



FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

**FASB Offices
Norwalk, Connecticut**

March 20, 2007

Agenda*

(as of March 14, 2007)

- 9:00 a.m. Introductory Remarks (Mr. Chookaszian)
- 9:05 a.m. Quarterly Status Reports
- Report of the FASB Chairman (Mr. Herz—Attachments A-1 to A-4)
 - Report of the SEC (Mr. Kroeker)
 - Report of the PCAOB (Mr. Ray)
- 9:45 a.m. Current Business and Financial Reporting Environment (Mr. Chookaszian—Attachment B)
- 10:10 a.m. Valuation Standards for Financial Reporting (Messrs. Smith and Beswick—Attachment C)
- 10:40 a.m. BREAK
- 10:55 a.m. Lease Accounting (Ms. Zeyher—Attachments D-1 to D-5)
- 11:55 a.m. Statement 133 Issues (Messrs. Smith, Fanzini, and Stoklosa—Attachment E)
- 12:30 p.m. LUNCH
- 1:15 p.m. Financial Statement Presentation—Break-out Group Discussion (Attachment F)
- Group 1 (Board Room)—Messrs. Crooch and Rogers; Ms. Petrone and Ms. Smith
 - Group 2 (Conference Room A)—Messrs. Batavick and Cosgrove; Ms. Bielstein and Mr. VanBeek
- 2:15 BREAK—Reconvene in Board Room
- 2:20 Financial Statement Presentation—Group Discussion (Attachment F)
- 3:00 p.m. ADJOURNMENT

*Times are approximate.

**FASAC MEETING
MARCH 20, 2007
FASB CHAIRMAN'S REPORT**

- **TECHNICAL ACTIVITIES**
- **CODIFICATION**
- **PRIVATE COMPANY REPORTING**
- **INVESTORS TECHNICAL ADVISORY
COMMITTEE**

CURRENT BUSINESS AND FINANCIAL REPORTING ENVIRONMENT

Financial Accounting Standards Advisory Council
March 2007

Background

The Board continues to have an interest in hearing from Council members about the current business environment and its impact on financial accounting and reporting issues. These periodic discussions primarily are informative and educational to the Board, as the FASB does not control regulatory or audit standards. However, the Board wants to be aware of issues affecting the participants in the financial reporting process and consider all input when making its decisions.

Issues for Discussion

Some of the issues of interest for discussion are:

- With 10 percent of all companies filing restatements last year and 23 percent of all companies having filed a restatement in the past 4 years, is a credibility problem emerging in financial reporting?
- What are your views on the recent increase in public comments on the complexity of the accounting and financial reporting process?
- The SEC recently held a roundtable meeting on the International Financial Reporting Standards "roadmap." Discussion topics included eliminating the requirement for foreign filers to reconcile to U.S. GAAP in (or before) 2009 and allowing U.S. companies to replace U.S. GAAP with international accounting standards, among other topics. What are your views on those issues? In a world of converged accounting standards, what is the role of the FASB?
- For recently implemented standards (for example, FASB Statement 123R or FIN 48), from your perspective as a preparer, auditor, or user of financial statements, have any issues arisen that the Board should be aware of?
- Have any new accounting and financial reporting issues arisen that the Board should be aware of?

Note: These materials are provided to facilitate understanding of the issues to be addressed at the March 20, 2007 FASAC meeting. These materials are presented for discussion purposes only; they are 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.

**FASB INVITATION TO COMMENT
VALUATION GUIDANCE FOR FINANCIAL REPORTING**

Financial Accounting Standards Advisory Council
March 2007

BACKGROUND

In January 2007, the FASB issued an Invitation to Comment, *Valuation Guidance for Financial Reporting* (ITC), to solicit comments about:

- The need, if any, for valuation guidance for financial reporting purposes.
- The level of participation by existing appraisal organizations
- The process that should be used to issue valuation guidance for financial reporting.
- The importance of international convergence in valuation guidance.

DISCUSSION AT THE MARCH 2007 FASAC MEETING

At the March 20 FASAC meeting, we will discuss all four of the main questions on valuation guidance included in the ITC. We are interested in FASAC members' views on the level of participation that either the FASB and/or existing appraisal organizations should have in establishing valuation guidance for financial reporting (Question 2) and the process that should be used for issuing that guidance (Question 3).

INVITATION TO COMMENT

The remainder of this document is extracted from the ITC. The Invitation to Comment also is available for download on the FASB website (www.fasb.org/draft/ITC_Val_Guide_for_Financial_Reporting.pdf). The FASB will be holding a public roundtable on April 30, 2007 to discuss the Invitation to Comment.

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THE PURPOSE OF THIS INVITATION TO COMMENT

1. The purpose of this Invitation to Comment is to solicit comments from interested parties about:
 - a. The need, if any, for valuation guidance, including related implementation guidance for financial reporting; the specificity of this valuation guidance; and the duration of standard-setting activities
 - b. Whether the Financial Accounting Standards Board (FASB) should be solely responsible for providing valuation guidance or whether another organization should be involved
 - c. The process that should be used to issue valuation guidance for financial reporting.

This Invitation to Comment includes specific questions on which the staff would like feedback.

2. The staff believes that a meaningful consideration of the issue of valuation guidance for financial reporting and related implementation guidance can best occur through a public discussion with interested parties on how valuation guidance should be established. The staff also believes that for valuation guidance to be accepted by the financial reporting community, all interested parties should have input into the process.

3. Currently, a number of organizations issue valuation standards. Those organizations issue valuation standards for a number of different classes of assets, including real property and business valuations. The valuation standards provide guidance on a wide range of issues, including professional practice issues, and the application of valuation techniques. The Board requests comments on whether valuation guidance is needed to determine a value that would satisfy a measurement attribute for financial reporting purposes. This type of guidance is referred to throughout this Invitation to Comment as valuation guidance. The purpose of this Invitation to Comment is not to address professional practice issues in the valuation community. In this Invitation to Comment, the term standard setter is used to refer to any organization that will issue valuation guidance.

OVERVIEW

4. The FASB is the designated private-sector standard setter of U.S. generally accepted accounting principles (GAAP). This role was reaffirmed by the Securities and Exchange Commission (SEC) through the April 2003 issuance of Financial Reporting Release No. 70 (FRR 70). FRR 70 states that the FASB meets the standard-setting criteria set forth in section 108 of the Sarbanes Oxley Act of 2002.

5. Some of the FASB's accounting standards require or permit the use of different measurement attributes for financial reporting. The Board is evaluating guidance for selecting the appropriate measurement attributes as part of its conceptual framework project, which is a joint project with the International Accounting Standards Board (IASB). As part of its deliberations on measurement attributes, the Board is considering, among other things, various attributes that reflect the current price or value of an asset or liability, for example, exit price (fair value), value in use, and entry price. In September 2006, the Board issued FASB Statement No. 157, *Fair Value Measurements*, which provides financial reporting guidance for measuring assets and liabilities at fair value. Statement 157 defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosures about fair value measurements. However, Statement 157 does not expand the use of fair value as the measurement attribute for financial reporting.

6. Statement 157 provides some measurement guidance, but it does not address many specific valuation issues that preparers, auditors, and valuation professionals currently encounter. As a result, constituents may analogize to nonauthoritative sources for valuation guidance. One such source is the AICPA Practice Aid Series, *Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and*

Pharmaceutical Industries. Additionally, there is no public forum for addressing emerging technical valuation issues.

7. The staff is issuing this Invitation to Comment to begin a public discussion on whether and how the issues related to determining value should be addressed within the existing financial reporting standard-setting framework.

QUESTIONS

Need for Valuation Guidance

Question 1—Is There a Need for Valuation Guidance Specifically for Financial Reporting?

