

MINUTES



To: Board Members
From: Nesta (ext. 330)
Subject: Minutes of the March 5, 2003 Board Meeting **Date:** March 7, 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: Changes in Accounting Principles

Basis for Discussion: Memoranda dated February 13, 2003 and March 4, 2003

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

Attendance:

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

Board members absent: None

Staff in charge of topic: J. Johnson

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

Outside participants: Henry Rees, Marie-Christine Batt (IASB, via phone)

Summary for ACTION ALERT:

The Board discussed exceptions to the general requirement for voluntary changes in accounting principle, decided on at the December 18, 2003 Board meeting, that entities must retroactively apply the new principle. The Board also discussed disclosure requirements for voluntary changes and whether to apply

the guidance for voluntary changes to changes required by an accounting pronouncement. The Board decided the following:

1. Retroactive application shall be required for voluntary changes in accounting principle except when retroactive application is impracticable. Retroactive application is impracticable only when (a) the effects of retroactive application are not determinable, (b) retroactive application requires assumptions about management's intent in a prior period, or (c) retroactive application requires significant management estimates as of a prior period. [Six Board members agreed: GMC, JMF, RHH, KAS, EWT, and JKW; one Board member disagreed: GSS]
2. When a voluntary change in accounting principle is made, the following shall be disclosed:
 - a. The nature of and justification for a change in accounting principle and its effect on income should be disclosed in the financial statements of the period in which the change is made. The justification for the change should clearly explain why the newly adopted accounting principle is preferable.
 - b. When a change in accounting principle has an effect on the current period or any prior period presented, or may have an effect in subsequent periods, an entity shall disclose the following:
 - i. The effect of the change on each financial statement line item and any per share amounts affected for the current period and all prior periods presented. Financial statements of subsequent periods need not repeat the disclosures.
 - ii. The amount of any adjustment relating to periods prior to those presented.
 - iii. A statement that comparative information has been restated, or that restatement for a particular prior period has not been made because it is impracticable, together with the reasons for impracticability.
 - c. When reporting the retroactive effects of an accounting change is not practicable, disclosure will be limited to i. and iii. above.

[All Board members agreed]

3. To eliminate paragraph 4 of APB Opinion No. 20, *Accounting Changes*, which specifies that Opinion 20 does not apply to changes made to comply with new pronouncements. The proposed Statement would require that, in the absence of transitional guidance in a new pronouncement, any change in accounting principle made as result of adopting the new pronouncement be applied following the same guidance as that for voluntary changes in accounting principles. [Six Board members agreed: GMC, JMF, RHH, GSS, KAS, EWT; one Board member disagreed: JKW]

Matters Discussed and Decisions Reached:

Mr. Johnson opened the discussion by stating that at the December 18, 2002 Board meeting, the Board decided to require that voluntary changes in accounting principle be reported via retroactive restatement. He stated that the Board then asked the staff to explore whether exceptions to retroactive restatement should be allowed when it is impracticable to apply the new principle retroactively. The Board also asked the staff to develop disclosure requirements for voluntary changes.

Mr. Johnson stated that the staff recommended that retroactive restatement should be required unless impracticable. He added that the staff believes retroactive restatement is impracticable only when (a) the effects of retroactive application are not determinable, (b) retroactive restatement requires assumptions about management intent in a prior period, or (c) retroactive restatement requires significant management estimates as of a prior period. The Board, except for Mr. Schieneman, agreed with the staff's recommendation. Mr. Trott then suggested that the reporting of a voluntary change be characterized as "retroactive application" rather than "retroactive restatement," and that the term "retroactive restatement" be used only when describing the correction of an error. All Board members agreed.

The staff then proposed its disclosure requirements, which, with one exception, were the same as item 2 in the Summary for ACTION ALERT. Mr. Schieneman proposed that, in addition to the staff's recommendation, the effect of the change in principle on each impacted line item be disclosed, noting that such information would be useful in forecasting. All Board members agreed with the staff's

recommendation as modified by Mr. Schieneman. Mr. Trott also suggested that the proposed Statement should provide computational guidance on retroactive application. No Board member objected to including that guidance.

The staff stated that as part of the short-term convergence project the staff was asked to examine whether the Board should converge with the IASB approach to transition for mandated accounting changes. The IASB approach requires that, in the absence of specific transition guidance for a new standard, an entity should follow the accounting for voluntary changes in accounting principle. The proposed revisions to IAS 8 generally require voluntary changes in accounting principle to be accounted for using a retroactive application method. The staff then recommended that the Board eliminate paragraph 4 of APB Opinion No. 20, *Accounting Changes*, which specifies that Opinion 20 does not apply to new pronouncements. In its place, the staff recommended that, in the absence of transitional guidance in a new pronouncement, any change in accounting principle made as result of adopting the new pronouncement be applied following the same guidance as that for voluntary changes in accounting principles. The Board, except Mr. Wulff, agreed with the staff recommendation. Board members noted that, in addition to achieving convergence with the IASB, the staff's recommendation effectively functions as a framework that would result in greater discipline for both the staff and Board in future transition decisions. The Board also noted that it would still be free to establish a different method of reporting an accounting change for a new pronouncement when appropriate.

Follow-up Items:

The staff had proposed that when an accounting change is made for which effects are not determinable for particular prior periods, but the cumulative effect is known, that the cumulative effect be accounted for as a direct adjustment to retained earnings as of the beginning of the first period for which the effect is determinable. The Board asked that the staff bring back the issue to a future meeting along with additional analysis on the implications of requiring an adjustment to opening retained earnings.

General Announcements: