MINUTES

To:	Board Members
From:	Financial Statement Presentation Team (Van Beek, ext. 447)
Subject:	Minutes of the September 20, 2006 Financial Statement Presentation Board Meeting—Application of Working Principles (continued)
Date:	September 26, 2006
cc:	FASB: Bielstein, Smith, MacDonald, Leisenring, Polley, Gabriele, Petrone, Lusniak, Kawanishi, Van Beek, Zimmerman, Bossio, Lott, Stoklosa, Sutay, Carney, Allen and FASB Intranet; IASB: Barker, Gomez, 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 (continued)
Basis for Discussion:	FASB Memorandum No. 43
Length of Discussion:	9:20 a.m. to 11:40 a.m.
Attendance:	
Board members present:	Herz, Batavick, Linsmeier, Seidman, Trott, and Young
Board members absent:	Crooch
Staff in charge of topics:	Petrone, Kawanishi, Gomez, Lusniak, and Van Beek
Staff at Board table:	Bielstein, Lusniak, Petrone, Van Beek, and Zimmerman
Other participants:	Barker, Gomez, and Kawanishi (by phone)

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

The Board discussed and further developed an overall working format for presenting financial information within the basic financial statements—namely the statements of financial position, comprehensive income, and cash flows. The Board tentatively agreed that:

1. Treasury assets would be reported in a subcategory within the financing section (that is, the financing section would include two subcategories—treasury assets and financing liabilities). Treasury assets would **not** be reported within the business section (as the Board previously concluded). The Board expects to discuss a proposed definition of treasury assets in October along with a proposed definition of financing liabilities.
2. All income taxes, including taxes related to transactions with owners, would be presented in a separate section in the basic financial statements. That means that amounts presented in all other sections (the business section, financing section, and discontinued operations) would be pretax amounts, eliminating the need for intraperiod tax allocation requirements. It also means that income taxes related to transactions with owners would be recognized in comprehensive income rather than as a direct charge or credit to equity. The Board also agreed to consider whether changes to existing income tax disclosure requirements are made necessary by the proposed changes in the presentation.
3. Discontinued operations would be presented as a separate section in the financial statements. The Board also agreed that the definition of discontinued operations should be revisited with the IASB so that U.S. GAAP and IFRS have the same definition.
4. General guidance, not a "bright-line" rule, would be included in the financial statement presentation standard regarding when items should be presented as a separate line item and not aggregated on the financial statements. The Board also agreed that information would be required to be presented in the financial statements on a gross basis except when the additional information in a gross presentation provides no incremental value.
5. Extraordinary items would **not** be presented as a separate section or category in the financial statements and that the concept of extraordinary items would be eliminated.

The Board considered but did not reach a conclusion on:

1. Whether to present a category other than operating in the business section of the financial statements. The Board directed the staff to consider whether the business section might include an "investment" category for reporting certain financial assets.
2. Whether to provide disaggregated information about discontinued operations on the face of the basic financial statements. The Board directed the staff to further

explore presentation alternatives, in particular, in presenting discontinued operations as one amount on the face of each financial statement supplemented by disaggregated information in the notes to the financial statements.

3. Whether to present information in the statement of comprehensive income by function or nature. The Board expressed interest in presenting information by function with certain information presented by nature either on the face of or in the notes to the financial statements.

The Board will revisit those three issues at a future meeting.

Based on their discussion, the sections and categories in the financial statements might be as follows (the Board has not addressed totals, subtotals, or the order in which sections would be presented):

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business ◆ Operating assets and liabilities ◆ Investments	**Business** ◆ Operating income ◆ Investing income	**Business** ◆ Operating cash flows ◆ Investing cash flows
Discontinued operations	**Discontinued operations**	**Discontinued operations**
Financing ◆ Financing liabilities ◆ Treasury assets ◆ Equity	**Financing** ◆ Financing expenses ◆ Treasury income	**Financing** ◆ Financing cash flows ◆ Treasury cash flows ◆ Equity cash flows
Income taxes	**Income taxes**	**Income taxes**

<u>Objective of Meeting</u>:

The objectives of the meeting were for the Board to continue discussing application of the project's working principles and to further develop the basic "working" format for the financial statements. The objectives of the meeting were met.

