MINUTES

Financial Accounting Standards Board

To: Board Members

From: Revenue Recognition Team
(Kazazean, ext. 327)

Subject: Minutes of the August 13, 2003 Board Meeting **Date:** August 18, 2003

cc: Leisenring, Bielstein, T. Johnson, Smith, Petrone, MacDonald, Mahoney, Swift, Polley, Thompson, Gabriele, Sutay, Patton (GASB), Slayton, Manders, Sletten, Belot, Cohen, Cropsey, Lapolla, Paul (IASB), Intranet

Topic: Revenue Recognition Standard – Analysis of Inventory of Existing Guidance

Basis for Discussion: Memorandum dated August 1, 2003

Length of Discussion: Starting Time: 10:45 a.m. Concluding Time: 11:30 a.m.

Attendance:

Board members present:	FASB: Batavick, Herz, Crooch, Schieneman, Schipper, Seidman, Trott IASB: Leisenring
Board members absent:	None
Staff in charge of topic:	Slayton
Other staff at Board table:	Johnson, Cropsey, Sletten, Manders, Kazazean
Outside participants:	Paul (IASB)

Summary for ACTION ALERT:

The staff presented the Board with an inventory of the existing guidance related to revenue recognition and described the various revenue recognition conventions that are used in practice. The staff also described an approach to addressing a comprehensive standard on revenue recognition. The Board was not asked to make any decisions at this meeting; instead, the Board was asked to consider the following aspects of that approach.

1. Scope of the standard. Several Board members suggested that the staff consider removing financial instruments from the scope of the revenue recognition standard. Other Board members suggested that the removal of issues from the project's scope is premature; they asked the staff to continue to develop broad-scoped guidance.
2. Balancing principles-based guidance and rules-based guidance. Board members generally agreed that the staff should develop a standard that balances broad principles with clear, concise implementation guidance. Some Board members noted that some industries or transactions may require more detailed guidance than others.
3. Transition from existing guidance. Board members noted that they will need to consider existing literature individually for retention, modification, or elimination.

Matters Discussed and Decisions Reached:

Mr. Herz introduced the meeting and described the "bottom-up" phase of the revenue recognition project. He noted that the staff identified and classified the existing literature related to revenue recognition. He also noted that the staff is focusing on understanding the implications of this literature for the development of a comprehensive standard.

Mr. Slayton described the goal of the meeting to the Board, noting that the meeting is educational rather than decision making. The staff asked for the

Board's preliminary views on the following matters: (1) the scope of the project, (2) the expected balance between principles-based and rules-based guidance, and (3) issues associated with transitioning from existing guidance to a comprehensive and internally consistent revenue recognition standard.

Mr. Slayton noted that in compiling the inventory of existing revenue related guidance, the staff identified over 180 instances of literature. The staff identified four conventions from that literature: (1) the "mark-to-market convention," (2) the "proportionate performance convention," (3) the "sales (and delivery) convention," and (4) the "collection convention." Mr. Slayton noted that understanding when and why those conventions are used may be important in the development of the standard.

Scope

Mr. Slayton asked the Board for its preliminary views on the scope of the standard. He noted that scope exclusions might complicate the project, as "bright lines" are often necessary when exclusions are made.

Some Board members stated that the project's scope should not include financial instruments. Some Board members noted that "passive" financial instruments, which require no further actions from the party generating revenue from them, could be excluded. They acknowledge that some financial instruments involve servicing or other "nonpassive" activities (such as the process of originating a loan). Those activities are not currently accounted for as financial instruments and that would seem to be a good starting point for a scope delineation. Board members who supported excluding financial instruments noted that most of these transactions would be classified under the mark-to-market convention. One Board member stated that that convention is not consistent with the liability extinguishment view of revenue. Other Board members noted that certain arrangements, such as leases and insurance contracts, often include items that are defined as financial instruments and should remain in the scope of the project, at least for now.

Other Board members stated that it is not appropriate to make scope decisions for the standard at this time. They noted that until the standard is developed more fully and the implications of the new guidance can be more fully understood, specific transactions and industries should not be excluded from the project's scope. In addition, they noted that financial instruments are pervasive to many transactions; therefore, excluding them from the scope could be problematic. Several Board members noted that even "passive" financial instruments require some future performance by the entity generating revenue from them, and that trying to distinguish between those elements may be problematic. Board members also noted that keeping the scope open to all transactions would follow a more principles-based approach to creating the standard.

Principles-Based versus Rules-Based Guidance

Mr. Slayton asked Board members for their views on the appropriate balance between principles and rules in the standard.

Board members generally agreed that the staff should develop a standard that balances broad principles with clear, concise implementation guidance. Some Board members noted that some industries or transactions may require more detailed guidance than others.

Transitioning from Existing Guidance to a New Standard

Mr. Slayton asked Board members for their views on dealing with the extensive existing literature that will be affected by this project.

Board members responded that they would like to consider which existing literature should be retained, modified, or eliminated individually. One Board member observed that the change to new guidance would cause difficulties for analysts and other users that track revenue trend lines. Since retroactive restatements generally would not be possible, consideration would have to be given to requiring "dual disclosures" for some period of time to bridge from the old to new guidance.

Follow-up Items:

The staff noted that they will provide the memorandum, which provided the basis for today's discussion, to the IASB for informational purposes.

In addition, the staff noted that a memorandum summarizing the underlying causes of revenue recognition restatements will be distributed in the future. That memorandum will identify issues that should be addressed in this project.

General Announcements:

None.