FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Clarifying the Definition of a Business: Phase 1

July 27, 2016

PURPOSE OF THIS MEETING

1. The July 27, 2016, Board meeting is a non-decision-making meeting related to phase 1 of the definition of a business project. The purpose of this meeting is to (a) discuss feedback that the Board received from comment letters and outreach on the proposed Accounting Standards Update, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, and (b) ask for the Board's feedback on the issues presented to understand what further information is needed to make future decisions on the project.

BACKGROUND INFORMATION

2. Topic 805 currently provides implementation guidance on how to evaluate whether an acquired set of activities and assets (collectively referred to as a "set") is a business. Under that guidance, there are three elements of a business—inputs, processes, and outputs. While a set that is a business usually will have outputs, outputs are not required to be present. In addition, all of the inputs and processes that the seller uses in operating a set are not required if market participants are capable of acquiring the set and continuing to produce outputs, for example, by integrating the set with its own inputs and processes.

3. The lack of clarity about the minimum inputs and processes required for a set to meet the definition of a business has led to broad interpretations in practice of what is a business. Furthermore, the definition of outputs can contribute to broad interpretations of what a business is because many transactions can provide a return in some form (for example, the acquisition of a new machine could be expected to lower costs).

---

4. The Board ultimately decided on the following:

   (a) To be a business a set must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs, and to remove the requirement that a set is a business if market participants can replace the missing elements and continue to produce outputs.

   (b) If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business.

   (c) To narrow the definition of outputs so that the term is consistent with how outputs are described in Topic 606.

5. On November 23, 2015, the Board issued a proposed Update on Topic 805 to clarify the definition of a business (phase 1). The comment period for the proposed Update ended on January 22, 2016. The Board received 37 comment letters on the proposed Update. A summary of the comment letters received in response to the amendments in the proposed Update is available on the FASB project update webpage.[1]

6. Overall, respondents expressed support for the objective of the proposed Update, indicating that there is a need for standard setting in this area. However, a majority of respondents requested further clarification on certain aspects of the proposed guidance, while a few respondents expressed specific concerns about the proposed guidance.

TOPIC 1: SUBSTANTIVE PROCESSES

Issue 1: Employee (Input) vs. Organized Workforce (Process)

7. Several stakeholders indicated that the definition of a process causes confusion. They pointed out that the definition of inputs states that employees are inputs, but that the definition of a process in the proposed Update also states that while processes are normally documented, "an organized workforce having the necessary skills and

[1] http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176168337181

experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs." Because, seemingly, an employee can be both an input and part of an organized workforce that provides a process, stakeholders have asked for clarification on what that means, how to distinguish between an input and a process, and whether it is possible to be both an input and a process.

Issue 2: Meaning of Critical

8. Several respondents requested further clarification on how to determine when an organized workforce is performing a critical process. Some indicated that further clarification on what is considered ancillary or minor would help create consistency. Other stakeholders asked for further clarification on what types of factors to consider when evaluating that guidance.

9. To address this concern, the Board may want to consider adding guidance on the types of processes that would be considered critical. Another way to address this concern is to clarify in the first sentence in paragraph 805-10-55-5A that the set would have both an input and a substantive process that together "significantly" contribute to the ability to create output to ensure that entities understand that the process has to be important.

Issue 3: Acquired Contracts

10. Some stakeholders—particularly in the pharmaceutical industry—commented that further guidance is needed to determine whether contractual arrangements are an acquired process or an acquired input. Furthermore, some respondents indicated that they disagreed with the notion that a contract is similar to an organized workforce and should only be considered an input.

11. On the basis of the feedback received in the comment letters and the outreach performed, the staff identified the following alternatives for the Board to consider:

    (a) Alternative A: Contracts are inputs and do not provide a substantive process.

(b) Alternative B: Contracts cannot provide a substantive process when no outputs are present.

(c) Alternative C: Provide indicators of when a contract is akin to an organized workforce.

(d) Alternative D: Align with IASB amendments.

Issue 4: Simultaneous Contracts

12. Several respondents requested clarification on whether contracts entered into at the same time with the same counterparty should be considered part of the acquired set. In particular, those respondents noted that in Case F (see paragraphs 805-10-55-70 through 55-72) of the proposed Update, the acquirer and the seller entered into an at-market supply contract whereby the seller would continue to sell goods to the acquirer after the transaction.

