

## Introducing the Milestone Draft

*The FASB recently, and for the first time, posted a milestone draft on its website. To help its readers understand the purpose and other aspects of the milestone draft, The FASB Report interviewed Jill Carnrick, FASB project research associate. Jill works on the liabilities and equity project, to which the posted milestone draft pertains.*

### **TFR: What is a milestone draft?**

**JC:** At the beginning of each project, the project team identifies groups of related issues, referred to as milestones. Generally, each major project consists of two or more milestones. After the deliberations of a milestone are completed, the staff prepares a milestone draft incorporating the Board's tentative decisions on that group of issues. The milestone draft is written in a format similar to an Exposure Draft. At the end of the deliberation process, the milestone drafts are combined and issued as a due process document.

It is important to note that not all projects on the Board's agenda will prepare milestone drafts. The need for a milestone draft is evaluated on a project-by-project basis. Milestone drafts are generally not prepared for projects with a relatively narrow scope (such as the short-term convergence projects or many application and implementation projects) as the issues addressed in those projects are not easily separated into milestones.

### **TFR: Why was it introduced?**

**JC:** The milestone draft was introduced to the FASB's process a couple of years ago during our project effectiveness initiative. The Board agreed that it would be more effective to review a draft document encompassing its tentative decisions on a group of related issues shortly after those decisions rather than waiting until all of the issues in a project have been deliberated. Accelerating the drafting process (particularly the basis for conclusions) is extremely helpful on projects that have a lengthy deliberation process (more than one year). There is also a huge benefit when it comes to Board or staff turnover during the deliberation process. The milestone drafting process also allows for earlier identification of those inevitable additional issues that arise when pulling together a cohesive draft. An added benefit is that by posting the milestone draft to the FASB's website, constituents are provided the opportunity to read and understand a cohesive summary of the decisions that have been reached so far in a project.

### **TFR: What is the relationship between an Exposure Draft and a milestone draft?**

**JC:** A milestone draft includes the same sections that an Exposure Draft does, such as a summary, standards section, and implementation guidance. A milestone draft does not include a section describing the Board's basis for conclusions since the project is not yet completed. The milestone drafts are combined to create an Exposure Draft (or other due process document).

### **TFR: Does it replace an existing form of communication to constituents?**

**JC:** The milestone draft replaces the "Summary of Tentative Decisions Reached" section on the project's update section on the FASB website.

### **TFR: Is this experimental or will it be an ongoing part of the FASB's process?**

**JC:** Only a few projects have completed milestone drafts. After a period of time, we will evaluate the costs and benefits of milestone drafting and will determine whether to continue to include it as part of our process.

### **TFR: How can FASB constituents take advantage of the information provided in a milestone draft?**

**JC:** Constituents are able to download a milestone draft from the FASB's website. By reading a milestone draft, a constituent can gain a better understanding of the Board's tentative decisions and how those decisions would affect their business. The milestone draft provides us with an opportunity to involve and educate constituents early in the process instead of waiting until an Exposure Draft is issued.

### **TFR: Can constituents comment on a milestone draft?**

**JC:** The Board does not formally solicit comments on milestone drafts; however, we welcome any feedback. Comments are formally sought through the issuance of a due process document, such as an Exposure Draft or a Preliminary Views document.

**TFR: Are the decisions in the draft subject to change?**

**JC:** As previously noted, a milestone draft is a collection of *tentative* decisions during the deliberations phase of a project. Since the deliberations are not yet completed, the decisions described in a milestone draft are subject to change before (and after) an Exposure Draft is issued. The changes may occur due to future decisions made by the Board, changes in the economic environment, input from constituents, new issues that arise, and other various factors.

**TFR: We understand that the liabilities and equity project team was the first to post a milestone draft to the FASB's website. Can you describe the draft?**

**JC:** The liabilities and equity milestone draft describes the Board's tentative decisions regarding the classification of single component instruments. In summary, the draft describes three types of instruments that would be classified as equity:

- Perpetual instruments
- Direct ownership instruments
- Indirect ownership instruments indexed to and settled or ultimately settled with the same direct ownership instruments on which their counterparty payoffs are based.

All other instruments would be classified as liabilities or assets.

The classification requirements of the draft would change certain decisions that the Board reached in FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. For example, Statement 150 requires liability classification for all mandatorily redeemable shares;<sup>1</sup> however, under the requirements found in the milestone draft, some mandatorily redeemable shares are classified as equity if certain criteria are met.

The milestone draft, which includes tentative decisions reached through April 6, 2005, is available on the FASB's website at <http://www.fasb.org/project/liabeq.shtml>. The Board is currently deliberating issues in the 2<sup>nd</sup> milestone of the liabilities and equity project—multiple component instruments.

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<sup>1</sup>FSP FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement 150*, indefinitely defers the effective dates for applying the provisions of Statement 150 to mandatorily redeemable shares of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The Board plans to amend or replace Statement 150 and all related FSPs with the proposed requirements described in the draft.