



Board Meeting Handout
International Convergence
March 5, 2003

At the December 18, 2002 Board meeting, the Board decided that voluntary changes in accounting principles generally should be reported by retroactively restating prior periods presented. The Board directed the staff to explore whether exceptions to retroactive restatement should be allowed when it is impracticable or inappropriate to apply the new principle retroactively. The staff will present its findings. The Board also will discuss disclosure requirements related to voluntary accounting changes.

Additionally, the Board will consider expanding the scope of APB Opinion No. 20, *Accounting Changes*, to include reporting of accounting changes mandated by the Board or other standard setters.

Exceptions to Retroactive Restatement Requirement

The Board will consider whether the proposed Statement should identify specific categories of accounting changes for which retroactive restatement would not be permitted. The staff believes that retroactive restatement is impracticable only when (a) the effects of retroactive application are not determinable, (b) the newly adopted accounting principle requires assumptions about management intent in a prior period, or (c) the newly adopted accounting principle requires significant management estimates as of a prior period.

When retroactive restatement of an individual prior period presented is impracticable, the cumulative effect of retroactive application may or may not be determinable. If the cumulative effect is determinable, the staff recommends that it be recorded as an adjustment to opening retained earnings in the period of change. If it is impracticable to determine the cumulative effect, the change should be accounted for in the period of change and future periods similar to a change in accounting estimate.

Disclosure Requirements for Changes in Accounting Principles

The Board will consider the following disclosure requirements:

1. 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.

2. 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:
 - (a) The effect of the change on income from continuing operations, net income, and the related per share amounts for the current period and all prior periods presented. Financial statements of subsequent periods need not repeat the disclosures.
 - (b) The amount of any adjustment relating to periods prior to those presented.
 - (c) 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.
3. When reporting the retroactive effects of an accounting change is not practicable, disclosure will be limited to (a) and (c) above. The principal examples of this type of change are changes for which retroactive effects are not determinable and changes to accounting principles that rely significantly on management intent or require significant management estimates.

Reporting of Changes in Accounting Principle Resulting from the Mandatory Application of a New Pronouncement

The Board will consider whether to eliminate paragraph 4 of APB Opinion No. 20, *Accounting Changes*, which specifies that Opinion 20 does not apply to new pronouncements. The Board will consider an alternative approach in which, in the absence of transitional guidance in a new pronouncement, any change in accounting principle made as a result of adopting the new pronouncement would be made in accordance with the provisions of Opinion 20, as amended.



Board Meeting Handout

Financial Performance Reporting by Business Enterprises

March 5, 2003

The Board will determine whether the FASB should continue to develop its own model for the Statement of Comprehensive Income. If the Board decides to develop an alternative model to that being developed by the International Accounting Standards Board (IASB), the Board will be asked to confirm the project plan presented by the staff. If the Board decides not to develop an alternative model to that of the IASB, the staff will discuss other alternatives with the Board.

On January 24, 2003, a memo was circulated to Board members requesting their views on the objectives of this project. The staff will present the results of Board member's responses to that questionnaire.

On February 13, 2003, the FASB held a public meeting with the User Advisory Council (UAC). As preparation for that meeting, UAC members were asked to provide their views about the objectives and priorities for this project.

Today's discussion will focus around feedback obtained from the Board member's responses, information obtained from the UAC and how those responses interact with the IASB's proposed statement of comprehensive income.

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Board Meeting Handout
Replacement of Statement 107
Block Discounts
March 5, 2003

At the January 8th Board meeting, the Board decided that entities would be required to take block discounts in measuring the fair value of unrestricted equity securities if:

1. The entity has a demonstrated history of purchasing and selling blocks of readily tradable equity securities and
2. The block discount can be measured with sufficient reliability.

Several issues have arisen related to the draft guidance and the staff would like the Board to resolve the following issues at today's meeting.

Purchasing and Selling Blocks

The staff recommends removing the word "purchasing" from criterion 1. The staff believes there is one scenario where the wording of the draft guidance does not achieve representational faithfulness. Entities that purchase shares in positions too small to be considered blocks but eventually accumulate a block-sized position are precluded from taking a block discount even if they then sell the entire position in one transaction because the draft guidance includes the word "purchasing" in criterion 1.

Existence of a Block Discount

The staff would like the Board to decide upon the circumstances when a block discount is present. The staff believes that the block discount phenomenon is present when the size of the block to be traded is large in comparison to the average daily trading volume of the security and the market capitalization of the entity whose securities are being traded.

Demonstrated History

The Board also will consider how much guidance the proposed Statement should provide around the phrase "demonstrated history". The options are:

1. The proposed Statement could require that a reporting entity's Board of Directors adopt a written policy of recording block discounts upon purchase or accumulation of a block and selling those blocks in single transactions to allow entities to record block discounts as soon as they begin block trading.
2. Choose an arbitrary period of time over which the reporting entity sells an arbitrary percentage of block positions in single transactions. Draft guidance if this option is chosen may read "A demonstrated history is deemed to have been attained if 90% of the entity's block positions have been sold in single transactions over a one year period."

3. Refrain from placing parameters around what the phrase means and instruct entities, auditors and regulators to use judgment as to when a demonstrated history has been attained.

The staff recommends option 1.

A sub-issue that arises with respect to “demonstrated history” is when a demonstrated history ceases to exist and the consequences for the loss of the demonstrated history. The staff recommends that once a demonstrated history has been established the entity is required to always sell their block holdings as blocks to maintain their demonstrated history status.

Other Disclosures

The staff recommends that entities that record block discounts be required to disclose in the notes that they have done so. The staff further recommends requiring disclosure of the estimation method used to measure the block discount.

Sufficiently Reliable

Some constituents have asked for further clarification of the meaning of the term “sufficiently reliable.” The staff recommends that the standards section of the proposed Statement remain silent on this point.



Financial Accounting Standards Board

**Board Meeting Handout
Consolidations
March 5, 2003**

The Board will discuss the following:

1. Whether questions received on FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, indicate a need for additional implementation guidance. If the Board decides additional implementation guidance is needed, it will discuss the appropriate means of providing that guidance.
2. Which, if any, sets of issues should be addressed next in the project on consolidations.

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