13. On the basis of the feedback received in the comment letters and the outreach performed, the staff identified the following issues to discuss with the Board:

(a) Alternative A: Require entities to evaluate whether the contract is a part of the acquired set using the guidance in paragraph 805-10-55-18.

(b) Alternative B: Only in place contracts should be included in the set.

(c) Alternative C: All contracts should be considered a part of the set.

(d) Alternative D: Remain silent and amend Case F.

Issue 5: Goodwill

14. The amendments in the proposed Update indicate that the presence of more than an insignificant amount of goodwill is an indicator that a substantive process is present. The staff notes that a few stakeholders suggested that the Board remove this indicator because they noted that it is not possible to qualitatively evaluate whether goodwill is present.

Questions for the Board
1. Are there any other potential issues related to substantive processes that the Board would like the staff to explore further, or are there any issues that are not worth pursuing further at this time? 2. Is there any additional information or outreach that the Board would find helpful before a decision-making meeting?

TOPIC 2: THE THRESHOLD

Issue 6: Determinative Factor or Indicator

15. The threshold test is a practical screen to evaluate when a set is not a business. That is, when the threshold is met, the set would not be a business and an entity would not evaluate the rest of the implementation guidance to determine whether the set includes a substantive process.

16. Some respondents support the use of a determinative factor because it mitigates the potential to be second guessed on certain judgments and allows for consistent application. Other respondents commented that the threshold should not be a determinative factor. Those stakeholders were either concerned about the threshold test being inconsistent with the rest of the model or thought that the threshold could result in too many transactions being considered assets.

17. On the basis of the feedback received in the comment letters, the staff identified the following alternatives for the Board to discuss:

    (a) Alternative A: The threshold is determinative.

    (b) Alternative B: The threshold is an indicator that a substantive process is not present and that the set is not a business.

    (c) Alternative C: The threshold is an indicator that can be overcome under certain facts and circumstances.

    (d) Alternative D: The threshold is a rebuttable presumption that can be overcome under certain facts and circumstances.

Issue 7: Group of Similar Assets

18. Many respondents agreed that in most cases the identification of a group of similar identifiable assets would be operable. However, many of the respondents that agreed emphasized that additional guidance would be needed to determine what would be considered "similar". Those stakeholders stated that providing additional guidance on what is considered similar would improve consistency of application and ensure that the guidance is not interpreted too broadly.

19. On the basis of the feedback received in the comment letters, the staff identified the following alternatives for the Board to discuss:
    (a) Alternative A: Clarify that the nature, risks, and characteristics within the asset class need to be substantially the same.
    (b) Alternative B: Apply the threshold to assets within the same asset class.
    (c) Alternative C: Apply the threshold to a single asset.

Issue 8: Expand What Is Considered a Single Asset

20. When evaluating the threshold, a single asset is generally the same as it would be when identifying assets in a business combination. However, even though Topic 805 provides an example that combines some tangible and intangible assets (such as a license and a nuclear power plant), those assets could not be considered a single asset because the Board decided not to make an exception to the rule on combining tangible and intangible assets. The amendments in the proposed Update include one exception for certain tangible assets such as real estate. That exception would allow tangible assets that are attached to and cannot be physically removed and used separately from other tangible assets without incurring significant cost, significant diminution in utility, or fair value to either asset to be considered a single asset.

21. Some respondents indicated that requiring entities to separately measure assets for the threshold test when not otherwise required to do so for financial reporting could create additional cost and complexity. Another respondent suggested that certain

types of intangible and tangible assets should be combined for purposes of the threshold test.

22. The staff has identified the following alternatives for the Board to discuss (all of which are not mutually exclusive):

(a) Alternative A: Remove the exception to the general rule for intangible and tangible assets that otherwise could be combined for financial reporting purposes.

(b) Alternative B: Combine contracts and tangible assets that derive all of their value from each other.

Issue 9: Deferred Tax Assets

23. Several respondents requested additional clarification on the interaction of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) and the threshold. Some comments focused on whether the deferred tax assets and liabilities should be combined with the related assets for purposes of identifying a single asset or group of assets. Other respondents wanted clarity on whether goodwill created by a deferred tax liability should be included in the denominator. The staff has identified two alternatives for this issue:

(a) Alternative 1: Include DTAs and DTLs in the analysis.

(b) Alternative 2: Exclude DTAs and effects of DTAs from the analysis.

Questions for the Board
3. Are there any potential issues regarding the application of the threshold that the Board would like the staff to explore further, or are there any issues that are not worth pursuing further at this time? 4. Is there any additional information or outreach that the Board would find helpful before a decision-making meeting?