9. Some constituents believe there should be valuation guidance specifically for financial reporting purposes. Those constituents believe that while valuation guidance has been developed for purposes other than financial reporting, such as mortgage lending or tax matters, that guidance is not sufficient for financial reporting purposes. They believe that application of this valuation guidance to financial reporting may result in a valuation that is inconsistent with the objectives of financial reporting. Those constituents also note that multiple sets of valuation standards exist that address, among other things, professional standards. Therefore, they believe those standards are not sufficient to result in consistent financial reporting for particular fact patterns.

10. Other constituents conclude that no additional valuation guidance is needed specifically for financial reporting purposes. They believe the current valuation guidance developed by the valuation community for other intended uses, while not completely harmonized, is sufficiently robust to determine a value that would satisfy the designated measurement attribute for financial reporting purposes. They believe the current valuation guidance provides an adequate conceptual framework for an entity to determine the price or value for a particular asset or liability.

Question 1(a)—Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

11. How specific should the additional valuation guidance be? Should valuation guidance include conceptual valuation guidance, detailed implementation valuation guidance, or some combination of both? Some constituents believe that determining a value for a specific asset or liability largely depends on the facts of a particular transaction and that any guidance issued should be flexible to allow for a reasoned evaluation of a particular situation. Other constituents believe that the current guidance is conceptual and is sufficient for financial reporting purposes. However, they believe that implementation guidance is needed to resolve diversity in the application of the principles for particular fact patterns. They believe that, similar to the guidance provided in many FASB Staff Positions and consensuses of the Emerging Issues Task Force (EITF), implementation valuation guidance for a specific fact pattern would be useful for specific classes of assets and liabilities when there is diversity in how the principles are being applied.

Question 1(b)—What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

12. Some constituents believe that any valuation-guidance-setting activities should be subject to a limited duration. They believe that once principles are established, preparers, auditors, and regulators should be able to apply the principles to all relevant fact patterns. Once initial valuation guidance has been issued, the need for additional valuation guidance should be reevaluated at a later date to determine whether additional guidance is necessary. Other constituents believe that new issues will continue to arise as financial reporting evolves, and preparers, auditors, and regulators will request clarification in the form of additional guidance for

new fact patterns. They believe that a permanent process should be established to provide guidance as new issues continue to arise.

Level of Participation by Existing Appraisal Organizations

Question 2—What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

13. Many constituents acknowledge that, at some level, preparers, auditors, regulators, and investors must be involved in issuing valuation guidance. The issue is whether existing appraisal organizations should have a unique role in that process. Some potential roles for existing appraisal organizations could include (a) not having a unique role, (b) serving as an advisor to any standard setters, or (c) serving as the principal standard setter.

14. Some constituents believe that existing appraisal organizations should not have a unique role in establishing valuation guidance for financial reporting purposes. They believe that individuals or organizations should not develop valuation guidance for financial reporting when they are the principal individuals or organizations applying the valuation guidance in the marketplace, as this creates a conflict of interest. Those constituents note that this view is consistent with the Board's view on other aspects of setting standards for financial reporting. For example, the Board ratifies EITF consensuses.

15. However, other constituents believe that the existing appraisal organizations should serve as advisors to any standard setter that would be established because those organizations have very significant subject matter expertise that provides a better understanding of the issues. Still other constituents believe that the existing appraisal organizations should be the principal standard setter. They believe that those organizations are the most qualified to provide valuation guidance because of their experiences with establishing the value of assets and liabilities. They note that existing appraisal organizations already understand the conceptual and practice issues and believe an appropriate amount of oversight by the FASB will adequately address any concerns with a perceived conflict of interest.

Process for Issuing Valuation Guidance

Question 3—What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

16. The potential processes that could be used to issue valuation guidance include the following:

- a. The FASB could issue valuation guidance without assistance from any external individuals or organizations.
- b. The FASB could issue valuation guidance with the assistance from resource groups for specific issues.
- c. The FASB could issue valuation guidance with the assistance from an organization structured similar to the FASB's EITF.
- d. A separate permanent standard setter could issue valuation guidance under the oversight of the FASB and the SEC.

17. Some constituents believe that the FASB should be responsible for issuing valuation guidance because it already has the infrastructure in place to conduct standard-setting activities. More important, they believe that the guidance needed to satisfy the measurement attribute required by GAAP should be established using the existing financial reporting standard-setting process. They believe that the standard setter that specifies the measurement attribute is in the best position to provide guidance on how to determine the value required by that measurement

attribute. What's more, they believe that the FASB is an independent organization that would not be encumbered by a perceived conflict of interest in developing that guidance.

18. Some constituents believe that a resource group of valuation professionals and other interested parties should be formed to provide recommendations on individual fact patterns to the FASB. Separate resource groups could be formed for different fact patterns or issues. Those constituents believe that the make-up of a resource group could be tailored to the specific asset or liability classes as issues evolve relating to those classes.

19. Another possible process would be the formation of an organization structured similar to the EITF. The EITF comprises representatives of the FASB's constituents with expertise in financial reporting. Those experts help identify, discuss, and resolve financial reporting issues as those issues arise in practice. A similar organization could be formed to focus solely on addressing valuation guidance. The organization could include representatives from all interested parties, including FASB Board members, preparers, existing appraisal organizations, auditors, regulators, and investors. Similar to how it interacts with the EITF, the Board would ratify any consensus reached by this organization.

20. Other constituents believe that a separate permanent standard setter should be established to issue valuation guidance. Those constituents believe that this new standard setter should be independent and should be represented by all parties interested in establishing valuation guidance. They believe that a standard setter separate from the FASB, composed of members with an educational background and industry experience in performing valuations, would be better suited to establish conceptual and implementation guidance related to the determination of value in accordance with the applicable measurement attribute. However, they believe that the FASB staff and the SEC staff should oversee the organization. That oversight could take various forms, including ratifying any consensus reached, being participating members of the standard setter, or being observers at the standard setter's meetings.

International Convergence

Question 4—Should the Process of Valuation Guidance Be on an International or National Level?

21. In considering the process that should be used to issue valuation guidance, the FASB staff would like respondents to comment on whether the focus of any activities that result from this discussion should be on an international level or just a U.S. level. The FASB and the IASB have taken a number of steps in recent years to converge existing accounting standards. However, the FASB and the IASB continue to maintain separate processes for issuing accounting standards, which at times can result in accounting standards that are not completely converged. Additionally, there are currently separate processes for addressing emerging accounting issues and the issuance of any related implementation guidance. Some constituents believe that the accounting standards are sufficiently converged or the issues that exist in valuing assets and liabilities are universal enough to permit issuing valuation guidance on an international basis. However, other constituents believe that valuation issues should be addressed on a U.S.-only basis with a goal of convergence along a similar timeline as that of the FASB and the IASB.

JOINT LEASES PROJECT

Financial Accounting Standards Advisory Council
March 2007



BACKGROUND

1. In July 2006, the FASB and the IASB (Boards) added a joint leasing project to their agendas. The objective of the project is to comprehensively reconsider the guidance in FASB Statement No. 13, *Accounting for Leases*, together with its subsequent amendments and interpretations in order to insure that investors and other users of financial statements are provided with useful, transparent, and complete information about leasing transactions in the financial statements.
2. A joint international working group was formed in late 2006 to provide input on the issues to be considered in the lease project. The working group met for the first time on February 15, 2007. The Boards will begin deliberation of issues in March 2007, with the objective of developing for public comment a discussion paper describing the Boards' preliminary views on fundamental lease accounting issues. The Boards' goal is to publish that discussion paper in the first quarter of 2008.

PURPOSE OF FASAC DISCUSSION

3. Attachments to this paper include four¹ of the agenda papers discussed at the February 2007 working group meeting. The objective of this session is to inform, and solicit views of, FASAC members about some of those issues.
4. The staff has briefly described the four papers from the working group meeting provided to Council members below.

