MINUTES

To:	Board Members
From:	Debbeler, ext. 353 Milne, ext. 393
Subject:	Minutes of the October 27, 2009 Joint Board Meeting: Financial Statement Presentation
Date:	November 17, 2009
cc:	FASB: Golden, Bielstein, Stoklosa, Posta, Chookaszian, Gabriele, Sutay, C. Smith, Petrone, Cafini, Cappiello, Hales, Kuhaneck, Milne, Debbeler, FASB Intranet; IASB: Gomez, Schmidt, Perkovich, Matabe

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 Accounting Standards Update.

Topic:	The statement of cash flows, reconciliation schedule, disaggregation, and definitions of the business and financing sections
Basis for Discussion:	FASB Memorandums No. 70, 70A, 70B, 70C, 70D
Length of Discussion:	8:15 a.m. to 12:10 p.m. and 1:00 p.m. to 2:00 p.m. (Eastern)
Attendance:	
Board members present:	FASB: Herz, Linsmeier, Seidman, Siegel and L. Smith IASB: Tweedie, Cooper, Danjou, Finnegan, Gomes, Gélard, Garnett, Kalavacherla, Leisenring, McConnell, McGregor, J. Smith, Yamada, and Zhang
Board members absent:	IASB: Engström
Other participants:	IASB: Schmidt, Perkovich (by phone)
Staff in charge of topic:	Gomez (IASB), Cappiello, Cafini, Schmidt (IASB, by phone)
Other staff at Board table:	FASB: Golden, Petrone, C. Smith, Kuhaneck; IASB: Texeira, Clark, Upton

Summary of Decisions Reached:

The Boards continued their deliberations on the proposals in the Discussion Paper, *Preliminary Views on Financial Statement Presentation*. Specifically, the Boards considered:

1. The reconciliation schedule
2. The presentation of cash flow information
3. The disaggregation of items of income and expense by function and nature
4. The tentative decisions made in September 2009 on the definitions of the business and financing sections.

The proposed reconciliation schedule

The Discussion Paper proposes that an entity should include a schedule in the notes to financial statements that reconciles cash flows to comprehensive income on a line-by-line basis and disaggregates comprehensive income into four components: cash, accruals other than remeasurements, remeasurements that are recurring fair value changes or valuation adjustments, and remeasurements that are not recurring fair value changes or valuation adjustments.

The Boards tentatively decided:

1. To replace the proposed reconciliation schedule with an analysis of the changes in balances of all significant asset and liability line items. The analysis will explain the nature of the transactions and other events that gave rise to a change in the account balance. Each significant asset and liability line item analysis should separately distinguish the following components:

    a. Changes due to cash inflows and cash outflows
    b. Changes resulting from noncash (accrual) transactions that are repetitive and routine in nature (for example, credit sales, wages, material purchases)

c. Changes resulting from noncash transactions or events that are nonroutine or nonrepetitive in nature (for example, acquisition or disposition of a business)
d. Changes resulting from accounting allocations (for example, depreciation)
e. Changes resulting from accounting provisions/reserves (for example, bad debts, obsolete inventory)
f. Changes resulting from remeasurements.

The Boards tentatively decided that information about remeasurements should be presented in the financial statements. The FASB tentatively agreed to require disaggregation of remeasurements on the face of the statement of comprehensive income (SCI) in a columnar format. The IASB expressed a preference for presenting information about remeasurements in the notes to financial statements. The IASB agreed to reconsider the issue after the staff analyze current disclosures of remeasurement information and disclosures being considered in other projects.

The Boards discussed modifying the proposed definition of a remeasurement as follows: a remeasurement is an amount recognized in comprehensive income that reflects the effects of a change in the carrying amount of an asset or liability ~~attributable to a change in a~~ to a current price or value (or to an estimate of a current price or value). The Boards asked the staff to further refine the definition.

Presentation of cash flow information

The Discussion Paper proposes that an entity should present cash flows using a direct method. That direct method of presentation requires an entity to disaggregate its cash receipts and payments in a manner that helps a user of financial statements to understand how those cash flows relate to information presented in the SCI and the statement of financial position (SFP).

The Boards tentatively decided:

1. To retain the proposal that an entity be required to present its cash flows directly in the statement of cash flows (SCF); that is, present line items for cash receipts and payments in each section (and category) in the SCF.
2. To specify that an entity should disaggregate its SCF information such that significant or material cash flows are apparent to a user of the entity's financial statements.
3. To require the presentation of an indirect reconciliation of operating income to operating cash flows in the notes to financial statements.
4. To retain the proposal that an entity disclose all relevant information about its noncash activities unless that information is presented elsewhere in the financial statements.