TOPIC 3: DEFINITION OF OUTPUTS

Issue 10: Further Clarification of the Definition of Output

24. A few respondents suggested that the Board expand on certain terms used within the definition of outputs such as "goods or services," "other revenues," and "customers" to ensure consistent application of the definition.

25. The staff notes that the stakeholders that wanted additional clarification primarily wanted more guidance on decisions that would need to be made outside of Topic 805. For example, some stakeholders wanted further guidance on what constitutes a customer or goods or services, which are defined in Topic 606, Revenue from Contracts with Customers. These are all definitions that entities will need to apply in the ordinary course of business and do not seem to be something that should be addressed in the definition of a business.

Issue 11: Alignment of the Definition of a Business and the Definition of Output

26. Some respondents commented on the fact that the Board eliminated the reference to providing *a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants* from the definition of an output, but retained that language in paragraph 805-10-55-3A of the proposed Update, which states the purpose of a business. In other words, because this language was previously aligned, they questioned whether it should continue to be aligned.

27. On the basis of the feedback received in the comment letters, the staff identified the following alternatives for the Board to consider:

(a) Alternative A: Align the purpose of a business with the proposed definition of outputs.

(b) Alternative B: Retain the language describing the purpose of a business.

Questions for the Board
5. Are there any other potential issues related to the definition of outputs that the Board would like the staff to explore further, or are there any issues that are not worth pursuing further at this time? 6. Is there any additional information or outreach that the Board would find helpful before a decision-making meeting?

TOPIC 4: EXAMPLES

28. The amendments in the proposed Update include examples that illustrate how various fact patterns would apply the guidance on the definition of a business. The majority of stakeholders that provided feedback on the examples indicated that the examples needed various types of improvements. The staff views most of these comments as items that can be addressed in drafting. Any other significant issues with the examples were raised in the sections above (for example, contracts entered into at the time of transaction). The staff will consider what drafting changes to make after Topics 1–3 have been redeliberated.

NEXT STEPS

29. On the basis of the direction from the Board on the above issues, the staff plans to come back to the Board in the near future for a decision-making meeting on the topics discussed. Given the interaction with the amendments in proposed Accounting Standards Update, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which is on phase 2 of the project with a comment period that ends on August 5, 2016, the staff plans to update the Board on any feedback relevant to Phase 1 received in that comment letter process. More specifically, the amendments in the proposed Update on

Subtopic 610-20 would require all businesses to be excluded from that Subtopic. Given the proposed amendments in Subtopic 610-20, stakeholders were asked to reconsider their views on the guidance in the proposed Update on Topic 805.

Board Meeting Handout

Accounting for Interest Income Associated with the Purchase of Callable Debt Securities

July 27, 2016

PURPOSE OF THIS MEETING

1. The purpose of this decision-making Board meeting is to assist the Board in deciding on the following:

    (a) Scope of amortization change for premiums

    (b) Disclosures

    (c) Transition, Costs/Benefits, and Complexity

    (d) Next steps.

2. At the conclusion of the meeting, the staff plans to ask the Board for permission to draft a proposed Accounting Standards Update for vote by written ballot.

SCOPE OF AMORTIZATION CHANGE FOR PREMIUMS

3. At the September 16, 2015 meeting, the Board tentatively decided to amend the scope of the project to include the amortization period for purchased callable debt securities. The amendment would require all callable debt securities to amortize premiums to the first call date. The staff proposed a scope that included all callable debt securities. The Board, however, directed the staff to consider whether and how to limit the scope of the disclosures subject to the change.

4. The staff has identified the following options for the Board's consideration:

    (a) Alternative A—Scope of instruments subject to the amortization change limited to municipal securities only

    (b) Alternative B—Scope of instruments subject to the amortization change applicable to all callable debt securities, excluding those subject to

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

Subtopic 325-40, Investments—Other—Beneficial Interests in Securitized Financial Assets.

Question for the Board
1. Does the Board believe that the scope of the amortization change for premiums should be limited to municipal securities, or should the scope of the amortization change for premiums include all callable debt securities, excluding those subject to Subtopic 325-40?

