MINUTES

To:	Board Members
From:	Drum (ext. 296)
Subject:	Minutes of the June 18, 2008 FASB Board Meeting (Financial Statement Presentation)
Date:	June 26, 2008
cc:	FASB: Golden, Bielstein, MacDonald, Lott, Allen, Stoklosa, Proestakes, Posta, Chookaszian, Klimek, Gabriele, Sutay, Project team, FASB Intranet; IASB: Leisenring

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
Basis for Discussion:	FASB Memorandums No. 59A–D
Length of Discussion:	9:40 a.m.–12:15 p.m.
Attendance:	
FASB Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman (via phone), Smith, Young
Board members absent:	None
Staff in charge of topic:	Petrone, Lipe, Cafini, Drum
Other staff at Board table:	Leverenz, Golden, Bielstein
Outside participants:	Willis, Kawanishi, Suzuki, Gomez-Soto

Summary of Decisions Reached:

1. The Board confirmed the decision made at the April joint meeting with the IASB that this project should not seek to change existing standards relating to what items are recognized outside of profit or loss, thereby retaining existing guidance on presentation of other comprehensive income items in a statement of comprehensive income and on the recycling mechanism. Based on that change in the project's scope, the Board decided that the Preliminary Views would express its view that:

    a. An entity should present a standalone statement of comprehensive income with other comprehensive income items presented in a separate section. The Board clarified that within that other comprehensive income section an entity should indicate (parenthetically or otherwise) the category (operating, investing, or financing) to which each item of other comprehensive income relates.

    b. Income taxes should continue to be allocated among continuing operations, discontinued operations, items of other comprehensive income, and items charged or credited directly to equity using existing guidance on intraperiod tax allocation.

    c. An entity should present income tax assets, liabilities, and cash flows in a separate section in the statements of financial position and cash flows, respectively. The Board agreed not to include the income tax disclosures addressed in March 2008 (related to the reconciliation explaining the relationship of income tax expense and accounting profit) in this project as they will be addressed in the income tax project.

2. The Board decided that the project should not:

    a. Make any further changes to the statement of changes in equity

    b. Address disclosures related to capital management and to measurement uncertainty

    c. Propose changes to presentation of earnings per share (or any other metrics) and, thus, will not amend FASB Statement No. 128, *Earnings per Share*.

3. The Board also decided that the Preliminary Views should not address:

    a. Offsetting or disclosures about the measurement bases of assets and liabilities as those issues will be addressed in the Exposure Draft stage of the project

b. Possible additional segment disclosures; however, the Preliminary Views should ask for input on whether the Board should address segment disclosures beyond consequential amendments.

4. The Board made the following decisions; all but item (d) below modify its previously expressed views:

   a. The schedule reconciling the statement of cash flows to the statement of comprehensive income should not include equity transactions (therefore, it would not include the equity section of the statement of cash flows). Changes in assets and liabilities not attributable to remeasurements should be included in a single column and not further disaggregated.

   b. An entity should determine how much information is presented in the discontinued operations section by applying the disaggregation objective (that is, information should be disaggregated if the additional information will be useful to users of financial statements in assessing future cash flows).

   c. The Preliminary Views should not express a preference for allocating the effects of basket transactions to categories; rather, it should describe allocation and nonallocation alternatives and ask for input from constituents.

   d. An entity should display transaction gains and losses, including the components of any net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section and category as the assets or liabilities that gave rise to those gains or losses.

5. The Board also discussed a number of issues raised in the drafting process and, among other things, clarified its views on the definition of the operating and investing categories and on the disaggregation of information by function and nature in the statement of comprehensive income.

6. The Board decided that the Preliminary Views should state that the Board has not considered whether its views on financial statement presentation would apply to nonpublic entities. The Board will consider that issue in the Exposure Draft stage of the project.

7. The Board authorized the staff to proceed to a draft of a Preliminary Views for vote by written ballot, with a six-month comment period. The Board expects to issue the

Preliminary Views in September 2008. During the comment period, a number of companies will be field testing the Board's preliminary views.

