

MINUTES



To: Board Members
From: Benson (ext. 446)
Subject: Minutes of the August 9, 2006 Board Meeting: GAAP Hierarchy **Date:** August 10, 2006
cc: FASB: L. Smith, Bielstein, MacDonald, Leisenring, Polley, Gabriele, Allen, Glotzer, Sutay, Carney, project team, FASB Intranet; GASB: Attmore, Bean

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: GAAP Hierarchy—Issues Arising Subsequent to Redeliberations

Basis for Discussion: Board Memorandum dated July 26, 2006

Length of Discussion: 9:40 a.m. to 9:48 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young
Board members absent:	None
Staff in charge of topic:	Moss
Other staff at Board table:	Golden, Benson
Participation by phone:	L. Smith
Outside participants:	Leisenring

Summary of Decisions Reached:

The Board discussed certain GAAP hierarchy issues that were raised by constituents subsequent to redeliberations on the FASB Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*. The Board decided that:

1. The grandfathering provisions related to EITF Issues and Statements of Position in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, should not be included in the final Statement.
2. EITF D-Topics will be explicitly included in category (c) of the GAAP hierarchy. Additionally, a footnote will be added that states that SEC observer comments are accounting principles for SEC registrants.
3. A “near-final” version of the proposed Statement, including all of the Board’s decisions made during redeliberations, will be posted to the website.

Objective of Meeting:

The objectives of the meeting were for the Board to decide whether the grandfathering provisions in SAS 69 should be carried forward to the final Statement, where EITF D-Topics should reside in the GAAP hierarchy, and whether a near-final version of the proposed Statement should be posted to the website. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Mr. Herz asked Mr. Moss to update the Board on the GAAP hierarchy project. Mr. Moss stated that subsequent to the Board’s redeliberation on the Exposure Draft, the staff became aware of two issues not yet considered by the Board. The first issue concerns the grandfathering provision in SAS 69 relating to EITF Issues and the AICPA’s Statements of Position. The provision states that if an entity were following an industry practice that differed from an EITF Issue or a Statement of Position that was issued prior to the effective date of SAS 69, then that entity could continue to follow that industry practice. For SEC registrants, the SEC observer subsequently stated in EITF Topic No. D-1, “Implications and Implementation of an EITF Consensus,” that he would expect registrants to follow consensus reached by the EITF. No explicit guidance was issued by

- the SEC concerning Statements of Position. However, the FASB staff is not aware of instances in which public entities are not following the guidance in the Statements of Position. Similarly, there is no indication that nonpublic entities have not been following either EITF Issues or Statements of Position issued prior to the effective date of SAS 69. Therefore, the staff recommended that the grandfathering provision of SAS 69 not be included in the final Statement. Mr. Crooch agreed with the staff recommendation.
2. Mr. Herz asked if there is a way to alert constituents of this issue. Mr. Moss noted that the nonpublic company staff expert will notify certain individuals to make them aware of the issue. In addition, the Board's decision will be available on the FASB website and in the FASB Action Alert.
 3. Ms. Seidman requested clarification of whether the issue specifically applies to practices that were followed before SAS 69 went into effect that have not been addressed by subsequent GAAP. Mr. Moss stated that Ms. Seidman's statement was correct.
 4. Mr. Trott asserted that the grandfathering clause of SAS 69 primarily impacts the issue of using the completed contract method versus the percentage of completion method. AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, allowed people to continue using the completed contract method. Mr. Trott noted that it will be important to alert constituents that the construction industry may be impacted by the Board's decision on the issue. Mr. Herz noted that the FASB has some specific industry relationships that may help in alerting the construction industry.
 5. Mr. Batavick stated that he originally considered including a specific question concerning the grandfathering provision and the placement of EITF D-Topics within the near-final version of the Statement. However, he noted that the people affected by the Board's decision on these issues will probably not look at the near-final version of the Statement for an indication of that decision. Thus, outreach will be more effective in alerting constituents than would be placing the information on the FASB website. He agrees with the staff recommendation, and he noted that not including the grandfathering provision will help reduce

complexity. The Board unanimously agreed that the grandfathering provision should not be included in the final Statement.

6. Mr. Herz asked Mr. Moss to present the second issue. Mr. Moss stated that the second issue relates to EITF D-Topics, specifically whether the hierarchy should explicitly include EITF D-Topics somewhere within categories (a) through (d) of the hierarchy. The staff recommended that EITF D-Topics be placed in category (c). The Board unanimously agreed that EITF D-Topics should be included within category (c) of the GAAP hierarchy.
7. Mr. Moss stated that the last issue concerns posting a near-final working document of the proposed Statement on GAAP hierarchy on the FASB website. The FASB previously agreed to coordinate the effective date and issuance to be concurrent with the PCAOB's issuance of an auditing standard that references the GAAP hierarchy. The PCAOB specifically requested a near-final document from the FASB, which includes the Board's decisions during redeliberations, to be posted to the FASB's website. This will enable the PCAOB to reference the near-final document in its Exposure Draft.
8. Mr. Herz asked if the Board would be able to look at the near-final document before it is posted to the website. Mr. Moss affirmed that the Board will be able to look at the near-final document before it is posted to the website, and that the staff will take all Board comments into consideration before posting the document.
9. Mr. Batavick asked if there is a timeline of when the PCAOB will issue its final standard. Mr. Smith stated that there has been no specific response from the PCAOB concerning its timeline. The Board agreed that a near-final version of the proposed Statement, including all of the Board's decisions made during redeliberations, should be posted to the website.

Follow-up Items:

None.

General Announcements:

None.