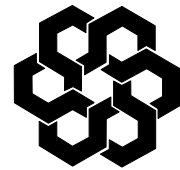




Financial Accounting  
Standards Board



International  
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Board

**To:** FASB, IASB, Joint International Group, and Financial Institutions Advisory Group Members  
**From:** Financial Statement Presentation Team  
(Petrone 203-956-5329 and Gomez +44-207-246-6469)  
**Subject:** Summary of the September 14, 2007 Financial Statement Presentation Joint International Group and Financial Institutions Advisory Group Meeting  
**Date:**  
**Cc:** FASB: Bielstein, Smith, MacDonald, Allen, Bossio, Stoklosa, Klimek, Gabriele, Financial Statement Presentation Project Team, FASB Intranet; IASB: Gomez, Suzuki, Hickey; GASB: Reese and Schermann

**The audio of the full day's discussion is available at [www.fasb.org](http://www.fasb.org) and [www.iasb.org](http://www.iasb.org)**

Location: Norwalk, CT

Topic: Presentation and Display of Information on the Financial Statements

Basis for Discussion: Agenda Papers 1 – 7

Length of Discussion: 9:00 a.m. to 5:00 p.m.

Attendance:

Staff in charge of topics: John Smith, Denise Gomez, Nobu Kawanishi, Kim Petrone, Regenia Cafini  
Staff at table: Denise Gomez, Nobu Kawanishi, Kim Petrone, John Drum, Naoyuki Suzuki, Sue Bielstein, Chandy Smith, Liz Hickey, Regenia Cafini.  
JIG members present: Kathryn Cearns (Herbert Smith), Malcolm Cheetham (Novartis), Bo Eriksson (Stora Enso Oyj), Sue Harding (Standard and Poor's), Greg Jonas (Moody's Investor Services), Ken Kelly (McCormick & Co.), Stuart MacDonald (Scottish Power), Elizabeth Mooney (Capital Strategy Research), Hans-Joachim Pilz (SBFA Investment Research), Walter Schuster (Stockholm School of

	Economics), Stephen Taylor (Deloitte Touche Tohmatsu), Takashi Yaekura (Hosei University), Hiroshi Yamada (Matsushita Electric Industrial Co Ltd).
JIG members absent:	W Peter Day (Amcor), Jacques De Greling (Securities (Caisse d'Epargne Group), Bridget Gandy (Fitch Ratings Ltd), Sara York Kenny (International Finance Corporation), Guido Kerkhoff (Deutsche Telekom AG), Michael P Krzus (Grant Thornton LLP), Gilles Zancannaro (Bouygues)
FIAG Members present	Phil Arthur (Ernst & Young), Joseph Boateng (Johnson and Johnson), Jo Clube (Aviva PLC), Burkhard Keese (Allianz SE), Arthur Lindo (Federal Reserve Board), Esther Mills (Morgan Stanley), Ralph Odermatt (UBS), Stephen Ryan (Stern School of Business NYU), Kevin Spataro (All State), John Tittle (NAIC), Alan Zimmerman (Fox-Pitt, Kelton)
FIAG Members absent	Rob Essen (NAIC), Rob Jones (Standard and Poor's), Sylvie Matherat (Basel Committee on Banking Supervision), Helmut Perlet (Allianz SE), Mark Thomas (Keeyfe, Bruyette, and Woods)
FASB members present:	Leslie Seidman, Tom Linsmeier, and Donald Young.
FASB members absent:	Robert Herz, G. Michael Crooch, Lawrence Smith
IASB members present:	George Batavick
IASB members absent:	Tatsumi Yamada, John Smith, Stephen Cooper
	Mary Barth, Philippe Danjou, Jan Engstrom, Robert P. Garnett, Gilbert Gélard, James Leisenring, Warren McGregor, Wei-Guo Zhang
Official observers present:	Francoise Flores ( European Financial Reporting Advisory Group), Jenifer Minke-Girard (IOSCO)

Objective of the Meeting

1. The objective of the September 14, 2007, Joint International Group (JIG) and Financial Institutions Advisory Group (FIAG) meeting was to discuss issues related to the FASB and IASB's (the Boards) joint project on Financial Statement Presentation with members of JIG and FIAG to obtain their views on issues under consideration for the preliminary views document.

