective of Meeting:

The objective of this meeting was for the staff to present the Board with a brief overview of respondents' comments on the proposed Update and to make decisions on the relevant issues related to finalizing the Update. The objectives were met.

Matters Discussed and Decisions Reached:

1. Ms. Maroney stated that the comment letter period ended on January 28, 2010, and that the comment letter summary is posted to the FASB's website.
2. Ms. Maroney noted that the staff has identified several issues to discuss with the Board as a result of the comment letter process:
  - a. Entities that file or furnish their financial statements with the SEC
  - b. Widely distributed financial statements
  - c. Effective date and transition
  - d. Other issues.

**Entities That File or Furnish Financial Statements with the SEC**

***Staff Recommendation***

3. Ms. Maroney stated that constituents objected to the wording "entities that file or furnish their financial statements with the SEC." She noted that several SEC rules allow financial statements to be included or incorporated by reference in SEC filings by a different entity.
4. Ms. Maroney noted that the staff's recommendation has been updated since distribution of the handout. Based on discussions with the SEC, she stated that the staff now thinks financial statements included or incorporated (for example, financial statements of entities acquired or to be acquired, and separate financial statements of entities not consolidated) should not be subject to the exception from the disclosure of the date through which subsequent events are evaluated, and should not utilize the date the financial statements are issued as required for entities that file or furnish with the SEC. Said differently, these entities should be subject to both (a) disclosure of the date through which subsequent events have been evaluated and (b) evaluation of subsequent events through the date the financial statements are available to be issued.

5. Ms. Maroney noted that the staff, based on consultation with the SEC, recommends this alternative for the following reasons:
  - a. Conduit debt obligors are not subject to the same continuous disclosure requirement as entities that file or furnish with the SEC.
  - b. Subjecting conduit debt obligors to the proposed criteria might overly complicate evaluation of subsequent events.

She stated that after the Board meeting, the staff will analyze individual reporting scenarios under various rules and regulations to ensure that a selection of reporting scenarios are consistently addressed before issuing a final Update, and make any necessary adjustments as part of the drafting process.

#### **Board Vote**

6. All Board members agreed with the staff's recommendation on this issue.

#### **Widely Distributed Financial Statements**

##### ***Staff Recommendation***

7. Ms. Maroney stated that the proposed Update would have retained the notion from *FASB Accounting Standards Codification*<sup>TM</sup> Topic 855 on subsequent events (originally issued as FASB Statement No. 165, *Subsequent Events*), which would require an entity that has a current expectation of widely distributing their financial statements to evaluate subsequent events through the date the financial statements are available to be issued. She noted that respondents expressed confusion about what the Board meant by a "current expectation of widely distributing." She noted that respondents recommended that entities that do not file or furnish financial statements with the SEC be required to evaluate subsequent events through the date the financial statements are available to be issued.
8. Ms. Maroney stated that the staff spoke with several accounting firms and the AICPA to obtain more information about practice issues, and has identified three categories of filers for consideration. The first category is entities that file or furnish their financial statements with the SEC, the second category is conduit debt

obligors for conduit debt securities that are traded in a public market, and the third category is all other entities.

9. Ms. Maroney stated that the staff recommends the following distinction for determining the appropriate date through which subsequent events are evaluated: both entities that file or furnish financial statements with the SEC and conduit debt obligors of conduit debt securities that are traded in a public market, consistent with the definition of a *public entity* in the Master Glossary of the Codification, should evaluate subsequent events through the issuance date. All other entities should evaluate subsequent events through the date the financial statements are available to be issued. Conduit debt obligors and other entities (categories 2 and 3) should be subject to disclosure of the date through which subsequent events have been evaluated.
10. Ms. Maroney stated that the staff notes there are some conduit debt obligors that do not file with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, and do not widely distribute their financial statements. She stated that Mr. Mechanick would provide more information about those entities.
11. Mr. Mechanick stated that some constituents want the Board to limit the conduit debt obligors that would be subject to the issuance date guidance to a subgroup that has publicly traded conduit debt but is also required to file on the EMMA system. As indicated in the memo distributed to the Board in preparation for this meeting, there are three groups of conduit debt obligors that are not required to file on the EMMA system. One of those groups—namely, conduit debt obligors whose debt is privately placed—is already excluded from the issuance date requirement by virtue of not being traded on the public market. The other groups are conduit debt obligors with variable rate demand obligations (as opposed to fixed-rate obligations) and conduit debt obligors with no single bond issuance greater than \$10 million. He noted that for these three groups, the only entities required to file with EMMA are the guarantors, which would either be a bank or financial