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

FINANCING AND TREASURY

Presentation of Treasury Assets

1. Ms. Petrone opened the meeting by stating that, based on input from users, conversations with Joint International Group (JIG) members, and further staff consideration, the staff recommended presenting treasury assets in the financing section, rather than in the business section, as was recommended by the staff in July. Treasury assets would be presented along with financing liabilities, on a gross basis, in the

financing section of the statement of financial position. Ms. Petrone stated that JIG members and other users thought of treasury assets as part of the overall financing activities of the entity and that the IASB tentatively agreed with the staff recommendation to present treasury assets in the financing section.

2. Mr. Linsmeier and Ms. Seidman, in response to an inquiry posed by Mr. Young, stated that the treasury category is intended to capture those assets traditionally thought of as being managed by the treasury function, whether or not those activities are actually managed by a "treasury" department. Ms. Seidman stated that this presentation allows users to analyze the net debt position of an entity and facilitates a functional classification that recurs throughout the other financial statements.

3. All Board members agreed that treasury assets would be reported in a category within the financing section (that is, the financing section would include three categories—treasury assets, financing liabilities, and equity items).

Approach to Defining Financing Liabilities and Treasury Assets

4. Ms. Petrone stated that in July, the IASB tentatively agreed with the staff's recommendation; to define financing liabilities broadly (by nature) with allowable exclusions. The FASB, however, favored a more narrow (by function) definition of financing liabilities and treasury assets. Ms. Petrone stated that, at the current meeting, the staff is asking for the Board's concurrence on the staff's recommended approach to developing those definitions. The staff recommends pursuing a narrow (by function) definition of treasury assets and financing liabilities that would be somewhat subjective (because an entity would include and exclude items based on how they are being managed). Ms. Petrone stated that the IASB tentatively agreed to define financing liabilities and treasury assets by function.

5. Mr. Linsmeier stated his preference for a narrow definition, but noted that members of the JIG stated that there are certain consequences and practical difficulties in applying such a definition. Mr. Linsmeier illustrated the difficulties of developing a definition of financing by reference to a pension obligation, in which both financing and business components are embedded. He stated that there may be tension between the definition of financing and the cohesiveness principle. For example, the interest cost of a

pension obligation should, in theory, be included in the financing section of the statement of comprehensive income; however, presumably, the entire pension obligation would be in either the financing or business section on the statement of financial position. According to the cohesiveness principle, presentation on the statement of financial position should drive the presentation of changes in assets and liabilities on the statements of comprehensive income and cash flows. Mr. Linsmeier presented two possible approaches to ease this tension: (1) bifurcating the pension obligation into its financing and business components or (2) presenting information in the statement of comprehensive income by nature so that, even if all costs related to pensions were presented in the business section of that statement, users could identify how much of the pension cost is related to interest. Mr. Linsmeier stated that it is necessary to consider how operating liabilities with related financing components will be treated.

6. Five Board members agreed to pursue the definitions of financing liabilities and treasury assets based on a narrow (functional) approach. Mr. Young stated a preference for a narrow definition for financing liabilities but not necessarily for treasury assets. He stated that the following discussion of strategic investments is needed because of a narrow definition of treasury assets. The Board expects to discuss a proposed definition of treasury assets in October along with a proposed definition of financing liabilities.

STRATEGIC INVESTMENT CATEGORY

7. Mr. Kawanishi stated that during the July Board meetings, some members of each Board indicated that the definition of treasury assets was too broad because some assets included in that definition are clearly not viewed as assets that offset financing liabilities. He asked the Board whether certain financial assets should be classified in the business section. Mr. Kawanishi stated that JIG members believed that including all financial assets is too broad of a definition for treasury assets, but did not agree with the staff's proposed definition of strategic investments. Further, JIG members did not agree whether or not there should be a category other than operating in the business section. He asked the Board whether certain financial assets should be classified in the business section.

