MEMORANDUM

Financial Accounting Standards Board

To: Board Members

From: Performance Reporting Team (Salo, ext. 312)

Subject: Minutes of October 23, 2003 IASB/FASB Joint Board Meeting

Date: November 3, 2003

cc: Bielstein, Smith, Petrone, Leisenring, Team, Bullen, T. Johnson, Lott, Mahoney, Thompson, Gabriele, and McKenna; Swift and Polley (FASAC); Bean and Patton (GASB), FASB Intranet, and via email: Barker (IASB)

Topic: Financial Performance Reporting by Business Entities

Basis for Discussion: FASB Performance Reporting Summary Paper

Length of Discussion: 8:30 a.m. to 10:00 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, and Trott

IASB members present: Tweedie, Barth, Bruns, Cope, Garnett, Gélard, Jones, Leisenring, McGregor, O'Malley, Schmid, J. Smith, Whittington, and Yamada

Staff in charge of topic: Sullivan (FASB)

Other staff at Board table: Bielstein, Bossio, and Rohrkemper (FASB); Fleming, Stevenson, and Upton (IASB)

Action Alert:

The FASB and IASB Boards met to discuss their respective projects on reporting financial performance. The Boards emphasized the importance of convergence on the project and discussed the similarities and differences between both projects. More specifically, the Boards discussed the differences in and the theories behind the FASB's and IASB's definitions for the business and financing categories. They discussed the FASB's decision to retain other comprehensive income as required by FASB Statement No. 130, *Reporting Comprehensive Income*, which the IASB rejected. The Boards discussed issues the FASB still needs to deliberate, including remeasurements, recycling, and earnings per share. The Boards agreed to form a joint working group to research and form recommendations to reduce areas of divergence and develop a timetable for the issuance of public documents for this project.

Matters Discussed, Decisions Reached, and Follow-up Action:

Ms. Sullivan presented an overview of the FASB's working model for the statement of comprehensive income. She reviewed all Board decisions and outlined the major aspects of the FASB's model. She explained that the model consisted of a single statement of comprehensive income that is divided into six subcategories; business, financing, nonbusiness/nonfinancing, tax, discontinued operations, and other comprehensive income. She described each category in greater detail and compared and contrasted the FASB's proposed model to the IASB's proposed model.

Business Category

Ms. Sullivan explained that although the Board has not decided on a definition for the business category, the staff had developed a working definition based on information obtained from user interviews in February 2002. During these early discussions, users clearly indicated that they were most interested in obtaining information about "core" or "operating" results. With that in mind, the Board decided that a clear definition of the business category should be paramount to the project. The business category under the FASB model uses a "management approach," under which management of each enterprise would be required to determine what types of revenues, expenses, gains, and losses result from enterprise's business activities. Once revenues, expenses, gains, and losses have been classified in the business category, similar revenues, expenses, gains, and losses must be presented in that category as well, unless they are required to be accounted for as a discontinued operation under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* or as income taxes under FASB Statement No. 109, *Accounting for Income Taxes.* She further discussed the composition of the IASB's business category. Their business category is made up of three subcategories. Two of the subcategories, financial income and business profit, are defined, while the third subcategory, operating profit, is a default. Mr. Tweedie stated that the IASB model creates comparability between companies and industries by defining all other categories and using the business category as a default. Ms. Sullivan indicated that the FASB considered and rejected an approach that would use the business category as a default category, as it was viewed as inconsistent with the information needs expressed by interviewed users (that is, information about the business as seen through the "eyes of management").

Financing Category

Ms. Sullivan also discussed the differences between the FASB's and IASB's definition of the financing category. She explained that the FASB Board based its definition of financing on a modified "net debt" concept. The net debt concept, as defined by the Board, includes all liabilities offset by cash and cash equivalents. That concept excludes marketable securities as an offset to liabilities. The Board felt that it would be overly burdensome for preparers to analyze each marketable security to determine its level of liquidity to pay off debt. She stated that the financing category will represent revenues, expenses, gains, and losses associated with *net debt*.