Objective of Meeting:

8. Objectives of the June 2008 Board meeting on financial statement presentation were to:

    a. Confirm the change in project scope the Boards agreed to in principle during the April joint meeting.

    b. Clarify the effect of those changes on the Boards' preliminary views.

    c. Address and resolve the sweep issues identified by the staff and Board advisors during the drafting process.

    d. Address and resolve what should be included in the Preliminary Views about presenting foreign currency gains and losses and allocating the effects of basket transactions.

   The objectives were met.

Matters Discussed and Decisions Reached:

FASB Memorandum #59A—Implications of Scope Change

Issue 1: the Boards' long-term view on presentation in the statement of comprehensive income

9. Ms. Petrone stated that at the April 2008 joint meeting, the Boards decided that the project would no longer seek to change existing guidance on the presentation of other comprehensive income (OCI) items to be recognized outside profit and loss. She noted that the staff interpreted this decision to mean that the only view of the statement of comprehensive income that would be presented would show a separate OCI section at the bottom of the statement of comprehensive income. The staff recommends that the Preliminary Views not discuss other views previously shown in the document.

10. Mr. Batavick stated that he agrees that OCI should be addressed on a Statement by Statement basis, rather than in this project.

11. Mr. Herz stated that he believes that the Preliminary Views cannot completely avoid this issue. He agrees that not including the presentation of OCI in the scope of this project is appropriate, but the division between OCI and earnings must be addressed in future standards. He noted that the decision to eliminate OCI from the scope of this project is consistent with the originally stated scope of the project.

12. Mr. Young stated that he believes one goal of the project is to eliminate the friction between OCI and earnings. Therefore, the Preliminary Views must include at least a brief discussion.

13. Mr. Linsmeier stated that he would like the discussion of the Boards' view on OCI to focus on the fact that the current system of OCI is flawed and must be addressed. Ms. Bielstein noted that a significant minority of IASB members believe that the current presentation of OCI is not flawed. Mr. Crooch stated that he would like to eliminate the concept of OCI completely.

14. The Board agreed that only one view of the statement of comprehensive income will be presented in the Preliminary Views and that a paragraph addressing the Boards' long-term view also will be included. The Board expressed that it should be clear that the document does not endorse the current OCI treatment.

Issue 2: Presentation of other comprehensive income items in the financial statements

15. Ms. Petrone stated that the staff recommends not requiring separate operating, investing, and financing categories within the OCI section, but rather requiring that an entity indicate whether an OCI item relates to operating, investing, or financing activities. The Board agreed with the staff's recommendation.

16. Ms. Petrone questioned whether OCI items should be further separated in the statement of financial position and the statement of cash flows.

17. Mr. Linsmeier stated that in order to create the reconciliation of accumulated other comprehensive income (AOCI), an entity will need to historically trace whether each OCI item arises from operating, investing, or financing. He stated that he is not

comfortable with that solution. He stated that he is indifferent to whether cohesiveness is achieved by disaggregating the individual AOCI items in the statement of financial position or in the statement of changes in equity. Mr. Smith stated that this information is important to understand the breakdown of AOCI items.

18. Mr. Herz asked Mr. Young whether understanding the components of OCI is important to analyzing a business. Mr. Young responded that because many different things are included in OCI that may be forecasted differently, understanding the individual components could be very useful.

19. The Board decided that the details of AOCI should be presented in the statement of changes in equity.

Issue 3: Presentation of income taxes

20. Ms. Petrone stated that in March 2008 the Boards agreed that the Preliminary Views should not present a view on the allocation of taxes, and, instead, the staff should explore and illustrate alternative presentations. Given the Boards' decision to maintain the current presentation of OCI items, the staff believes that OCI items should continue to be presented net of tax. The staff recommended that the current intraperiod tax allocation outlined in FASB Statement No. 109, *Accounting for Income Taxes*, remain—that is, taxes should continue to be allocated to OCI items, discontinued operations, and any item charged directly to equity. The staff is recommending that taxes not be further allocated within continuing operations.

21. Mr. Herz stated that he would vote in favor of the staff's recommendation. However, he feels some information would be lost.

22. Mr. Linsmeier stated that he would prefer not scaling back the proposed tax disclosure that shows different tax rates for different assets. He stated that understanding different tax rates for different categories could be very useful information. He stated that he would prefer informing users that the information will be presented in a tax note to be addressed by a different project.

23. Mr. Smith stated that he believes the original decision not to allocate taxes was the right decision, but noted that many wanted to keep net income.

24. The Board decided that the tax disclosure is desirable, but that the issue should not be addressed in this project. The Board would prefer to address this issue as part of the short-term convergence project amending IAS 12, *Income Taxes*.

25. The Board decided not to allocate taxes between sections and categories in the statement of cash flows and the statement of financial position. Mr. Linsmeier stated that he would prefer that the document include a discussion of why cohesiveness is broken if income taxes are allocated in the statement of comprehensive income.

Issue 4: The impact on presentation of earnings per share

26. Ms. Petrone stated that the staff recommends the Board confirm its decision that this project would not address the presentation of earnings per share. The staff recommends continuing to require presentation of basic and diluted earnings per share and to permit presentation of other measures. The staff recommends including a question regarding which, if any, other measures should be required.

27. Ms. Bielstein stated that another way to view that alternative is to exclude earnings per share from the scope of this project. Ms. Seidman questioned whether the staff's recommendation would allow an entity to present a wide variety of metrics such as operating income per share. Ms. Seidman noted that many constituents expressed concern about this project eliminating earnings per share and that the Preliminary Views should address the issue.

28. The Board decided that earnings per share should not be included in the scope of the project, that is, current earnings per share guidance would remain in place.

FASB Memorandum #59B—Sweep Issues

Issue 1: Sections and Categories

29. Ms. Cafini stated that the Board asked the staff to develop definitions for each category and section in the preliminary model. The staff would like the Board to confirm that the staff has captured the Boards' decisions in the most recent preballot draft. The staff also presented other alternatives, including defining the categories based on significance, defining the categories based on function, not defining the categories, and eliminating the investing section.

30. Ms. Cafini reviewed the definitions of *operating category* and *investing category* as follows:

    a. The **operating category** should include assets and liabilities that management views as related to the central purpose(s) for which the entity is in business (and changes in those assets and liabilities). An entity uses its operating assets and liabilities in its primary revenue and expense generating activities. If an entity cannot clearly identify an asset or liability as relating to operating, investing, or financing activities, the entity should presume the asset or liability relates to its operating activities.

    b. The **investing category** should include assets and liabilities that management views as unrelated to the central purpose for which the entity is in business (and any changes in those assets and liabilities). An entity would use its investing assets and liabilities to generate a return, but would not use them in its primary revenue and expense generating activities.

31. Mr. Linsmeier stated that he would prefer to help readers understand that some entities may not have investing assets and liabilities.

32. Ms. Bielstein stated that the description of operating and investing categories includes the concepts of distinguishing core operations from non-core operations. She questioned whether an entity can consider a non-core consolidated entity as investing. If so, she questioned whether the entity could aggregate consolidated items on the financial statements, or whether it would be appropriate to present line items such as revenue and cost of goods sold in the investing section of the statement of comprehensive income. Ms. Bielstein suggested that the document be more direct on

whether investing means non-core and be explicit on what it means for a controlled subsidiary.

33. Ms. Seidman noted that the categorization of assets and liabilities is secondary to other standards. In Ms. Bielstein's example, Ms. Seidman suggested that consolidation standards are still binding. Mr. Linsmeier noted that members of the Joint International Group stated that many entities invest in subsidiaries for purposes other than operations.

34. Mr. Herz stated that it is important to distinguish the definition of investing in the Preliminary Views from the definition in FASB Statement No. 95, *Statement of Cash Flows.*

35. The Board agreed with the staff's recommended definitions of operating and investing categories.

36. The Board discussed the labels used for the equity and financing sections.

37. The Board stated that it would prefer to use the label "equity financing" for the section that includes equity as equity items are a form of financing.