Summary of Matters Discussed

2. FASB and IASB members and staff met with members (including official observers) of the JIG and FIAG to discuss the following topics:
  - a. Agenda Paper 1, *Overview of Preliminary Model*

- b. Agenda Paper 2, *Statement of Comprehensive Income*
- c. Agenda Paper 3, *Additional Segment Disclosures*
- d. Agenda Paper 4, *The Reconciliation from the Statement of Cash Flows to the Statement of Comprehensive Income and the Statement of Cash Flows*
- e. Agenda Paper 5, *Recasting Exercise*
- f. Agenda Paper 6, *Open Discussion, Summary of Other Preliminary Views and Remaining Illustrative Financial Statements*
- g. Agenda Paper 7, *Communication Strategy*.

### **Overview of Preliminary Model**

3. The participants generally agreed that the working principles are complete. Participants suggested that the working principle “Disaggregate line items if that disaggregation enhances the usefulness of that information in predicting future cash flows” should include a notion of risk by including the phrase “amount, timing and uncertainty”. However, other participants noted that the structure of the financial statements may become very complicated if risk reporting is mixed with performance reporting. Participants also were of the view that identifying unusual or infrequent events is sufficiently important to analysis that it should be elevated to the level of a working principle. Several participants made suggested additions to the working principles including:
  - a. Clearly identifying the main value-adding activities of the business.
  - b. Clearly identifying what is distributable to shareholders
  - c. Separating the performance measures into that performance which management controls and that performance which management does not control.
4. The participants generally supported the management approach to presentation. Some participants noted that additional disclosures may be beneficial to explain management’s approach to classification. Participants agreed that seeing the business as the business sees itself is extremely important, but it is also important to understand how management reached its classification decisions. The participants expressed concern that the management approach may be difficult to apply to segment reporting because often management’s view of the segments does not fit the form of the financial statements. There was also concern over the level of flexibility

that the management approach affords companies in classifying certain items.

Several participants noted that the management approach should not mean that preparers have boundless discretion in financial reporting.

5. The participants were generally in support of the classification of business and financing activities, with the exception of the investing category. Several recasting participants found that they struggled to find any assets or liabilities to put into the investing category on the balance sheet. This raised cohesiveness issues with cash flows that are currently considered investing cash flows. The participants found the line between investing and operating to be very fuzzy, particularly for financial institutions where many of their operations meet the definition of investing activities (when *investing* is used in the economic sense—committing money or capital with the expectation of earning a financial return).

## **Statement of Comprehensive Income**

### **Disaggregation by Nature and Function**

6. Some participants expressed the view that disaggregating income statement line items by nature would provide information with more predictive value than disaggregation of information only by function. Other participants questioned the usefulness of disaggregation by nature based on the increase complexity it would bring to the face of the comprehensive income and cash flow statements. One participant noted that a company which outsources its manufacturing would report one line for cost of goods sold while a company that manufactures its product internally would report several disaggregated line items. One participant reported that during the recasting exercise, the company found it very difficult to separate costs by nature particularly because they use a standard costing system.
7. Participants noted that the illustrative statements have significant disaggregation of expenses but revenue is reported in a single line. Analysts spend a significant amount of time trying to understand revenues and where revenues are derived from. Other participants noted that disaggregation of revenues is addressed to an extent in the management discussion and analysis.

