MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Short-Term Convergence—Phase 1 Varian (ext. 353)		
Subject:	Minutes of the May 11, 2005 Board Meeting (Short-Term Convergence, Accounting Changes)	**Date:**	May 18, 2005
cc:	Bielstein, Smith, Leisenring, Swift, Polley, Gabriele, FASB Intranet, Project Team (J. Johnson, McKenna, Varian, Vincent), McGeachin (IASB via e-mail)		

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: Accounting Changes—Alternative Transition Methods and Disclosures

Basis for Discussion: Memorandum Accounting Changes 3

Length of Discussion: 11:25 a.m. to 11:40 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, Trott and Young
Board members absent:	None
Staff in charge of topic:	J. Johnson
Other staff at Board table:	Bielstein, Cassel, Varian
Outside participants:	Leisenring

Summary of Decisions Reached:

The Board redeliberated certain issues related to the provisions of the FASB Exposure Draft, *Accounting Changes and Error Corrections*, issued in December 2003. The Board decided to:

1. Prohibit entities from changing a method of transition elected upon initial adoption of an accounting pronouncement.

2. Retain but clarify the requirement that entities disclose the effect of an accounting change on affected financial statement line items. In particular, the Board decided to clarify that entities were not required to disclose the effects on reported totals and subtotals other than income from continuing operations and net income.

Objective of Meeting:

The objective of the Board meeting was to redeliberate certain remaining issues related to the Exposure Draft, *Accounting Changes and Error Corrections*.

Matters Discussed and Decisions Reached:

1. Mr. Johnson began by stating that the first issue to discuss was whether the final Statement, *Accounting Changes and Error Corrections*, should address whether entities are permitted to switch between alternative transition methods provided in an accounting pronouncement subsequent to the initial adoption of that pronouncement. As an example of this issue, he noted that FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, permits entities to recognize the transition obligation or transition asset either immediately in net income of the period of the change as the effect of a change in accounting principle, or on a delayed basis as a component of net periodic postretirement benefit cost. He explained that the question of whether entities are allowed to switch between the alternative

transition methods has been answered in the implementation guide to Statement 106, in technical inquiries, and in the Statement itself, and in this specific case, entities are explicity prohibited from switching transition methods after initial adoption. He stated that APB Opinion No. 20, *Accounting Changes,* does not address this issue.

2. Mr. Johnson presented the three alternatives as follows:

   A. Prohibit entities from changing a method of transition elected upon initial adoption of an accounting pronouncement.

   B. Permit entities to change a method of transition only if the new method of transition can be justified on the basis that it is preferable to the original method elected.

   C. Do not explicitly address this issue in the Statement.

   He recommended Alternative A, and he stated that if the Board elects Alternative A, they staff could modify paragraph 13 of the Statement to read as follows:

   > An entity may change an accounting principle only if it justifies the use of an allowable alternative accounting principle on the basis that it is preferable. However, a method of accounting that was previously adopted for a type of transaction or event that is being terminated or that was a single, nonrecurring event in the past shall not be changed. For example, the method of accounting shall not be changed for a tax or tax credit that is being discontinued. <u>Additionally, the method of transition elected at the time of adoption of an accounting pronouncement shall not be subsequently changed.</u> However, a change in the estimated period to be benefited by an asset, if justified by the facts, shall be recognized as a change in accounting estimate.

   All Board members agreed to the staff recommendation.

3. Mr. Johnson stated that the second issue to address was whether the requirement of paragraph 17(b)(2) of the Statement, which requires disclosure of the effect of a change in accounting principle on each line item of the financial statements, is appropriate. He stated that Opinion 20 requires disclosure of the effects of a change on income before extraordinary items and net income. He noted that the during deliberations, the staff recommended that those requirements be carried forward to this Statement; however, the Board decided to require disclosure of the effect of the change on each financial statement line item affected. He further noted that as a result of that decision, the International Accounting Standards Board decided to include substaintially identical requirements in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. He stated that although the disclosure requirements of IAS 8 and the Statement are substantially identical, the example illustrating the requirements of IAS 8 is less comprehensive than the illustration presented in the preballot draft of the Statement.

4. Mr. Johnson stated that, among other alternatives, the Board could decide to carry forward the requirements of Opinion 20, or to limit disclosure to every line item of the income statement. He recommended the disclosure requirement in paragraph 17(b)(2) be retained. He also recommended clarifying the final Statement by replacing paragraph 17(b)(2) with the following:

> The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator) and any other affected financial statement line item, exclusive of line items that present subtotals or totals of other presented line items, and any affected per-share amounts for each period presented. Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.

In addition, he recommended clarifying Appendix A of the Statement by indicating that the illustration represents one possible method of complying with the requirements of the standard but that other presentations may also be appropriate.

5. Ms. Seidman stated that in the context of the financial performance reporting project, the Board decided to require an opening balance sheet, and the Board agreed that would be most useful when there had been a restatement. She further stated that she believes that requiring retroactive application and the new potential requirement of the opening balance sheet does the work for the analyst. She questioned whether the disclosure requirement in paragraph 17(b)(2) goes beyond that and becomes excessive; however, she stated that she would not object to the staff recommendation.

6. All Board members agreed with the staff recommendation.

7. Mr. Cassel questioned whether using the specific words *line items* means that the Board's intent is to not require the disclosure of the effects of the items that do not appear on the face of the financial statements but do appear in the footnotes and are affected items. For example, he questioned what the disclosure requirement would be when an effect of a change in accounting principle effects an account that is presented as a part of *other noncurrent liabilities* on the balance sheet. He also asked the Board whether they wanted disclosure of the effect of the change on items that are buried in subtotals and not disclosed elsewhere. The Board expressed that only the effect of the change on the line items affected on the presented financial statements would need to be disclosed.

Follow-up Items:

None.

General Announcements:

None.