Agenda Paper 2—History of Lease Accounting

5. Agenda paper 2 was not discussed at the working group meeting, and will not be discussed at the FASAC meeting; however, it provides an interesting overview of the history of lease accounting with a particular focus on the underlying models and bases for conclusions used in standards issued prior to Statement 13 and IAS 17, *Leases*. This agenda paper also briefly summarizes certain lease accounting guidance after the initial issuances of Statement 13 and IAS 17. We are providing it to FASAC members as optional background information.

Agenda Paper 5—Identification of Assets and Liabilities Arising in a Simple Lease

¹ All documents discussed at the working group meeting as well as an audio webcast of the meeting can be found at the IASB's website:

<http://www.iasb.org/Meetings/IASB+and+FASB+Working+Group+on+Lease+Accounting.htm>

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6. The purpose of agenda paper 5 is to identify the assets and liabilities that arise in a simple lease contract; that is, a lease contract with one lease term and no options or complex clauses. The agenda paper starts by examining the rights and obligations of the lessee and the lessor that arise from the exchange of promises in a simplified lease contract and then considers whether these rights, obligations, and promises meet the definitions of assets and liabilities in the IASB's *Framework for the Preparation and Presentation of Financial Statements* and FASB Concepts Statement No. 6, *Elements of Financial Statements*. This agenda paper also considers whether the exchange of promises gives rise to assets and liabilities under the preliminary revised definitions of assets and liabilities proposed in the conceptual framework project.
7. Several references are made to agenda paper 4, which provides the existing definitions of assets and liabilities as well as the working drafts of proposed revisions to those definitions. The staff decided not to include that agenda paper as part of this package, but since the definitions will be needed to understand the analysis of agenda papers 5 and 6, the staff is including the definitions as an appendix.

Agenda Paper 6—Analysis of Different Accounting Models for a Simple Lease

8. The purpose of agenda paper 6 is to describe a number of alternative accounting models that have been suggested for lease contracts and compare the assets and liabilities recognized under these models to those identified in agenda paper 5. The conclusions reached in this agenda paper by the staff are based upon a conceptual analysis of the assets and liabilities arising in a simple lease contract.

Agenda Paper 8—Initial Recognition of Assets and Liabilities in Lease Contracts

9. The purpose of agenda paper 8 is to discuss the timing of when the assets and liabilities identified in agenda paper 5 should be initially recognized in the financial statements—on signing of the lease contract, on delivery of the leased item to the lessee, broadly based on facts and circumstances, or some other point in time?

QUESTIONS FOR DISCUSSION

1. Has the staff correctly identified the rights and obligations arising in a simple lease arrangement that meet the asset and liability definitions (agenda paper 5)?

Lessor	Lessee
<ul style="list-style-type: none"> • Liability—Obligation to permit use of the machinery during the lease term. • Asset—Right to receive payments during the lease term. • Right to return of machinery at end of lease term (does not meet the definition of an asset). • Asset—Right to the economic benefits derivable from use of the machinery in the period after the lease term (residual rights). 	<ul style="list-style-type: none"> • Asset—Right to use machinery for the lease term—the right to the economic benefits derivable from use of the machinery. • Liability—Obligation to make specified payments over the lease term. • Obligation to return the machinery at the end of the lease term (does not meet the definition of a liability).

2. Do you agree with the staff that the so-called right of use model should be the basis for developing a model to account for all leases (agenda paper 6)? If not, why not?
3. When should assets and liabilities identified in a lease contract be recognized initially (agenda paper 8)?
 - a. Upon the signing of the contract?
 - b. Upon delivery of the property?
 - c. Based on facts and circumstances?
 - d. Upon some other event (and if so, what other event)?

APPENDIX

Asset and Liability Definitions—Existing Versions and Working Drafts of Proposed Versions

1. The existing IASB and FASB definitions of an asset and the current working version of the proposed definition of an asset are as follows:
 - a. **IASB**

An *asset* is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. [*Framework*, paragraph 49.]

- b. **FASB**

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. [Concepts Statement 6, paragraph 25, Footnote Reference Omitted.]

Current Working Version of Proposed Asset Definition

An *asset* is a present economic resource to which the entity has a present right or other privileged access.

- a. *Present* means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.
- b. An *economic resource* is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. An economic resource can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises that others make to the entity, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c. A *right or other privileged access* enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. *Rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). *Other privileged access* is not enforceable, but is otherwise protected by secrecy or other barriers to access.

2. The existing IASB and FASB definitions of a liability and the draft proposed definition of a liability are as follows:
- a. **IASB**

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. [*Framework*, paragraph 49.]

- b. **FASB**

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. [Concepts Statement 6, paragraph 35, Footnote References Omitted.]

Draft Proposed Definition of a Liability

A liability is a present economic burden for which an entity has a present obligation.

- a. *Present* means that both the economic burden and the obligation exist on the date of the financial statements.
- b. *An economic burden* is something that has negative economic value. It is capable of requiring the sacrifice of economic resources. An economic burden can require cash outflows or reduce cash inflows, directly or indirectly, alone or together with other economic burdens. Economic burdens include non-conditional contractual promises that the entity makes to others, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c. *An obligation* requires the entity to bear the present economic burden directly or indirectly. Obligations are legally enforceable or enforceable by equivalent means (such as by a professional association).

STATEMENT 133 HEDGE ACCOUNTING ISSUES

Financial Accounting Standards Advisory Council

March 2007

Overview

Over the past few months the FASB has been asked to address a number of implementation issues related to hedge accounting in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Board has decided to address some of those issues in a narrowly scoped implementation issue addressing specific criteria in the shortcut method and also is considering a broader project that would reconsider the basic hedge accounting model in Statement 133.

The issues being addressed in the more narrowly scoped implementation issue on the shortcut method are as follows:

1. Application of the shortcut method when the hedged item has a fair value that is not equal to its par value at the inception of the hedging relationship.
2. Application of the shortcut method when the hedged item is subject to principal pay-downs prior to maturity (for example, amortizing debt).
3. Clarification of when the terms of a hedging relationship invalidate the assumption of no ineffectiveness.

With regard to considering a broader project on the basic hedge accounting model in Statement 133, the FASB staff has begun researching hedge accounting practice issues. Some of those issues have been identified as follows:

1. Difficulty in complying with the complex requirements of assessing effectiveness on a prospective and retrospective basis.
2. Difficulty in complying with the complex requirements of calculating the change in fair value attributable to the hedged risk for financial instruments when the hedged risk is not the risk of change in the overall fair value or overall cash flows.
3. Misunderstanding and disagreement on how to handle the time value of money in assessing effectiveness and measuring ineffectiveness in hedge accounting relationships.
4. Difficulty in determining and identifying the hedged item (hedged transaction) when hedging groups of assets and liabilities (or groups of forecasted transactions).

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Discussion at March FASAC Meeting

The purpose of the discussion at the March FASAC meeting is to obtain FASAC member input on the Board's direction on addressing Statement 133 hedge accounting issues.

Proposed Implementation Issue, "Application of the Shortcut Method"

At the January 31, 2007 Board meeting, the Board decided to proceed with the exposure of a proposed Statement 133 Implementation Issue, "Application of the Shortcut Method." The proposed implementation issue will provide clarifying guidance on how the practice issues described above should be evaluated within the context of the paragraph 68 criteria. Those practice issues relate to the following criteria in paragraph 68:

Paragraph 68 (a):

The notional amount of the swap matches the principal amount of the interest bearing asset or liability being hedged.

Paragraph 68(b):

If the hedging instrument is solely an interest rate swap, the fair value of that swap at the inception of the hedging relationship is zero.

Paragraph 68(e):

Any other terms in the interest-bearing financial instruments or interest rate swaps are typical of those instruments and do not invalidate the assumption of no ineffectiveness.

