MINUTES

To:	Board Members		
From:	Financial Statement Presentation Team (Van Beek (ext. 447) and Beckendorff (ext. 229))		
Subject:	Minutes of the June 21, 2007 Financial Statement Presentation Board Meeting—Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities	**Date:**	June 27, 2007
cc:	FASB: Bielstein, L. Smith, MacDonald, Leisenring, Chookaszian, Polley, Gabriele, Petrone, Kawanishi, Leverenz, Van Beek, Beckendorff, Bossio, Lott, Stoklosa, C. Smith, Cafini, Sutay, Klimek, Allen, FASB Intranet; IASB: Barker, Gomez, N. 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—Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities
Basis for Discussion:	FASB Memoranda No. 52B and No. 53
Length of Discussion:	9:50 to 11:00 a.m.
Attendance:	
Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, and Young
Board members absent:	Trott
Staff in charge of topics:	Van Beek
Staff at Board table:	Petrone, Beckendorff, Bielstein, Cafini, Kawanishi, Leverenz, C. Smith, and Van Beek
Other participants:	Barker, Gomez, and Suzuki (by phone)

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

The Board continued its discussion of how the financial statements could present information about what caused a change in reported amounts of assets and liabilities, including the basis for disaggregating amounts recognized as income or expense and alternative formats for presenting that disaggregated information.

While the Board did not agree with the staff that the disaggregation of changes in assets and liabilities should be based on an entity's view of whether or not the change has predictive value, the Board did agree that the principle of predictive value should underlie the disaggregation. The Board tentatively decided that disaggregation based on the following accounting notions would be more understandable and operational, and would be consistent with the underlying principle of providing information that has predictive value.

a. Cash
b. Contractual Accruals
c. Other Accruals, Systematic Allocations, and Other Non-Remeasurements
d. Recurring Fair Value Changes
e. Remeasurements Other than Recurring Fair Value Changes

The Board tentatively decided that the above disaggregated information should be presented in the notes to financial statements in the format of a reconciliation of the statement of cash flows to the statement of comprehensive income. The Board noted that amounts presented in categories (a)-(e) would be sufficiently dissimilar in the context of predicting future cash flows to warrant separate presentation in the financial statements.

The Board tentatively decided that, in addition to the reconciliation schedule including the reconciliation described above, an entity should present information about amounts related to an unusual or infrequent event or transaction (as those concepts are used 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*). The Board noted that this would provide users of financial statements with a sense for non-recurring items in the financial statements from the entity's perspective.

The Board did not object to including in the initial discussion document the other two formats it discussed for disaggregating changes in assets and liabilities (that is, a reconciliation of the statement of financial position and a statement of comprehensive income matrix).

<u>Objective of Meeting</u>:

The objective of the meeting was for the Boards to discuss how the financial statements could present information about what caused a change in reported amounts of assets and liabilities, including the basis for disaggregating amounts recognized as income or expense and alternative formats for presenting that disaggregated information. The objective of the meeting was met.

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

PRESENTING INFORMATION ABOUT THE CAUSE OF CHANGE IN REPORTED AMOUNTS OF ASSETS AND LIABILITIES

Disaggregating Changes in Assets and Liabilities

1. Mr. Van Beek opened the meeting by stating that the FASB and the IASB (collectively, the Boards) decided in March that, in determining what information about the cause of changes in reported amounts of assets and liabilities should be disaggregated, it would consider the characteristics of persistence and measurement subjectivity, as those are factors that a user takes into account when predicting future cash flows. Mr. Van Beek stated that the staff is of the view that it would be difficult to define and operationalize a disaggregation scheme that relies on the notion of measurement subjectivity. Therefore, the staff focused on further disaggregating changes in amounts recognized as income or expense based on the characteristic of persistence.

2. Mr. Van Beek stated that the staff identified recurring and predictive value as being the two components that make an amount persistent, and the staff attempted to disaggregate income or expense amounts based on whether those amounts were recurring, had predictive value, or both. However, similar to the staff's consideration of the characteristic of subjectivity, the staff came to the view that it would be too difficult to develop an operational definition of *recurring*. That difficulty led the staff to the view that predictive value should be the determining factor in deciding whether to disaggregate an amount recognized as income or expense. Mr. Van Beek stated that the staff's intention was for the concept of predictive value to be interpreted consistently with its use in the Boards' joint Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics*

of Decision-Useful Financial Reporting Information. That is, to have predictive value means that an income or expense amount has value as an input to a predictive process. It does not mean that the information itself is a prediction or a forecast.