The Boards also tentatively decided to require disclosure of information about repatriation limitations and other restrictions on cash (and short-term investments similar to cash) in the notes to financial statements.

Disaggregation of items of income and expense by function and nature

The Discussion Paper proposes that within each category in the SCI, an entity should disaggregate its items of income and expense by function. Each of those functions should be further disaggregated by nature to the extent that information enhances the usefulness of the SCI in predicting an entity's future cash flows. If that by-nature presentation is impractical on the face of the SCI, an entity should present the information in the notes to financial statements.

The Discussion Paper also proposes that if, in the opinion of management, presenting disaggregated information by function does not provide relevant information, an entity can disaggregate its items of comprehensive income by their nature within each category in the SCI.

The Boards tentatively decided that the Exposure Draft should include an overall disaggregation principle that requires an entity to consider disaggregation by function, nature, and measurement bases in the financial statements as a whole. Additionally, the

Boards tentatively decided that the Exposure Draft should include guidance for applying that disaggregation principle in each financial statement.

For the SCI, the Boards tentatively decided to retain the proposal that an entity should disaggregate income and expense items by function and by nature. Further, the Boards tentatively decided that an entity that has only one reportable segment should present that disaggregated information on the face of the SCI and that an entity that has more than one reportable segment should present that disaggregated information in its segment note. The Boards will discuss segment reporting at a future meeting.

Defining the business and financing sections

In September, the Boards tentatively decided that there should *not* be an operating or investing category within the **business section** as proposed in the Discussion Paper. Rather, additional groupings of information within the business section (that is, categories) should reflect the facts and circumstances of that entity and should be left to management's discretion. Both Boards expressed willingness to reconsider that decision after reviewing the proposed drafting of the business section definition for the Exposure Draft.

Also in September, the Boards agreed that the **financing section** definition should be more specific than what was proposed in the Discussion Paper. Both Boards tentatively decided to define the financing section as liabilities that arise as part of an entity's capital-raising activities. However, the Boards had different views as to whether treasury assets (specifically, cash) should be included in the financing section.

At this meeting, the Boards tentatively decided the following:

1. The **business section** *should* have two defined categories: operating and investing. Those categories require an entity to make a distinction between business activities that are part of an entity's day-to-day business activities (and the business activity generates revenue through a process that requires the interrelated use of the net resources of the entity) [operating category] and

business activities that generate non-revenue income (and no significant synergies are created from combining assets) [investing category]. As a result of that tentative decision, the definitions of operating and investing categories will differ from what was proposed in the Discussion Paper.

2. The **financing section** will include items that are part of an entity's activities to obtain (or repay) capital and consist of two categories: debt and equity.
    a. The debt category will include liabilities where the nature of those liabilities is a borrowing arrangement entered into for the purpose of raising (or repaying) capital.
    b. The equity category will include equity as defined in either IFRS or U.S. GAAP.

3. The financing section will *not* include a treasury category—that is, cash and short-term financial assets (or financial liabilities) used as a substitute for cash will be included in the business section.

<u>Objective of Meeting:</u>

The objective of this meeting was for the Boards to discuss and reach the same decisions on the following topics:

1. The reconciliation schedule
2. The presentation of cash flow information
3. The disaggregation of items of income and expense by function and nature
4. The definitions of the business and financing sections.

The objectives for this meeting were met.

Matters Discussed and Decisions Reached:

FASB Memorandum #70B—Reconciliation Schedule

1. Ms. Gomez began by stating that most discussion paper respondents did not agree with the reconciliation schedule as proposed and that they suggested only significant accounts be reconciled. She noted that with the feedback from comment letters, preparer and analyst field test participants, and working group members the staff developed alternatives to the proposed reconciliation schedule that would meet the goal of explaining the changes in assets and liabilities in a cost-effective manner.

2. Ms. Gomez explained that Alternative A would be a reconciliation schedule similar to that in the discussion paper but with fewer line items, Alternative B would be a full statement of financial position reconciliation, Alternative C would be an analyses of changes in significant line items on the SFP, and Alternative D would be a disaggregation of remeasurement on the SCI.

Staff Recommendation

3. Ms. Gomez said that the staff recommendation would be to replace the reconciliation schedule in the discussion paper with analyses of changes in significant SFP line items (Alternative C). She stated that the staff believes this alternative would provide the most important elements of the proposed reconciliation schedule and do so in a cost effective and understandable way.

Board Vote

4. Four FASB members agreed with the staff recommendation of Alternatives C. Mr. Smith did not agree.

5. The majority of the IASB agreed with the staff recommendation.

Board Comments

6. Mr. Finnegan said he likes the staff recommendation. He stated that ideally he would like to see a reconciliation of the SFP from one period to another but noted that with the information provided by the staff recommendation, he could do the

detailed SFP reconciliation on his own. He suggested that all items on the face of the SFP should be required to be reconciled, since items on the face have already met a certain level of materiality. He later noted that paragraph 40 (f) [of memo 70B] would capture everything that investors would want to know.

7. Ms. McConnell agreed with him and stated that any account that is separated on the SFP is significant enough to be reconciled. She later noted that it would be necessary to include commentary for the amounts in the analyses of changes in line items so users could understand what the individual numbers mean in full context. She supported Alternative C because it would provide more information than Alternative B.

8. Mr. Siegel supported the staff recommendation and said it was responsive to the concerns raised by the discussion paper respondents. He stated that this type of reconciliation, in addition to a single SCI, would be a vast improvement to presenting financial information.

9. Mr. Cooper stated that he supported Alternative C but was concerned that requiring a reconciliation of every line item in the SFP might deter preparers from presenting appropriate disaggregation on the face of the SFP. He suggested requiring the reconciliation of significant line items but would permit some items to be aggregated based on certain criteria.

10. Mr. Linsmeier supported the staff recommendation and was sympathetic toward reconciling every account. He questioned how the components in paragraph 39 [of memo 70B] would be captured in the disclosure and whether there could be more than one item within each component. He further questioned if the reconciliations should be in one place within the notes or whether the reconciliations should be presented in the note disclosure provided for the specific line item. He suggested the exposure draft include a question about where the reconciliations should be presented.

11. Ms. Seidman said she supported the staff recommendation when she understood that the recommendation would not require every line item to be reconciled. She commented that requiring every line item would be the same as a SFP

reconciliation and raised the same cost/benefit concerns as the reconciliation schedule proposed in the discussion paper. She would support reconciling the key accounts in a manner that would not discourage disaggregation on the face of the SFP. She said that the memo appropriately laid out some of the factors that should be used to identify which line items would be significant. She noted that there is overlap between this recommendation and the direction of the disclosure framework project.

12. Mr. Leisenring stated that either Alternative B or C would put pressure on preparers. He commented that requiring a reconciliation of every line item would just result in a SFP reconciliation. He stated that scattering rollforwards throughout the notes would not increase transparency or provide better information to users. Mr. Leisenring stated he would support alternative B and eliminating the SCF because that statement would be redundant with the information provided in the rollforwards.

13. Ms. Petrone clarified that it was the staff's intention that Alternative C would result in the reconciliation of significant line items in one place within the notes. She later commented that Alternative C was developed with members of the disclosure framework project team and it is the same as one of the proposals in the ITAC letter that had suggested a comprehensive disclosure project.

14. Mr. Danjou supported the staff recommendation and said that the concentration should be on reconciling significant items. He said that there should be more explanations in the disclosures on how management identified the significant items.

15. Mr. Zhang supported the staff recommendation and did not want a reconciliation of all line items. He stated that a principle should be developed to establish the appropriate level of disaggregation within the reconciliation. He commented that this project was intended to focus only on the face of the financial statements and was concerned about the overlap and possible contradictions of other disclosure requirements.

16. Mr. Siegel commented that even though some users may want a full balance-sheet-to-balance-sheet reconciliation, the requirement needs to be responsive to cost/benefit concerns. He stated that all reconciliation information should be in one place.

17. Mr. Cooper stated that the reconciliation information needs to be in the notes with explanatory information.

18. Mr. L. Smith stated that in his view, rollforwards are essentially a summarization of the general ledger. He expressed concern about the cost and amount of work that would be required by the staff recommendation. He said that by definition everything on the SFP is significant, and thus he questioned whether the reconciliation would actually have fewer lines. He did not support Alternatives B or C and thought looking at disaggregation first could allow the reconciliation schedule to be more effective.