The issues to be addressed in an implementation issue are provided in an appendix to this paper. The implementation issue provides examples illustrating the issues along with guidance on how those issues should be addressed in the context of the criteria in paragraph 68. An Exposure Draft of the implementation issue is expected to be posted to the FASB website by the end of March.

Reconsideration of Basic Hedge Accounting Model

The FASB staff has begun to research practice issues relating to hedge accounting in Statement 133. The research is expected to be completed by late March. The staff will present the issues to the Board along with scope alternatives for a project to address hedge accounting in mid to late April.

The scope of a potential project to reconsider the basic hedge accounting model in Statement 133 could range from being as narrow as reconsidering how the guidance in paragraph 65 should be applied to as broad as eliminating the notion of bifurcation-by-risk. The elimination of bifurcation by risk does not necessarily mean the elimination of fair value and cash flow hedge accounting. The guidance in paragraph 65 allows for no ineffectiveness to be recognized in earnings during the term of a hedge when the critical terms of the hedging

instrument and the entire hedged item are the same. There is diversity about what are critical terms and what are not critical terms in a hedging relationship.

Discussion Questions

1. Do FASAC members have any specific concerns that one or more of the proposed clarifications in the proposed implementation issue on the shortcut method will not be operational or represents a significant change in practice?
2. Do FASAC members believe the Board should reconsider the basic hedge accounting model in Statement 133?
3. Do FASAC members have suggestions on how hedge accounting could be improved?

APPENDIX

Proposed Implementation Issue: “Application of the Shortcut Method”

The proposed shortcut implementation issue will provide guidance on the following practice issues:

1. **Amortizing Debt:** Can qualify for shortcut provided that the notional amount of the swap matches the principal amount of the debt throughout the hedging relationship.
2. **Zero-Coupon Debt:** Violates paragraph 68(a) and 68(e), and thus does not qualify for the shortcut method.
3. **Trade-Date/Settlement-Date:** Changes in value of the swap between the trade-date of the swap (commitment date of the debt) and the settlement date of the debt would not disqualify the hedging relationship from applying the shortcut method, provided the timing difference was no more than the typical settlement period seen in the market, which for the United States is three days.
4. **Market Convention Rounding:** In instances where the fair value of debt at issuance differs slightly from its par amount due to a rounding-down of the coupon rate affected by normal market conventions, the shortcut method would be allowed.
5. **Paragraph 68(e):** The application of paragraph 68(e) will be clarified to indicate that terms must be neither atypical, nor invalidate the assumption of no ineffectiveness, to meet the paragraph's criteria.
6. **Late-Hedging:** Hedging relationships entered into subsequent to the issuance of debt would not qualify for the shortcut method since the par value of the debt would not equal its fair value at hedge inception.

TRANSITION

An entity that had designated a qualifying hedging relationship utilizing the shortcut method that no longer qualifies for the shortcut method based on the newly issued implementation guidance must de-designate that hedging relationship prospectively (that is, the hedging relationship must be de-designated at the effective date). If the hedging relationship had been a fair value hedge, the recognition in earnings of the adjustment of the carrying amount

of the hedged asset or liability for the period prior to the effective date should not be reversed. If the hedging relationship had been a cash flow hedge, the derivative's gain or loss for the period prior to the effective date shall remain in accumulated other comprehensive income (OCI) and be reclassified into earnings when the hedged transaction affects earnings.

Under this method, the hedge could be re-designated, presuming it still qualified as being highly effective, with effectiveness measured under the "long-haul" method.



FINANCIAL STATEMENT PRESENTATION

Financial Accounting Standards Advisory Council March 20, 2007

Introduction

The financial statement presentation project is a joint project with the IASB. At the March FASAC meeting, the Board would like to discuss the following issues:

1. Preliminary views on presentation format and classification guidelines
2. Disaggregation of changes in assets and liabilities
3. The level at which an entity should apply the classification guidelines.

Council members will discuss the first two issues in break-out sessions; they will discuss the third issue as a group. A summary of the Boards' views reached to date is included as Exhibit 1.

Issue 1: Preliminary Views on Presentation Format and Classification Guidelines

The Boards' preliminary view is that information in the financial statements should be classified into the sections and categories illustrated in the following table.

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business ♦ Operating assets and liabilities ♦ Investing assets and liabilities Discontinued operations Financing ♦ Financing assets ♦ Financing liabilities Equity Income taxes	Business ♦ Operating income ♦ Investment income Discontinued operations Financing ♦ Financing income ♦ Financing expenses Income taxes	Business ♦ Operating cash flows ♦ Investing cash flows Discontinued operations Financing ♦ Financing asset cash flows ♦ Financing liability cash flows Equity Income taxes
	Statement of Changes in Equity	

An entity would classify its assets and liabilities on the statement of financial position based on the guidelines presented below. An entity would be required to explain, as a matter of accounting policy, its basis (or bases) for classifying assets and liabilities. An entity would classify all changes in assets and liabilities consistently in the statement of comprehensive income and the statement of cash flows (for example, a change in accounts receivable due to a sale transaction would be classified in the operating income category consistent with the classification of the receivable as an operating asset).

Note: These materials are provided to facilitate understanding of the issues to be addressed at the March 20, 2007 FASAC meeting. These materials are presented for discussion purposes only; they are 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 deliberation.

- The **Operating** category (in the Business section) would include assets and liabilities that management views as integral to its main business activities. Operating assets and liabilities would be included in the same category; they would not be separated into operating assets and operating liabilities.
- The **Investing** category (in the Business section) would include assets and liabilities that are not related to financing the entity's business activities that management views as not integral to its main business activities (referred to as investing assets and liabilities).
- The **Financing** section would include financial assets and financial liabilities that management views as part of the financing of the entity's business activities (referred to as financing assets and financing liabilities).
- The **Equity** section would include all equity items. Changes in equity items would be presented in the equity section of the statement of cash flows and in the statement of changes in equity.

(Additional guidance and examples would be provided; refer to Exhibit 1.)

Illustrative Financial Statements

Attached as Exhibit 2 is a complete set of financial statements illustrating the Boards' views to date; those financial statements are presented along with financial statements based on the current reporting format.

Question for Council Members

1. Does the revised presentation format provide more useful information than the current reporting format? If so, in what ways? If not, what would be an improvement?

Issue 2: Disaggregation of Changes in Assets and Liabilities

One of the project's working principles states that the financial statements should help investors and other users understand the causes of change in reported amounts of individual assets and liabilities. For example, a change recognized on the statement of comprehensive income could be due to a change in price, a transaction, or a change in estimate. An investor might weigh each of those changes differently in predicting future cash flows.

At the October 2006 joint Board meeting, the Boards agreed that the financial statements should present information about the various components of comprehensive income. The Boards agreed that, at a minimum, comprehensive income should be disaggregated into changes in prices and estimates (referred to as remeasurements) and other components (referred to as non-remeasurements) (not necessarily on the face of the statement of comprehensive income, however). The Boards directed the staff to consider how the remeasurement and non-remeasurement components of comprehensive income could be further disaggregated and effectively communicated.

At their meetings the week of March 19, the Boards will continue their discussion of the types of information about changes in assets and liabilities that might be presented in the financial statements. That discussion will encompass changes that are reported in the statement of comprehensive income as well as the statement of cash flows. Some of the issues the Boards will address are described below.

Non-Remeasurements—Cash Transactions

The amounts presented in the statement of cash flows represent all cash flows for the current period. Some users have said that cash flow information would be more useful if the cash flows of the period were further disaggregated into:

- a. cash transactions that give rise directly to comprehensive income for the current period and any collections of receivables and payments of payables related to comprehensive income for the current period; and
- b. all other cash transactions (for example, cash collected on sales made in the prior period or advances from customers for sales in future periods).

Components of comprehensive income that accompany cash transactions within the same period are often considered more certain than income and expense items that do not accompany cash transactions. Accordingly, proponents of disaggregating cash flows as described above argue that doing so would help them in predicting future cash flows.