8. Mr. Trott stated that some financial assets should be classified in the business section and that there might need to be further categorization in the business section. Mr. Linsmeier noted that JIG members expressed concern that an investment that results in any amount of

capital appreciation would be precluded from meeting the staff proposed definition of strategic investments. Further, JIG members stated that the objective of the proposed strategic investment category was not clear. Mr. Linsmeier stated that investments that could be separated into another category in the business section would be those that are non-treasury and non-core (not directly related to the core activities of the entity) and would usually be longer-term in nature. That is, the investment is not for the purpose of investing excess cash for the treasury function and it is not currently related to the core activities of the entity. Mr. Young stated that both equity and non-equity investments could be included in this category. Mr. Batavick noted that JIG members expressed a need for a certain level of flexibility in determining what items would be classified in another business category. He stated that, given flexibility in applying the definition, additional disclosure should be required to fully describe the business model and what investments are being made for what purposes.

9. Mr. Linsmeier stated that writing a definition or standard to capture certain investments that are unique enough to be separated because they are non-treasury and non-core would be difficult. Mr. Linsmeier stated that he is not sure whether creating another category in the business section is necessary. He stated that if operating was the only category, management should be required to disclose the details of its investments and its overall business model in the notes to the financial statements.

10. Mr. Trott stated that he would prefer to more fully consider the discussions at the JIG and IASB meetings before making a decision, but tentatively preferred a separation of the business section into different categories to segregate the assets that are being used to generate revenue from other types of assets. Ms. Seidman agreed with Mr. Trott and added that it is necessary to anticipate the cohesiveness principle when deciding what items to include in the non-operating category in the statement of financial position. That is, it is necessary to first consider which assets are being used to produce the core revenues of the entity, and those assets would be included in the operating category of the statement of financial position. Ms. Seidman stated preference for approaching this issue from a core/non-core distinction rather than a financial/non-financial distinction. Ms. Bielstein stated that, in that case, assets other than financial assets could be included in the other category. Board members were in agreement with that assessment.

11. All Board members agreed that certain financial assets should be included in the business section. The Board directed the staff to consider whether the business section might include an "investment" category for reporting certain financial assets. Mr. Herz stated that if defining a separate category in the business section would be too difficult, another option would be to allow companies to present certain items separately on the face of the statement of financial position and to disclose more fully in the notes the purpose and intent of those investments.

12. Ms. Seidman stated her opinion that held-to-maturity securities should be included in the treasury category; investments in subsidiaries, investments in affiliates/associates, and investments in joint ventures should be included in the investments category; and she expressed uncertainty regarding how available-for-sale securities, goodwill, and investments in artwork and idle land should be classified. Mr. Linsmeier stated that JIG members believe that classification of certain items is dependent on how they are managed within the business and whether the entity views these items as "core" or "non-core." Messrs. Trott and Batavick stated that goodwill should be considered an operating, or "core", asset. Mr. Trott stated that it would be beneficial to start with an objective of the classification before deciding what items would be included and what items would be excluded. Mr. Linsmeier stated that the staff should consider whether there would be barriers to reclassifying items from one category to another after initial classification.

INCOME TAXES

Presentation of Income Taxes

13. Mr. Kawanishi stated that income taxes can be viewed as either (a) integral to the transaction or event that gives rise to income taxes (the underlying transaction) or (b) a transaction separate from the underlying transaction. He stated that the staff supports the view that income taxes are transactions separate from the underlying transaction for conceptual and practical reasons and that the staff recommends that income taxes be presented as a separate section (along with the business and financing sections) in the financial statements. This would effectively eliminate intraperiod tax allocation and would potentially simplify the backwards tracing issue. The recommendation also implies that other comprehensive income items are retained and discontinued operations would be presented on

a pre-tax basis. Mr. Kawanishi stated that the JIG and IASB generally supported presenting a separate income taxes section in the financial statements. Members of the JIG noted that additional disclosure in the notes may be needed in response to changes in presentation on the face of the financial statements.

