

MINUTES



**To:** Board Members

**From:** Subsequent Events Project Team  
Bolash (ext. 358)

**Subject:** Minutes of the May 30, 2007 Board Meeting: Subsequent Events      **Date:** June 6, 2007

**cc:** Smith, Bielstein, Petrone, Leisenring, Project Team, Sutay, Klimek, Polley, Chookaszian, Gabriele, Allen, Intranet (e-mail)

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Topic: Subsequent Events

Basis for Discussion: Memorandum No. 3, dated May 18, 2007

Length of Discussion: 10:45 a.m. to 11:15 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young

Board members absent: None

Staff in charge of topic: Bolash

Other staff at Board table: L. Smith, Glotzer, Paul, Cornett

Outside participants: None

Summary of Decisions Reached:

The Board voted to continue with its previous plan to develop a standard that reflects the principles underpinning current subsequent events guidance in existing accounting standards and in the auditing requirements contained in AICPA Codification of Statements on Auditing Standards, AU Section 560, *Subsequent Events.*, while considering whether certain minor differences between U.S. GAAP and the corresponding international financial reporting standard, IAS 10, *Events after the Balance Sheet Date*, could be eliminated or minimized. The Board further decided that the project would not address inconsistencies or differences between U.S. GAAP and international financial reporting standards in the following areas:

- a. Refinancing of short-term obligations
- b. Curing breaches of borrowing covenants.

The Board decided that subsequent events should be considered for adjustment to or disclosure in the financial statements through the date that the financial statements are issued or first made available to be issued, and that the date through which subsequent events have been considered should be disclosed in the notes to the financial statements.

The Board decided that the standard issued as a result of this project will include a general scope exception for any existing authoritative accounting literature that conflicts with it. In other words, the Board will not seek to amend existing standards that are considered to be inconsistent with the principles underpinning AU 560.

Objective of Meeting:

The objectives of the meeting were to (a) present the issues that the staff plans to address in conjunction with developing a comprehensive draft for the Board's consideration and solicit the Board's feedback on these items; (b) discuss the

date through which subsequent events would be considered in financial statements for both private and public companies; and (c) discuss how, if at all, conflicts in existing standards should be addressed in this project. The objectives were met.

Matters Discussed and Decisions Reached:

1. Mr. Bolash introduced the topic by outlining the open issues to be discussed by the Board prior to the drafting of an exposure document. These issues included (a) the date through which subsequent events are to be considered in the financial statements and (b) how to address conflicts existing in current U.S. GAAP.
2. Mr. Bolash discussed the history of the project, including the Board's decision in August 2005 to not pursue a fundamental reexamination of the topic, but to codify existing requirements found in auditing literature as a part of U.S. GAAP. The Board also decided at that time that the project should consider whether to converge with IFRS on several points over which there are minor differences.
3. Mr. Bolash noted that the Board previously decided to not address several subjects within the current scope of the project that were to be addressed in the Board's project on financial statement presentation. The staff has subsequently learned that these issues will not be included for consideration in the preliminary views document to be released by the financial statement presentation project later this year. These issues include (a) the refinancing of short-term obligations, and (b) curing breaches of borrowing covenants.
4. Mr. Linsmeier noted that this project seemed to have two objectives: codification of subsequent events guidance in the accounting literature and convergence. Mr. Linsmeier noted that subsequent events is included in the Memorandum of Understanding with the IASB as a short-term convergence project. To not address these debt classification issues would be a decision to not attempt to achieve convergence in this project.
5. Mr. Herz noted that these issues had been considered in an earlier Board project on short-term and long-term liabilities. Mr. Trott noted that some

analysts and users previously expressed a desire to have these events treated as Type I events consistent with current U.S. GAAP, that is, to not converge with the international standards in this area.

6. Mr. Linsmeier noted that adopting wording for a principle without changing specific treatment of transactions to be consistent with that principle stops short of convergence with IFRS and is not really a principle.
7. Mr. Trott noted that he believes that the project is necessary for the FASB's Codification Project because it places responsibility for subsequent events on the preparer of financial statements.
8. Mr. Herz noted that one benefit of the project is that the user of financial statements will know the date through which subsequent events were considered for adjustment to or disclosure in the financial statements.
9. Mr. Bolash described a letter received by the Board from the Private Company Financial Reporting Committee (the PCFRC) dated May 16, 2007. That letter addressed the date through which subsequent events should be considered and the debt classification issues noted earlier.
10. Mr. Bolash described the issue regarding the date through which subsequent events should be considered. He noted that under IFRS, the appropriate date is the date upon which financial statements are "authorized for issue." He further noted that this is a typical statutory requirement for many European companies.
11. Mr. Bolash described the views outlined in the Board meeting handout as follows:
  - a. View A: Current practice in the U.S. should be retained, and subsequent events should be considered through the date on which financial statements are issued.
  - b. View B: A new standard on subsequent events should converge with IFRS, and subsequent events should be considered through the date on which the financial statements are authorized for issuance by the appropriate corporate governance authority.