Issue 2: The reconciliation schedule

38. Mr. Lipe stated that the Board and staff have been searching for a useful and transparent way of communicating important information about the changes in an entity's net assets during the period. At their November 2007 meetings, the Boards came to a converged view that this information would best be displayed in the reconciliation schedule. The schedule uses columns to reconcile the differences between the statement of cash flows and the statement of comprehensive income.

39. The converged view from November was that, at a minimum, an entity should disaggregate the reconciling items into the following four components:

Column B. Cash flows not affecting income
Column C. Accruals and systematic allocations
Column D. Recurring valuation changes
Column E. Remeasurements other than recurring valuation changes.

40. Because of the difficulties the staff had in determining which transactions should be in column B or column C, the staff recommends combining those two columns into a single column that could be called "Accruals other than remeasurements." However, that may not be the best title for this column.

41. Mr. Linsmeier stated that he is worried about the title. He noted that it must be clear to readers that the column will include more than just working capital accruals. Mr. Lipe stated that the staff will address this issue in drafting.

42. Mr. Batavick stated that he would prefer that column D be titled "Recurring fair value changes" rather than "Recurring valuation changes." Ms. Petrone stated that she will address that issue with the IASB.

43. Mr. Lipe stated that the staff's recent work on the schedule also led to the realization that some of the line items in the statement of cash flows are likely to be unnecessary in the reconciliation schedule. Specifically, line items for cash flows from transactions with owners as owners need not be included because transactions with owners are excluded from comprehensive income—the ending point for the reconciliation schedule. As such, the staff concluded that users would obtain little or no additional information if the cash flows with owners were included in the reconciliation schedule.

44. Mr. Linsmeier stated that the decision on which "by nature" items are to be included on the face of the financial statements has implications related to the reconciliation schedule. That is, a decision to present a by-nature item in the notes results in that item being omitted from the reconciliation.

45. Mr. Batavick raised concerns that the unusual/infrequent events column may create a cluttered schedule for preparers. Ms. Seidman stated that including the column in the illustrations may suggest that entities will have items in this column. Mr. Batavick suggested that the information in that column could be included in a narrative disclosure accompanying the reconciliation schedule.

46. The Board agreed with the staff's two recommended changes to the reconciliation schedule and will seek feedback in the Preliminary Views related to the usefulness of the unusual and infrequent events column.

Issue 2b: The Indirect Schedule

47. Mr. Lipe stated that both Boards have expressed a preference that the statement of cash flows should present operating cash flows using the direct method. Under Statement 95, if an entity uses the direct method it must also disclose a schedule of operating cash flows determined on an indirect basis (indirect schedule). In prior discussions, the Boards supported continuing to require an indirect schedule. However, the staff has concluded that any information in the indirect schedule could be obtained by reading the reconciliation schedule from right to left. Mr. Lipe asked whether the Board agrees with the staff's recommendation that disclosure of an indirect schedule reconciling income to cash flows from operating activities should not be required.

48. The Board agreed with the staff's recommendation. Mr. Herz suggested that the document ask for input about how users use the indirect schedule. Mr. Linsmeier stated that it is important to explain that the reconciliation schedule contains the information of the indirect schedule.

Issue 3: Disaggregation by function and nature

49. Ms. Cafini stated that the Boards came to a preliminary view that an entity should present information in the statement of comprehensive income that is disaggregated by function and nature. The recent draft includes disaggregation guidance based on the Boards' discussions and the staff would like for the Board to confirm that the proposed guidance adequately captures the Boards' intent.

50. Mr. Linsmeier stated that the definition of *function* in the draft describes manufacturing as a function and therefore it **could** be appropriate to include a gain or loss on the sale of manufacturing equipment in that functional category (which is different from the staff's conclusion). He stated that manufacturing is **not** a function, but selling manufactured goods **is** a function.

51. Ms. Bielstein stated that some users would take a gain or loss on sale and apply that to "correct" prior period depreciation. She stated that in that case, presenting the gain or loss under the same function as the deprecation expense may be appropriate. Ms. Bielstein stated that as drafted it is unclear as to whether some items cannot be grouped into a function or whether it is impractical to determine the nature of certain items.