14. Mr. Batavick noted that JIG members realized and accepted the fact that presenting income taxes as a separate section and presenting all other items on a pre-tax basis effectively eliminates the concept of "net income". Mr. Batavick stated that JIG members were interested in effective tax rate reconciliations and other disclosures to provide information regarding the drivers and sustainability of an entity's effective tax rate. Given sufficient disclosures, JIG members were generally supportive of a separate income taxes section. Mr. Linsmeier reiterated that JIG members wanted a more detailed analysis of effective tax rates and how those rates vary by activity, segment, or geographic region. Mr. Young also noted that some JIG members expressed an interest in allocating taxes to significant items or to items for which the tax effect can be calculated objectively.

15. All Board members agreed that income taxes should be presented in a separate section in the basic financial statements. That means that amounts presented in all other sections (the business section, financing section, and discontinued operations) would be pretax amounts, eliminating the need for intraperiod tax allocation requirements. The Board also agreed to consider whether changes to existing income tax disclosure requirements are made necessary by the proposed changes in the presentation.

Transactions with Owners

16. Mr. Kawanishi stated that the staff recommends income taxes related to transactions with owners not be recognized directly in equity but be included in comprehensive income. Those amounts should be presented in the income tax section of the statement of comprehensive income. All Board members agreed with the staff recommendation.

DISCONTINUED OPERATIONS

Definition of a Discontinued Operation

17. Ms. Gomez stated that the size of a *component* that can be classified as a discontinued operation is different in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (2004), and FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and could be considered smaller in Statement 144. Ms. Gomez asked whether a converged definition should be pursued in the current phase of the project.

18. All Board members agreed that the definition of *discontinued operations* should be revisited with the IASB so that U.S. GAAP and IFRS have the same definition. Ms. Lusniak noted that an agenda request yet to be discussed by the Board also addresses the definition of *discontinued operations* and if the Board were to address discontinued operations the staff planned to drop the agenda request. Ms. Seidman noted that the upcoming agenda request would be a short-term project and that addressing the definition in the financial statement presentation project would take longer. Mr. Herz stated that the agenda request is a narrow piece of the larger issue outstanding. Mr. Young stated that he would favor additional disclosure on a short-term basis to accommodate the upcoming agenda request.

Presentation of a Discontinued Operation

19. Ms. Gomez stated that the staff identified the following alternatives for presenting the assets and liabilities related to a discontinued operation and the changes in those assets and liabilities in the financial statements:

a. Alternative A–in a separate section in each financial statement, along with the business and financing sections

b. Alternative B–in a separate category within the business section (in addition to the operating category).

c. Alternative C–within the appropriate categories and subcategories (for example, include operating assets and liabilities of discontinued operations in the short-term operating or the long-term operating subcategory; treasury assets of a discontinued operation in the treasury category, and so forth).

Ms. Gomez stated that the staff recommends Alternative A.

20. Mr. Young noted that some JIG members stated that a separate category for discontinued operations is not needed because it creates problems for comparability and that discontinued operations can be viewed as part of the ongoing operations of the entity until the unit is actually disposed of. Mr. Trott, however, stated that he has heard from users that discontinued operations need to be presented as a separate category for purposes of better predicting future performance and cash flows. Mr. Linsmeier stated that one member of the JIG noted that separating discontinued operations from the rest of the business would not be useful in predicting short term earnings. Mr. Young stated that some JIG members believe that discontinued operation accounting does not provide useful information. Mr. Linsmeier stated that there is a distinction between the operations that are continuing and those that have been designated as discontinued and therefore, a separation of this information has value. Mr. Young stated that, in general, JIG members preferred Alternative B.