In order to disaggregate cash flows as described above, an entity would be required to track the cash receipts and payments that relate to income and expenses for the current period. Thus, an issue for the Boards' to consider is whether the benefits of presenting information disaggregated at this level justifies the costs of providing it.

Non-Remeasurements—Timing Differences

Non-remeasurements that are not cash transactions but are recognized in comprehensive income for the current period consist of the following:

- a. Initial recognition of an estimate (for example, initial recognition of a provision)
- b. Systematic allocation of costs (for example, depreciation and unwinding of a discount rate for asset retirement obligations (AROs))
- c. Other timing differences between the period in which a component of comprehensive income is recognized and the period in which actual cash flows occur (for example, the recognition of rent expense prepaid in prior periods and accrued expenses).

Some argue that items in (c) are different from those in (a) and (b) in the sense that the recognition of the (c) components of comprehensive income requires little judgment by the entity. Those holding that view think it would be useful to disaggregate non-remeasurements into those changes involving management judgment and those that do not.

Remeasurements

Remeasurements (changes in assets and liabilities due to changes in prices or estimates) could be disaggregated in a variety of ways. Some users have indicated that it would be helpful if the changes in fair value that relate to assets and liabilities measured on a recurring basis, as stated in FASB Statement No. 157, *Fair Value Measurements*, were disaggregated from other remeasurements. Others might prefer that all recurring remeasurements be separated from non-recurring remeasurements.

Exhibit 3 (provided only to Council members) illustrates one possible way that the various changes addressed above could be presented in the financial statements. As illustrated, the changes in assets and liabilities would be disaggregated into the following:

- a. Cash transactions that give rise directly to income or expense for the current period and any collections of receivables and payments of payables related to income and expense items for the current period (referred to as *Non-remeasurements—cash related to current period income or expense*).
- b. Changes due to initial recognition of an estimate and systematic allocation of costs (referred to as *Non-remeasurements—allocations and initial estimates*)
- c. Changes due to timing differences between the period income or expense is recognized and the period actual cash flows occur other than initial recognition of an estimate and

systematic allocation of costs (referred to as *Non-remeasurements–other timing differences*)

- d. Recurring fair value changes (referred to as *Remeasurements–recurring fair value*).
- e. Changes due to remeasurements that are not recurring fair value changes, including OCI items (referred to as *Remeasurements–other*)

Statement of Cash Flows

At the December 2006 Board meeting, the Board indicated a preference for presenting the statement of cash flows based on cash receipts and payments. Proponents of the direct method of presenting cash flows from operating activities argue that the information would be more useful if the line items in the statement of cash flows parallel the line items in the statement of comprehensive income. While proponents of the direct method admit that the line items in the statement of cash flows cannot completely parallel the line items in the statement of comprehensive income (for example, capital expenditure in the statement of cash flows and depreciation expense in the statement of comprehensive income), they argue that the line items should be aligned to the extent possible. (Refer to the proposed statement of cash flows in Exhibit 2.)

Proponents of the direct method further argue that, if the line items in the statement of comprehensive income and the statement of cash flows were aligned, there would be no need for a reconciliation between a subtotal on the statement of comprehensive income and a subtotal on the statement of cash flows.

Questions for Council Members

2. What are the benefits of providing information about the amount of income or loss arising from remeasurements (changes in prices and estimates) separately from information about the amount or loss not arising from remeasurements?
3. Assuming such information is useful, is there benefit in
 - a. Disaggregating non-remeasurements related to cash transactions into those that relate to current period income and expense and other periods?
 - Do current systems provide such information and, if not, could they be easily modified to do so?
 - b. Presenting information about non-remeasurements that involve management judgment (initial estimates and systematic allocation of costs) separately from other changes that are not remeasurements (that is, other timing differences such as accrued expenses)?
 - Do current systems provide such information and, if not, could they be easily modified to do so?
 - c. Presenting recurring fair value changes separately from other remeasurements?
 - Do current systems provide such information and, if not, could they be easily modified to do so?
4. Should the statement of cash flows be presented such that receipts and payments of cash are disaggregated in a manner that parallels the line items in the statement of comprehensive income to the extent possible? If the statement of cash flows and comprehensive income were so aligned, what would be the benefit of reporting a reconciliation between subtotals in the statement of comprehensive income and the statement of cash flows?

Issue 3: The Level at Which an Entity Should Apply the Classification Guidelines

The Boards' preliminary view is that the overall working format and classification guidelines should apply to all entities, including financial institutions. In reaching that preliminary view, the Boards acknowledged that a financial institution might classify its assets and liabilities in different categories than a non-financial entity because those entities are engaged in different businesses. The overall difference would be that a financial institution might classify many more of its financial assets and liabilities in the operating category than a non-financial entity would (the non-financial entity might likely classify many financial assets and liabilities in the investing and financing categories).

Based on the preliminary view that application of the classification guidelines by financial institutions and non-financial entities will result in assets and liabilities being classified differently (but presumably consistently within an industry), the Boards have been asked how an entity that is comprised of significant financial and non-financial operations, such as General Electric or General Motors, would apply the classification guidelines.

In other words, should a consolidated reporting entity consisting of both financial and manufacturing segments apply the classification guidelines at the segment level even though that might result in similar assets or liabilities being reported in different categories within the consolidated financial statements? For example, the financial segment might classify debt in the operating category while the manufacturing segment may classify debt in the financing liability category.

Although that issue may be more readily apparent in the case of an entity with both financial and non-financial segments, a similar question arises for any diversified entity engaged in a variety of different operating activities, such as a manufacturer with retail operations, or vertically integrated entities such as in the oil and gas industries.

The Boards have agreed that the initial discussion document should provide their preliminary view on this high-level question. Two possible alternatives are:

- a. Decisions about how to categorize individual assets and liabilities should be made at the operating segment (or other) level. The accounting policy note would disclose differences in classifications and reasons for them.
- b. Decisions about how to categorize assets and liabilities is an accounting policy choice that should be applied consistently across all operating segments. An exception would be made for entities comprised of financial and nonfinancial operations.

If the Boards are of the view that an entity that engages in a variety of different operating activities should be permitted to have different classification policies for each different operation, a related question is at what level may those policies differ? That is, may each reporting unit or operating segment decide its classification policy or should the classification policy be set at the reportable segment level or higher?

While there are various alternatives for how an entity would present information in its financial statements if its operations have different classification policies, the preliminary views document will focus on the classification issue rather than the format issue.

Questions for Council Members

5. Which of the two alternatives described above would provide more useful financial information, and why? If the Board permits an entity that engages in a variety of different operating activities to adopt different classification policies, at what level may those policies differ (that is, should the policy be applied at an operating segment level, or some other level)?

**FINANCIAL STATEMENT PRESENTATION PROJECT
SUMMARY OF TENTATIVE PRELIMINARY VIEWS
March 2007**

BACKGROUND AND OBJECTIVE

1. The financial statement presentation project is a joint project with the IASB. Since April 2006 the Boards have been discussing fundamental issues related to the presentation and display of information in each of the basic financial statements. The Boards' goal is to issue an initial discussion document on those issues in the third quarter of 2007. That discussion document will be in the form of a Preliminary Views for the FASB and a Discussion Paper for the IASB.
2. The Boards took on this joint project to establish a common, high-quality standard for presentation of information in the basic financial statements, including the classification and display of line items and the aggregation of line items into subtotals and totals. The goal is to establish standards for presentation of information in the individual financial statements (and among the financial statements) in ways that improve the ability of investors, creditors, and other financial statement users to:
 - a. Understand an entity's present and past financial position
 - b. Understand the past operating, financing, and other activities that caused an entity's financial position to change and the components of those changes
 - c. Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

Working Principles

3. Financial statements should present information in a manner that:
 - a. Portrays a cohesive financial picture of an entity
 - b. Separates an entity's financing activities from its business and other activities and further separates financing activities between transactions with owners in their capacity as owners and all other financing activities
 - c. Helps a user assess the liquidity of an entity's assets and liabilities (nearness to cash or time to conversion to cash) (The Board is considering whether the notion of solvency should be included in this working principle)
 - d. Helps a user understand:
 - (1) The basis on which assets and liabilities are measured
 - (2) The uncertainty in measurements of individual assets and liabilities
 - (3) What causes a change in reported amounts of individual assets and liabilities
 - e. Disaggregates line items if that disaggregation enhances the usefulness of that information in predicting future cash flows.
 - f. Helps investors, creditors, and others to assess:
 - (1) An entity's ability to generate future cash inflows

- (2) An entity's ability to meet its obligations, its ability to pay dividends, and its need for external financing
- (3) The difference between cash transactions and accrual accounting
- (4) The effects of noncash activities during the period on an entity's financial position.