52. The Board agreed that the illustrations accurately reflect the Board's intent. The Board directed the staff to clarify the Preliminary View to better describe the Board's intent.

53. Ms. Cafini asked the Board whether the following principle is consistent with the Board's intent: if presenting both by-function and by-nature information results in financial statement that are too lengthy, an entity should present some or all of its by-nature information in the notes to financial statements.

54. Ms. Seidman noted that the Board moved to this approach after a recasting company provided financial statements that were overly lengthy and detailed.

55. The Board agreed that the principle is consistent with the Board's intent.

Issue 4: The statement of changes in equity

56. Ms. Cafini stated that the Boards previously said that they wanted detailed information about OCI items in the notes in an effort to focus the statement of changes in equity on the other components of equity. Given the Boards' decision not to change the presentation of OCI items in the statement of comprehensive income, the staff believes it is appropriate to provide entities a choice of where to present that

detailed information. She stated that the staff recommends the Board not make any changes to the statement of changes in equity beyond what they agreed to in phase A of the project.

57. Mr. Linsmeier stated that the Board had considered transfers between owners in their capacity as owners as important information that should be captured in the statement of changes in equity. He expressed concern that that information could possibly be excluded from the statement of changes in equity. Mr. Herz stated that that information must be provided in order for the statement to be balanced. He stated that this issue will be addressed more fully within the scope of the liabilities and equity project.

58. The Board agreed with the staff's recommendation.

Issue 5: Disaggregation in the discontinued operations section

59. Ms. Cafini stated that the staff believes disaggregation within the discontinued operations section should follow the same objective as the other sections in the financial statements. That is, an entity should be allowed to determine how much to disaggregate information about discontinued operations so that its financial statements are useful to users of its financial statements in assessing future cash flows.

60. The Board agreed with the staff's recommendation.

Issue 6: Disclosure of total assets and total liabilities

61. Ms. Cafini stated that the Boards' preliminary view is that an entity should disclose total assets and total liabilities in the notes to financial statements In addition, if an entity presents a classified statement of financial position, it should disclose in the notes to financial statements totals for short-term assets, short-term liabilities, long-term assets, and long-term liabilities. The staff recommends that the Boards change their preliminary view to allow an entity to present those totals in the statement of financial position so that the totals are presented in closer proximity to the related information.

62. The Board agreed with the staff's recommendation.

FASB Memorandum #59C—Foreign Currency and Basket Transactions

Issue 1: Presenting foreign currency gains and losses in the statement of comprehensive income

63. Mr. Drum stated that the staff recommends that an entity present transaction gains and losses, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section and category as the assets or liabilities that gave rise to the gains or losses.

64. Mr. Herz questioned whether users will be interested in that information. He noted that the calculation could be very onerous for an entity with many foreign subsidiaries. He stated that the Preliminary Views should ask users how useful that information would be to them.

65. The Board agreed with the staff's recommendation.

Issue 2: Allocating the effects of basket transactions

66. Mr. Drum stated that the staff recommends that the effects of transactions that involve the purchase or disposal of multiple assets, or a combination of assets and liabilities, that are classified in more than one category under the working format (basket transactions) be allocated based on the relative fair value of the non-cash assets. That is, the gain or loss from disposing of liabilities would be equal to the difference between the fair value and the carrying amount. Any additional gain would be allocated to the categories based on their relative fair values.

67. Mr. Smith stated that he does not agree with allocating the effects of basket transactions. He stated that the staff's recommendation would require an entity to determine the fair value of individual assets and liabilities when they normally would not have to be determined.

68. Mr. Linsmeier stated that relative fair value is not a good description of the allocation approach. He stated that he would support an approach in which financing assets and

liabilities would be measured at fair value and the remaining gain or loss would be allocated to the operating category. Under this approach, an entity would not be required to remeasure its operating assets and liabilities.

69. Mr. Golden questioned whether unrecognized assets and liabilities would be included. Mr. Linsmeier replied that he believes that only recognized assets and liabilities would be included in the allocation.