- c. View C: Private companies should disclose in a policy note the date through which subsequent events were considered by management.
12. Mr. Bolash described the staff's recommendation as being consistent with View A and maintaining current practice in the U.S., with a potential accommodation for private companies, such as a disclosure of the date upon which financial statements are made available to interested third parties.
13. Mr. Trott noted that he believes that a disclosure of the date was a good suggestion for both private and public companies. He added that he believes that the date through which subsequent events should be considered should be the date on which the financial statements are issued or first made available to be issued to interested third parties. Mr. Herz agreed with that approach. Mr. Trott expressed concern regarding the term "authorized," and stated that he does not know what "authorized" means as it is used under IFRS, noting that many domestic companies, particularly private companies, do not have a formal authorization process.
14. Mr. Linsmeier noted that under View B, companies would have to implement authorization processes to the extent that they were not already present, and Mr. Herz stated that the Board would also have to interpret "authorized for issue."
15. Mr. Linsmeier noted that in an IFRS environment there may be a time lag between the authorization for issuance and the availability of physical financial statements for issuance. Under IAS 10, subsequent events would only be considered through the date of authorization, not the physical issuance of the financial statements.
16. Mr. Trott noted that a recent statement on auditing standards had raised a similar issue that, because the date of the auditor's report can only be after the date that the financial statements are prepared, has caused significant disruption for private companies by requiring that subsequent events be disclosed through actual distribution of the financial statements. He noted that this requirement has been difficult to implement.

17. Ms. Seidman discussed the PCFRC recommendation to disclose the date through which management had considered subsequent events and noted that it was not specific compared to the Board's discussion so far of "issued or available to be issued." Ms. Seidman also noted that if the process of preparing financial statements for a private company required a longer period of time, then it would be appropriate for subsequent events to be considered for that entire period of time.
18. Mr. Bolash clarified that the staff's recommendation was not to provide an accommodation for private companies by adopting the PCFRC's recommendation, but rather to adapt the term "issued" to the private company environment. He stated that his concern with the PCFRC recommendation is that the date through which subsequent events should be considered is untethered and completely at management's discretion.
19. Mr. Batavick asked Mr. Glotzer to comment on the intent of the PCFRC. Mr. Glotzer explained that the recent statement on auditing standards had caused auditors to evaluate subsequent events through the date of the issuance of their reports. However, he noted that many private company financial statements are unaudited, and are simply compiled. For those statements, he noted that it was important to establish an evaluation date under U.S. GAAP, apart from the auditing and review standards.
20. Mr. Glotzer stated that the intent of the PCFRC was not to give management undue flexibility in setting the evaluation date. The PCFRC discussed the "January 2 issue" (that is, that management could only consider subsequent events through January 2 under the PCFRC recommendation), and it also considered "available for issuance." However, the PCFRC had difficulty defining "available for issuance," so they discussed the matter more in terms of the completion of the financial statements. The PCFRC was concerned with situations in which the financial statements were completed and in management's possession but not yet provided to a third party. Many Board members agreed that they believe that the financial statements would be "available for issuance" when management has them and can provide them to a third party upon request, so the PCFRC's concerns would be addressed

in the Board's proposal to use "issued or available for issuance". Mr. Glotzer stated that the PCFRC believed that there should be some clarification of the use of the term "available for issuance" in order to make it operational for private companies.

21. Mr. Glotzer further explained that the users of financial statements represented on the PCFRC preferred the disclosure of the date through which subsequent events have been considered because, absent such a disclosure, they are not familiar enough with accounting or auditing standards to know what that date would be. Their preference is for all users of the financial statements to be "on notice" as to the date through which subsequent events have been considered through a disclosure of that date.
22. Mr. Bolash noted that audit report dates for public companies subject to Section 404 are typically the day of or one day before the filing of the financial statements with the SEC. As a result, subsequent events are evaluated up through the filing date.
23. Mr. Smith noted that requiring a disclosure of the evaluation date would require management and the auditor to coordinate the dating of the audit report with the evaluation date.
24. The Board concurred with the staff's recommendation that subsequent events be evaluated through the date on which financial statements are first issued or available to be issued.
25. Mr. Bolash observed that many existing standards under current U.S. GAAP require evaluation of subsequent events, which is not in alignment with the principles articulated in the auditing literature, AU 560, in that they sometimes do not distinguish between Type I and Type II events. He questioned whether the Board wished to reevaluate other existing standards under U.S. GAAP and to consider bringing them into alignment with any standard proposed by this project.
26. He described the various views outlined in the Board meeting handout as follows:

- a. View A: The contemplated standard on subsequent events should include a scope exception for any other guidance provided for specific transactions under U.S. GAAP.
- b. View B: All other existing U.S. GAAP should be amended to conform with the contemplated standard.

27. Mr. Young noted that he opposes adjusting entries for subsequent events generally, and favored disclosure of all events. He noted that he believes that distinguishing between Type I and Type II events is too complex for users to digest.

28. Ms. Seidman noted that View B would represent a dramatic drain on the Board's resources, as potential amendment projects would need to address specific standards on an individual basis. She also questioned whether the staff had identified all of the potential differences.

29. Mr. Linsmeier was reticent to incorporate a scope exception for other U.S. GAAP. He was further reluctant to articulate a principle within a standard that would be subject to myriad exceptions concurrent with its adoption.

30. Mr. Batavick acknowledged that individual standards provided for treatments that differed from AU 560, but noted that they did so for valid reasons in many cases. He suggested that the Board respect the judgment of antecedent Boards in making its current decision.

31. The Board concurred with the staff's recommendation that a general standard on subsequent events contain a scope exception for other existing literature with specific requirements with respect to subsequent events.

Follow-up Items:

The FASB staff will determine if there are any other issues to discuss with the Board prior to drafting a standard for the Board's review.

General Announcements:

None.