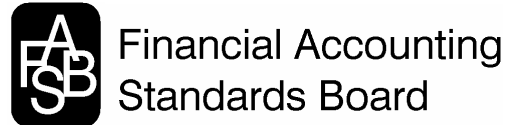


## MINUTES



**To:** Board Members

**From:** Financial Performance Reporting by  
Business Enterprises team (Duke, ext 297)

**Subject:** Minutes of May 25, 2005 Board Meeting      **Date:** May 31, 2005

**cc:** Bielstein, Smith, Petrone, Leisenring, Team, Bullen, T. Johnson, Lott, Mahoney, Thompson, Gabriele, and Sutay; Swift and Polley (FASAC); Bean and Patton (GASB), FASB Intranet, and via email: Upton, Barker, and Zaman (IASB); Cook (ASB)

*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: Earnings Per Share and Comprehensive  
Income Per Share

Basis for Discussion: Memorandum dated May 5, 2005 (Agenda  
Paper 6)

Length of Discussion: 11:00 a.m. to 11:30 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schipper, Seidman,  
Trott, and Young

Staff in charge of topic: Kawanishi

Other staff at Board table: Bielstein, Sullivan, Lusniak, Lott, Bossio,  
Kispert, and Duke

Outside participants: Leisenring and Zaman (IASB)

### Summary of Decisions Reached:

The Board considered but decided not to amend FASB Statement No. 128, *Earnings per Share* as a consequence of its decision to require presentation of single statement of earnings and comprehensive income. The Board confirmed that:

1. Presentation of basic and diluted earnings per share (EPS) on the face of the statement of earnings and comprehensive income will continue to be required (paragraph 36 of Statement 128).
2. Disclosure of basic and diluted comprehensive income per share (CPS) in notes to financial statements will continue to be permitted but not required (paragraph 37 of Statement 128).
3. Disclosure of the weighted average number of shares used as the denominator in calculating per share metrics in the notes to financial statements will continue to be required (paragraph 40(a) of Statement 128).

### Objective of Meeting:

The objectives of the meeting were for the Board to consider (1) the effect of its decision to require a single statement of nonowner changes in net assets (the Statement of Earnings and Comprehensive Income) on the presentation of per-share measures (earnings per share (EPS) and comprehensive income per share (CPS) and (2) possible improvements to the presentation of per share information.

### Matters Discussed and Decisions Reached:

#### **Display of CPS**

1. Mr. Kawanishi began the meeting by stating that at the April 2005 joint Board meeting, the FASB Board and the IASB Board jointly decided to require a single Statement of Earnings and Comprehensive Income, with a total for comprehensive income and a required subtotal for net income. The objectives of the meeting are for the Board to consider (1) the effect of its decision to require a single statement of nonowner changes in net assets (the Statement of Earnings

and Comprehensive Income) on the presentation of per-share measures (earnings per share (EPS) and comprehensive income per share (CPS) and (2) possible improvements to the presentation of per share information. Mr. Kawanishi stated that at the May 17, 2005 IASB Board meeting, the IASB decided not to make any changes to current EPS standards. He asked the Board whether it wanted to require a measure of CPS. He indicated that the staff recommends that, at this time, a measure of CPS not be required as part of Segment A of this project, however; if the Boards determine that CPS should be required, the staff believes that the Board should consider reopening EPS standards and performing a comprehensive review of related Standards.

2. Mr. Young stated that he agrees with the staff recommendation and would not require CPS to be presented on the face of the statement of earnings and comprehensive income because it would confuse investors. Mr. Batavick stated that he did not want a controversial decision to slow down the momentum of the project because the presentation of per share information is not an integral part of Segment A. Ms. Seidman stated that she agrees with the staff's recommendation and with Mr. Batavick's commentary about how to prioritize the issues in this project to keep the momentum going. Ms. Sullivan stated that FASB Statement No. 128, *Earnings Per Share*, is similar to IAS 33, *Earnings per Share*, in that it does not allow CPS to be presented on the face, instead it requires that any per share measure other than the one required by the Statement be shown with equal prominence and presented in the notes to the financial statements.

