

**MINUTES**



**To:** Board Members  
**From:** Belot (ext. 363)  
**Subject:** Minutes of the March 24, 2004 Board Meeting      **Date:** March 31, 2004  
**cc:** Bielstein, Leisenring, Petrone, Smith, Swift, Polley, Gabriele, Project Team (Belot, N. Campbell, Cassel, Gagon, J. Johnson, Rohrkemper, Thomas, Vincent), Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Sutay

Topic: Short-Term Convergence: Operating Cycle Concept

Basis for Discussion: Memorandum dated March 16, 2004

Length of Discussion: 9:45a.m. to 10:05 a.m.

Attendance:

Board members present: Herz, Crooch, Schieneman (by phone), Schipper, and Seidman  
Board members absent: Batavick and Trott  
Staff in charge of topic: Belot, J. Johnson  
Other staff at Board table: Bielstein, Cassel, and McKenna  
Outside participants: IASB (by phone)

**Summary of Decisions Reached:**

The Board discussed a possible expansion of the scope of the short-term convergence project to include a fundamental reconsideration of the definitions of *working capital* and *current assets* in ARB No. 43, Chapter 3A, “Working Capital—Current Assets and Current Liabilities.” The Board decided:

- a. Chapter 3A will be replaced entirely to (a) incorporate the decisions reached in this project and (b) modernize the language and incorporate more relevant and up-to-date examples for the guidance in that Chapter that the Board did not reconsider. In drafting the staff seeks to use language similar to that used in IAS 1, *Presentation of Financial Statements*, because that approach is consistent with the objective of the short-term convergence project.
- b. Fundamental reconsideration of the definitions of *working capital* and *current assets* in ARB 43 will be undertaken as part of the project on financial performance reporting by business enterprises.

The proposed Statement on balance sheet classification is now expected to be issued in the second quarter of 2004.

**Matters Discussed and Decisions Reached:**

Mr. Johnson introduced the topic of the Board meeting, a possible expansion of the scope of the short-term convergence project to include a fundamental reconsideration of the definitions of *working capital* and *current assets* in ARB 43. Ms. Belot then described the research conducted by the staff in preparation for that decision. She summarized the staff’s analysis of U.S. GAAP on *working capital*, including observations from practice; the staff’s analysis of non-U.S. GAAP on *working capital* and *balance sheet classification*; and constituents’ and academics’ observations on *working capital* and *balance sheet classification*. Mr. Johnson then introduced the following alternatives:

1. Issue the draft of the proposed Statement on liability classification as is, without amending the remainder of Chapter 3A further.
2. Replace Chapter 3A entirely, modernize the language and incorporate more relevant and up-to-date examples, but maintain the substance of the existing guidance without further reconsideration.
3. Replace Chapter 3A entirely, after a more comprehensive reconsideration of the guidance. This alternative might include elimination of the operating cycle

notion from the guidance and/or consideration of alternative formats for balance sheet presentation of liquidity information.

4. Expand the scope beyond balance sheet classification to include presentation and disclosure of liquidity and financial flexibility. This alternative might include consideration of additional display formats and disclosures.

He also stated the advantages and disadvantages of each alternative and the staff's recommendation of alternative 2.

All Board members agreed with the staff's recommendation of replacing Chapter 3A entirely but maintaining the substance of the existing guidance without further reconsideration. Board members reasoned that the preferred alternative is consistent with the objective of the short-term convergence project. However, Ms. Seidman noted that IAS 1 distinguishes current liabilities used in the normal operating cycle from those that are not settled as part of the current operating cycle, but are due for settlement within twelve months of the balance sheet date. She also observed that while liabilities used in the normal operating cycle should be classified on an operating cycle basis, liabilities not settled as part of the current operating cycle are classified on a one-year basis. Ms. Seidman stated that she would like that concept to be incorporated into the revised draft of Chapter 3A. Ms. Schipper also suggested that the staff share their research results with the financial performance reporting by business enterprises project team and recommended that a fundamental reconsideration of the definitions of *working capital* and *current assets* in ARB 43 be added to the scope of that project. All Board members agreed with Ms. Schipper's suggestions.

**Follow-Up Items:**

The staff will prepare a draft of the revised ARB 43, Chapter 3A.

**General Announcements:**

None.