19. Mr. Garnett supported Alternative C because it allowed for some selectivity on what items are significant and should be included in the reconciliations. He also said Alternative C allowed for the opportunity to present information in the most meaningful way. He emphasized that Alternative C needs to actually be a reconciliation of only the significant line items.

20. Sir Tweedie said he agrees with the staff recommendation and questioned how the commentary would relate to the reconciliation. Mr. Kuhaneck said that the rollforward would be in the notes with accompanying commentary so users can get the entire picture of what the numbers represent.

21. Mr. Kalavacherla supported Alternative C. He said having disclosures in one place without a narrative would make it difficult to understand the reconciliation amounts. He questioned if the reconciliations would be for the current year or prior years as well. He was of the view that with XBRL, it would not be too difficult to require prior years as well.

Staff Recommendation

22. Ms. Gomez commented that remeasurements should be displayed more prominently. She said the staff recommendation is for remeasurements to be displayed separately either in a two or three column format on the SCI (Alternative D).

23. Ms. Gomez noted that the staff recommend that remeasurements be defined as:

> An amount recognised in comprehensive income that reflects the effects of a change in the carrying amount of an asset or liability to a current price or value (or to an estimate of a current price or value).

Board Vote

24. Four FASB members agreed with the staff recommendation to break out remeasurements on the SCI. Ms. Seidman did not agree.

25. Six members of the IASB agreed with the staff recommendation. Eight members did not want to break out remeasurements on the face of the SCI; those members wanted to retain a single column SCI and suggested remeasurement information be presented in the notes.

Board Comments

26. Mr. Danjou agreed that remeasurements should be disclosed but expressed concern about the practicality and readability of a three column format. He noted that XBRL could potentially resolve part of the problem.

27. Ms. Seidman said she does not agree with presenting remeasurements in columns on the SCI. She commented that this would be excessive and that the statement would be difficult to understand. She said that remeasurements belong in the rollforward with commentary within the notes, not on the face of the statement.

28. Mr. Linsmeier supported presenting remeasurements in two columns. He said there are significant advantages with having this information in one place.

29. Mr. Leisenring said that not all of the examples of remeasurements in paragraph 51 [of memo 70B] would meet the definition. He noted that this proposal was

initiated because people wanted fair value remeasurements separated, but he expressed concern that the recommendation would result in too many remeasurement items.

30. Mr. McGregor supported the staff recommendation because it is responsive to the user community to provide more transparency. He noted it is also responsive to the preparer community because they expressed concern that comprehensive income is not a particularly good means of informing capital markets what is going on in the company and it would make volatility transparent.

31. Mr. Yamada was concerned with the staff recommendation. He thinks remeasurements should be divided into recurring and nonrecurring within the notes and that the face of the SCI should retain only one column.

32. Ms. McConnell supported the staff recommendation. She commented that presenting the remeasurement information on the face and in the rollforward with commentary will provide very powerful information to the users of financial statements.

33. Sir Tweedie noted that there would be redundancy because some items would be on the face, in the rollforward, and in schedules. He was of the view that a three-column SCI would be met with much opposition. He agreed that the information that would be presented is valuable but suggested the presentation not be redundant.

34. Mr. L. Smith said that he would have supported a two-column SCI to maintain simplicity and since it would have provided a great deal of the information he liked in the proposed reconciliation schedule. However, Mr. L. Smith expressed concerned that this would result in redundant information since the boards previously agreed on Alternative C, which would present much of the same information in the notes.

35. Mr. Cooper supported the direction of the staff recommendation but expressed concern about the complexity of multiple columns on the SCI and the possibility

of many blanks in the columns. He commented that there needs to be more work done on what would qualify as a remeasurement.

36. Mr. Garnett said he would prefer only one column because the remeasurement information would already be provided in the rollforward. He questioned which column in the two-column approach would be most important. He said it seems odd to have a SCI that does not actually show comprehensive income and, therefore, if it is decided to show remeasurements on the face he would support a three-column format.

37. Mr. Zhang said he does not support a two- or three-column approach because of the overlap and redundancy.

38. Mr. Herz summarized that some members were concerned about redundancy as well as the definition of remeasurement. He is of the view that presenting the remeasurements would allow for a good discussion about the stocks and flows as well as the basic economic principles which correlate to financial analysis.

39. After the vote, Mr. Herz asked the IASB if they would support a footnote that would present all the remeasurements. Sir Tweedie suggested that the exposure draft contain an alternative to present remeasurements in the notes. Ms. Petrone suggested that the staff further develop Alternative D and work with board members to develop what would be considered remeasurements. She said the staff will bring this to the boards later to vote on and they can decide then if they want an alternative in the exposure draft. Ms. Seidman added that it would be helpful to know where else in the financial statements the same remeasurement information is presented in order to avoid redundancy.

