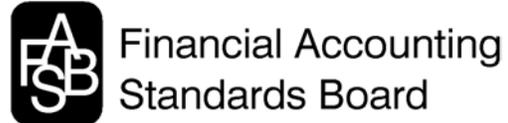


MINUTES



**To:** Board Members

**From:** PBS Team (Maffei, ext. 273)

**Subject:** Minutes of March 26, 2003 Board Meeting      **Date:** April 1, 2003

**cc:** Bielstein, Petrone, Smith, PBS Team, McKenna, Metcalfe, Swift, Polley, Mahoney, Thompson, Gabriele, Sutay, Leisenring (IASB), P. Munter (SEC), Intranet

Topic: Principles-Based Standards—Possible Future Steps

Basis for Discussion: Staff memorandums dated March 5 and March 18, 2003

Length of Discussion: Starting Time: 10:30 a.m.  
Concluding Time: 12:00 p.m.

Attendance:

Board members present	Crooch, Foster, Herz, Schieneman, Schipper, Trott (by phone), Wulff
Board members absent	None
IASB liaison present	Leisenring
Staff in charge of topic	MacDonald
Other staff at Board table	Petrone, Parrot, Maffei
Outside participants	None

Summary for ACTION ALERT:

The Board discussed respondents' comments on the FASB Proposal, *Principles-Based Approach to U.S. Standard Setting*. The Proposal was issued in October 2002 in response to concerns about the quality and transparency of financial reporting resulting from the increasing level of detail and complexity in the standards. Based on those comments and input received from other constituents, the Board:

- Directed the staff to develop a proposal for a limited-scope conceptual framework improvements project focusing on the selection of appropriate measurement attributes and related relevance and reliability issues.
- Established a near-term objective of using identical style and wording in the standards issued by the FASB and the IASB on joint projects. The Board directed the FASB staff to discuss with the IASB staff the changes that would need to be made to the standards to achieve that objective.
- Decided to initiate other specific improvements in connection with its internal efforts to (1) improve process efficiency by, among other things, increasing the level of user involvement in developing the standards, reviewing its issue identification and deliberations processes to identify opportunities for improvements, focusing on the quality and timeliness of the standards, and performing post-issuance quality reviews of selected standards, (2) improve its process for providing interpretive and implementation guidance, and (3) improve accessibility and retrievability of the accounting literature.

#### Matters Discussed and Decisions Reached:

Ms. MacDonald discussed respondents' comments on the FASB Proposal, *Principles-Based Approach to U.S. Standard Setting*. She said that possible future steps developed based on those comments and input received from other constituents would involve improvements to the conceptual framework and to the standards, in particular, the form and content of the standards and the process for developing the standards. She asked for Board members' views on those possible future steps (refer to the attached audience handout).

#### *Improvements to the Conceptual Framework*

With respect to Item 1(e) of the audience handout, the Board directed the staff to develop a proposal for a limited-scope conceptual framework improvements project focusing on selection of appropriate measurement attributes and related relevance and reliability issues, noting that the IASB and CICA are working on a joint research project that is addressing similar measurement issues.

The Board decided not to take the other actions in Item 1, noting that other aspects of the conceptual framework are being addressed in the liabilities and equity and revenue recognition projects. While some Board members supported a comprehensive reconsideration of Items 1(b) and (c), other Board members

disagreed. Mr. Trott said that based on comments, those items could be addressed through future communication and education efforts.

### *Improvements to the Standards*

The Board agreed that except for Items 2(d) and 3(d), the actions in Item 2 (focusing on the form and content of the standards) and Item 3 (focusing on the process for developing the standards), as well as post-issuance quality reviews of selected standards, should be addressed in connection with its internal process efficiency initiatives. Board members further discussed the issue of exceptions in the standards. Ms. Schipper suggested that Board members consider the function of exceptions in the standards and critically assess the need for exceptions on a project-by-project basis as such situations arise.

With respect to Item 2(d), the Board established a near-term objective of using identical style and wording in the standards issued by the FASB and IASB on joint projects, without exception. Ms. Schipper noted that differences could impede future convergence efforts. The Board agreed and decided to eliminate the reference to “in all material respects” on the attachment. The Board asked the FASB staff to discuss with the IASB staff the changes that would need to be made to the standards to achieve that objective.

