

Toward Convergence

FASB and IASB Hold Joint Meeting

On October 19 and 20, the FASB and the IASB gathered in Norwalk for a joint meeting. The two Boards discussed a variety of matters including a proposed financial reporting model under development by CFA Institute, a staff proposal to add a joint project on the conceptual framework to the Boards' agendas, the Boards' joint project on revenue recognition, and the Boards' project to reduce differences between their income tax accounting standards.



CFA Institute Proposal—A Comprehensive Business Reporting Model

In contrast to past joint meetings that focused solely on joint agenda projects, this meeting began with a presentation by Rebecca McEnally, vice president at CFA Institute (the Institute).¹ She described an Institute project to develop a comprehensive business reporting model that will be proposed in a forthcoming report that the Institute expects to publish in 2005. That report is a follow-up to the Institute's 1993 publication, *Financial Reporting in the 1990s and Beyond*. When asked by *The FASB Report* why the Institute decided to undertake this project, Ms. McEnally commented, "The fundamental structure of the business reporting model currently in use throughout much of the world was designed and developed for a very different business environment from that which predominates today. The Institute's objective is to develop a proposed reporting model that it believes better suits the business reporting needs of the modern, highly-diversified corporation with complex operations and capital and financing structures as well as the information requirements of investors who provide capital to those companies."

Ms. McEnally began her presentation by explaining a key feature of the proposed reporting model—a new statement or schedule that would report the beginning and end of year financial position amounts and separately report the component changes in such amounts, including (a) the direct method cash flow amounts, (b) changes in noncash accruals, and (c) recognized changes in valuations (including fair values). Ms. McEnally also explained certain other features of the proposed model to Board members, such as the proposal that the comprehensive model report all elements in the financial statements by nature (source of the resource or obligation) rather than by function (purpose for which the resource was expended) and that it distinguish operating from financing items.



FASB Chairman Robert Herz and IASB Chairman David Tweedie presided over the two-day meeting.

Members of both Boards and Ms. McEnally discussed various technical aspects of the Institute's draft proposal, the reasoning behind them, and the Institute members' views on those issues. In concluding this educational session, FASB Chairman Herz thanked the Institute for the timeliness of its proposal, noting the proposal's relevance both to the Boards' existing joint project on Performance Reporting and their work to develop a common Conceptual Framework.

An Agenda Decision—Joint Project to Develop a Common Conceptual Framework

Building off preliminary discussions held during their April 2004 joint meeting, the FASB and IASB decided to undertake a joint project to develop a common Conceptual Framework that will be based on and build from the existing FASB Concepts Statements and IASB Framework for the Preparation and Presentation of Financial Statements. While the existing frameworks have been helpful to the Boards in resolving many accounting standards issues, the Boards concluded that differences between their existing frameworks may impede development of common

standards in current and future joint projects. Other key objectives in developing the common framework are (a) to address certain conceptual issues left unresolved in the existing frameworks including issues relating to measurement and to relevance versus reliability, (b) to refine aspects of the current guidance based on the Boards' experiences in applying the existing concepts, and (c) to update the current guidance to reflect developments in business and finance. A future edition of *The FASB Report* will feature expanded coverage of this new joint agenda project.

Revenue Recognition—Measuring Performance Obligations

The Boards continued their discussion of the accounting for revenue arrangements, focusing in this meeting on the measurement of performance obligations in contracts with customers. In particular, the Boards considered how guidance in the FASB's Exposure Draft, *Fair Value Measurements* could be applied in measuring those performance obligations. The discussion focused on practical measurement considerations—that is, the types of market and entity-specific inputs that might be available for estimating the fair values of performance obligations in the absence of quoted market prices. Specifically, the Boards discussed the role of actual and proposed transaction prices (market inputs) that are derived from other than active markets in estimating fair value. The Boards also considered whether estimates incorporating significant entity inputs (such as those based on a reporting entity's cost of performance as adjusted for an acceptable profit margin) may be consistent with the fair value measurement objective.



Seated from left to right: Hans-Georg Bruns (IASB), George Batavick (FASB), and Mary Barth (IASB).

Accounting for Income Taxes

The Boards continued discussions of ways that they might improve the accounting for income taxes by eliminating differences between their similar income tax accounting standards. At this joint meeting, the Boards discussed whether to retain the existing exceptions to deferred tax recognition for certain temporary differences relating to foreign subsidiaries and foreign joint ventures. This portion of the meeting began with an educational presentation from outside subject matter experts on



IASB member Tatsumi Yamada expresses a view as FASB member Ed Trott listens.

the U.S. foreign tax credit system and the characteristics of that system that are shared by tax regimes of other countries. After considering that presentation and other information presented by the staff, the Boards jointly decided to retain and converge their existing exceptions to recognition of deferred taxes related to foreign subsidiaries and joint ventures.

The FASB and the IASB periodically hold joint meetings as part of their ongoing effort to achieve convergence in accounting standards internationally. The next joint meeting is tentatively planned for April 2005 in London, England.

A complete description of all technical decisions reached at this meeting was published in the FASB's Action Alert No. 04-42, available on the FASB website.

¹The CFA Institute, formerly known as the Association for Investment Management and Research, or AIMR, is an organization of financial analysts and other investment professionals.