21. Messrs. Trott and Batavick expressed a preference for Alternative A. Mr. Herz stated that, under Alternative B, if a component is discontinued, all of that component's activities would then become classified within the business section. Mr. Linsmeier stated that Alternative B could result in items being presented in the business section that are not necessarily business items (for example, financing liabilities or treasury assets of a discontinued operation would be reclassified to the business section upon designation as discontinued). Ms. Seidman stated that she does not take exception with Alternative C after hearing input from the JIG meeting.

22. Five Board members agreed with the staff recommendation to present discontinued operations as a separate section in the financial statements. Mr. Linsmeier agreed but stated that he should like to explore further the responses received at the JIG meeting. Ms. Seidman agreed but expressed interest in determining what information regarding discontinued operations users want in the notes to the financial statements. Mr. Young stated that he finds presenting discontinued operations as a separate section conceptually difficult. Mr. Young disagreed with collapsing business activities and financing activities related to the discontinued operation into a separate section as that presentation is inconsistent with the rest of the project and the model being developed.

Presenting Information about a Discontinued Operation

23. Ms. Gomez stated that the staff recommends that long-lived assets, and assets and liabilities within disposal groups classified as held for sale be presented in the discontinued operations section of the statement of financial position, with assets presented separately from liabilities and not offset. In addition, the staff recommends that the Boards retain the current requirements that the major classes of discontinued assets/liabilities be disclosed in the notes to the financial statements. Ms. Gomez further stated that the staff recommends that an entity should disclose a single amount in the discontinued operation section of the statement of comprehensive income comprising the total of (a) the profit or loss of the discontinued operation and (b) the gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operations. Further, the staff recommends that an entity disclose the components of the profit or loss (revenue and expense) and the component of the gain or loss (from remeasurement or disposal) either on the face of or in the notes to the financial statements. Ms. Gomez stated that the staff recommends that cash flows from a discontinued operation be presented as a single line in the discontinued operation section of the statement of cash flows.

24. Mr. Linsmeier noted that the staff recommendation does not consider a consistent level of disaggregation across all financial statements, as the cohesiveness principle would suggest. Mr. Linsmeier stated that to be cohesive with the single amount presented in the statements of comprehensive income and cash flows, a single amount would also need to be presented in the statement of financial position.

25. Ms. Seidman stated that she would present the assets and liabilities within the discontinued operation section separated into the business and financing components. Mr. Linsmeier added that information by business and financing within the discontinued operation section could also be presented in the statement of comprehensive income. Alternatively, Mr. Linsmeier stated that all information related to discontinued operations could be presented net on the face of the financial statements but gross in the notes. Mr. Trott stated that the notion of cohesiveness must be considered to the point at which the information remains relevant. That is, gross information about assets and liabilities in the

discontinued operation section is relevant, but breaking down cash flows of a discontinued operation into its component parts may not be as relevant.

26. Mr. Linsmeier stated that the staff's recommendation loses a level of cohesiveness when gross assets and liabilities are presented in the statement of financial position while net profit or loss and cash flows are presented in the statements of comprehensive income and cash flows, respectively. He stated that presenting gross cash flows by major section is still relevant for a discontinued operation. Ms. Seidman stated that it is necessary to consider whether to present information on discontinued operations by section or category (such as business or financing). Ms. Bielstein stated that whether that information should be presented depends on that information's perceived relevance. Mr. Linsmeier stated that it is necessary to consider presentation along all financial statements when determining what level of disaggregation to require in a single statement.

27. Mr. Herz stated his preference for presenting discontinued operations on a net basis on the face of each financial statement with further disaggregation of that net amount in the notes to the financial statements. Mr. Herz stated that it was important to determine what information needs to be presented in the notes. That is, it is important to know what information regarding assets and liabilities, income and expense, and cash flows of a discontinued operation users need. Mr. Batavick and Ms. Seidman agreed with Mr. Herz.

28. Mr. Linsmeier stated that some JIG members were not interested in separating discontinued operations from the entity's other operations on the face of the financial statements. Rather, JIG members were interested in further information about discontinued operations being disclosed in the notes. Mr. Linsmeier stated that more information about user needs should be developed before a determination of what amount disclosure needs to be presented in the notes to the financial statements. Mr. Trott noted that a definition is needed before the presentation and breakdown of the information can be determined.

