

MEMORANDUM



To: Board Members

From: Nesta (ext. 330)

Subject: Minutes of January 29, 2003
Board Meeting

Date: January 30, 2003

cc: Bielstein, Leisenring, Petrone, Smith, Swift, Polley, J. Johnson, Coburn, Tovey, Nesta, Cassel, Kazazean, Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Vernuccio, Sutay, Gabriele

Topic: Nonmonetary Asset Exchanges

Basis for Discussion: Memorandum dated January 16, 2003

Length of Discussion: Starting Time: 9:45 a.m. Concluding Time: 10:15 a.m.

Attendance:

Board members present: Herz, Crooch, Foster, Schieneman, Schipper, Trott, Wulff

Board members absent: None

Staff in charge of topic: J. Johnson, Coburn

Other staff at Board table: Leisenring, Bielstein, Cassel, Nesta

Outside participants: None

Summary for ACTION ALERT:

The Board reaffirmed its previous decision to include the issue of nonmonetary asset exchanges in the short-term convergence project. The Board directed the staff to explore an approach that would eliminate the requirement in paragraph

21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, to account for exchanges of productive assets at carryover basis and replace it with a requirement that those transactions be accounted for at fair value unless the transaction lacks commercial substance. [All Board members agreed]

Matters Discussed and Decisions Reached:

Ms. Coburn opened the discussion by stating that the IASB has proposed changes to IAS 16, *Property, Plant, and Equipment*, and IAS 38, *Intangible Assets*, that would require exchanges of similar assets in those categories to be measured at fair value. She added that the general rule under U.S. GAAP is that the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is measured at the fair value of the asset surrendered. However, there is an exception for exchanges of similar productive assets. Opinion 29 requires that those exchanges be measured at the book value of the asset surrendered. She then stated that the staff would like the Board to consider whether to converge to the proposed IAS GAAP as part of its short-term convergence project.

Ms. Coburn then stated that the staff recommends removing this issue from the short-term convergence project because the staff believes it is impossible to separate the issues identified for convergence from the larger issues of revenue recognition and fresh start (new basis) measurement. She also added that the changes to Opinion 29 necessary to achieve convergence would require changes to other pronouncements that presuppose decisions in the revenue recognition and fresh start projects.

The Board reaffirmed its previous decision to include the issue of nonmonetary asset exchanges in the short-term convergence project. The Board rejected the staff's recommendation to remove this issue from the short-term convergence project because they believe the issue can be resolved expeditiously. Board members noted that convergence on this issue would likely result in significant changes to U.S. GAAP but reiterated that convergence cannot be achieved

unless both standard-setters are willing to make changes that could have far reaching effects on their respective standards.

The Board discussed an IASB requirement that a nonmonetary exchange must have commercial substance to be accounted for at fair value, and directed the staff to work with the IASB staff to describe the circumstances in which nonmonetary exchanges lack commercial substance.

Follow-up Items:

1. Prepare joint memo with the IASB staff to describe circumstances in which nonmonetary exchanges lack commercial substance.
2. Research implications of convergence on FASB Statement No. 66, *Accounting for Sales of Real Estate*.

General Announcements: