MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Van Beek (ext. 447)
Subject:	Minutes of the July 19, 2006 Financial Statement Presentation Meeting: Application of Working Principles
Date:	July 25, 2006
cc:	FASB: Bielstein, Smith, MacDonald, Leisenring, Petrone, Lusniak, Kawanishi, Van Beek, Zimmerman, Bossio, Lott, Stoklosa, Polley, Gabriele, Carney, Allen, Sutay, and Intranet; IASB: Buchanan, Barker, Gomez, Suzuki, and Hickey; GASB: Schermann and Reese

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic:	Financial Statement Presentation—Application of Working Principles
Basis for Discussion:	FASB Memorandum No. 42
Length of Discussion:	9:00 a.m. to 11:00 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young
Board members absent:	None
Staff in charge of topics:	Petrone, Barker, Kawanishi, and Lusniak
Staff at Board table:	Bielstein, Kawanishi, Lusniak, Petrone, and Van Beek
Other participants:	Barker and Gomez (by phone)

<u>Summary of Decisions Reached</u>:

The Board discussed the overall format for presenting financial information within the basic financial statements—namely the statement of financial position, the statement of earnings and comprehensive income, and the cash flow statement. The Board agreed that financial information should be presented in two broad sections: business and financing and that the business section should be further disaggregated into operating and treasury categories. Based on their discussion, the financial statements are likely to be presented as follows:

Statement of Financial Position	Statement of Earnings and Comprehensive Income	Statement of Cash Flows
Business Operating Assets and Liabilities • Short-term (working capital) • Long-term Treasury Assets	**Business** Operating Income Treasury Income	**Business** Operating Cash Flows Treasury Cash Flows
Financing Equity Financing Liabilities	**Financing Expenses**	**Financing Cash Flows** Equity Non-equity

This presentation reflects the Board's agreement that:

1. Cohesiveness should be the overall governing principle. This means that changes in assets and liabilities should be categorized in the statement of earnings and comprehensive income and the statement of cash flows consistently with their categorization in the statement of financial position.
2. An asset not classified as a *treasury asset* or a liability not classified as a *financing liability* would be classified as an *operating asset or liability*.
3. Classification of assets and liabilities within the operating category would be based on the notion of a one year cash conversion cycle rather than the "one year or operating cycle, if longer" principle that exists in current GAAP.
4. The notes to financial statements would include supplementary information about liquidity, if deemed necessary.
5. Cash and cash equivalents should be included as a separate line item in the treasury category. The definition of *cash and cash equivalents* should be revisited.

The Board discussed but did not reach a conclusion on how *financing liabilities* and *treasury assets* should be defined. The Board considered whether the definition of financing should be broad and consider all liabilities, narrow and consider only those liabilities that result in interest expense, or have some other defining characteristic(s). The Board directed the staff to undertake more research on user information needs to further develop approaches to defining or describing those terms that are principle-based. The Board also discussed the possibility of including treasury assets (and thus the treasury category) in the financing section rather than the business section. The Board will revisit its decision on that issue when it discusses the definition of *treasury assets* at a future meeting.

<u>Objective of Meeting</u>:

The objectives of the meeting were to discuss some, but not all, of the project's working principles and for the Board to reach agreement on a basic "working" format for the financial statements. The objectives of the meeting were met.

<u>Matters Discussed and Decisions Reached</u>:

COHESIVENESS WORKING PRINCIPLE

1. Ms. Petrone stated that the staff started with the "cohesive" working principle as the governing working principle in developing its recommendations. That working principle states that information in the financial statements should be presented in a way that portrays a cohesive financial picture of an entity. She explained that the cohesiveness principle indicates that the relationship among items in the financial statements should be clear. Ms. Petrone explained that application of this working principle would result in:

   a. Changes in assets and liabilities being clearly explained in the statement of cash flows and the comprehensive income statement
   b. The sections and categories on each financial statement being similar, if not the same
   c. Balance sheet classification of an asset or liability driving the classification of the related changes in that asset or liability on the statement of cash flows and the comprehensive income statement.

2. The Board agreed that cohesiveness should be the overall governing principle such that changes in assets and liabilities should be categorized in the statement of comprehensive income and the statement of cash flows consistently with their classification in the balance sheet.

PRIMARY FINANCIAL STATEMENT SECTIONS: BUSINESS AND FINANCE

3. Ms. Petrone explained that the staff looked next to the working principle related to separating financing and business activities to develop the basic format for the financial statement classification scheme. Ms. Petrone stated that the staff recommends the primary sections of each financial statement be business and financing. She stated that if an item is not in the financing section, it would be included in the business section and clarified that the financial statements, for the purposes of this meeting, refer to the balance sheet, the statement of cash flows, and the statement of comprehensive income. The statement of changes in equity is not being addressed at this meeting.

4. Mr. Linsmeier inquired why business and financing were selected as the two primary sections of the financial statements. Mr. Trott stated that, according to prior research, separating financing activities from business activities allows for better evaluation and comparison of the underlying business, irrespective of how the business is financed. Mr. Trott stated that the way in which the business is financed is a decision separate from the way the business is operated and that separating the financing component allows for an evaluation of both.

5. The Board agreed that the primary sections in each of the financial statements should be business and financing.

THE FINANCING SECTION

Defining Financing Liabilities and Application of the Definition

6. Mr. Barker briefly described the following three alternatives for defining financing and applying the financing definition for presentation purposes:

a. <u>Broad definition with flexible application</u>: The financing section should include only those liabilities for which accounting standards require the separate calculation of a financing component (for example, interest income or expense); separate reporting of that component in the financial statements would not be required. An entity would be permitted to classify liabilities that meet that broad definition in the business section rather than the financing section if one or more of the following criteria are met:

i. Initial recognition of the liability contains sufficient measurement uncertainty that the subsequent reporting of remeasurements as financing gains or losses would be misleading.
ii. The source of financing in question is not viewed by the entity as interchangeable with other sources of financing.
iii. The activity in question is viewed by the entity as part of its overall business, and not as only a financing activity.

b. Narrow definition with strict application: The financing section should include all liabilities that originate from an entity's capital-raising activities in capital markets. An entity would be required to include all liabilities that meet that definition in the financing section.

c. Another narrow definition with strict application: The financing section should include all liabilities that provide an entity with funds for general use and that do not arise in connection with a specific business activity. An entity would be required to include all liabilities that meet that definition in the financing section.

Mr. Barker stated that the staff recommends Alternative A. Ms. Petrone clarified that the question for the Board is how financing liabilities should be defined and whether there should be any flexibility in application.

7. Mr. Linsmeier stated that a company can finance its operations with debt, equity, or internally-generated funds. He noted that the staff's proposed financing definition considers only debt financing and relies on accounting conventions for presentation purposes. He stated that, when considering financing as a broad category, an economic perspective should be taken rather than an accounting perspective if cohesiveness across the financial statements is to be achieved. Mr. Linsmeier also stated that a financing section that only includes external debt financing displays only a partial picture of an entity's financing structure and may not be useful to the investing community. Mr. Barker clarified that the staff's proposed definition of financing includes all outstanding equity as well.

8. Mr. Trott stated that Alternative A is not very communicative and that Alternatives B and C require a definition of "capital-raising" and "general use."

He stated that all three proposed definitions are ambiguous, and that financing should include instruments that separately calculate and report financing cost (interest) in the financial statements. Mr. Trott expressed his belief that long-term vendor financing should be considered financing and that financing through a supplier, a bank, or the public markets are similar transactions and should be treated similarly. Mr. Trott stated a preference for a strict definition of financing, but wants the definition to be broader than debt issued to the public or debt issued for cash.

9. Ms. Seidman inquired as to what items require a financing component be separately calculated, but not separately reported. Mr. Trott stated that FASB Statements No. 143, *Accounting for Asset Retirement Obligations*, and No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* as well as certain stock option calculations require a separate calculation but not separate reporting of a financing component. Ms. Seidman expressed concern over tying the definition of financing to existing accounting standards. She stated that, historically, few accounting standards have dealt with the specific reporting of income statement line items.

10. Ms. Seidman stated that the third alternative of defining financing attempts to do so using a principle rather than using existing accounting standards. She clarified that the third alternative is an attempt to classify items that investors consider financing liabilities in the financing section of the financial statements. Ms. Seidman stated that she believes the funds raised and managed by the treasury function belong in the financing section and the third alternative attempts to capture those items accordingly. Ms. Seidman stated that as companies move to fair value reporting there may no longer be a separate calculation of an interest component. That change would result in certain items no longer being included in the financing definition as proposed by the staff and Mr. Trott. Ms. Seidman clarified that under the third alternative of defining financing, certain vendor-provided financing would not be included in the financing section. Mr. Trott commented that operating leases are one of the largest sources of financing. He stated that based on his reading of the third alternative, lease

obligations would not be considered part of financing as they are closely associated with an operating aspect of the business. Ms. Seidman stated that the third definition was trying to capture what users had expressed over the years.

11. Mr. Young stated that investors are concerned with operating results that are generated from operating capital and the sources of the operating capital. Mr. Linsmeier stated that excluding certain liabilities that are accounted for in a certain way would not generate a useful operating income or performance metric. Mr. Linsmeier stated that there are different ways to present how an entity is financed other than by changing the face of the financial statements. He expressed uncertainty as to whether the benefits of providing the information in the staff-proposed format would outweigh the costs of formulating the standard and requiring the information. Mr. Linsmeier stated that accounting literature has not been developed to focus on calculating a financing component for each transaction. Mr. Linsmeier stated that only including those items for which accounting standards require calculation of a financing component would result in only a partial representation of an entity's financing structure, perhaps making separate presentation of the two components not useful to investors.

12. Ms. Petrone clarified that the staff recommends a broad definition of financing and inquired whether Mr. Linsmeier generally shares the staff's views. Mr. Linsmeier stated that the staff recommendation, although broader than the other alternatives, still only includes financing liabilities for which accounting standards require the financing component be calculated.

13. Mr. Herz stated that basing the financing definition on current accounting standards may result in liabilities subsequently being added to or removed from the financing section based on changes in accounting standards, such as the move to fair value reporting.

14. Mr. Herz indicated that the two main alternatives in defining financing are using the narrow definition and the broad definition. In the narrow definition, financing would include debt used for general purposes and for which a financing component is calculated, and in the broad definition based on the economics of

financing, financing would include every item that has a time value of money component, whether separately calculated or not. Mr. Herz suggested that Messrs. Linsmeier, Young, and Trott appeared to favor a broader definition.

15. Mr. Batavick expressed favor for Alternative C, dependent on the further refinement of the definition. He stated that he preferred a simpler, narrower definition of financing with certain flexibility in application which would be accompanied by adequate note disclosure.

16. Mr. Crooch expressed his preference for a broad definition of financing. He stated that a number of alternatives for financing a business exist, but the goal is to provide users with information they need to make decisions. Mr. Young stated that there is a significant degree of uniformity in the information that is used in firm valuations and stated that the main distinction being made by the user community is separating operating capital, operating assets, and the sources of capital. Mr. Young suggested soliciting investors' views to determine what information is used in various modeling techniques. He stated that analysts regularly separate the analyses of capital structure and business activities.

17. Mr. Herz stated that whether or not the analyst community treats the same instruments as financing across industries is an important consideration, and if so, the definition of financing should capture those items. Mr. Young stated that the investment community utilizes earnings before interest, taxes, depreciation, and amortization (EBITDA) and other analytics to separate a company's financing activities from the company's operating activities and to remove the effect of accrual accounting on reported earnings. Mr. Young indicated that frequent use of EBITDA suggests the type of information in which investors are interested. Mr. Herz stated that the staff is recommending excluding accounting interest from the business section, similar to investor calculations in reaching EBITDA. Mr. Young stated that Alternative B is most consistent with the financing definition applied by the analyst community. Mr. Young stated that long-term vendor financing with an identifiable interest component should be classified as financing. Mr. Young also stated that he would include pensions and asset retirement obligations in the financing section. Mr. Herz noted that Mr. Young's

view is consistent with the views previously expressed by Messrs. Linsmeier and Trott.

18. Mr. Linsmeier noted that in the staff's proposal, financing is considered first and operating is the residual. Mr. Linsmeier inquired whether the objective is to separately account for financing elements because the separation (1) provides important information for investors, or (2) results in clearer operating measures. He inquired whether the users need a partial separation of certain types of financing activities or a full capital structure consideration. Mr. Linsmeier stated that information regarding the capital structure of an entity is vital to the user community, but the extent to which financing costs need to be explicitly provided in the statement of comprehensive income remains less clear.

19. Ms. Seidman stated that defining financing based on an instruments' nature would lead to a broad definition, and that a definition based on function would lead to a narrow definition. Ms. Seidman stated that she would be hesitant to define financing based on current accounting standards. Ms. Seidman noted her preference for a narrow definition is based on a liability's function that includes long-term financing provided by capital asset providers.

20. Mr. Herz stated that another approach to consider would be to allow entities to classify certain items in the financing section that do not meet the definition of financing and disclose why they did so in the notes.

21. Mr. Linsmeier stated that he would not include a separate section for financing if only a portion of financing items will be classified as such. Mr. Linsmeier believes that if enough information is presented, users can decide for themselves what constitutes the financing portion of a business and that if separation was important for users to understand capital structure and the associated cost of capital, then a separate, more robust category of financing would be appropriate. Mr. Linsmeier expressed interest in what information constituents use in performing their analyses.

22. Mr. Young stated that the user community is interested in separating the sources and structure of capital that are the normal outgrowth of business

activities. Ms. Bielstein inquired as to whether users accept the concept of working capital liabilities and if those items should be separately reported from the financing section. Mr. Young stated that most investors want working capital liabilities separated from other financing liabilities. Ms. Seidman stated that she was in agreement with the preceding statement, including the phrase “not part of the normal outgrowth of business activities.” Mr. Young suggested that all sources of capital other than those arising from normal working capital be a possible definition of financing.

23. Ms. Bielstein noted general agreement among the Board members that financing does not include all liabilities and that there are some liabilities for which accounting standards require the calculation of an interest component, but those should be categorized as working capital liabilities and not as financing liabilities.

24. Mr. Herz stated that there appears to be some agreement that the financing definition should include all liabilities and equity other than working capital needed to support the operating activities. Ms. Bielstein stated that those who prefer the broad definition of financing also prefer a definition that excludes working capital liabilities.

25. Ms. Petrone inquired whether the Board agreed that the definition of financing should be principles-based rather than based on existing accounting literature. The Board agreed with a principles-based approach in arriving at a definition of financing.

26. The Board did not reach a conclusion on how financing liabilities should be defined. The Board directed the staff to undertake more research on user information needs to further develop a definition of financing that is principle-based.

Consideration of Assets in the Definition of Financing

27. Ms. Petrone stated that the staff recommends that assets be excluded from the financing definition. Mr. Trott stated that he would include derivatives, but not other assets, in the financing definition and that the definition should

include both assets and liabilities directly associated with financing liabilities. Ms. Seidman stated that including derivatives in the financing definition would not be consistent with the requirement that a separate interest component be calculated in order for an item to be considered financing. Ms. Seidman stated that if the definition of financing depends on the separate calculation of an interest component, not all derivatives would be captured by the financing definition.

28. Messrs. Batavick, Crooch, and Ms. Seidman expressed preference for excluding assets from the definition of financing. Mr. Batavick agreed with the staff recommendation that financing-type assets be included in the treasury assets category within the Business section and not in the Financing section.

29. Mr. Young stated that he believes derivatives should be included in the Financing section. Mr. Young also stated that he would place the treasury category in the Financing section of the balance sheet, comprehensive income statement, and statement of cash flows, with a net debt presentation in the balance sheet.

30. A majority of the Board agreed that assets should be excluded from the definition of financing. Messrs. Trott and Young disagreed because they believe derivatives should be included in the financing definition.

Transactions with Owners

31. Mr. Barker stated that the staff recommends separating cash flows from transactions with owners from those with nonowners in the financing section. The Board agreed with the staff's recommendation.

THE BUSINESS SECTION – TREASURY CATEGORY

Defining Treasury Assets and Application of the Definition

32. Mr. Kawanishi stated that the staff recommends that treasury assets should be defined as all financial assets. And, for presentation purposes, an entity should be permitted to exclude from the treasury category any assets it believes should be classified as operating working capital; however, cash and cash equivalents may not be excluded from treasury assets. Mr. Kawanishi

noted that the staff also recommends that the policy for determining the items included in the treasury category be disclosed as an accounting policy.

33. Ms. Seidman stated that she believes *all financial assets* is too broad of a definition for treasury assets. She stated that she would like the principle to be expressed as financial assets other than those arising directly from the entity's business activities and noted that under her principle, accounts receivable would not be included in treasury assets and would instead be included in working capital. Ms. Seidman also expressed concern about the classification of other financial assets such as lease receivables and insurance receivables which are not normally considered part of the treasury function. She stated that the types of items that can be excluded from treasury assets for presentation purposes should be part of the treasury asset definition and strict application should be the rule. Ms. Seidman also stated that the definition of treasury assets should be consistent with the definition of financing liabilities.

34. Messrs. Trott, Herz, Batavick, and Crooch expressed general agreement with Ms. Seidman's position that the definition of treasury assets should be consistent with the final definition of financing liabilities.

35. Mr. Young stated that he agrees with the staff's recommendation that treasury assets be defined as cash, modified cash equivalents, and certain other items beyond cash. Mr. Young stated that investments made with excess capital should be included in the treasury asset category. Ms. Seidman clarified that her definition of treasury assets would exclude certain financial assets.

36. Ms. Petrone stated that the staff recommends that note disclosures identify which items have been omitted from the treasury asset and financing sections if some flexibility has been granted in applying those definitions for presentation purposes.

37. The Board agreed that adequate note disclosures should be made if the definitions of treasury assets and financial liabilities are flexible, allowing comparability to be maintained across entities. Mr. Linsmeier stated this disclosure could be in the form of an accounting policy note. Ms. Petrone stated

that flexibility in application allows for presentation to be representative of an entity's business model while maintaining a level of consistency from entity to entity.

38. Ms. Petrone inquired whether the definition of treasury assets should be broader than cash and cash equivalents. The Board agreed that the definition of treasury assets should be broader than cash and cash equivalents, but that the definition depends on the definition of financing liabilities.

Presentation of the Treasury Category

39. Mr. Kawanishi stated that the staff recommends including the treasury category in the business section for presentation purposes. Ms. Seidman stated that she believes the treasury asset category should be separately presented, and that whether it is presented in the financing or business section is unimportant. Mr. Herz agreed with Ms. Seidman, provided disclosure is adequate for users to form their own assessments. Mr. Herz stated that user preference should aid in determining whether treasury assets are part of the business or financing section. Mr. Linsmeier stated that if the objective of the financing section is to capture the full effect of financing transactions, he would be concerned if the treasury assets are presented outside of the financing section. Mr. Linsmeier suggested that a more descriptive label be developed for the financing section to clarify the objective of the category. Mr. Linsmeier stated that he would prefer treasury assets be presented separate from financing liabilities and is concerned that users will not be able to ascertain how much of the treasury assets are being preserved for internal financing purposes and how much is being used for strategic investing purposes. Mr. Crooch stated that if clearly disclosed, the user will be able to tell what the purpose of treasury assets are. Mr. Linsmeier stated that not including treasury assets in the financing section may lead to the financing section being misleading.

40. The Board did not conclude on whether the treasury assets category should be classified as part of the business or financing section.

41. Ms. Petrone asked whether the Board agrees with the staff's recommendation to separate treasury assets from operating working capital assets. The Board agreed to separate treasury assets from working capital assets, stating that that distinction was fundamental to the user community.

Definition and Presentation of Cash and Cash Equivalents

42. Mr. Kawanishi stated that the staff recommends presenting cash and cash equivalents as separate line items within the treasury category.

43. Mr. Batavick stated that he supports the broader definition of cash equivalents suggested by the staff, specifically that cash equivalents be defined as "highly liquid investments that are readily convertible to known amounts of cash and that present insignificant risk of changes in value because of changes in interest rates."

44. Mr. Kawanishi inquired whether the modified cash equivalents definition would be used for the purpose of preparing the statement of cash flows. The Board confirmed that and added that modifying the cash equivalents definition would result in an amendment to FASB Statement No. 95, *Statement of Cash Flows.*

45. Ms. Seidman stated that cash equivalents is a commonly used metric and recommends reporting it as a separate line item. Ms. Petrone clarified that the staff recommendation would require all cash and cash equivalents be reported as treasury assets. She inquired whether the broadened definition of cash equivalents should be addressed at the current meeting or at a later meeting. The Board agreed that cash and cash equivalents should be presented as separate line items within the treasury category and to address the definition of cash equivalents at a future Board meeting.

Bank Overdrafts Classified as Financing Liabilities

46. Mr. Kawanishi stated that the staff recommends that bank overdrafts be classified as a financing liability as they meet the definition of a liability. The Board agreed.

THE BUSINESS SECTION – OPERATING CATEGORY

Presentation Based on Short-Term, Long-Term Approach

47. Mr. Kawanishi stated that the staff recommends the operating category be separated into subcategories based on the operating cycle notion, that is, operating assets that are reasonably expected to be realized or consumed within the operating cycle of an entity and operating liabilities that are reasonably expected to be settled within the operating cycle of an entity would be classified as operating working capital.

48. Mr. Trott disagreed with the staff recommendation. He stated that while current accounting standards use the operating cycle of an entity, it is not often used in practice. He suggested that a short-term, long-term approach based on a one year notion be used. Ms. Seidman stated that the practical application of Mr. Trott's definition would result in short-term operating assets and liabilities effectively representing all non-treasury and non-financing items that will be consumed or reach maturity in one year and that all other non-treasury and non-financing items would be classified as long-term operating assets and liabilities.

49. Mr. Herz clarified that the staff recommends continuing to use the operating cycle while providing liquidity information in the notes. Mr. Linsmeier stated that whether investors prefer information based on the operating cycle notion or the short-term, long-term notion based on one year is important.

50. Mr. Linsmeier inquired as to whether it is useful to separate property, plant, and equipment from other operating working capital. He noted that property, plant, and equipment are regularly considered when assessing the productivity of a business. Mr. Linsmeier suggested gaining insight from the user community in making business assessments. Ms. Seidman would also like to ask the user community for its preference. She questioned whether the short-term, long-term notion is based on contractual maturities or on expected realization of the items and asked the staff to address this issue.

51. Mr. Young stated that he prefers the short-term, long-term approach. Mr. Herz stated that liquidity information is more useful than information presented based on the length of the operating cycle. Mr. Batavick stated that the operating

cycle notion is outdated and not strictly followed in practice and would therefore prefer the short-term, long-term distinction. Mr. Herz suggested that companies with multiple operating cycles can be less transparent than those companies reporting on a strict one year distinction. Ms. Seidman stated that she is not opposed to the short-term, long-term distinction, but noted that it will be dependent on the outcome of what belongs in treasury assets and financing liabilities.

52. Mr. Linsmeier stated a preference for separating working capital assets and liabilities from other assets and liabilities in the balance sheet. He indicated that the segregation of working capital and non-working capital assets and liabilities is important to users and applying that distinction throughout the financial statements is more important than presenting liquidity information in the notes to the financial statements. Ms. Seidman noted that the short-term, long-term distinction would be the easiest to apply if using contractual maturities, but potentially not for expected realization.

53. A majority of the Board agreed that assets and liabilities within the operating section should be classified based on the notion of a one year cash conversion cycle rather than the *one year or operating cycle if longer* principle that exists in current GAAP. The Board agreed that the short-term, long-term approach is more relevant than the operating cycle notion and should drive the primary classification on the face of the balance sheet. The Board noted that if supplemental information is needed regarding the operating cycle, it can always be provided in the notes.

Subcategories in the Statement of Cash Flows and the Statement of Comprehensive Income

54. Ms. Lusniak stated that the staff recommends not disaggregating the information on the comprehensive income statement and the statement of cash flows into short and long-term subcategories due to the interaction among the items in each subcategory on the balance sheet.

55. Mr. Trott agreed and stated that presenting short and long-term information in the statement of cash flows is not useful. Mr. Young inquired whether the staff was recommending not displaying information about capital spending and short-term cash flow in the statement of cash flow. Mr. Trott stated that information would be captured by the primary categorization in the financial statements as a whole and whether or not an investing category would be part of the statement of cash flows has not yet been decided.

56. Mr. Linsmeier stated that the cohesiveness principle would suggest that subcategories from one financial statement would carry over to each of the other financial statements. He stated that subcategorizations not appearing logical in the comprehensive income statement and statement of cash flows may be evidence that it does not make sense to have those categories in the balance sheet. Mr. Trott stated that different types of information are presented more effectively in some financial statements than others. For example, liquidity measures are better displayed in the balance sheet than they are in the income statement.

57. A majority of the Board agreed that liquidity classification on the balance sheet should not result in the same classification within the comprehensive income statement and the statement of cash flows.

Other Possible Subcategorizations

58. Mr. Herz stated that there are other items on the balance sheet that are not operating or financing, such as certain long-term investments that are unrelated to the operations of the company and suggested that these investments may be deserving of another category within the Business section.

Follow-Up Items:

59. The Board directed the staff to undertake more research on user information needs to further develop approaches to defining or describing financing liabilities and treasury assets that are principle-based.

General Announcements:

60. None