

MINUTES



To: Board Members
From: Ly (x384)
Subject: Minutes of the February 25, 2009,
Board Meeting: Codification and **Date:** March 5, 2009
proposed Statement 162(R)
cc: FASB: Golden, Stoklosa, Proestakes, Bielstein, Leisenring,
Chookaszian, Posta, Lott, Gabriele, Bonn, Nickell, Hoey, Sutay, Klimek,
McGarrity, Glotzer, C. Smith, Mechanick, Ly

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Amend Statement 162 and Approve FASB *Accounting Standards Codification*

Basis for Discussion: Board Memorandum No. 2

Length of Discussion: 10:30 to 11:30 PM

Attendance:

Board members present: Herz, Linsmeier, Siedman, Smith, and Siegel

Board members absent: None.

Staff in charge of topic: Bonn

Other staff at Board table: Golden, Proestakes, Hoey, Nickell, and Ly

Outside participants: None

Summary of Decisions Reached:

The Board discussed the entire process of creating the Codification, including the overall intent of the Codification, the steps in verifying information in the Codification, and the resolution of particular issues arising during the one-year verification period. The Board discussed certain specific feedback matters received during the verification period relating to Codification content and transition matters.

The Board decided to retain Examples 2 and 3 in Appendix C of FASB Statement No. 47, *Disclosure of Long-Term Obligations*, in the Codification to provide helpful illustrations for the contracts described. The Board also decided to add an explanatory sentence to those examples to state that the arrangements were not determined to be leases or derivatives.

The Board decided to carry forward the grandfathering provisions in paragraph 7 of FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, into the Codification. The guidance referenced by the grandfathering provisions in Statement 162 will continue to apply after the Codification is effective; however, the Board decided not to explicitly include that guidance in the Codification itself. Instead, the Codification will include a reference stating that guidance remains authoritative for entities still applying that guidance.

Certain existing accounting standards allow for the continued application of superseded accounting standards for transactions that have an ongoing accounting impact. This superseded guidance has not been included in the Codification. The Board decided to include a statement within the Codification that such guidance is grandfathered as authoritative.

The Board decided that any accounting change resulting from the issuance of the proposed Statement to revise Statement 162 relating to the application of guidance that was previously included in the AICPA Technical Inquiry Service (TIS) questions and answers for software revenue recognition should be made prospectively for revenue arrangements entered into in fiscal years and interim periods in those fiscal years beginning on or after December 15, 2009. This transition guidance would apply only to nonpublic companies.

The Board decided that, other than the transition provided for AICPA TIS software revenue recognition material, the remainder of the Codification would be effective July 1, 2009. No additional special transition provisions would be provided.

The Board directed the staff to proceed to a draft of a proposed Statement that will revise Statement 162 for vote by written ballot with an exposure period that will end approximately May 1, 2009.

Objective of Meeting:

The objectives of this meeting were to (1) discuss the entire process of creating the FASB *Accounting Standards Codification*, (2) address issues arising from the Codification's verification phase, and (3) address transitional and effective date issues related to the Codification and the proposed revision to FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.

Matters Discussed and Decisions Reached:

INTRODUCTION AND BACKGROUND

1. Mr. Hoey explained the entire background of the Codification, the verification period of the Codification; the feedback and nature of the feedback received during the Codification's verification period; and the controls and processes surrounding how constituent feedback was addressed.

Board Comments

2. Ms. Siedman recommended the staff provide an explanation of how it would address questions raised by constituents during the verification period regarding such issues as the availability of print copies, pricing, and similar questions relating to using the Codification. Mr. Hoey noted that much of the feedback of this nature was addressed directly to constituents via e-mail.
3. Mr. Linsmeier asked for clarification of the status of over 200 in-process Codification Update Instructions, which are used to update the Codification for edits that need to be made to the Codification. Mr. Smith responded by stating that most Codification Update Instructions are grouped together according to Codification Topic. As a result, although there are over 200 Codification Update Instructions in process, the time to process all of them will not be as significant as one might think.
4. Mr. Linsmeier wanted to verify that there is an active process currently taking place to address outstanding feedback received from constituents. Mr. Hoey and Mr. Smith agreed with Mr. Linsmeier's comments. Mr. Bonn noted that those in-process Codification Update Instructions are expected to be processed in March 2009.