Working Format

4. The Boards agree on a working format for presenting information within the basic financial statements. That format is presented in the following table. The Boards tentatively agreed that the overall working format—the categorization scheme and criteria for classifying items in the financing, operating, and investing categories—should apply to all business entities, including financial institutions.

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business <ul style="list-style-type: none"> ◆ Operating assets and liabilities ◆ Investing assets and liabilities Discontinued operations Financing <ul style="list-style-type: none"> ◆ Financing assets ◆ Financing liabilities Equity Income taxes	Business <ul style="list-style-type: none"> ◆ Operating income ◆ Investment income Discontinued operations Financing <ul style="list-style-type: none"> ◆ Financing income ◆ Financing expenses Income taxes	Business <ul style="list-style-type: none"> ◆ Operating cash flows ◆ Investing cash flows Discontinued operations Financing <ul style="list-style-type: none"> ◆ Financing asset cash flows ◆ Financing liability cash flows Equity Income taxes
	Statement of Changes in Equity	

Cohesiveness of the Financial Statements

5. The overall goal of the working format is to present a cohesive financial picture of an entity; that is, the relationships between items on the different financial statements are clear (sometimes thought of in terms of articulation or linkage). To achieve that goal, assets and liabilities would be classified based on the guidelines presented below. Changes in those assets and liabilities would be classified consistently in the statement of comprehensive income and the statement of cash flows.

Classification Guidelines and Related Disclosures

6. The **Operating category** (in the **Business section**) would include assets and liabilities that management views as integral to its main business activities. Operating assets and liabilities would be included in the same category; they would not be separated into operating assets and operating liabilities. As explained in item 13 below, entities would be required to explain through note disclosure its basis for classifying assets and liabilities within the operating and other categories.
7. The **Investing category** (in the **Business section**) would include assets and liabilities that are not related to financing the entity's business activities that

management views as not integral to its main business activities (referred to as investing assets and liabilities).

- a. Examples of items classified in the investing category of a non-financial entity are: AFS financial instruments and financial instruments held to hedge items included in the investing category. [Note: different examples would be provided for financial institutions.]
8. The **Financing section** would include financial assets and financial liabilities that management views as part of the financing of the entity's business activities (referred to as *financing assets and liabilities*).
- a. In determining whether a financial asset or liability should be included in the financing section, an entity should consider whether the item is interchangeable with other sources of financing and whether the item can be characterized as independent of specific business activities.
 - b. The following are examples of financial assets and financial liabilities that would generally be included in the financing section for a non-financial entity: cash and cash equivalents, bank loans, AFS financial instruments, bonds, and leases, plus financial instruments held to hedge any of these items. [Note: different examples would be provided for financial institutions.]
 - c. Cash and cash equivalents would be reported in a single category and presented as a separate line item in that category. (In March 2007 the Boards will revisit the definition of *cash and cash equivalents* in light of current practice issues with the existing definition.)
9. The **Equity section** would include all equity items. Changes in equity items would be presented in the equity section of the statement of cash flows and in the statement of changes in equity.
10. All *income taxes*, including taxes related to transactions with owners, would be presented separately in an **Income Taxes section**.
- a. Income taxes would not be allocated to continuing operations, discontinued operations, and so forth (that is, all items, including discontinued operations and other comprehensive income items would be presented on a pre-tax basis).
 - b. The notes to financial statements will include information to assist users in analyzing income tax information due to this change in presentation.
11. Discontinued operations would be presented separately in the **Discontinued Operations section**.
- a. A discontinued component of an entity would be reported in the discontinued operations section only if that component is an *operating segment*, as defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and IFRS 8 *Operating Segments*.
 - b. The IASB is of the view that the assets and liabilities of discontinued operations should be presented on a gross basis on the statement of financial position (that is, two amounts). The FASB is of the view that a single amount (net assets) should be presented on the statement of financial position.

- c. Profit (loss) of the discontinued operation and any gain (loss) from measurement to fair value or disposal could be combined and presented on the face of the statement of comprehensive income as a single amount.
 - d. Total cash flows related to the discontinued operations could be combined and presented in the statements of cash flows as a single amount.
 - e. An entity would be required to disclose the following information in the notes to financial statements for both a component reported in the discontinued operation section and a discontinued component that was reported in the business section because it was not an operating segment.
 - Information currently required to be disclosed about discontinued components expanded to include information about major classes of: revenues and expenses; cash flows; and assets and liabilities.
12. **Extraordinary items** would not be presented as a separate section or category in the financial statements and the concept of extraordinary items would be eliminated.
13. An entity would be required to explain, as a matter of accounting policy, its basis (or bases) for classifying assets and liabilities in the financing categories, the investing category, and the operating category.

The Statement of Financial Position

14. Assets or liabilities that are measured differently would be presented in separate line items on the statement of financial position (that is, entities would not be able to combine items with different measurement bases and present them in a single line item).
15. The Boards indicated that while some entities should further classify their assets and liabilities in each of the categories into short- and long-term subcategories (present a classified statement of financial position), a classified statement of financial position is not the best way to present liquidity information for all entities. For entities that present a classified statement of financial position, an asset or liability (other than a deferred tax asset or liability) would be classified as short-term if the shorter of (a) the contractual maturity or (b) the expected realization or settlement of the asset or liability is within one year. Otherwise, the asset or liability would be classified as long-term. [The Boards will discuss this issue at a future Board meeting (refer to Notes to Financial Statements).]

The Statement of Comprehensive Income

16. An entity would be required to disaggregate information in the statement of comprehensive income based on (a) information based on the primary activities (functions) in which it engages and (b) within those functions, information about the significant related expenses by their nature. The by-nature expense information would be presented on the statement of comprehensive income unless impracticable. In that case, an entity would present that information in the notes. In addition, an entity would be required to separately report any expense that is important in understanding its operating results that may not relate to a functional line item.

- Certain entities (for example, entities in a service industry), would not be required to present information based on functions at a more detailed level than is required by the functional separation of operating, investing and financing activities. Those entities would present their significant expenses (by their nature) for each of those higher-level activities.
17. The Boards expressed their view that all current period changes in assets and liabilities should be presented in one of the functional categories on the statement of comprehensive income, thereby rendering “other comprehensive income” and the mechanism of recycling would unnecessary. The Board believes that achieving that view is a long-term goal. To achieve it, current standards that require recognition of amounts in OCI will need to be changed. Therefore, the Boards acknowledged that, as an interim step, OCI items might need to be presented in a separate section of the statement of comprehensive income.
18. In further discussions of the interim step toward their long-term goal, the FASB tentatively decided that OCI items should be presented in a subcategory within the functional category to which the events or transactions relate (for example, the operating, investing, or financing categories) on the statement of comprehensive income. A subcategory within the functional categories would distinguish items of income and expense that are OCI components from those that are not. Accordingly, all current period changes in assets and liabilities would be recognized in one of the functional sections or categories on the statement of comprehensive income. The Boards decided that an OCI item should be reclassified, if necessary, within the functional category in which the item was initially recognized.
19. The IASB did not reach a consensus on how OCI items should be presented in the statement of comprehensive income. The IASB asked the staff to develop an alternative presentation format that would present income and expense items in short-term and long-term subcategories for discussion in March 2007.