FASB Memorandum #70A—Statement of Cash Flows

Issue 1: Presenting information in the statement of cash flows

<u>Staff Recommendation</u>

40. Mr. Cappiello stated that the direct method presentation of the statement of cash flows (SCF) that was proposed in the discussion paper was not supported by preparers in their comment letter responses. He noted that respondents who

supported the discussion paper thought direct cash flow information offered better predictive value, increased transparency, and was easier to understand. Mr. Cappiello noted that the staff reached out to preparers to gain an understanding of the costs of a direct method SCF. He noted that the staff understood from these meetings that disaggregating cash flows by function **and** nature would be the most costly aspect of the direct method SCF proposed in the discussion paper. Mr. Cappiello noted that in the staff outreach to users of financial statements, the majority found the direct method presentation of cash flows useful.

41. Mr. Cappiello noted that the staff developed two alternatives for the boards to consider. Alternative 1 requires a less-disaggregated direct-method presentation of the SCF as well as the presentation of indirect operating cash flow information in the notes to the financial statements. Alternative 2 is similar to the indirect-method SCF that most entities present today but adds supplemental disclosures of cash from customers and a reconciliation of articulation differences between the changes on the SFP and the changes as presented on the SCF.

42. Mr. Cappiello noted that the staff think that Alternative 1 would meet all the needs of users, and Alternative 2 would meet only some of those needs. He noted that the staff believe both alternatives address the cost concerns of preparers and that the staff confirmed with preparers that a less-disaggregated direct-method SCF would, in fact, be less costly.

43. Mr. Cappiello stated that the staff recommend Alternative 1, a less-disaggregated direct-method SCF accompanied by an indirect reconciliation of operating income to operating cash flows presented in the notes to the financial statements.

44. Mr. Cappiello noted that this discussion deals with the presentation of the SCF and not the preparation of cash flow information. He stated that the exposure draft should not specify whether an entity should use a direct-direct or indirect-direct method of preparing their SCF. He noted that if done correctly, either of the methods to prepare direct cash flow information should yield the same results.

45. Mr. Cappiello also stated that the staff recommend that only one method of presentation of the SCF be permitted in the exposure draft. He noted that this was

consistent with the boards' stated preference for limiting alternatives in accounting standards.

Board Vote

46. A majority of both boards supported the staff recommendation to require a direct-method SCF at a less-disaggregated level with supplementary disclosures. Within the FASB, four board members agreed. Ms. Seidman disagreed.

47. The boards unanimously supported the staff recommendation that only one method of presenting the SCF should be allowed.

Board Comments

48. Several board members expressed concern that the cost savings described by the staff was unclear. Mr. Yamada and Mr. L. Smith asked if preparers had specifically cited use of the indirect-direct method as providing the cost savings. Mr. Cappiello responded that they had not. Mr. Siegel asked if preparers were specific about the degree of cost savings they expected. Mr. Cappiello stated that their responses were varied in the amount and significance of cost savings, but that most of the preparers he talked to agreed that the changes would reduce the cost of implementation. Ms. Seidman asked what specifically would ensure that the level of disaggregation would be lower. Mr. Cappiello stated that removing the specific requirement to disaggregate by function would avoid major systems changes for some preparers systems, because by-nature information is more easily obtained.

49. Several board members, including Mr. Linsmeier and Ms. Seidman, stated that the disaggregation principle for the statement of cash flows needs to be more fully developed. Those board members noted that doing so would ensure that the cost savings from less disaggregation would be realized.

50. Ms. Seidman expressed additional concern about the disaggregation principle. She noted that some preparers currently collect by-nature information and would find that method of disaggregation to be less costly, but she noted that she was not sure that would be the case for all entities. She noted that entities which collect by-function information would not experience a cost savings in this situation. She

also noted that she was concerned that entities would be motivated to select by-nature disaggregation as their main disaggregation attribute throughout the statements if it provided an important benefit on the SCF.

51. Several board members, including Mr. McGregor, Mr. Linsmeier, and Mr. Siegel, said the staff had done a good job of highlighting the cost/benefit issues. They supported the staff recommendation. Mr. Siegel stated that the benefits of the direct method had been well established in his mind, and that only the cost/benefit issues remained to be resolved, which they were in the board memo.