3. Mr. Van Beek stated that the staff also identified the following alternative method of disaggregating amounts recognized as income and expense which relies on accounting notions rather than on the principle of whether an amount has predictive value:

    a. **Cash** (all cash flows)
    b. **Contractual Accruals** (for example, payables and receivables; those primarily due to timing differences)
    c. **Other Accruals, Systematic Allocations, and Other Non-Remeasurements** (for example, depreciation expense and bad debt provisions; this category would be the "residual")
    d. **Fair Value Changes** (this category would include Level 1-3 changes in the FASB Statement No. 157, *Fair Value Measurements*, hierarchy and would consist of marks of assets and liabilities to fair value from fair value)
    e. **Remeasurements Other than Fair Value Changes** (remeasurements would be defined as "changes in the carrying amount of an asset or a liability due to a change in a price or an estimate").

4. Mr. Van Beek stated that the staff recommends that amounts recognized as income or expense be disaggregated based on whether the amount recognized has predictive value. The staff is of the view that disaggregation on this basis will result in the most useful information and will not be costly to apply. He stated that the staff recommends that the document describe what, in principle, is meant by amounts having predictive value and provide broad guidelines and examples. Management would, based on their view of the business, classify income and expense items as either having predictive value or not based on those guidelines. In addition, Mr. Van Beek stated that the staff recommends that management be required to disclose their rationale for classifying amounts as not having predictive value if that information is not provided elsewhere in the financial statements.

5. Mr. Van Beek stated that the staff also recommends that amounts recognized as income or expense that have predictive value and amounts that do not have predictive value be further disaggregated into (a) fair value adjustments and (b) all other changes. Thus,

changes in assets and liabilities currently recognized as income or expense would be disaggregated into the following four components:

a. **Component I:** Fair value changes that do have predictive value
b. **Component II:** Other than fair value changes that have predictive value
c. **Component III:** Fair value changes that do not have predictive value
d. **Component IV:** Other than fair value changes that do not have predictive value.

6. Mr. Van Beek stated that the IASB tentatively decided at its meeting on June 19, 2007, that the disaggregation of amounts recognized as income or expense should be based primarily on whether the change is a valuation adjustment (that is, a change due to subsequent measurement of an asset or liability to a current value, which would include fair value). The IASB tentatively decided that amounts would be disaggregated into at least three components: cash, valuation adjustments (including fair value changes), and all other changes. The IASB noted that for certain businesses, valuation adjustments can behave more like other changes in assets and liabilities, and thus agreed that in disaggregating changes in assets and liabilities an entity should be allowed, as a matter of accounting policy, to classify those items in the same way as the other items. Ms. Bielstein noted that the IASB's tentative decision appeared to be based on the notion of whether an amount recognized as income or expense has predictive value. Ms. Petrone affirmed and stated that the IASB did not believe the notion of predictive value was an operational one to drive the disaggregation of amounts recognized as income or expense.

7. Mr. Linsmeier stated that he believes that the concept of disaggregating amounts recognized as income or expense based on whether an amount has predictive value or not could still be a valid basis on which to disaggregate. He stated that the operational problem with using the predictive value concept arises because management would be the party responsible for determining whether an amount has predictive value. He stated that he believes a better way to separate amounts recognized would be based on accounting notions that have different levels of predictive value and measurement subjectivity. For example, he stated that academic research has demonstrated that cash transactions are usually more predictable than accrual transactions. Similarly, he stated that accrual transactions have different characteristics in terms of their predictive value

and measurement subjectivity than do remeasurements. Mr. Linsmeier stated that the principle of predictive value underlies the accounting notion method of disaggregation proposed by the staff.

8. Mr. Herz stated that he was in favor of the method of disaggregating amounts recognized as income and expense which relies on accounting notions (refer to page 4). He stated that, to bridge the gap between the FASB and the IASB views, the initial discussion document could present the five categories proposed under the accounting notion model. Constituents could then be asked whether certain categories could be combined into a single category or if certain categories should be further disaggregated.

9. Mr. Linsmeier stated that category (e) in the accounting notion disaggregation scheme (Remeasurements Other than Fair Value Changes) would include remeasurements that were unlikely to recur and other remeasurements to a current value other than fair value. He stated that amounts in category (e) and category (d), Fair Value Changes, would usually be considerably less persistent and have less predictive value than amounts in category (b), Contractual Accruals, and category (c), Other Accruals, Systematic Allocations, and Other Non-Remeasurements. Therefore, Mr. Linsmeier stated that he believes separating those amounts would be useful to users of financial statements. Further, he stated that items in category (b) have different predictive value and subjectivity than items in category (c). Similarly, items in category (d) have different characteristics than items in category (e). Therefore, amounts in those categories would be sufficiently dissimilar in the context of predicting future cash flows to warrant separate presentation in the financial statements.