institution issuing a letter of credit or bond insurance. The conduit debt obligors in these groups file with the guarantors and the bond trustee. He noted that the group of conduit debt obligors with variable rate demand obligations is fairly large and includes hospitals, universities, and other large not-for-profit organizations. He also noted that the SEC has proposed that the group of conduit debt obligors with variable rate demand obligations begin filing under the EMMA system.

12. Mr. Mechanick noted that the constituents who would like the Board to exempt these groups of conduit debt obligors from the issuance date guidance would argue that the EMMA system is the vehicle for disseminating the information to the public (that is, the EMMA system represents “wide distribution). He noted that the counter-argument would be that the Board did not intend for this level of granularity in FASB Staff Position FAS 126-1, “Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities,” and that the Board’s underlying rationale was that information that gets to the general public by whatever means could be information that is available to public debt holders. He noted that another counter-argument would be that this distinction between groups of conduit debt obligors adds unnecessary complexity.
13. Mr. Mechanick noted that the practical consequence of using the “when issued” guidance for private entities with conduit debt would probably not be significant because nonpublic entities in this group do not generally widely distribute their financial statements. He noted that for not-for-profit entities, on the other hand, the consequences might be more significant because entities that raise public donations typically have to file their audited financial statements with state charity regulators, which constitutes wide distribution and usually does not happen until a number of months after the fiscal year-end. He noted that one practical solution to this problem would be for not-for-profit entities to post their financial statements to their website as quickly as possible to effectively “stop the clock.”

14. Ms. Maroney continued that the staff has identified conduit debt obligors, consistent with Topic 855, to be subject to the issuance date guidance. This ensures consistent distribution to all stakeholders. Before Statement 165, there was priority access to select stakeholders with certain other stakeholders only receiving access to financial statements on the statutory deadline via EMMA. Ms. Maroney noted that this recommendation is consistent with part of the original definition of “public entity” as issued in Statement 165.

#### **Board Vote**

15. The majority of the Board members voted in favor of the staff’s recommendation. Three Board members agreed. The other two Board members disagreed but stated that they would not object to the final Update being issued with this decision.

#### **Board Comments**

16. The Board agreed that all SEC filers should evaluate subsequent events through the date the financial statements are issued, and that all non-SEC filers that are not conduit debt obligors should evaluate subsequent events through the date the financial statements are available to be issued.
17. The Board discussed at length the treatment of subsequent events for conduit debt obligors. Messrs. Golden and Mechanick noted that in FSP FAS 126-1 the Board had specifically decided that conduit debt obligors should be treated like public entities that file with the SEC because they are accessing public debt markets. Several Board members who agreed with the staff’s recommendation cited this guidance, and not wanting to be inconsistent with this guidance, as a reason for their decision.
18. Board members expressed concern that this issue seems so complex. They expressed concern about communicating the decision clearly to constituents, especially conduit debt obligors.

19. One Board member who disagreed with the staff's recommendation expressed concern that the FASB was acting like a regulator by dictating what should be the appropriate length of time to review subsequent events.