52. Several board members, including Mr. Danjou, Mr. Gélard, and Mr. Kalavacherla, asked if the direct cash flow information proposed in Alternative 1 (or at least the bulk of the information being requested by users) could be obtained with a reconciliation schedule and a more-disaggregated SFP. Mr. Danjou noted that the only line items provided in Alternative 1 that were not provided in Alternative 2 were "cash paid to suppliers" and "cash paid to employees". Ms. McConnell noted that even in a rollforward of accounts payable that includes a cash paid figure, the cash flow information is not meaningfully disaggregated between employees, suppliers, and other categories.

53. Mr. Cooper stated that he supported the staff recommendation but would like the supplemental disclosures to include items that are specifically important to a particular company or industry such as "cash paid for rent" in a real estate company. He noted that several real estate analysts had specifically requested more direct cash flow information.

54. Mr. Garnett stated that he believed the exposure draft should address the issue of the preparation of direct cash flow information. He stated that if the boards do not address it, the exposure draft may be misinterpreted to require the direct-direct method of preparation. Mr. Garnett also noted that he supported providing supplementary disclosures of indirect cash flow information because that was something he experienced analysts asking for, along with direct cash flow information.

Issue 2: Disclosing non-cash information

Staff Recommendation

55. Mr. Cappiello stated that the staff recommend that an entity be required to disclose information about its non-cash activities in the notes to the financial statements unless that information is presented elsewhere in the financial statements. This recommendation retains the proposal from the discussion paper. Mr. Cappiello noted that disclosing non-cash information helps in understanding an entity's asset and capital positions.

Board Vote

56. The boards unanimously supported the staff recommendation.

Board Comments

57. Mr. Herz asked if the information being sought in this requirement would be available in the rollforwards. He noted that he wanted to avoid redundancy. The staff stated that they did not intend for the information to be redundant and had added the phrase "unless that information is presented elsewhere in the financial statements" to reflect that.

58. The boards were unsure whether they wanted all non-cash information to be presented in one place. Mr. Cooper noted that he would prefer to see the noncash information all in one place so that he could focus on those items instead of searching for them. He noted that he didn't mind the information being presented in two places in different formats because the information was used for different purposes. For example, the rollforwards were useful for people focusing on that account, and the disclosure of non-cash items was useful for people focusing on cash flows. Mr. Siegel agreed that the non-cash information was important and that he would like to see non-cash information presented in one place. Ms. Petrone noted that the boards agreed with the staff recommendation and stated that the staff could figure out how to structure the proposed requirement to address their concerns.

Issue 3: Other cash flow related disclosures

Staff Recommendation

59. Mr. Cappiello stated that the staff recommend that an entity present information about repatriation limitations and other restrictions in the notes to the financial statements. He noted that this information is not currently required in U.S. GAAP, and only certain restrictions are in IAS 7.

60. The staff did not discuss cash flows by segment because segments will be addressed later in the meeting.

Board Vote

61. The boards unanimously supported the staff recommendation.

Board Comments

62. Several board members, including Messrs. Herz, Finnegan, Yamada, and Danjou, wanted to clarify that the requirement should encompass a broader sense of "repatriation limitation", including border taxes, other incremental taxes to be paid upon repatriation, legal restrictions, and intra-company restrictions, such as restrictions that minority shareholders could impose. The staff agreed that the final draft should include a broad notion of "repatriation limitations" encompassing all the items the board members mentioned.

63. Mr. Golden noted that the final draft should include both cash and short-term investments. He noted that he didn't want the requirement to be limited only to cash. The staff and the boards agreed.

64. Mr. Texeira noted that there was the potential for overlap between this project and the consolidations project, which proposed a similar requirement. Mr. Cappiello noted that the staff were aware of the possible overlap and would continue to monitor it. He noted that he had discussed this requirement with the consolidations team, who did not think that this was redundant.

FASB Memorandum #70C—Disaggregation by Function and Nature

Issue 1: Level of disaggregation

Staff Recommendation

65. Ms. Cafini summarized the results of the outreach and testing that the staff has done on disaggregation. She noted that disaggregation was consistently ranked as one of the most useful aspects of the discussion paper by analysts in the field test, but the results indicate that where and how the disaggregated information is presented is important for overall decision-usefulness.