DISCLOSURES

Proposed Disclosure 1—Additional Interest Income Disclosures for Purchased Financial Assets

5. The staff has identified two alternatives for the Board's consideration in response to feedback from users about their inability to understand the interest income on purchased loans and securities mainly due to the associated amortization and accretion:

   (a) Alternative A—For purchased financial assets, an entity shall provide at each reporting period the separate components of effective yield broken into (i) the contractual interest and (ii) other adjustments (premium or discount; fair-value basis adjustment; or other adjustments based on Subtopic 310-20, *Nonrefundable Fees and Other Costs*). An entity also would be required to disclose the amortized cost basis and unpaid principal balance.

   (b) Alternative B—To the extent that an entity purchases financial assets during the current reporting period, an entity must provide a reconciliation of the difference between the purchase price of the financial assets and the par value of the financial assets, including:

      (i) The purchase price

      (ii) The discount (or premium)

      (iii) The par value.

Questions for the Board
2. Does the Board prefer Alternative A, which would require more transparency into current period interest income, or Alternative B, which would require more transparency into balance sheet amounts of current period purchased assets? 3. Should the disclosures be required for all available-for-sale and held-to-maturity securities and purchased loans?

Proposed Disclosure 2—Outstanding Premiums on Callable Debt Securities

6. The second disclosure that the staff has identified for the Board to consider is a table for all purchased debt securities that are subject to call options and amortized to the maturity date:

   (i) The unpaid principal balance, amortized cost basis, and balance of premiums by call date versus maturity date in a tabular format. An example follows.

Call Date	Maturity Dates	Unpaid Principal Balance	Amortized Cost Basis	Outstanding Premium
20X7	**20X0−20X5**	**$X**	**$X**	**$X**
20X8	**20X1−20X6**	**$X**	**$X**	**$X**
20X9	**20X2−20X7**	**$X**	**$X**	**$X**
20X0	**20X3−20X8**	**$X**	**$X**	**$X**
20X1 and thereafter	**20X4 and thereafter**	**$X**	**$X**	**$X**

Question for the Board
4. Should a reporting entity be required to disclose tabular disclosures of outstanding premiums on callable debt securities?

TRANSITION, COSTS/BENEFITS, AND COMPLEXITY; PERMISSION TO BALLOT

Questions for the Board
5. Does the Board want to require modified retrospective transition?
6. Has the Board received sufficient information and analysis to make an informed decision on the perceived costs of the change? If not, what other information or analysis is needed?
7. Does the Board think that the benefits justify the costs? If so, does the Board authorize the staff to proceed to draft a proposed Accounting Standards Update for vote by written ballot?
8. What comment period does the Board select for the amendments in the proposed Update?
9. Are there any Board members who plan to dissent to the issuance of the amendments in the proposed Update?

NEXT STEPS

7. If the Board grants the staff permission to proceed to draft a proposed Update for vote by written ballot, the staff will develop an Exposure Draft for public comment.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Disclosure Framework—Disclosure Review, Inventory

July 27, 2016

PURPOSE OF THIS MEETING

1. This is a nondecision-making Board meeting to discuss potential inventory disclosures. The purpose of the meeting is to present the staff's evaluation of inventory disclosure requirements that is based on the decision questions in the 2014 proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements* (Disclosure Framework ED), and outreach conducted with users and preparers to obtain the Board's tentative leanings on proposed changes to the disclosure requirements in Topic 330, Inventory.

2. This handout is organized as follows (please note that the order is different than that in Board Memo No. 103, but the original issue numbers have been retained for reference):
   (a) Issue 3: Changes in Inventory
   (b) Issue 2: Disaggregation of Inventory
   (c) Issue 4: Alternative Inventory Measurement Methods
   (d) Issue 5: Existing Disclosures
   (e) Issue 6: Other Recommended Disclosures
   (f) Issue 7: Other Disclosures Considered but Not Recommended
   (g) Issue 8: Private Company Considerations
   (h) Issue 9: Retail Inventory Method
   (i) Issue 10: Interim Disclosure Considerations

(j) Issue 1: Disclosure Objectives

(k) Transition

(l) Next Steps.

ISSUE 3: CHANGES IN INVENTORY

3. Decision Question L7 asks, "Are the causes of the changes in an entity's line item of an asset, liability, or equity instrument not easily understood?" This question led the staff to consider whether disclosure of certain changes in inventory should be disclosed, potentially in the form of a rollforward of the beginning inventory balance to the ending inventory balance. Such a disclosure would aim to help the user understand the cause of changes in the balance from the prior period.

4. To facilitate the discussions and decision-making process, the staff has developed two packages of disclosures for changes in inventory. These packages are outlined in Appendix A of Board Memo No. 103SUPP.

