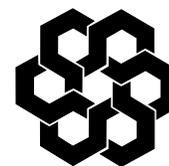




Financial Accounting
Standards Board



International
Accounting Standards
Board

To: FASB, IASB, Joint International Group, and Financial Institution Advisory Group Members
From: Financial Statement Presentation Team
Subject: Summary of the February 12, 2010 Financial Statement Presentation Working Group Meeting
Date: March 10, 2010

The audio of the full day's discussion is available at www.fasb.org and www.iasb.org

Location: Norwalk, CT

Topic: Financial Statement Presentation

Basis for Discussion: Working Group Papers 1 – 8

Length of Discussion: 8:30 a.m. to 2:30 p.m.

Attendance:

Staff in charge of topics: Kim Petrone, Regenia Cafini, Nick Cappiello, Denise Gomez, Amy Schmidt, and Chandy Smith

Other staff at table: Melissa Perkovich and Takashi Matabe (in London)

JIG members present: In Norwalk: Bo Eriksson (Munksjo AB), Gregory Jonas (Morgan Stanley), Dina Mahar (Fitch Ratings Ltd, for Bridget Gandy), Takashi Yaekura (Hosei University), Hiroshi Yamada (Panasonic Corporation), Giles Zancannaro (Bouygues)

In London: Kathryn Cearns (Herbert Smith), Jacque De Greling (IXIS Securities, by phone), Sue Harding (Standard & Poor's)

FIAG members present: In Norwalk: John Gallagher (UBS, for Ralph Odermatt), Stephen Ryan (NYU Stern School of Business), Karen Stothers (Basel Committee on Banking Supervision), Alan Zimmerman (Macquarie Group)

In London: John Whitely (Aviva PLC, for Jo Clube)

FASB members present: In Norwalk: Marc Siegel (chair), Tom Linsmeier, Leslie

Seidman, Larry Smith

IASB members present: In Norwalk: Jim Leisenring, Tatsumi Yamada
In London: Stephen Cooper, Jan Engstrom, Patrick Finnegan, Amaro Gomes, Patricia McConnell

Official observers present: By phone: Jenifer Minke-Girard (SEC)

Objective of the Meeting

1. FASB and IASB members and staff met with members (including official observers) of the Joint International Group (JIG) and Financial Institutions Advisory Group (FIAG) on February 12, 2010 to discuss the upcoming exposure draft for the financial statement presentation project. Meeting participants discussed the following topics:

- Working Group Paper 1, *Classification, Cohesiveness, Definitions*
- Working Group Paper 2, *Disaggregation principle*
- Working Group Paper 3, *Direct method statement of cash flows*
- Working Group Paper 4, *Analysis of changes in statement of financial position line items*
- Working Group Paper 5, *Remeasurements*
- Working Group Paper 6, *Transitional provisions*
- Working Group Paper 7, *Package of decisions and illustrations*
- Working Group Paper 8, *Post Exposure Draft activities.*

Working Group Paper 1: Cohesiveness principle and the section and category definitions

2. Working group members discussed the separation of the operating and investing categories. Working group members agreed that the notion of a “synergistic” combination of operating assets was an improvement (as opposed to the “core/noncore” distinction included in the Discussion Paper). One working group member expressed the view that strategic investments could be categorized as operating or investing depending upon whether or not synergy could be created from holding those investments.
3. Working group members also discussed the classification of treasury assets in the operating category or the financing section; opinions were mixed on whether presenting cash and other treasury assets in more than one category provided useful information.

The staff noted that the IASB's tentative decisions would disclose information about net debt (which incorporates a similar idea) as part of the analysis of changes in significant asset and liability accounts.

4. One working group member expressed concern over the segregation of items that have both operating and financing characteristics, specifically related to the classification of lease obligations and payments. This working group member stated a preference for having lease obligations and payments classified in the financing section rather than in the operating category. The staff noted that the leasing team expects to address presentation with the boards at the March meeting.
5. Working group members also discussed where other items would be classified, such as insurance policies and pensions. The working group members generally agreed that the definitions for the sections and categories, including the proposed new subcategory of financing arising from operating, should be defined so preparers and users clearly understand where items should be classified. Working group members generally supported segregating the items being considered for the financing arising from operating subcategory.