66. Ms. Cafini stated that the staff recommend that a broad disaggregation principle be included in the exposure draft as one of the core presentation principles. (The principle is included in the observer notes for this meeting.) She stated that the staff also recommend that the exposure draft include application guidance for disaggregation that is specific to the individual statements and that addresses concerns raised in the comment letters and the field test. For the statement of comprehensive income (SCI), the staff recommend that the boards retain the guidance that an entity should disaggregate income and expense items by both function and nature, and further clarify that measurement basis may also be an appropriate disaggregation attribute for the SCI.

67. Ms. Cafini noted that the purpose of requiring by-function and by-nature information is to enhance the user's ability to understand the essential elements necessary for an entity to generate income or revenue. She also noted that by-nature line items do not need to carry through to each function if that line item is not significant for that function, and that requiring disaggregation by-function and by-nature on the face of the SCI does not necessarily imply that the SFP and SCF should be disaggregated in the same way.

68. Ms. Petrone clarified that the questions for Issue 1 in the original memo (#70C) and observer notes had been revised. The questions are as follows.

(a) Q1: The staff recommend that the disaggregation principle in paragraph 32 be included in the exposure draft as a core presentation principle. Do the boards agree with that staff recommendation?

(b) Q2: The staff recommend that the exposure draft retain the application guidance in the discussion paper for disaggregation of income and expense items by both function and nature (paragraphs 3.42 – 3.50). The staff recommend that that guidance be clarified to be consistent with the core disaggregation principle and address concerns raised in the comment letters and the field test. Do the boards agree with that staff recommendation?

Board Vote

69. The boards supported the staff recommendation. Mr. Herz asked if any of the board members objected to the staff recommendation on either of the questions, and no members of the FASB or the IASB objected.

Board Comments

70. Mr. Zhang asked how disaggregation by measurement basis relates to the proposals in the financial instruments project to have a multi-column SFP presenting information about amortized cost and fair value. Ms. Schmidt stated that the financial statement presentation project team has not formally considered the proposals from the project on accounting for financial instruments, but that they are aware of the conflicting issues and expect to address them in the future.

71. Sir Tweedie stated that he supports an overall principle at a high level related to an entity telling its story or explaining what are the drivers of its business, with more specific guidance ("rules") to follow. Mr. Danjou agreed.

Issue 2: Where to present disaggregated information

Staff Recommendation

72. Ms. Cafini stated that some feedback had indicated that the SCI would be too complicated with disaggregated information on the face, and that the FASRI

experiment suggested that where disaggregated information was presented did not matter as long as related information was presented in the same place.

73. Ms. Cafini stated that the staff recommend that an entity with only one reportable segment present its disaggregated information on the face of its financial statements, and that an entity with more than one reportable segment present that information in its segment note.

74. Ms. Cafini noted that this approach determines whether information is presented on the face or in the notes based on the complexity of the entity, not on the discretion of management, and that reportable segments are also most likely to respond similarly to drivers and other changes. Ms. Cafini stated that if the board agrees with the staff recommendation, the staff will prepare an analysis of possible changes to segment reporting.

<u>Board Vote</u>

75. The boards agreed with the staff recommendation. Mr. Herz asked if any board members disagreed with the staff recommendation, and none of the FASB or IASB board members disagreed.

<u>Board Comments</u>

76. Mr. Cooper asked if a one-segment entity would be precluded from additional disaggregation in the notes and, if not, he wondered how an entity should determine what belongs on the face or in the notes. Mr. Leisenring noted that a one-segment company could have complex SCI if all the disaggregated information is presented on its face and that he thought a one-segment company should be permitted to present that information in a note.

FASB Memorandum #70D—Classification: section and category definitions

<u>Staff Recommendation</u>

77. Ms. Schmidt stated that the staff recommend the following:

(a) That the exposure draft not include a treasury category in the financing section

(b) That equity be a category in the financing section

(c) That the business section include an operating category and an investing category

(d) That the draft language in the Appendix be included in the exposure draft (after amendments to align it with the boards' decisions, if necessary). (The Appendix with the draft language is available in the observer notes for the meeting.)

78. Ms. Schmidt stated that the staff interpreted the decisions reached by both boards in September as being very tentative—that is, the staff needed to do more work on the definitions in order for the boards to reach a converged decision. To accomplish that work, the staff enlisted the help of a small group of board members to provide feedback on the proposed drafting of the definitions of the business and financing sections. During that exercise, the most significant point of contention seemed to be the creation of a treasury category in the financing section.

