

Toward Convergence

FASB and IASB Discuss Plans for the Future

In late April, the IASB and FASB (the Boards) held their third joint meeting in London. A focal point of that meeting was discussing plans for the future—how the Boards might achieve their mission of improving financial reporting by more closely coordinating their activities. That discussion focused on two main questions:

- Should the Boards work together to develop a common conceptual framework?
- Which existing and future technical agenda projects should the Boards undertake together, in order to both improve financial reporting and achieve convergence of accounting standards internationally?

Although the Boards discussed a number of ways they might work together, neither made any agenda decisions. Both Boards agreed that additional input from their constituents is needed before those agenda decisions could be made.

Development of a Common Conceptual Framework

The Boards agreed to work together toward the objective of a single conceptual framework that would be used by both Boards. Both Boards agree that their mission cannot be fulfilled without a conceptual underpinning that provides direction and the means for deciding whether one solution to a financial reporting issue is better than the others. A common conceptual framework will provide the unity that is required and, with that, the direction and means to help make those decisions. Without a set of unified concepts, the standard setters are like a ship in a storm without an anchor.

At the conclusion of the meeting, the Boards asked the staff to prepare a plan outlining the steps to be taken to develop that common framework and agreed to discuss that plan at their next joint meeting in October 2004.

Coordination of Existing and Future Technical Agenda Projects

One aspect of the Boards discussion focused on process, that is, “how” the Boards coordinate their work. Currently, the Boards work together in one of two ways—joint projects (of which business combinations and revenue recognition are examples) or concurrent projects (the project on share-based payment). At the joint meeting in April, the Boards asked the staffs to explore a new approach to working together—the “modified joint

approach.” Under that approach, one of the two Boards would take the lead in developing a set of preliminary views on a particular financial reporting issue—both Boards would seek input from its constituents on those preliminary views as the initial step in their due process. Following analysis of that constituent input, the Boards would make a decision about whether to undertake a joint project with the objective of issuing identical or substantially similar Exposure Drafts and final standards.

The Boards also discussed projects on their existing active agendas with an eye toward more closely coordinating their efforts:

1. The Boards agreed to consider working together on the existing FASB project on liabilities and equity and the IASB project on accounting for insurance contracts using the “modified joint approach.”
2. The Boards discussed the active FASB project on accounting for the extinguishment of liabilities. The IASB decided it would consider whether to add a similar project to its agenda that would be undertaken jointly with the FASB.
3. The Boards discussed their respective projects to address issues relating to consolidation policy and agreed with the objective of developing convergent accounting standards in this area. The Boards agreed to continue to deliberate issues separately but directed the staff to consider ways (including joint deliberations) to more closely coordinate the Boards’ activities.

The Boards also discussed potential major projects that might be added to the joint agenda at a future date. The Boards agreed that projects on accounting for leasing, employee benefits, and intangible assets should be considered for admission to the joint agenda as resources become available. The Boards did not, however, discuss the relative priorities of those important improvement projects. The Boards also directed the staff to analyze existing differences in the accounting for financial instruments and develop, for discussion at a future meeting, a proposal for one or more potential projects to reduce or eliminate those differences (convergence projects) or improve existing financial reporting (improvements projects).

The Boards also discussed the scope of their existing joint short-term convergence project. Currently, that project includes consideration of differences in the accounting for income taxes (that aspect of the project will be featured in the June *FASB Report*), research and development costs, and interim reporting. The Boards directed the staff to explore the merits of expanding the scope of that project to include (1) property, plant, and equipment; (2) investments in real estate properties; and (3) joint ventures.