## **Effective Date and Transition**

### ***Staff Recommendation***

20. Ms. Maroney stated that the staff recommends that the final Update be effective upon issuance for originally issued financial statements and reissued financial statements. However, the staff is split on whether the effective date for conduit debt obligors should be deferred until fiscal years ending after June 15, 2010. The staff members who believe the effective date should not be deferred noted that the effective date for Statement 165 was fiscal years ending after June 15, 2009. Secondly, although these entities do not file directly with the SEC, SEC rules have encouraged these conduit debt obligors to file with EMMA in conjunction with their financial statements being finalized or issued. Third, the proposed Update would not change any of the requirements for conduit debt obligors. The staff believes the guidance in Statement 165 ensured consistent access to information for all stakeholders.
21. Mr. Mechanick noted that the effective date for Statement 165—fiscal years ending after June 15, 2009—may have been too soon for a standard that entailed a significant change in practice for virtually all conduit debt obligors. He noted that because of the timing of when Statement 165 was issued in May versus the timing of the spring conferences at which such entities generally obtain their generally accepted accounting principles (GAAP) update information, few not for profits or other affected entities with June 30 year-ends would likely have been aware of this change in requirements when they were preparing their year-end financial statements for 2009.

### **Board Vote**

22. The Board decided to defer the effective date for the clarification about whether conduit debt obligors should be treated as public entities. Guidance related to that clarification will be effective for annual reporting periods ending after June 15, 2010.
23. The other changes being made in the final Update will be effective upon issuance of the final Update. (Those changes include clarifying that SEC filers do not need to disclose the date through which subsequent events are evaluated and that entities that are not SEC filers or conduit debt obligors may evaluate subsequent events through the date the financial statements are available to be issued and disclose that date.)

### **Board Comments**

24. The Board agreed initially that the effective date for the changes related to SEC filers disclosure and evaluation of subsequent events by entities that are not conduit debt obligors should be upon issuance of the final Update.
25. The Board discussed the effective date for conduit borrowers at length. Mr. Golden noted that the decisions made by the Board during this implementation project and at this meeting do not actually change any requirements for conduit debt obligors, and yet a staff member recommended deferring the effective date for those entities. He noted that under Statement 165, a conduit debt obligor should have concluded that it needed to evaluate subsequent events through the date the financial statements were issued.
26. Several Board members were concerned about the implications of making this Update effective immediately for financial statements that had been issued between the effective date of Statement 165 and this standard. If the Board made this particular guidance for conduit debt obligors effective immediately, some thought it would be unclear whether the Board intended for entities that might have misapplied Statement 165 to restate their financial statements.

27. Mr. Mechanick noted that Statement 165 was issued in May 2009 and effective for fiscal years ending after June 15, 2009, and confusion about the requirements might have been increased because entities did not have enough time to effectively implement the requirements. He also noted that many of the entities in question have June 30 year-ends.
28. Several Board members asked questions about what confusion had been experienced by entities applying Statement 165. The Board asked the staff to clarify whether the entities either (a) did not disclose the date through which subsequent events were evaluated or (b) evaluated subsequent events through the date the financial statements were available to be issued and disclosed that date. The staff noted that both treatments are inconsistent with the guidance for conduit debt obligors in Statement 165 and that the confusion in practice was related to both issues as previously identified.
29. Mr. Proestakes asked if this decision would set precedent for how the Board deals with other similar implementation issues—that is, if in the future the Board would feel pressed to defer effective dates even when changes have not been made.
30. The staff noted that one of the causes of confusion after the issuance of Statement 165 was that the Statement had not been issued before the normal accounting education cycle for nonpublic entities. The Board and the staff, especially Mr. Mechanick, suggested that specific outreach be done to resolve confusion related to this clarification.

## **Other Issues**

### ***Staff Recommendation***

31. Ms. Maroney stated that constituents noted concerns about the term *restated financial statements* in the proposed Update. The staff notes that the term *restatement* is defined in the Master Glossary of the Codification; however, the proposed Update did not utilize or link the term to the Master Glossary. However, the staff understands constituents' concerns that the terms are similar and may cause confusion in practice. The staff recommends that the wording in the final

Update be changed to *revised financial statements* and that the definition include financial statements that have been revised for both (a) correction of an error and (b) retrospective application of U.S. GAAP.

**Board Vote**

32. The Board supported the staff's recommendation.

Follow-up Items:

The Board directed the staff to proceed to a ballot draft of the final Update.

General Announcements:

None.