ISSUE 1—MODIFICATION TO THE CODIFICATION

5. Mr. Bonn stated that very few issues were identified regarding potential conflicting authoritative generally accepted accounting principles (GAAP) guidance within the Codification. However, Mr. Bonn stated that there were two potential issues that must be noted. The first issue is in regard to the use of the term *fair value* throughout the Codification. Mr. Bonn noted that it was unclear whether all the instances in which the term arose are consistent with the definition that is found in FASB Statement No. 157, *Fair Value*

Measurements. The second issue is in regard to consolidation issues involving not-for-profit entities. Mr. Bonn stated that both of these issues exist regardless of whether the Codification becomes the single source of authoritative GAAP. Accordingly, Mr. Bonn noted that the staff did not believe these issues should impact the Board's decision to proceed with the project and that they will be brought to the Board's attention in greater detail at a later meeting, if warranted.

6. Mr. Bonn stated that there was specific feedback received during the Codification's verification phase regarding two examples that were excluded when inputting guidance into the Codification from FASB Statement No. 47, *Disclosure of Long-Term Obligations*, concerning long-term obligation disclosures related to purchase obligations. Mr. Bonn said the Board decided to remove these because they were thought to have potentially conflicted with the application of EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," they were outdated, and they were no longer necessary. Mr. Bonn stated that respondent thought the examples were still helpful in applying guidance from Statement 47 to distinguish whether certain obligations were considered derivatives or leases. Mr. Bonn stated that the respondent thought these examples should be retained in the Codification along with a caveat stating that the arrangements found in the examples were found not to be leases or derivatives.

Staff Recommendation

7. The staff agreed with the respondent's recommendation and suggested the examples be retained and that the Board create appropriate caveats to include the example assumptions.

Board Vote

8. The Board unanimously agreed with the staff's recommendation.

Board Comments

9. Ms. Siedman commented that she thought the fair value terminology had been addressed when Statement 157 was initially being issued. Mr. Golden responded by stating that this issue is related solely to levels (b)–(d) GAAP, while the matter Ms. Siedman was referring to is related to level (a) GAAP. Mr. Smith previously stated that, when issuing Statement 157, the Board knew the term *fair value* had to be updated in levels b)–(d) GAAP.

ISSUE 2—1992 GRANDFATHERING PROVISIONS

10. Mr. Bonn stated that when AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, initially created the GAAP hierarchy, it included a grandfathering provision that allowed an entity to follow an established industry

practice in certain situations to avoid the triggering of an unintended accounting change in situations in which the industry practice conflicted with a higher level GAAP created by the hierarchy. Mr. Bonn noted that this grandfathered guidance could not be applied if subsequent guidance superseded the grandfathered guidance. Mr. Bonn stated that Statement 162 retained this grandfathering provision, but that industry practice guidance has not been included in the Codification. Mr. Bonn presented two alternatives to the Board: (a) to carry forward the grandfathering provision in the Codification or (b) to remove the grandfathering provision, which would entail allowing constituents appropriate transition time to enact the changes.

11. Mr. Bonn noted that when Statement 162 was originally exposed, there was only one formal comment letter from a company stating it would have a change in accounting by not carrying forward these grandfathering provisions. Mr. Golden clarified that one other informal response also was received. However, Mr. Bonn continued to state that some of this grandfathered industry guidance may be superceded once certain Board projects are completed, such as the joint revenue recognition project. Accordingly, Mr. Bonn stated that the staff did not believe that it was critical to address these issues as part of this project. Mr. Bonn also noted that there is no comprehensive list of the industry guidance this grandfathering provision captures. As a result, an accurate estimation of how pervasive the effects of not carrying forward this grandfathering provision cannot be made without further research.

Staff Recommendation

12. The staff recommended that the grandfathering provisions be carried forward in the Codification.

Board Vote

13. The Board unanimously agreed with the staff's recommendation.

Board Comments

14. Mr. Smith agreed with the staff's recommendation because one of the primary objectives of the Codification was to not change GAAP.
15. Mr. Herz mentioned potentially giving affected constituents a longer stipulated transition period with which to make the change to current GAAP guidance if the Board decided to not carry forward the grandfathering provisions. Mr. Linsmeier agreed with Mr. Herz's recommendation of allowing a transition period.
16. However, Mr. Herz had some reservations carrying forward the provisions, even with such a transition period, because it is unknown how extensive the list of the grandfathered industry guidance actually is. Such a transition period would require the staff to establish a comprehensive list of the

affected industry guidance. Mr. Herz recommended that this issue could be explored further at a later time by the staff and to continue with the staff's recommendation at this point in time.