With respect to Item 3(d), the Board noted that efforts to codify the accounting literature and improve the technical inquiry process are underway in connection with technical application and implementation activities.

### Follow-up Items:

As discussed above, the Board directed the staff to:

- Develop a proposal for a limited-scope conceptual framework improvements project focusing on the selection of appropriate measurement attributes and related relevance and reliability issues and consider how to coordinate FASB efforts on that project with the efforts of the IASB and the CICA on their joint measurement project.

- Discuss with the IASB staff the changes that would need to be made to the standards to achieve the Board's near-term objective of issuing converged FASB and IASB standards that are identical.

General Announcements:

None.



Board Meeting Handout

**PRINCIPLES-BASED STANDARDS  
MARCH 26, 2003**

The Board will discuss significant issues raised by respondents to FASB Proposal, *Principles-Based Approach to U.S. Standard Setting*. The Board also will discuss possible future steps developed based on those comments, focusing on improvements to (1) the conceptual framework, (2) the standards, and (3) the process for developing the standards.

**1. Improvements to the Conceptual Framework**

Many respondents emphasized the need for an improved conceptual framework as a basis for developing the standards—regardless of the extent to which the standards are “principles based.” Possible future steps include the following:

- a. Develop a reporting framework similar to IAS 1, *Presentation of Financial Statements*, which sets out overall considerations for the presentation of financial statements, guidelines for the structure of financial statements, and minimum requirements for the content of financial statements.
- b. Clarify (or reconsider) the fundamental aspects of decision-useful information, including the concept of economic substance.
- c. Clarify (or reconsider) the basis for the prevailing “asset and liability view” (that the definitions of assets and liabilities are the controlling definitions and, thus, have conceptual primacy) versus the “revenue and expense view” (that the definitions of assets and liabilities depend on definitions of revenues and expenses).
- d. Refine the assets and liabilities definitions.
- e. Define relevant measurement attributes and address related reliability issues.
- f. Clarify (or develop) guidance for making assessments that affect application of the standards, including materiality assessments and cost/benefit analyses.

**2. Improvements to the Standards**

Many respondents referred to the need for standards that are operational, consistent with the conceptual framework, and consistent with each other—regardless of the extent to which the standards are “principles based.” However, they expressed differing views on whether to eliminate exceptions and on the appropriate level of interpretive and implementation guidance (in the standards and elsewhere). Possible future steps include the following:

- a. Establish guidelines for developing new standards that focus on operability (simplicity), consistency with the conceptual framework, consistency with other existing standards, and consistency in transition.

- b. Establish guidelines for when to permit exceptions, affirming an objective of having few (if any) exceptions in the standards.
- c. Establish guidelines for when to provide interpretive and implementation guidance (in the standards and elsewhere), affirming an objective of having more focused guidance addressing relatively complex situations.
- d. Establish an objective of issuing converged IASB/FASB standards that are identical in all material respects. The standards would have clearly defined objectives, show the main principles in bold face type, and, in the forefront, discuss the main principles, the rationale for those principles, and how those principles relate to the conceptual framework.

### **3. Improvements to the Process for Developing the Standards**

Many respondents suggested changes to the process for developing the standards aimed at improving the quality and timeliness of the standards. In that regard, respondents said that the FASB should be the primary U.S. standard setter, involving the EITF and others in developing needed guidance (in the standards and elsewhere). In that regard, respondents expressed support for the Board's decisions to centralize the standard-setting process and to increase the level of user involvement in the standard-setting process through the EITF and the newly formed User Advisory Council. Other possible future steps include the following:

- a. Form topical advisory groups/standing working groups.
- b. Establish liaison relationships with other existing groups.
- c. Field test Exposure Drafts before they are issued and consider other actions similar to those being considered as part of related process efficiency initiatives.
- d. Complete initiatives under consideration as part of related Application & Implementation activities, in particular, initiatives to codify the accounting literature comprising U.S. GAAP and improve the technical inquiry process.