10. Mr. Linsmeier stated that the FASB and IASB appear to be favoring contrasting models for disaggregating amounts recognized as income or expense. He stated that the IASB appears to be favoring an eyes-of-management approach based loosely on accounting notions while the FASB appears to be favoring a less discretionary model which relies heavily on accounting notions. He suggested that both of these models could be developed and presented in the initial discussion document. Ms. Seidman agreed but expressed concern with whether too many contrasting views on too many key issues were emerging. Mr. Batavick agreed with that sentiment, noting that the result could be

six different presentation models—three different presentation schemes, each with two different disaggregation methods. Mr. Herz noted that the IASB and FASB models may be similar enough to only illustrate one set of views in the initial discussion document and narratively describe the difference in views. He suggested that questions in the initial discussion document would solicit input from constituents on the different approaches.

11. Ms. Seidman stated that she would not object to the five categories presented in the accounting notions model (refer to page 4). However, she noted that she sees similarities in categories (a), Cash, and (b), Contractual Accruals. Ms. Seidman stated that she would be inclined to combine those categories as the only difference is the collection of cash. She stated that she would not object to grouping together categories (d), Fair Value Changes, and (e), Remeasurements Other than Fair Value Changes, only if that combined category was limited to and included all remeasurements.

12. Mr. Batavick stated that he would not be comfortable grouping categories (d) and (e). He stated that the constituents he has spoken with continually suggest enhancing the information presented about fair value measurements and changes in those measurements. He suggested that those constituents would want fair value changes presented separately.

13. Mr. Batavick stated that he was not in favor of using the notion of whether an amount recognized as income or expense has predictive value as the basis on which to disaggregate amounts recognized. He stated that he believes that approach would have significant operational questions and noted that the accounting notion approach would be an operational way to achieve the goal of providing useful disaggregated information. Mr. Herz noted that he agrees with Messrs. Linsmeier and Batavick that the accounting notion approach helps disaggregate changes with different characteristics in an operational way. All other Board members agreed with Messrs. Linsmeier and Batavick.

14. Mr. Linsmeier stated that academic research would suggest that each of the categories proposed under the accounting notions model be presented separately except for categories (b), Contractual Accruals, and (c), Other Accruals, Systematic Allocations, and Other Non-Remeasurements, as noted below. That is, each of the categories has

sufficiently different characteristics in the context of predicting future cash flows to warrant separate presentation in the financial statements. However, he noted that academic research has not studied the differences in amounts presented in categories (b), Contractual Accruals, and (c), Other Accruals, Systematic Allocations, and Other Non-Remeasurements, and, therefore, he would be inclined to combine those categories into a single category. He stated that he believes that the rows presented on the schedule would diminish the added usefulness of splitting amounts in categories (b) and (c). Therefore, Mr. Linsmeier would prefer a four-column breakdown of amounts recognized as income or expense—(1) Cash; (2) Contractual Accruals, Other Accruals, Systematic Allocations, and Other Non-Remeasurements; (3) Fair Value Changes; and (4) Remeasurements Other than Fair Value Changes.

15. Mr. Batavick agreed with Mr. Linsmeier's proposed four-column disaggregation but stated that he would add a qualitative disclosure about any transaction or event recognized in category (c), Other Accruals, Systematic Allocations, and Other Non-Remeasurements, that is not expected to recur. Mr. Linsmeier suggested requiring a qualitative disclosure for any amount recognized that is considered unusual in nature or infrequent in occurrence, as those concepts are used 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*.

16. Mr. Young stated that he would not combine amounts in categories (b) and (c), as separating those categories would diminish the need for any qualitative disclosures about unusual or infrequent events or transactions. Mr. Linsmeier stated that he would not object to separating amounts recognized in categories (b) and (c); he noted that he suggested combining those two categories because academic research has not demonstrated the need to separate them and that a qualitative disclosure could achieve the same objective while being more cost-beneficial. All Board members agreed that the five-column disaggregation scheme detailed on page 4 should be included as their preliminary view in the initial discussion document on this issue.

17. Mr. Young stated that it might be important to include a "memo column" in the supplemental schedule that would provide management with an outlet to present any

events, transactions, or amounts that are non-recurring in nature. This additional column would allow management to communicate their view of the financial performance of the entity. Mr. Linsmeier noted that he and Mr. Batavick appear to share similar views on this issue. Mr. Herz stated that he would be in favour of including the memo column that Mr. Young described. Mr. Herz noted that the terms currently used in Opinion 30—*unusual* or *infrequent*—could be carried forward to operationalize this category. He stated that the initial discussion document could solicit input on this issue as well.