She noted that the IASB's definition of the financing category is based upon the notion of debt in relation to that which is owed to debt holders. Therefore, debt in this context includes all liabilities. Under the IASB model, all expenses related to the passage of time for all liabilities will be displayed in the financing category.

The IASB has not yet determined whether the extinguishment, restructuring, or issuance of debt, would be included as part of the financing category.

Mr. Upton asked for clarification regarding how companies would decide what is included in the financing category under the FASB model. He stated that under the FASB's model there may be some revenues, expenses, gains, and losses that although they may meet the definition for inclusion within the financing category, they may be classified in the business category as a result of how the "management approach" would work. Ms. Sullivan explained that companies would use the staff-created decision tree to determine how an item should be categorized. She stated the model was developed to accommodate display for financial institutions (i.e., interest expense displayed in the business category versus the financing category), and agreed that this may cause some inconsistency in reporting.

Financing Category

Ms. Sullivan also discussed the FASB's third category, nonbusiness/nonfinancing. In the FASB model, the nonbusiness/nonfinancing category represents the default category. It is defined as revenues, expenses, gains, and losses that do not meet the criteria for classification in the business or financing categories. The IASB does not have such a category, since their default category is a subcategory within the business category.

Mr. Schmid noted that the statements of comprehensive income proposed by the FASB display revenues, expenses, gains, and losses by both nature and function. Mr. Schmid commented that this combined presentation may be confusing to readers. Ms. Sullivan explained that the example statements of comprehensive income included as part of the Board memorandum and handout were examples created by the staff for inclusion in the field test packet. She noted that the specific display classification and disaggregation in those examples had not been voted on by the Board. The examples were provided to field test participants as guidance of what types of revenues, expenses, gains, and losses to consider within each category.

Other Comprehensive Income (OCI) and Net Income from Continuing Operations

Ms. Sullivan discussed the decision reached by the Board on October 15, 2003 to retain the category of OCI as required by Statement 130. She indicated that the decision was based primarily on user feedback indicating that they place a different weight or value on the items included in OCI, and therefore, like their segregation from net income. She also noted that the Board did not address whether a subtotal for net income (as shown today) would be permitted or required; however, the Board did decide to require a subtotal labeled *net income from continuing operations* that would represent the sum of the business, financing, nonbusiness/nonfinancing, and tax categories.

Mr. Leisenring questioned the Board's decision regarding the retention of OCI. He stated that the individual items that comprise OCI could easily be disaggregated and displayed within the other categories on the proposed statement. This would still allow users to identify and use the information similar to what they do today. There would be no loss of information. He questioned whether the FASB will retain the current concept of recycling. Ms. O'Malley was curious regarding which category the recycled amount will be displayed in once recycling, if adopted, is completed. Ms. Sullivan stated that the Board had yet to deliberate the issue of recycling.

Mr. Herz stated that the Board's decisions were based on U.S. users' feedback that users are not looking for dramatic changes to the statement of comprehensive income. To avoid these dramatic changes, the Board decided to use an "evolutionary approach" to create the statement of comprehensive income display. Under that approach, the Board would take smaller steps toward eliminating standard metrics and focus more on disaggregation. Mr. Herz reminded both Boards that the FASB project is focused only on display, and therefore, will not propose changes in recognition or measurement of revenues, expenses, gains, and losses. Mr. Herz stated that the separation of information into categories and application of the “management approach” will help companies communicate their business results with users. Mr. Schieneman stated he believed use of the “management approach” will be more useful in displaying the operations of a financial institution rather than the static definitions proposed by the IASB. Mr. Schmid supported the FASB’s “management approach” because he has seen companies follow external accounting rules, but not use the same rules to internally manage their companies. He believes that looking at the financials from the view of management is the best approach; however, he cautioned that convergence in this project should be considered paramount. Another IASB Board member stated that the FASB model might be better for nontypical companies and multinationals that are not easily distinguishable.