5. The first package of disclosures for changes in inventory (Option 1 or the "specific change" approach) would not require a full rollforward of inventory but would require disclosure of changes to the inventory balance that are not specifically related to the purchase, manufacture, or sale of inventory, as well as a qualitative disclosure of costs capitalized into inventory. The staff recommends that this package of disclosures, if selected, be required for all entities (including non-PBEs).

6. The second package of disclosures for changes in inventory (Option 2 or the "rollforward approach") would require a rollforward of the inventory balance from beginning of period to end of period. Because a full rollforward would be required and would include quantitative disclosure of costs capitalized into inventory to the extent material, there would be no separate requirement for qualitative descriptions of those costs. For non-PBEs, this package includes requirements similar to those in Option 1.

Replacement Questions 4 and 5 (from Board Memo No. 103) for the Board
(4 and 5) Should entities be required to disclose information about changes in inventory as described above in: a. Option 1—the Specific Changes Approach b. Option 2—the Rollforward Approach?

ISSUE 2: DISAGGREGATION OF INVENTORY

7. Decision Question L4 asks, "Does the line item include components of different natures that could affect prospects for net cash flows differently?" Decision Question L9 asks, "Does the line item include individual items (or groups) that are measured differently?"

8. The staff has developed three packages of disaggregation disclosure requirements for the Board's consideration. All three proposed packages (Options 1, 2, and 3) have a few proposed disclosures in common. All options would include an unallocable category for inventory not identified with a segment because, regardless of the level at which a segment disclosure is applied (for example, at the component level or in total), there could be inventories that have not been identified with a segment. All of the options also would require disaggregation by measurement bases of inventory.

9. The differences between the three proposed packages arise from the proposed requirement to disaggregate inventory by segment, component, age, and geographic location.

10. Option 1 (the Chief Operating Decision Maker [CODM] approach) proposes a CODM approach to inventory disaggregation disclosure requirements. Under this package, PBEs would be required to disclose inventory by segment, inventory component by segment, inventory by age, and inventory by geographic location if the entity's decision makers use inventory information disaggregated in those ways to make decisions about the entity's operating matters. If an entity's decision makers do not use inventory disaggregated by segment and by component to make decisions about the entity's operating matters, the entity would still be required to

disclose inventory by component in total under this package. Non-PBEs would only be required to disclose inventory by component in total under this package.

11. Option 2 (the mandate approach) proposes that PBEs be required to disaggregate inventory by reportable segment, further disaggregated by component, without consideration of the information that the CODM reviews because these metrics were considered by users to be broadly relevant across industries and entities. Because the relevance of inventory age and geography varies significantly for different industries and entities, PBEs would not be required to disaggregate inventory by age or geographic location under Option 2. Non-PBEs would only be required to disaggregate inventory by component and geographic location under this package.

12. Option 3 (the hybrid approach) is a hybrid approach proposing that PBEs be required to disaggregate inventory by segment, further disaggregated by component, regardless of whether this information is provided to the CODM. Furthermore, PBEs would be required to disaggregate inventory by age and geographic location only if the entity's decision makers use inventory information disaggregated in those ways to make decisions about the entity's operating matters. Non-PBEs would only be required to disaggregate inventory by component in total under this package.

Replacement Questions 2 and 3 (from Board Memo No. 103) for the Board
(2 and 3) Should entities be required to disclose inventory disaggregated as described above in: a. Option 1—the CODM Approach b. Option 2—the Mandate Approach c. Option 3—the Hybrid Approach?

Practicality of Disaggregation of Last-In, First-Out (LIFO) Inventory

13. If the Board decides to require disaggregation of inventory, the staff intends, when drafting, to include guidance on how to apply the requirement if the use of LIFO makes it impracticable to disaggregate on that measurement basis. This would likely include, for example, an alternative allowing entities that use LIFO to disaggregate using a different measurement method such as weighted average.

ISSUE 4: ALTERNATIVE INVENTORY MEASUREMENT METHODS

14. Decision Question L15 asks, "Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for future cash flows?" The range of methods available for measuring inventory under generally accepted accounting principles (GAAP) relies primarily on cost, and this question indicates a potential disclosure of inventory measured using another method such as fair value, net realizable value (NRV), or market value.

15. The staff has identified the following disclosures that were indicated by this question:

    (a) Fair value of inventory—Fair value is based on the concepts in Topic 820, Fair Value Measurement, and is defined as the price that would be received to sell an asset in an orderly transaction between market participants.