18. Mr. Herz stated that he would prefer that this information be presented as a column in a table rather than as part of a qualitative disclosure. Mr. Young noted that this column would allow management to describe the results of their operations in a relevant schedule and in a meaningful way. Mr. Young stated that he would allow management discretion regarding what would be included in this column. Mr. Linsmeier clarified that this column should be reserved for amounts recognized that are due to unusual or infrequent transactions or events. As such, the effects of changing prices would not be captured in this column. All Board members agreed with this proposal.

Summary of Decisions Reached

19. In summary, while the Board did not agree with the staff that the disaggregation of changes in assets and liabilities should be based on an entity's view of whether or not the change has predictive value, the Board did agree that the principle of predictive value should underlie the disaggregation. The Board tentatively decided that disaggregation based on the following accounting notions would be more understandable and operational, and would be consistent with the underlying principle of providing information that has predictive value.

    a. Cash
    b. Contractual Accruals
    c. Other Accruals, Systematic Allocations, and Other Non-Remeasurements
    d. Fair Value Changes
    e. Remeasurements Other than Fair Value Changes

20. The Board noted that amounts presented in categories (a)-(e) would be sufficiently dissimilar in the context of predicting future cash flows to warrant separate presentation in the financial statements. The Board also tentatively decided that an entity should

present information about amounts related to an unusual or infrequent event or transaction (as those concepts are used in Opinion 30). The Board noted that this would provide users of financial statements with a sense for non-recurring items in the financial statements from the entity's perspective.

Methods of Presenting Information about Changes in Assets and Liabilities

21. Mr. Van Beek stated that the alternative formats for presenting the disaggregated information (as discussed in the previous issue) help in varying degrees to achieve three of the project's working principles. Those three principles are:

    Financial statements should provide information in a manner that:

    a. Portrays a cohesive financial picture of an entity
    b. Helps a user understand what causes a change in reported amounts of individual assets and liabilities
    c. Helps a user assess the differences between cash transactions and accrual accounting.

22. Mr. Van Beek stated that the Board will consider the following three alternatives for presenting information about what caused a change in the reported amounts of assets and liabilities:

    a. **Alternative A**: Statement of Financial Position Reconciliation
    b. **Alternative B**: Statement of Comprehensive Income Matrix
    c. **Alternative C**: Reconciliation of the Statements of Cash Flows and Comprehensive Income

23. Mr. Van Beek stated that the staff recommends presenting more than one of the alternatives in the initial discussion document and seeking input on the alternative formats. However, if possible, the staff would like the Boards to express a preliminary view as to the preferable method of presenting information about what caused a change in the reported amounts of assets and liabilities.

24. Mr. Van Beek stated that due to the practical difficulties, perceived high cost, and administrative burden imposed by a statement of financial position reconciliation (Alternative A), the staff believes that such a reconciliation would not be the best way to present information about what caused a change in the reported amounts of assets and liabilities. He stated that users and preparers tended to agree that such a reconciliation

was too complex and costly to be justified in terms of its added usefulness. However, because of the conceptual appeal of the reconciliation and the fact that it helps achieve three of the project working principles (particularly cohesiveness), the staff recommends that the statement of financial position reconciliation be included in the initial discussion document as an alternative that the Boards considered.

25. Mr. Van Beek stated that both the comprehensive income matrix (Alternative B) and the reconciliation of the statements of cash flows and comprehensive income (Alternative C) could be significantly more cost-beneficial and impose less of an administrative burden on entities than would a statement of financial position reconciliation. Mr. Van Beek stated that the staff recommends presenting Alternative C as the preferred method to present further disaggregated financial statement information, as it (a) provides insight into what caused the changes in reported amounts of assets and liabilities, (b) more fully achieves the cohesiveness principle (particularly among the statement of cash flows and statement of comprehensive income), and (c) provides a meaningful reconciliation of cash flow information to income and expense information.

26. Mr. Van Beek stated that the IASB tentatively decided at its meeting on June 19, 2007 that the disaggregated information about changes in assets and liabilities should be presented in the notes to financial statements in the format of a reconciliation of the statement of cash flows to the statement of comprehensive income (Alternative C). The IASB also tentatively decided that the initial discussion document should include all three formats it discussed for disaggregating changes in assets and liabilities (that is, a reconciliation of the statement of financial position, a statement of comprehensive income matrix, and a reconciliation of the statement of cash flows to the statement of comprehensive income).