Ms. Barth asked the FASB Board members if their model would preclude enterprises from displaying *net income* as it is currently displayed. Mr. Schieneman stated that he would like to see the focus shifted from *net income* to *net income from continuing operations* (which excludes the results of discontinued operations). Mr. Bruns asked why the FASB did not decide to use comprehensive income as its primary total on the statement of other comprehensive income. Ms. Sullivan responded that users indicated that comprehensive income is not a useful metric for their work. Mr. Cope replied that as the staff and Board continue to deliberate on the user’s viewpoints, more weight should be placed on what users actually do than on what they say they do with the information.

Ms. Barth inquired whether, under the FASB model, results of non core businesses (including revenues, cost of goods sold, and selling, general, and administrative expenses) would be required to be displayed in the nonbusiness/nonfinancing category. As an alternative, and closer to the IASB model, she proposed that results of non core businesses be disaggregated within the business category, rather than be displayed as nonbusiness/nonfinancing. Ms. Sullivan stated that since the Board has not voted on the definition of the business category or on how to disaggregate within the categories, she could not provide a response as to whether non core businesses would be presented in the nonbusiness/nonfinancing or business category.

Issues Yet to be Deliberated by the FASB

Ms. Sullivan stated that the Board has several areas of further deliberation: remeasurements, recycling, disaggregation, and earnings per share. Ms. Sullivan explained that User Advisory Council members thought favorably about the concept of remeasurements, however, the FASB has not explored this concept further. She did indicate that although the Board has not deliberated on the concept of remeasurements, there seems to be overall Board support to display remeasurements in the financial statement notes. Although different than the IASB model which requires presentation on the face of the statement, the information might still be presented, and thereby eliminate divergence. She mentioned that although the IASB's definition of remeasurements has been noted in several Board memorandums, the Board has not yet decided whether it agrees with that definition. Mr. Herz added that users showed more interest in disaggregation on the face of the statement than displaying remeasurements. Ms. Sullivan noted that disaggregation is not currently being addressed as part of the IASB's project. Ms. Sullivan stated that the Board has not deliberated on earnings per share yet. While the IASB is focused on comprehensive income per share, the FASB will need to deliberate the issue and determine what, if any, a per share number should be based upon. It was noted by the staff and both Boards that a convergent per share number may be more elusive given the recent FASB Board decision to retain net income.

After Ms. Sullivan completed her review of the FASB model, many IASB Board members posed questions to both the FASB staff and Board regarding the thought process for their decisions. These questions specifically related to the model's display and raised concerns over lack of comparability and consistency that might occur by using the "management approach." The Board and staff addressed these concerns and indicated that this model is still a "work-in-process" and that these concerns and recommendations would be considered as the model was further developed.

Creation of a Joint Working Group

Due to concerns raised by members of both Boards relating to the number and types of divergent points, Mr. Herz suggested that a joint working group be created to research and jointly form recommendations on how convergence can be obtained and to create a timetable for the issuance of public documents related to this project. He stated that the FASB would prefer to expose for public comment the statement of comprehensive income and statement of cash flows concurrently, while the IASB is currently focused on exposing for public comment the income statement alone. The IASB would follow that public document with a separate public document on the statement of cash flows. Mr. Herz emphasized the importance of working jointly through the exposure draft period and stated that the FASB would like to have an Exposure Draft, or other public document, released sometime next year. Mr. Tweedie concurred that constituents would prefer both the FASB and IASB proposals to be exposed for public comment and finalized at the same time. Mr. Tweedie felt that a joint working group would be a step in the right direction to speed convergence of these projects. The working group might deal with issues such as remeasurement, the importance of comprehensive income, and the method and timing of any public documents. Mr. Herz proposed including the staff and a few Board members from both Boards as members of the joint working group. Ms. Schipper stated that she believed that the joint working group should only consist of staff members. She said that the Boards should not delegate decision making authority to a few Board members without due process. Mr. Herz responded that he did not intend for the working group to have decision-making powers. They agreed to discuss the composition of the joint working group at a later time.

Follow-up Items:

The Boards directed the creation of a joint working group.

General Announcements:

None