    (b) Net realizable value of inventory—NRV for inventory is defined in Topic 330 as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation.

    (c) Market value of inventory—Market value of inventory generally means current replacement cost, although it cannot exceed NRV or NRV less an approximately normal profit margin.

Question 6 (from Board Memo No. 103) for the Board
(6) Should entities be required to disclose the fair value, NRV, and/or market value of inventory?

ISSUE 5: EXISTING GAAP DISCLOSURES

16. Very few disclosure requirements exist in Topic 330. Many of the requirements included in the Topic are redundant with other *FASB Accounting Standards Codification*® Topics or are incorporated into other disclosures being proposed in Board Memo No. 103.

Questions 7, 8, and 9 (from Board Memo No. 103) for the Board
(7) Should the following existing disclosure requirements be removed: a. The measurement basis of stating inventories b. Consistent application of the measurement basis c. Changes in the measurement basis d. Inventories stated above cost or at selling prices e. Standard costs? (8) Should the following existing disclosure requirements be modified: a. Losses from subsequent measurement of inventory (modified to remove "substantial and unusual" threshold and to add requirement for description of facts and circumstances leading to the losses) b. Losses on firm purchase commitments (modified to remove separate presentation requirement)? (9) Should the disclosure requirement on significant estimates be retained?

ISSUE 6: OTHER RECOMMENDED DISCLOSURES

17. Examining the existing inventory disclosure requirements in the context of the Disclosure Framework ED decision questions yielded additional indicated disclosures.

Question 10 (from Board Memo No. 103) for the Board
(10) Should the following disclosure requirements be added to Topic 330?
a. LIFO liquidations
b. Consigned inventory[1]
c. Royalty and other arrangements[2]
d. Replacement cost for LIFO inventory?

ISSUE 7: OTHER DISCLOSURES CONSIDERED BUT NOT RECOMMENDED

18. There are several disclosures indicated by the Disclosure Framework ED that the staff does not recommend. These are disclosures that, in many cases, both users and preparers found to be unnecessary or redundant with guidance in other areas.

Question 11 (from Board Memo No. 103) for the Board
(11) Should the following disclosure requirements be added:
a. LIFO method and computation techniques
b. Changes in market factors or sales prices
c. Internal and external factors affecting inventory
d. Inventory pledged as collateral
e. Terms of firm purchase commitments?

[1] The staff is defining "consigned inventory" as that which is under the care, custody, or charge of an unrelated entity.
[2] The staff is clarifying that the types of arrangements to be included in this disclosure are those that create a current inventory condition that will obligate the entity to incur expenses upon the sale of that inventory.

ISSUE 8: PRIVATE COMPANY CONSIDERATIONS

Replacement Questions 12 and 13 (from Board Memo No. 103) for the Board
(12) Should entities that are not public business entities be allowed to qualitatively describe their costing methods rather than disclose the amount of inventory measured under different costing methods? (13) Should entities that are not public business entities be subject to the following additional disclosure requirements: a. Disclose all arrangements in which inventory has been used as security b. Disclose current internal and external factors that could be expected to cause frequent or significant changes to the cost, availability, or utility of inventory?

ISSUE 9: RETAIL INVENTORY METHOD

Question 14 (from Board Memo No. 103) for the Board
(14) Should specific disclosures on the retail inventory method be required?

ISSUE 10: INTERIM DISCLOSURE CONSIDERATIONS

Question 15 (from Board Memo No. 103) for the Board
(15) Should entities be required to disclose inventory by segment, further disaggregated by component, in the notes to interim financial statements?

ISSUE 1: DISCLOSURE OBJECTIVES

Question 1 (from Board Memo No. 103) for the Board
(1) Does the Board think that an overall objective for disclosures about inventory should be included in Section 330-10-50?

TRANSITION

19. The staff identified two transition alternatives for all the inventory disclosures:

    (a) Alternative A—Require retrospective transition for all inventory disclosures

    (b) Alternative B—Require prospective transition for all inventory disclosures.

Question 13 for the Board
(13) Should inventory disclosures be applied using a retrospective transition method or a prospective transition method?

NEXT STEPS

20. The staff will use the tentative leanings of the Board and the information gained from this meeting to prepare a staff draft of an Exposure Draft. The staff will obtain feedback from the Private Company Council (PCC) and external reviewers on that draft.

21. The staff will present the results of that process to the Board at a future meeting and will seek formalization of the decisions to proceed to ballot on the Exposure Draft, incorporating the feedback received.