29. The Board directed the staff to further explore presentation alternatives, in particular, whether to present discontinued operations as one amount on the face of each financial statement supplemented by disaggregated information in the notes to the financial statements.

DISAGGREGATION WORKING PRINCIPLE

Should the Disaggregation Principle be Revised and What Other Information Should be Disaggregated in the Financial Statements?

30. Ms. Lusniak stated that based on discussion at the May brainstorming sessions, it was apparent that the intent of the disaggregation working principle was not clear. Accordingly, the staff recommends revising the disaggregation working principle to read as follows: "Financial statements should present information in a manner that disaggregates line items if that disaggregation enhances the usefulness of that information in predicting future cash flows." Ms. Lusniak stated that the staff recommends that the general disaggregation guidance found in paragraphs 83 and 84 of IAS 1, *Presentation of Financial Statements*, be included in the financial statement presentation standard and be applied to each of the financial statements. That general guidance would serve as the application guidance of the disaggregation working principle. Ms. Lusniak also stated that the Board may want to consider implementing, as a supplement to the general guidance, a "bright-line" for when information must be presented separately on the face of the financial statements.

31. Ms. Seidman agreed with including general guidance similar to that found in IAS 1, but did not want to include a bright-line rule that would dictate when items must be presented separately. She stated that a 'bright-line" should not be able to override a general disaggregation principle. Mr. Batavick expressed support for this approach. Mr. Herz stated that, if the purpose of the working principle was to develop what the standard would require in terms of disaggregation and that cost/benefit considerations are not ignored, he supports the working principle.

32. Mr. Linsmeier stated that it is important to determine (1) what information will be presented in the statement of financial position, (2) how cohesiveness will drive that information to the statements of comprehensive income and cash flows, and (3) if there is a disaggregation problem or not. Mr. Trott stated that cohesion is not based on individual line items in the statement of financial position, but rather on the categories in that statement.

33. Mr. Trott also stated that the suggested revised working principle would result in too much disaggregation and that it is necessary to consider how to relate the principle into the standard. Mr. Herz suggested that the principle could possibly be stated in terms of materiality; that is, if disaggregation of the information is capable of assisting in predicting future cash flows, that information should be disaggregated.

34. The Board concluded that general guidance, not a bright-line, would be included in the financial statement presentation standard regarding when items should be presented as a separate line item and not aggregated on the financial statements.

Should Information in the Statement of Comprehensive Income be Presented by Function or Nature?

35. Ms. Lusniak stated that some users support presentation in the statement of comprehensive income by nature because they believe it is important to understand the factors that can increase or decrease the value of an entity or impact its future profitability; other users support reporting by function because it provides useful information about the allocation of resources to the various activities (functions) of an entity. Ms. Lusniak stated that the staff recommends a presentation based on a combination of function and nature, with a primary sort by function, and a secondary sort by nature when that information is deemed to be important. The staff presented two approaches to such a presentation. Approach 1 would be to require that, at a minimum, certain components of cost of sales be reported by nature within the functional presentation. In addition, an entity would be encouraged to break out any other costs or expenses that are important in understanding their business. Approach 2 is more principles-based in that it would require cost of goods sold to be disaggregated in a manner that would reconcile beginning and ending inventory. In essence, cost of goods sold would be broken down into broad sub-classifications that are widely used in cost accounting.

36. Mr. Trott stated his preference for Approach 2 relative to Approach 1, as only part of the “by nature” information is shown in the latter. He believes that financial statements are better presented on a functional basis. The question is whether to allow an alternative presentation by nature, and if so, where and how much of that information would be presented.

