MINUTES

Financial Accounting Standards Board

To: Board Members

From: Nesta (ext. 330)

Subject: Minutes of the April 22, 2003 Board Meeting **Date:** April 24, 2003

cc: Bielstein, Leisenring, Petrone, Smith, Swift, Polley, J. Johnson, Coburn, Tovey, Nesta, Cassel, Kazazean, Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Vernuccio, Sutay, Gabriele

Topic: Asset Exchanges

Basis for Discussion: Memoranda dated March 21, 2003 and April 16, 2003

Length of Discussion: 10:15 a.m. to 11:45 a.m.

Attendance:

Board members present:	Crooch, Foster, Herz, Schieneman, Schipper, Trott, Wulff
Board members absent:	None
Staff in charge of topic:	J. Johnson
Other staff at Board table:	Bielstein, Leisenring, Cassel, Coburn, Nesta
Outside participants:	Julie Erhardt (IASB, in person), Henry Rees and Marie-Christine Batt (IASB, via phone)

Summary for ACTION ALERT:

The Board discussed issues related to nonmonetary exchanges of productive assets. The Board decided the following:

- That nonmonetary exchanges of productive assets should be accounted for at fair value unless (a) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (b) the transaction lacks commercial substance. A transaction would have commercial substance if the reporting entity's future cash flows have changed as a result of the exchange. Changes in the reporting entity's future cash flows would be assessed by evaluating either:
  (1) The configuration (risk, timing, and amount) of the cash flows underlying the value-in-use of the inbound asset as compared to the configuration of the cash flows associated with the outbound asset.
  (2) The entity-specific value "with and without" the inbound asset. That is, as if the exchange had taken place versus as if no transaction had taken place. [6 Board members agreed: GMC, JMF, RHH, GSS, KAS, JKW; 1 Board member disagreed: EWT.]
- To note that the FASB and the IASB have the same intent in their respective guidance for "determinable within reasonable limits," and that any changes or differences in the wording are not intended to change the interpretation of that guidance. [All Board members agreed.]
- To carry forward the scope of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, as the FASB's first step in an iterative process for converging the scope of IASB and FASB guidance for nonmonetary exchanges. [All Board members agreed.]

<u>Matters Discussed and Decisions Reached</u>:

Mr. Johnson stated that the FASB and IASB staffs have gathered information about the notion of "commercial substance." Based on its research, the FASB staff recommended that commercial substance should be evaluated from the perspective of the attributes of the accounting entity making the exchange. Mr. Johnson added that both the IASB and FASB staffs believe the effect on the accounting entity's economics is a good perspective from which to evaluate commercial substance. He added that the IASB and FASB staffs disagreed over how the accounting entity could make its evaluation of the effect of the transaction on its economics. The FASB staff would evaluate whether the entity's economics have changed by assessing the difference between the entity-specific values with and without the asset exchange. The IASB staff would use an assessment of a change in the configuration (risk, timing, and amount) of future cash from the inbound asset relative to those the reporting entity would have received from the outbound asset in addition to the FASB staff's suggested assessment method.

The Board decided that nonmonetary exchanges of productive assets should be accounted for at fair value unless (a) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (b) the transaction lacks commercial substance. A transaction would have commercial substance if the reporting entity's future cash flows have changed as a result of the transaction. Changes in the entity's future cash flows would be assessed by evaluating either:

(1) The configuration (risk, timing, and amount) of the cash flows underlying the value-in-use of the inbound asset as compared to the configuration of the cash flows associated with the outbound asset.
(2) The entity-specific value "with and without" the inbound asset. That is, as if the exchange had taken place versus as if no transaction had taken place.

Board members noted that there are difficulties in identifying whether exchanged assets are similar and that an approach that evaluates the risk, timing, and amount of future cash flows and the entity-specific values of the exchanged assets is more operational. Board members also noted that in some fact patterns, the result of the assessments of the exchange transaction may be clear without an entity preparing actual cash flow estimates.

Mr. Johnson stated that the IASB and FASB allow fair value measurement for nonmonetary exchanges only when the fair values of one or both assets can be reliably measured. He added, though, that the IASB and FASB use different words to convey that message. The Board decided to keep the current guidance in Opinion 29 related to reliable measurements of exchanged assets and also decided that the basis for conclusions would note that, although the IASB and FASB use different words in their guidance for determining whether an item is reliably measured, the IASB's and FASB's words mean the same thing. The basis for conclusions would also state that both Boards are working on fair value measurement projects that will address in greater depth the reliability of fair value measurements. Board members noted that, if they changed the guidance related to reliable measurements of fair value in Opinion 29, constituents could misinterpret that change. Board members stated that it would be simpler to note in the basis that both Boards have the same intention despite the use of different words.

The Board also acknowledged the differences between the scope of Opinion 29 and the scope of the IASB pronouncements on long-lived tangible and intangible assets. The FASB agreed to the use of an iterative process for converging the scope of IASB and FASB guidance for nonmonetary exchanges.

<u>Follow-up Items</u>:
None

<u>General Announcements</u>:
None