17. Ms. Siedman stated she did not view the effort of compiling a comprehensive list of grandfathered industry guidance as a priority. Ms. Siedman stated that if the users of the one known company being affected by this grandfathered guidance have not coerced the company to update its revenue recognition practices to current GAAP guidance, then it is not a priority with the users and is not necessarily a pressing issue. Ms. Siedman also was uncomfortable with the prospect of making a company change their revenue recognition practices multiple times within the next few years—once with this project and another time with the joint revenue recognition project.
18. Mr. Golden stated there was another company that was affected by this grandfathering provision, but it did not officially write the FASB staff concerning this issue. However, Mr. Golden stated that this company was indifferent with the prospect of having to update its accounting practices to current GAAP guidance.

ISSUE 3—OTHER GRANDFATHERING PROVISIONS

19. Mr. Bonn stated that the Codification includes only those standards that are only currently effective. Mr. Bonn noted there are constituents that are still appropriately applying superseded guidance that is still applicable to particular transactions. Mr. Bonn stated that the staff's goal is to eliminate any confusion on the part of constituents who are still applying this superseded guidance that is not included within the Codification, which will be considered the sole source of authoritative GAAP guidance.

Staff Recommendation

20. The staff recommended including a specific statement in the Codification that this grandfathered material is still considered valid and authoritative even though it has not been included in the Codification.

Board Vote

21. The Board unanimously agreed with the staff's recommendation.

Board Comments

22. Ms. Siedman asked a question regarding whether the staff knows what the grandfathered guidance consists of. Mr. Bonn stated that the staff knows where some of the grandfathered guidance, is but an exhaustive list of such grandfathered guidance does not exist. Mr. Smith added that many EITF issues were done on a prospective basis. As a result, there could be a large number of superseded guidance that is still applicable.

23. Mr. Nickell stated that including such a statement in the Codification, would help to address specific feedback received during the verification feedback process from users who would not be able to find superseded guidance that they still appropriately apply.

ISSUE 4 —TRANSITION CONSIDERATIONS

24. Mr. Bonn stated that minimal feedback was received from constituents regarding potential accounting changes that may result from the issuance of the Codification. Mr. Bonn discussed four different items, which were raised by an AICPA survey, that survey respondents believe may cause a change in accounting for an entity and may require special transitional provisions. Mr. Bonn noted these four items include the following:
- a. Because the Codification flattens the GAAP hierarchy, it could result in a change in accounting for entities that relied upon Rule 203 of the AICPA Code of Professional Conduct to justify a departure from guidance in levels (b)–(d) GAAP.
 - b. Accounting changes that could result from conforming the term *should* to *shall*, and the removal of generic terms such as *usually*, *generally*, *ordinarily*, and similar terms in the Codification.
 - c. The elevation of the AICPA Technical Inquiry Service questions and answers for software revenue recognition into the Codification.
 - d. Constituents may become aware of pre-existing guidance that they had not previously considered.
25. Mr. Bonn stated that the staff does not believe item (a) above requires a special transition provision because Statement 162 originally removed Rule 203 of the AICPA Code of Professional Conduct. Mr. Bonn noted that item (b) does not require special transitional provisions because the Board's original belief was that such terms represent the same concept—the requirement to apply a standard. Mr. Bonn stated that item (d) above does not require special transition provisions because individuals are made aware of errors in accounting in many different ways and discovery of errors in accounting due to the Codification should not be an exception of this rule.
26. Mr. Bonn stated that item (c) concerning the AICPA Technical Inquiry Service questions and answers for software recognition might be a change for some nonpublic entities that previously had not applied this guidance.

Staff Recommendation

27. The staff believes that, other than the elevation of the AICPA Software Recognition Technical Inquiry Service items, none of the above items warrant the inclusion of special transition provisions. The staff recommended that transition be provided on a prospective basis for changes in accounting caused by the elevation of the AICPA Technical Inquiry Service items.