37. Mr. Linsmeier stated that information by nature needs to be presented in more areas than just cost of sales. That need partially arises from the fact that certain operating liabilities (for example, pension obligations) will have both an operating and a financing component. Information by nature will allow users to determine the total impact of the entity's financing activities for the period. Mr. Linsmeier stated that the current staff recommendation only provides more information by nature on cost of sales and not on other important measures. He stated that there needs to be a more consistent consideration of the proposed disaggregation scheme, which would be driven by the cohesiveness principle.

38. Ms. Seidman noted that the major sections in the working format (business and financing) represent functions and accordingly would support requiring a functional presentation in the statement of comprehensive income. Ms. Seidman stated that she would be hesitant to prescribe exactly what information needs to be presented, but would be in favor of requiring a presentation by function.

39. Mr. Linsmeier stated that based on the governing principle of cohesiveness, classification in the statement of comprehensive income would depend on initial classification of assets and liabilities in the statement of financial position. As the statement of financial position is primarily categorized by function, he would suspect that the same would hold over to the statement of comprehensive income. Accordingly, a split by nature would be the secondary split and may be useful if presented in the notes.

40. Mr. Herz stated that he believed that function should be the primary classification and that additional information should be presented by nature. However, Mr. Herz was unsure of how to formulate a principle that would capture items that should be further analyzed by nature. Mr. Trott stated that the principle could be whether or not any additional information presented by nature improves the predictability of that information. Mr. Batavick noted that a presentation by function is important for internal business purposes. Mr. Young stated that it is important to consider the service industry, in which a presentation by nature is more helpful in analyzing those businesses.

41. The Board did not conclude on whether to present information in the statement of comprehensive income by function or nature. The Board expressed interest in presenting

information by function with certain information presented by nature either on the face of or in the notes to the financial statements.

Presentation on a Gross or Net Basis

42. Ms. Lusniak stated that the staff recommends that assets and liabilities and income and expenses be shown on a gross basis except when net presentation is required or permitted by a standard other than the financial statement presentation standard or the additional information in a gross presentation provides no incremental value. All Board members agreed with the staff recommendation.

COMPARABILITY WORKING PRINCIPLE

43. Mr. Van Beek stated that the working principles the Board agreed to in March and April include two related to comparability; that is, that financial statements should present information in a manner that allows for comparability (a) over time and (b) across entities. Mr. Van Beek stated that, at this meeting, the staff recommends eliminating those principles as they are embodied by the qualitative characteristics of financial reporting and are inherently included in the project's overall objectives. All Board members agreed with the staff recommendation.

EXTRAORDINARY ITEMS

44. Mr. Van Beek stated that at a 2002 Board meeting, the Board decided that extraordinary items should not be presented as a separate section or category in the statement of comprehensive income, but rather should be presented within the financial statement categories or subcategories to which the extraordinary events or transactions relate. In issuing IAS 1 in December 2003, the IASB "decided to eliminate the concept of extraordinary items…and to prohibit the presentation of items of income and expense as 'extraordinary items' in the income statements and the notes." Mr. Van Beek stated that the staff recommends that the Board (1) affirm its prior decision and (2) eliminate the extraordinary item concept found in APB Opinion No. 30, *Reporting the Results of Operations–Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* to more fully converge with IAS 1.

45. Mr. Herz noted that unusual items still remain and that the presentation of those items should be handled through disaggregation guidance. That is, when an item is significant and not viewed as part of the entity's normal course of business, an entity should present that item separately in the financial statements. Mr. Linsmeier stated that the number of line items is not as important as operational disaggregation guidance that allows for separation of items with different predictability qualities. Messrs. Batavick and Herz stated that the disaggregation guidance should require a separate line item and additional disclosure for unusual and non-recurring items.

46. All Board members agreed that extraordinary items would not be presented as a separate section or category in the financial statements and that the concept of extraordinary items would be eliminated.

Follow-Up Items:

47. The Board directed the staff to consider whether the business section might include an "investment" category for reporting certain financial assets and to further explore presentation alternatives for discontinued operations, in particular, in presenting those items as one amount on the face of each financial statement supplemented by disaggregated information in the notes to the financial statements.

General Announcements:

48. None