27. Mr. Linsmeier noted that in order to present the five categories (as decided in the prior issue), Alternative B would require that cash transactions that are reflected in current year income be separated from cash transactions that do not affect current year income. That is because Alternative B starts with the comprehensive income totals and breaks those amounts into the five categories decided on in the first issue. Doing so would require cash amounts to be separated into those that affect current year income only. Mr.

Van Beek noted that the Board previously decided that it did not want to require that separation. He noted that, alternatively, direct cash transactions could be constructed to flow through an accrual account, as is done in Alternative A. In that way, cash transactions would be presented together with contractual accrual transactions.

28. Mr. Crooch stated that he agreed with the staff recommendation that Alternative C should be exposed as the Boards' preliminary view. He also noted that he would be in favor of including all three alternatives in the initial discussion document to demonstrate the thought process employed to arrive at Alternative C.

29. Mr. Batavick stated that while he would not object to the staff recommendation (and Mr. Crooch's position), he favored describing Alternative A narratively rather than including it in an illustrative format. He noted that he would not favor including an alternative that does not appear to have much support.

30. Mr. Linsmeier noted that the Investors Technical Advisory Committee would likely support Alternative A and Mr. Herz noted that the CFA Institute has voiced support for a disclosure similar to that proposed by Alternative A. Mr. Linsmeier stated that illustrating Alternative A in the initial discussion document would effectively manage the expectations of users who have asked for a supplemental schedule similar to Alternative A. Ms. Seidman noted that a subgroup of the Small Business Advisory Council favored Alternative A, but also noted that preference was reached absent cost-benefit and operational considerations.

31. Mr. Linsmeier stated that he would prefer including and illustrating all three alternatives in the initial discussion document and would include a thorough discussion of the cost-benefit considerations. He favored indicating Alternative C as the Boards' preliminary view. Mr. Herz and Mr. Batavick agreed with Mr. Linsmeier and Mr. Crooch in favoring indicating Alternative C as the Boards' preliminary view.

32. Ms. Seidman stated that she would object to including and illustrating all three alternatives in the initial discussion document. She stated that she believes that the document can effectively describe the alternatives the Board considered and explain why the Board favors Alternative C without providing illustrations of the alternative formats.

She stated that for exposure purposes, she would favor presenting Alternative C as the Boards' preliminary view.

33. Mr. Herz suggested including the alternatives that the Board rejected in an appendix to the initial discussion document. Ms. Bielstein stated that she believes that users deserve an explanation of how the Boards came to their decision and why they rejected the other alternatives considered.

34. Mr. Young stated that he prefers Alternative A. He stated that a stock-based model (Alternative A) is more useful and relevant in predicting future cash flows than a flow-based approach (Alternatives B and C). He stated that he would prefer Alternative A for a financial services entity and Alternative C for a manufacturing company. Mr. Young stated that he was not interested in including Alternative B in the initial discussion document. All other Board members agreed with that position but acknowledged that the IASB preference was to include all alternatives in the initial discussion document. In that case, the majority of Board members did not object to including Alternative B in the initial discussion document. Ms. Seidman did object; she would include Alternatives A and C, but not Alternative B.

35. Messrs. Young, Linsmeier, and Batavick expressed an interest in exploring at a future meeting whether this schedule has the capability of replacing or supplanting one or more of the primary financial statements. Ms. Petrone noted that question would be a topic for discussion at a future meeting.

Summary of Decisions Reached

36. The Board tentatively decided that the above disaggregated information should be presented in the notes to financial statements in the format of a reconciliation of the statement of cash flows to the statement of comprehensive income. As discussed in the prior issue, the Board tentatively that, in addition to the reconciliation schedule (including the reconciliation described above), an entity should present information about amounts related to an unusual or infrequent event or transaction (as those concepts are used in Opinion 30). The Board noted that this would provide users of financial statements with a sense for non-recurring items in the financial statements from the

entity's perspective. This decision, combined with the Board's other decision in the first issue, would result in a schedule that may be organized as follows:

RECONCILIATION OF THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS									
	A	B	C	D	E	F	G	H	I
			Non Cash Items Affecting Income						
Caption in Statement of Comprehensive Income	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-Remeasurements	Fair Value Changes	Remeasurements Other than Fair Value Changes	Comprehensive Income (A-B+C+D+E+F)	Caption in Statement of Comprehensive Income	Unusual or Infrequent Events or Transactions

37. The Board did not object to including in the initial discussion document the other two formats it discussed for disaggregating changes in assets and liabilities (that is, a reconciliation of the statement of financial position and a statement of comprehensive income matrix).

<u>Follow-Up Items</u>:

38. None.

<u>General Announcements</u>:

39. None.