Board Vote

28. The Board unanimously agreed with the staff's recommendation.

Board Comments

29. Mr. Golden stated that the Board may want to direct constituents to account for items (b) and (d) as corrections of error according to FASB Statement No. 154, *Accounting Changes and Error Corrections*. However, Mr. Nickell noted that the judgment as to whether or not the above changes are considered a change in accounting or a correction of an error should be left up to the affected constituents because not all of the changes strictly belong in either category (b) or category (d). Instead, Mr. Nickell noted, constituents should simply be directed toward Statement 154 to make the appropriate judgment and carry out the correct accounting treatment. Ms. Siedman and Mr. Smith agreed with Mr. Nickell.
30. Ms. Siedman commented on item (c), noted the preference of companies who are involved with a change in accounting principle relate to revenue recognition items to restate prior-year financial statements to allow past trends to be consistent with current-day accounting. Ms. Siedman stated that the Board may want to allow companies to restate their prior financials if that is their preference and not require affected constituents to account for this change prospectively. Mr. Golden stated, however, that this issue is likely to be confined to nonpublic software companies that have no intention of going public. As a result, Mr. Golden stated this issue most likely affects a small subset of companies. Mr. Smith agreed with Mr. Golden and added to this by stating that a nonpublic entity's financial statement users (for example, banks) would generally not have a problem with getting the information they need if they wanted past numbers to be accounted for under the new accounting guidance. Mr. Smith also noted that nonpublic companies are not required to provide comparative financial statements.

ISSUE 5—EFFECTIVE DATE

31. Mr. Bonn provided recommendations on the effective date for the Codification, the proposed Statement, and the AICPA Technical Inquiry Service Questions and Answers related to software revenue recognition. Mr. Bonn noted that there were constituents who stated they may need more time to get acquainted with the Codification and its functionality. However,

Mr. Bonn said that the staff believes it is unlikely that providing additional time will prompt the constituents to use the Codification, particularly when the communication surrounding the the Codification is not intended to change GAAP.

Staff Recommendation

32. The staff recommended that guidance from the AICPA Technical Inquiry Service Questions and Answers related to software revenue recognition be applied prospectively for transactions entered into in annual periods beginning on or after December 15, 2009, and interim periods within those years for those nonpublic entities that had not previously applied this guidance. The staff recommended that the remainder of the Codification should be effective as of July 1, 2009.

Board Vote

33. The Board unanimously agreed with the staff's recommendation.

Board Comments

34. Mr. Golden wanted to make clear that the AICPA Technical Inquiry Service Questions and Answers are applicable to those **transactions or contracts** that are entered into on or after the effective date.
35. Mr. Smith wanted to reiterate that (a) the Codification does not change GAAP, (b) there are cross reference tools that will allow people to transition to the Codification easily, and (c) the original verification phase was already extended beyond what the Board had originally intended. Mr. Smith also noted that the staff has taken into consideration constituent feedback on how to make the Codification easier to use. As a result, there should be no major transitional issues of individuals concerning the Codification.
36. Ms. Siedman noted that constituents may not have been active in verifying the Codification during the one-year verification phase because the Board has been adamant in its stance that the Codification does not change GAAP. Also, Ms. Siedman stated that companies may have internal control issues because they will need time to update their manual of accounting policies. Mr. Smith responded that he did not believe that not updating references within an entity's documentation should have any internal control implications and that this matter could be discussed with the Public Company Accounting Oversight Board. Ms. Siedman would like the Board to be clear on the practical implications of the Codification and whether constituents are comfortable with a July 1, 2009, effective date.
37. Mr. Golden wanted to make clear that, even if it occurs before the effective date of July 1, 2009, constituents who discover an error in accounting because of the Codification should make the appropriate corrections and

disclosures in accordance with Statement 154. Mr. Nickell agreed and stated that public companies also are required to issue a Form 8-K to alert users that the prior financial statements can no longer be relied upon.

ISSUE 6—EXPOSURE DRAFT

38. Mr. Bonn asked the Board for approval on proceeding to an Exposure Draft of a proposed Statement that would revise Statement 162 for vote by written ballot with the Board's input on what the best amount of time for an exposure period would be.

Board Vote

39. The Board unanimously agreed with the staff's recommendation and suggested a comment period to end on April 30, 2009.

Board Comments

40. Mr. Siegel stated that he would prefer a 45-day comment period. The rest of the Board agreed.

Follow-up Items: None.

General Announcements: None.