## **Income Taxes**

8. Participants noted that having an all-inclusive income tax section on the statement of comprehensive income may create difficulties in assessing the income tax impact of an entity's activities. Other participants noted that income taxes are one of the least understood and most ignored line items in the analyst community. They noted that analysts are much more interested on the cash effects of the taxes, rather than the allocations and provisions of income taxes. Participants also observed that under the working format, the income tax line becomes very prominent on the face of the financial statements and may be misleading, especially if the tax effects of OCI are included. It was noted that some of the details and disaggregated information about taxes that seems to be desired will be addressed in a footnote disclosure, the requirements of which have yet to be developed.
9. Participants again raised concerns about the complexity of the financial statements and how usable this model will be to an unsophisticated user. One participant stated that he didn't understand the logic behind including income taxes currently charged or credited directly to equity in the statement of comprehensive income.

## **Presentation of Other Comprehensive Income**

10. A slight majority of participants who expressed a preference for one of the OCI presentation alternatives preferred Alternative 2 (OCI is a separate section). Of the long-term options, the participants' preferences were fairly evenly split between Alternative 3 and Alternative 4. However, several participants also expressed a preference for Alternative 2 in the long-term, noting that there is often an important difference between comprehensive income and other comprehensive income. Several participants desired to skip the interim solutions and go straight to Alternatives 3 or 4, which do not segregate other comprehensive income items and eliminate recycling. A participant noted that it is difficult to explain the notion of recycling to investors. Some participants who favored Alternative 2 proposed that Alternative 2 should include an allocation of income taxes to the various categories, especially to OCI items because this will allow users to produce a subtotal comparable to net income. Those participants were supportive of maintaining a line item "income before other

## **Additional Segment Disclosures**

11. Participants generally agreed that the additional segment disclosures should not include financing information. They stated that many preparers cannot properly separate the financing activities for each segment. However, to the extent that some entities can properly allocate financing items to different segments, they should not be precluded from doing so. One participant noted that his company does not keep a balance sheet by segment, and that the management of the company does not view the segments in this manner. Participants stated that analysts often use the reporting segment as the unit of analysis and that this framework is a positive step forward in terms of usefulness. However, arbitrary allocations simply to comply with a presentation requirement would not be useful. Participants expressed concern about the potential for abuse if there was an “unallocated” column. A participant questioned whether the Boards should develop a method for allocating information to segments.
12. Participants were generally in agreement that the level of detail reported in the segment disclosures should be similar to the level of detail that management uses to evaluate segments. Other participants expressed a desire to be able to find the same line items in the segment disclosure as in the group (consolidated) financial statements.
13. Some participants were generally supportive of measuring segment information based on a management approach. Other participants expressed concern that a management approach could result in segment information that is so different from the group financial statements that it is of little value. Participants also noted that measuring segment information based on a management approach requires allocations of segment information that may not reflect how the business is run.

## **The Reconciliation from the Statement of Cash Flows to the Statement of Comprehensive Income and the Statement of Cash Flows**

14. Several “preparer” participants stated that the reconciliation would be difficult to produce and questioned its usefulness. Preparers also stated that they find the direct method cash flow statement the most difficult part of the possible reconciliation schedule. However, “user” participants said that the reconciliation is the most important part of the financial statement presentation project and that the reconciliation is definitely worth the cost. They stated that analysts spend significant time trying to create a schedule similar to the reconciliation schedule to assess the quality of earnings.
15. The meeting participants were generally very supportive of including information about unusual or infrequent events as part of the reconciliation schedule and found no reason that this information could not be added to the IASB view of the schedule. However, participants questioned the usefulness of separating “contractual accruals” from “other accruals, systematic allocation and other non-remeasurements”.
16. Participants questioned the value of the reconciliation schedule for financial institutions and expressed concern over how the reconciliation could apply to financial institutions with significant trading portfolios. They suggested that a reconciliation from the beginning statement of financial position to the ending statement of financial position may be more useful for financial institutions. Participants also mentioned that the statement of cash flows is not integral to the analysis of financial institutions.
17. Participants stated that if the direct method of preparing the statement of cash flows needs to be used for the reconciliation schedule, they see no reason to keep the indirect schedule or the indirect method of preparing a statement of cash flows in addition to the reconciliation. Participants stated that currently, analysts only minimally use the statement of cash flows because it does not coalesce well with the statement of comprehensive income. Participants also noted that discounted cash

flow models are very important in acquisitions and in valuing the stock price and that a direct method cash flow statement may be very useful for this purpose.