70. Ms. Seidman stated that not allocating the effects of basket transactions would be inconsistent with the cohesiveness principle. Mr. Smith stated that he would not be bothered by an exception to cohesiveness in this circumstance. He stated that he would include the effect of a basket transaction in a separate category.

71. The Board decided that the Preliminary Views should not express a preference for allocating the effects of basket transactions to categories; rather, it should describe allocation and non-allocation alternatives and ask for input from constituents.

72. Mr. Linsmeier stated that he would prefer describing at least one method for allocation in the document to get feedback from constituents.

FASB Memorandum #59D—Disclosures and Other Potential Issues to Be Excluded from the Project Scope

Issue 1: Note disclosures

73. Ms. Petrone stated that at the April joint meeting the Boards decided to exclude certain disclosure requirements from the scope of the project so that the project focused on the presentation on the face of the financial statements. She stated that the staff recommends limiting any additional disclosures on segments to consequential amendments to existing segment reporting standards.

74. Messrs. Herz and. Linsmeier stated that they do not agree that segment disclosures should be removed from the scope of this project. Mr. Herz noted that understanding the business requires understanding the segment breakdown. Mr. Linsmeier noted that he would prefer a question in the document that asks constituents how useful the

project would be without segment disclosures. Ms. Bielstein stated that disclosing cash flow information by segment would be difficult and costly.

75. Ms. Seidman stated that she agrees with the staff’s recommendation. She noted that the IASB recently issued a segment standard and that for purposes of moving this project forward only consequential amendments should be considered in the project. She suggested asking the IASB if it would be willing to change its view on segment disclosures.

76. The Board agreed that segment disclosures should be excluded from the Preliminary Views and that the document should seek input about whether additional disclosures should be required.

77. The Board agreed that capital management disclosures should be excluded from the scope of this project and that short-term and long-term maturity schedules should be retained.

78. Ms. Petrone stated that the staff recommends addressing measurement basis in the Exposure Draft stage of this project and that the disclosures about measurement uncertainty should be excluded from the scope of this project.

79. Mr. Herz stated that he agrees that measurement uncertainty disclosures can be more effectively addressed in a separate project. Mr. Linsmeier stated that he feels the measurement basis information is very important.

80. The Board agreed with the staff’s recommendation.

Issue 2: Offsetting or the general netting principle

81. Ms. Petrone stated that the staff recommends excluding the Board's view on offsetting and addressing that in the Exposure Draft stage of the project.

82. Mr. Herz stated that one of the biggest differences between U.S. GAAP and IFRS relates to the netting. For example, many financial institutions reporting under IFRS would report a much larger balance sheet because IFRS does not allow some of the netting that U.S. GAAP does. He questioned whether this would be the type of issue the staff anticipates contemplating at the Exposure Draft stage. Ms. Bielstein responded that she believes that issue will be addressed in the project on financial instruments.

83. The Board agreed with the staff's recommendation.

Issue 3: Private companies

84. Ms. Petrone stated that the staff believes that until the Board receives input on the overall presentation model, it is premature to decide whether that model should apply to nonpublic entities. The staff's recommendation is that the Preliminary Views acknowledge that the views are focused on what is useful for public companies and that the Board plans to address in rediliberations whether users of financial statements of nonpublic companies have different needs.

85. Mr. Linsmeier expressed concern that nonpublic entities may not pay attention to the Preliminary Views if it explicitly states that it is focused on public entities. Ms. Bielstein suggested that the document seek input on whether different presentations would be useful for nonpublic entities. The Board agreed with the staff's recommendation and clarified that the document should seek input on this issue.

Other Issues

86. Mr. Young stated that many users may not find the reconciliation of the statement of cash flows to the statement of comprehensive income reconciliation as useful as the statement of financial position reconciliation. He stated that he would like the document to solicit feedback from users regarding which reconciliation is more useful. Mr. Herz stated that it may be that the statement of financial position reconciliation is more useful for analyzing financial institutions.

87. The Board authorized the staff to proceed with drafting the Preliminary Views with a 180-day comment period. Ms. Petrone stated that she anticipates issuance of the document in early September.

<u>General Announcements:</u>

None.

<u>Follow up issues:</u>

None.