79. Ms. Schmidt noted that those that support having a treasury category in the financing section do so on the basis that cash and short-term financial assets (or financial liabilities) shown in that category are the opposite of debts. However, she stated that the majority staff position is not to include a treasury category in the financing section on the basis that idle cash (ie the cash line item on the SFP as at a reporting date) is neither value-creating nor financing—it is a store of value. Further, many financial statement users attach an availability notion to cash presented on the SFP. Juxtaposing cash (and other short-term financial assets purchased as a substitute for cash) with debt in the financing section could mislead rather than inform financial statement users.

80. Ms. Schmidt noted that the staff recommend the financing section have two categories: debt and equity. The equity category will continue to be defined by each board's relevant accounting standards. She also noted that bringing equity into the financing section has an effect on cohesiveness; that is, the financing section on the SCI will only include items related to the debt category.

81. Ms. Schmidt stated that even though the boards had previously decided not to include an operating category and an investing category in the business section, the staff thought that decision might be problematic, particularly for the SCF. She noted that the operating and investing category definitions proposed for this meeting are not the same as those that were proposed in the discussion paper. She said that the discussion paper uses a "core / non-core" approach to define the operating and investing categories, whereas the definitions presented to the boards at this meeting rely on an "active / passive" distinction.

Board Vote

82. The boards agreed with the staff recommendation not to include a treasury category in the financing section. Within the FASB, Mr. Linsmeier disagreed. Within the IASB, nine board members agreed.

83. The boards agreed with the staff recommendation to include equity as a category within the financing section. Within the FASB, all board members agreed. Within the IASB, thirteen board members agreed.

84. All board members of both the FASB and the IASB agreed with the staff recommendation to include an operating category and an investing category in the business section.

85. The boards agreed with the staff recommendation to use the proposed drafting of the business and financing section definitions as the basis for the boards' ongoing financial statement presentation deliberations. (The boards did not specifically vote on using the proposed drafting.) However, that drafting will continue to evolve as the boards proceed through their deliberations.

Board Comments

86. Mr. Cooper expressed concern about items that he thinks should be characterized as financing—specifically, bank overdrafts. Ms. Petrone noted that the staff will consider clarifying that bank overdrafts which are substantially financing could be included in that section.

87. Mr. Linsmeier stated that he disagrees with the staff's recommendation about a treasury category because he thinks value-creating activities are strategic decisions to deploy available resources in order to earn a return, and he does not believe treasury assets fit that description. He noted that the creation of a treasury category would necessitate separating cash and short-term investments into two locations, some in financing and some in operating, but that he does not think that would be difficult enough to outweigh the benefits of separately displaying the treasury category.

88. Ms. Schmidt noted that the minority staff position supported the creation of a treasury category in the financing section as a way to preserve the notion of net debt, where treasury assets are viewed as offsetting debt. Mr. Finnegan noted that he was more concerned about that interpretation, which he thinks is incorrect, than he was about preserving the separation of value-creating activities from financing activities. Ms. McConnell agreed with Mr. Finnegan, and stated that she was also concerned that the possible allocation of cash and short-term investments to both operating and treasury asset categories would lead to a lack of comparability between entities.

89. Mr. Cooper asked how the balance sheet would balance if equity is included as a category in the financing section. Ms. Schmidt stated that, as currently written, there would be a "net assets" total that would tie to equity. The net assets total would be derived by netting the business section, taxes, discontinued operations, and the debt category within financing. Ms. Schmidt noted that the staff would continue to work on determining the appropriate subtotals for the SFP.

90. Ms. Seidman asked why the staff has changed their position about the equity category from the discussion paper. Ms. Schmidt stated that the staff was trying to be responsive to comment letter respondents and field test participants who asked for clarification about what the financing section means. Ms. Schmidt also stated that board members had indicated they were supportive of including equity within financing because equity **is** a form of financing.

91. Several board members objected to the words *active* and *passive* used in the definition of the operating category and the investing category, respectively. Ms. Seidman noted that in the past *passive* has had a negative connotation in U.S. GAAP. Ms. Schmidt noted that the staff was fine with removing the words *active* and *passive* because the staff think the proposed drafting could work without those words. Mr. Linsmeier agreed, noting that he thinks that the language "requires the interrelated use of the net resources" [operating category] and "no significant synergies are created" [investing category] is sufficient. The staff agreed to remove the words *active* and *passive* from the definitions.

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

None.

<u>General Announcements:</u>

None.