Statement of Cash Flows

20. The Boards tentatively indicated that information similar to that currently presented on a statement of cash flows prepared using the direct method of reporting operating cash flows and the related reconciliation should continue to be presented in the financial statements. In addition, the Boards tentatively indicated that information about noncash activities should also be presented. However, the Boards acknowledged that there may be a more effective way to present that information and directed the staff to explore the possibility of presenting that information as part of a broader disclosure that the Boards will discuss in March 2007.

Statement of Changes in Equity

21. The statement of changes in equity should include details of the change in the beginning and ending balance of each component of equity (except for accumulated OCI, which would be presented in the aggregate on the statement of changes in equity and the details for each OCI item in the notes to financial statements). In addition, the Boards agreed that proceeds from capital transactions should be presented in the aggregate on the statement of changes in equity.

Notes to Financial Statements

Liquidity Information

22. The Board is considering whether an entity should be required to disclose qualitative information regarding its liquidity management policy and processes. This might be similar to the requirements in IFRS 7, *Financial Instruments: Disclosures*, and SEC Regulation S-K to disclose qualitative information regarding liquidity management.
23. The Boards have indicated that some entities should present details of **short-term** maturities in the notes for short-term assets and liabilities that have a contractual term (such as a loan payable). That maturity information would be provided for more than one time band, similar to what is required by IFRS 7 for financial liabilities. The maturities of those assets and liabilities would be classified by either
- a. **the shorter of** (i) the contractual maturity or (i) the expected realization or settlement of the asset or liability; or
 - b. (i) the contractual maturity **and** (ii) the expected realization or settlement of the asset or liability, provided that it is consistent with the entity's liquidity management activities. Under this approach, any major differences between (i) and (ii) should be explained.

The Boards also indicated that some entities should be permitted to present a classified statement of financial position instead of presenting this maturity information. (The Boards plan to discuss this issue in April 2007.)

24. Details of **long-term maturities** would be presented in the notes for long-term assets and liabilities that have a contractual term (such as contractual receivables and lease obligations). Total short-term assets, total long-term assets, total assets, and similar totals for liabilities also would be disclosed in the notes to financial statements.

Measurement Information

25. Information about the **measurement basis** (or bases) of the assets and liabilities presented on the statement of financial position would be disclosed in the summary of significant accounting policies. In deciding whether a particular accounting policy should be disclosed, management would consider whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the financial statements.
26. The financial presentation standard will include a general requirement that the notes to financial statements describe any **significant uncertainty in the current measure** of assets and liabilities and explain why the measured amount was selected. Individual accounting standards would include more specific disclosures about measurement uncertainty as appropriate.
27. The financial statements should provide information that will allow a user to distinguish between the various changes in assets and liabilities, noting that some are due to fair value changes and changes in estimates (that is, remeasurements) while other changes in assets and liabilities are not due to remeasurements, but are due to cash transactions or accruals. The Boards will discuss this issue in March 2007.

FINANCIAL STATEMENT PRESENTATION PROJECT
SAMPLE FINANCIAL STATEMENTS—COMPREHENSIVE ILLUSTRATION
March 2007

The following pages utilize sample financial statements for a non-financial entity to illustrate the Boards' preliminary views through February and to compare the reporting model being developed with that used in current practice. The financial statements illustrating the views to date are presented side-by-side with financial statements similar to those being prepared under current standards. [Not all of the Boards' views are included in these sample financial statements (primarily the note disclosures, which are described in Exhibit 1).]

The sample financial statements are based on data from a report of the CFA Institute, Centre for Financial Market Integrity, *A Comprehensive Business Reporting Model, Financial Reporting for Investors* (CFA Report). That report does not include data to prepare a 2005 statement of comprehensive income, statement of cash flows, or statement of changes in shareholders' equity. Accordingly, the staff made assumptions to complete those 2005 change statements. The staff made other modifying assumptions to the data in the CFA Report in order to illustrate the Boards' views.

Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards. Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented. Nor have the Boards discussed the manner and order in which individual assets and liabilities would be presented on the statement of financial position. Accordingly, those aspects of the sample financial statements are not necessarily representative of the Boards' position on those issues.

In preparing the financial statements purporting to represent current practice, the staff assumed the reporting entity chose to (a) prepare its statement of cash flows under the indirect method and to (b) report the components of other comprehensive income and total comprehensive income in its statement of changes in equity.

The following proposed financial statements are for illustration only and should not be construed to represent an official position of the Boards. Official positions of the FASB and IASB are established only after extensive due process and deliberation.

STATEMENT OF FINANCIAL POSITION - PROPOSED		
	2006	2005
BUSINESS		
Operating assets and liabilities		
Accounts receivable	845,000	595,000
Less: Allowance for bad debts	(70,500)	(20,000)
Accounts payable	(375,000)	(850,000)
Accrued liabilities	(78,000)	(28,000)
Advances from customers	(190,000)	(15,000)
Dividends payable	(35,000)	-
Accrued stock compensation	(13,500)	(6,000)
Inventory	403,750	850,000
Leased asset	25,756	-
Current portion of lease liability	(9,208)	-
Lease liability (excl current portion)	(24,870)	-
Accrued pension liability	(4,800)	(2,400)
Building	4,260,000	3,600,000
Less: Accumulated depreciation	(275,000)	(100,000)
Net operating assets	4,458,628	4,023,600
Investing assets and liabilities		
Trading securities	196,100	-
Investment in affiliate	722,250	-
Net investing assets	918,350	-
Net business assets	5,376,978	4,023,600
FINANCING		
Financing assets		
Cash	5,918,411	4,000,000
Total financing assets	5,918,411	4,000,000
Financing liabilities		
Interest payable	(125,000)	-
Short-term debt	(500,000)	-
Bonds payable	(2,500,000)	-
Total financing (liabilities)	(3,125,000)	-
Net financing assets	2,793,411	4,000,000
INCOME TAXES		
Income tax payable	(75,451)	(54,639)
Net long-term deferred tax (liabilities)	(56,819)	(23,699)
Net income tax (liabilities)	(132,270)	(78,338)
Total net assets	8,038,119	7,945,262
EQUITY		
Common stock and APIC	(5,000,000)	(5,000,000)
Treasury stock	100,000	100,000
Retained earnings	(2,823,492)	(2,890,635)
Accumulated OCI	(314,627)	(154,627)
Total (equity)	(8,038,119)	(7,945,262)

STATEMENT OF FINANCIAL POSITION - CURRENT		
	2006	2005
ASSETS		
Cash	5,918,411	4,000,000
Trading securities	196,100	-
Accounts receivable, net	774,500	575,000
Inventory	403,750	850,000
Investment in affiliate	722,250	-
Leased asset	25,756	-
Building, net	3,985,000	3,500,000
Total assets	12,025,767	8,925,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	500,000	-
Accounts payable	375,000	850,000
Advances from customers	190,000	15,000
Accrued liabilities	78,000	28,000
Other accrued expenses	143,300	8,400
Accrued income tax	75,451	54,639
Deferred tax liability, net	56,819	23,699
Dividends payable	35,000	-
Lease liability	34,078	-
Bonds payable	2,500,000	-
Total liabilities	3,987,648	979,738
Common stock and APIC	1,000,000	1,000,000
Additional paid in capital	4,000,000	4,000,000
Treasury stock	(100,000)	(100,000)
Retained earnings	2,823,492	2,890,635
Accumulated OCI	314,627	154,627
Total equity	8,038,119	7,945,262
Total liabilities and shareholders' equity	12,025,767	8,925,000

The following proposed financial statements are for illustration only and should not be construed to represent an official position of the Boards. Official positions of the FASB and IASB are established only after extensive due process and deliberation.