3. Ms. Schipper stated that she did not agree with the staff's recommendation. She stated that she would require CPS to be presented on the face of the statement of earnings and comprehensive income in light of the decision to require a single statement and for the reasons stated in the Exposure Draft of FASB Statement No. 130, *Reporting Comprehensive Income*. She stated that if the Board continues to require EPS information on the face of the statement that similar per share information should definitely be required to be presented for

comprehensive income. Mr. Crooch stated that while he supports the staff's recommendation he agrees with Ms. Schipper's statements.

4. Mr. Herz stated that he agrees with the staff's recommendation. He clarified that the recommendation is to not require a measure of CPS and that if an entity chooses to present CPS, it must follow the guidance in Statement 128. The other Board members affirmed their previous support of the staff's recommendation. Only Ms. Schipper opposed the staff recommendation.

### **Display of EPS**

5. Ms. Sullivan stated that the second question is whether the Board should retain the presentation requirements of EPS. The staff provided three alternatives:

- I. Retain the current requirement to require presentation of EPS on the face of the Statement
- II. Prohibit the presentation of EPS on the face of the Statement and require EPS in the Notes
- III. Allow for the presentation of EPS on the face of the Statement or in the Notes

6. Ms. Sullivan stated that the staff recommends Alternative III. The staff believes that the prominence of EPS should be reduced because EPS is not the only per-share measure that represents performance. At the same time, the staff acknowledges that presenting EPS on the face of the Statement may be so engrained in practice that this change may be considered highly controversial. Therefore, while allowing reporting entities a choice of presentation may not be the most desirable alternative, the staff argues that relaxing the current presentation requirements would be an incremental improvement towards reducing the prominence of EPS.

7. Mr. Young stated that he favors Alternative I because of the controversial nature of altering EPS requirements and because it is consistent with the IASB's decision. Mr. Batavick also prefers Alternative I. Mr. Trott stated that the EPS

calculation is complex and that by moving EPS to the Notes, the reader would be able to see the details of the calculation in the same place as the number. He stated that the non-controlling interest project may significantly impact the calculation, and that by placing EPS in context (alongside the details) more useful information would be provided.

8. Ms. Sullivan stated that relaxing the presentation requirement would not have an effect on providing that metric in press releases prior to the filings with the SEC. Mr. Leisenring stated that he believed that EPS and CPS should be displayed in the same place but urged the Board to not let this controversial issue bog the project down. Mr. Trott also agreed that EPS and CPS should be displayed in the same place.

9. Ms. Schipper stated that she was voting for Alternative II because she believed that the ratio should be displayed in the same place as its calculation. She also stated that there was no conceptual basis for displaying a ratio derived from a subtotal (net income) on the face of the statement, only historical precedence.

10. Messrs. Crooch and Herz stated that they support Alternative I. Mr. Herz suggested that the per share issue be revisited in Segment B of the project. In Segment B, per-share information may be derived from something other than Net Income. Ms. Seidman stated that she supported Alternative I but that the issue should be revisited after the completion of the non-controlling interests project. Ms. Schipper and Mr. Trott did not support Alternative 1.

### **Weighted Average Per Share**

11. Ms. Sullivan stated that the third question is whether the Boards should continue to require the disclosure of the weighted average number of shares used to calculate per-share measures, and if so, where in the financial statements that disclosure should be made. The staff recommends that the weighted average number of shares be disclosed in the notes to financial statements, not on the face of the single Statement of Earnings and

Comprehensive Income. The Board unanimously supported the staff recommendation.

12. Mr. Herz asked if any Board members objected to decisions made today. Ms. Schipper stated that she objected to continuing only to present EPS on the face of the financial statement.

Follow-up Items:

**None**

General Announcements:

**None**