18. Participants expressed an interest in the “indirect-direct” method of preparing a direct cash flow statement (that is, one based on cash receipts and payments). They noted that this method could significantly reduce the cost of preparing such a statement and also noted that Australian and New Zealand companies have successfully employed this technique. However, other participants questioned the accuracy of a statement of cash flows developed in this way.
19. Some participants articulated that the reconciliation schedule could replace the statement of cash flows. If that were the case, a participant questioned whether there would no longer be comparative statements. Other participants noted that the question of side-by-side comparative financial statements is only important in a world where financial statements are evaluated on paper.

### **Recasting Exercise**

20. The JIG and FIAG members who participated in the recasting exercise were asked to share their reactions after completing the exercise. One participant observed that the format of the statement of financial position will make calculating traditional measures such as debt-to-equity ratios difficult or impossible. The participant questioned the prominence of discontinued operations without an equally prominent display of the effects of acquisitions.
21. Another participant expressed concern that the financial statements are getting too complicated. This participant also noted that a full financial statement displayed for each segment creates the risk of exposing sensitive information. He also found assets mixed with liabilities on the statement of financial position to be confusing.
22. One participant recognized that there are certain non-GAAP measures that are very important to analysts that may be difficult to derive from the proposed presentation. This participant also noted that in recasting their financial statements they assigned all business assets and liabilities to the operating section and did not use the investing

section. This participant would prefer that the OCI section of the statement of comprehensive income be presented at the very bottom of the statement. They echoed the concerns of other participants that certain measures, such as earnings per share, may be difficult or impossible to calculate under the working format. This participant also observed that some of the requirements, including the direct method cash flow statement and the reconciliation schedule, were very difficult for a financial institution and may not provide useful information.

23. Participants had mixed opinions on whether the proposed statements are getting closer to the models that analysts used to evaluate companies. One participant noted that the statement of financial position presentation was helpful to analysts who want to clearly identify operating assets.

### **Open Discussion, Summary of Other Preliminary Views and Remaining Illustrative Financial Statements**

24. Participants noted that the concept of free cash flow is extremely important in analyzing and evaluating a business. That is, analysts are interested in the amount of cash that is available to shareholders after dividends and capital expenditures. An analyst's perception of capital expenditures comes from the statement of cash flows. Analysts frequently try to understand the distinction of capital expenditure for maintenance of existing facilities and capital expenditure for growth. Distinguishing the maintenance capital expenditures from the growth capital expenditures on the face of the financial statements may provide very useful information to users. The participant also noted that continuing to disclose non-cash transactions is extremely important. For example, a company that borrows money to purchase a building will show a large cash capital expenditure while a company that signs a lease to use a building will show a non-cash transaction.

25. One participant questioned the implications of presenting assets and liabilities with different measurement basis separately on the statement of financial position. He questioned whether this meant that impaired assets would be presented separately, or assets acquired through an acquisition must be presented separately. It was clarified

that the intent is to present items that are marked to market separate from those that are presented on a historical cost basis.

### **Communication Strategy**

26. Participants expressed that effectively communicating the implications of this project to a wide range of constituents will be very important to reduce the initial shock of some significant changes to financial reporting. One participant suggested exposing the results of the recasting exercise to other preparers so that they can consider the implications of this project. Participants noted that it will be very important to adequately describe the “indirect-direct” method and that input from Australians and New Zealanders on how this method is actually applied may be beneficial.
27. In order to effectively communicate the benefits of this project, participants observed that it could be very helpful to be able to compare the new statements with the old statements. One participant described a brochure that would map the objectives and principles of the project to examples of financial statements illustrating application of those principles. This type of brochure could very effectively communicate the thinking behind this project. This participant also suggested that such a brochure could include cost estimates, effectively allowing constituents to make an informed cost/benefit assessment.