STATEMENT OF COMPREHENSIVE INCOME - PROPOSED		
	2006	2005**
BUSINESS		
Operating		
Net sales		
Gross sales	2,775,000	2,580,750
Less: Bad debt expense	(50,500)	(46,965)
Net sales	2,724,500	2,533,785
Cost of goods sold		
Change in inventory	(249,250)	(231,803)
Materials	(1,472,000)	(1,368,960)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Total cost of goods sold	(1,937,194)	(1,801,590)
Selling expenses		
Compensation expense	(85,000)	(79,050)
Pension expense	(2,000)	(1,860)
Other operating expenses	(70,000)	(65,100)
Total selling expenses	(157,000)	(146,010)
General and administrative expenses		
Rent expense	(120,000)	(111,600)
Pension expense	(1,600)	(1,488)
Stock compensation expense	(7,500)	(6,975)
Depreciation expense	(75,000)	(69,750)
Total G&A expenses	(204,100)	(189,813)
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Other operating expenses	(80,000)	(74,400)
Total other operating expenses	(95,000)	(88,350)
Net operating income	331,206	308,022
Other comprehensive income		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Comprehensive operating income	491,206	461,402
Investing		
Equity in earnings of affiliate	12,250	11,393
Dividend income	9,250	8,603
Gain on marketable securities	11,100	10,323
Net investing income	32,600	30,318
Other comprehensive income		
Unrealized gain on available-for-sale sec.	-	1,247
Comprehensive investing income	32,600	31,565
FINANCING		
Interest expense	(252,378)	(234,712)
Comprehensive financing (expense)	(252,378)	(234,712)
INCOME TAXES		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Comprehensive income tax (expense)	(108,571)	(100,971)
Total comprehensive income	162,857	157,284

STATEMENT OF COMPREHENSIVE INCOME - CURRENT		
	2006	2005**
Net sales	2,724,500	2,533,785
Costs and expenses		
Cost of goods sold	1,937,194	1,801,590
Selling, general and administrative expense	361,100	335,823
Other income	(32,600)	(30,318)
Other expense	95,000	88,350
Interest expense	252,378	234,712
Total costs and expenses	2,613,072	2,430,157
Income before income taxes	111,428	103,628
Provision for income taxes	108,571	100,971
Net income	2,857	2,657

The following proposed financial statements are for illustration only and should not be construed to represent an official position of the Boards. Official positions of the FASB and IASB are established only after extensive due process and deliberation.

STATEMENT OF CASH FLOWS - PROPOSED			STATEMENT OF CASH FLOWS - CURRENT		
	2006	2005**		2006	2005**
Cash flows from business activities			Cash Flows from Operating Activities		
Operating			Net income		
Cash received from sales	2,700,000	2,511,000	Adjustments to reconcile net income to net cash provided by operating activities	2,857	2,657
Cash paid for goods sold			Depreciation expense	230,944	218,278
Cash paid for inventory purchases	(1,750,000)	(1,627,500)	Bad debt expense	50,500	46,965
Cash paid for labor	(70,000)	(65,100)	Amortization expense	83,917	74,542
Total cash paid for goods sold	(1,820,000)	(1,692,600)	Deferred income taxes	33,120	30,802
Cash paid for selling activities			Change in operating assets and liabilities		
Cash paid for compensation	(70,000)	(65,100)	Accounts receivable	(199,500)	(185,535)
Cash contributions to pension plan	(700)	(651)	Accounts payable and accrued liabilities	(425,000)	(395,250)
Cash paid for other expenses	(45,000)	(41,850)	Advances from customers	175,000	162,750
Total cash paid for selling activities	(115,700)	(107,601)	Dividends payable	(35,000)	(32,550)
Cash paid for general and admin activities			Inventory	446,250	415,013
Cash paid for rent	(120,000)	(111,600)	Accrued income tax	(33,827)	(31,459)
Cash contributions to pension plan	(500)	(465)	Other accrued expenses	134,900	125,457
Total cash paid for G&A activities	(120,500)	(112,065)	Net cash provided by operating activities	464,161	431,669
Cash paid for other operating activities			Cash Flows from Investing Activities		
Cash paid for compensation	(70,000)	(65,100)	Purchase of investment in affiliate	(710,000)	(660,300)
Cash paid for other expenses	(55,000)	(51,150)	Purchase of marketable securities	(185,000)	(172,050)
Total cash paid for other operating activities	(125,000)	(116,250)	Capital expenditure	(500,000)	(465,000)
Capital Expenditure			Dividends received	9,250	8,603
Building	(500,000)	(465,000)	Net cash used in investing activities	(1,385,750)	(1,288,747)
Total capital expenditure	(500,000)	(465,000)	Cash Flows from Financing Activities		
Net cash provided by operating activities	18,800	17,484	Interest paid	(125,000)	(116,250)
Investing			Proceeds from issuance of short-term debt	500,000	465,000
Purchase of investment in affiliate	(710,000)	(660,300)	Issuance of bonds	2,500,000	2,325,000
Purchase of marketing securities	(185,000)	(172,050)	Dividends paid	(35,000)	(32,550)
Dividends received	9,250	8,603	Net cash used in financing activities	2,840,000	2,641,200
Net cash used in investing activities	(885,750)	(823,748)	Change in cash and cash equivalents	1,918,411	1,784,122
Net cash used in business activities	(866,950)	(806,264)	Beginning cash and cash equivalents	4,000,000	2,215,878
Cash flows from financing activities			Ending cash and cash equivalents	5,918,411	4,000,000
Financing liabilities					
Interest paid	(125,000)	(116,250)			
Proceeds from issuance of short-term debt	500,000	465,000			
Issuance of bonds	2,500,000	2,325,000			
Net cash provided by financing activities	2,875,000	2,673,750			
Cash flows from income taxes					
Net cash used in income tax activities	(54,639)	(50,814)			
Net cash provided by acts with non-equity holders	1,953,411	1,816,672			
Cash flows from equity activities					
Dividends paid	(35,000)	(32,550)			
Net cash used in equity activities	(35,000)	(32,550)			
Change in cash and cash equivalents	1,918,411	1,784,122			
Beginning cash and cash equivalents	4,000,000	2,215,878			
Ending cash and cash equivalents	5,918,411	4,000,000			

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STATEMENT OF SHAREHOLDERS' EQUITY - PROPOSED					
	Common Stock and APIC	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2004**	5,000,000	(100,000)	2,957,978	-	7,857,978
Comprehensive Income	-	-	2,657	154,627	157,284
Dividends	-	-	(70,000)	-	(70,000)
Balance at December 31, 2005	5,000,000	(100,000)	2,890,635	154,627	7,945,262
Comprehensive Income	-	-	2,857	160,000	162,857
Dividends	-	-	(70,000)	-	(70,000)
Balance at December 31, 2006	5,000,000	(100,000)	2,823,492	314,627	8,038,119

STATEMENT OF SHAREHOLDERS' EQUITY - CURRENT					
	Common Stock and APIC	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2004**	5,000,000	(100,000)	(243,158)	-	4,656,842
Net income			158,531		158,531
Other comprehensive income					
Gain on revaluation of building				148,800	148,800
Actuarial gain on pension obligation				4,580	4,580
Unrealized gain on available-for-sale				1,247	1,247
Total comprehensive income					313,158
Dividends	-	-	(70,000)	-	(70,000)
Balance at December 31, 2005	-	-	(154,627)	154,627	-
Net income	-	-	162,857		162,857
Other comprehensive income					-
Gain on revaluation of building				160,000	160,000
Total comprehensive income					322,857
Dividends	-	-	(70,000)	-	(70,000)
Balance at December 31, 2006	-	-	(61,770)	314,627	252,857