Working Group Paper 2: Disaggregation principle

6. Several working group members expressed the view that segment reporting was important, but should not be dealt with in the financial statement presentation project, especially because the changes would come so soon after IFRS 8 *Operating Segments* was implemented. They also voiced concerns that the suggested changes were dramatic. One working group member made the point that segment reporting is of non-GAAP measures, therefore, such detailed information should not be required.
7. Working group members who were users and analysts, however, were very supportive of presenting by-nature information in the segment note and felt that having by-nature information in the notes is a great improvement, as is reconciling segment information to GAAP measures. They noted that the segment is their unit of analysis.
8. Presenting information at the segment level allows users to make comparisons for similar businesses within different companies. By-nature information also should help users of

financial statements see how different economic drivers affect different businesses. They noted that the segment is their unit of analysis.

9. Several working group members supported relating the business model to segments as a tradeoff between understandability and comparability. Segment reporting allows you to see the company from management's perspective; however, the information is not as comparable from company to company. Working group members who are users of financial statements said the ideal would be for companies to present a complete set of financial statements for each segment; however, that is not practical. One working group member noted that cash flows by segment are very useful and that detailed income and expense information is the most useful segment information.
10. Working group members indicated support for Note E in the working group paper (a segment note that includes income and expenses disaggregated by nature and by function) and having management indicate which items are used for decision-making purposes. Some thought that minimum line items on the statement of financial position are unnecessary given the disaggregation principle.

Working Group Paper 3: Statement of cash flows

11. Generally, working group members questioned the usefulness of the statement of cash flows useful for financial service entities and wondered whether a direct method statement of cash flows would improve the usefulness of that statement.
12. One working group member noted that he finds the current statement of cash flows useful because it provides more detail about the movement of funds within the business than the balance sheet or the income statement provides. This working group member agreed that if this project improves the level of disaggregation on the other statements and requires some sort of reconciliation or roll-forward disclosure, a statement of cash flows might not be needed.
13. Working group members generally agreed that the indirect method statement of cash flows could be improved in meaningful ways that would be less problematic and less costly than implementing a direct method statement of cash flows. They noted that an

“improved” indirect method statement of cash flows might provide a similar level of decision-useful information as a direct method statement of cash flows.

Working Group Paper 4: Analysis of changes in assets and liabilities

14. Working group members were generally supportive of the analyses of changes in significant asset and liability line items. One working group member preferred the proposed reconciliation schedule because it aggregated all of the information in one place, despite it being a lot of information from the preparer’s standpoint. Most others, however, preferred the analyses of changes in significant asset and liability line items because there was too much aggregation in the reconciliation schedule.
15. Most working group members were comfortable with not requiring an entity to analyze all line items, but acknowledged that it might be difficult to determine which items to analyze. Some working group members felt that a requirement to analyze specific line items (e.g., those already required to be reconciled by various standards) ought to be maintained while other line items should be required to be analyzed based on their significance. Working group members said that it might be difficult to operationalize the notion of “significance” and suggested that the Exposure Draft clarify that the list of factors to determine whether an item is “significant” is not exhaustive.
16. A working group member suggested that if an existing reconciliation requirement was put in place for the same reasons the boards are introducing the analysis of changes, then that requirement could be eliminated. However, if it was put in place for a different reason, then the requirement should stay.
17. With regard to prior-year comparisons, some working group members stated that there is no reason not to require prior-year comparative information. Others, however, stated that comparative information should not be required if an item is significant in the current year but was not in the prior year (as long as an explanation is provided).

Working Group Paper 5: Remeasurement definition and display

18. The staff noted that the FASB and IASB have conflicting decisions about where to present remeasurement information, but that those decisions would be reconsidered at the

February joint meeting. The staff asked if the third part of the remeasurements definition, “a change in any estimate or method used to measure the carrying amount of an asset or liability,” should be included.

19. Working group members generally supported the broadening of the definition of remeasurements to include changes in estimates. One working group member noted that he perceives two ways to use information about remeasurements: first, to get insight into the persistence of income statement items, and second, to get insights into the items in which management has used judgment. This working group member noted that in order to capture both of these objectives, the definition of remeasurements should be broad.
20. Some working group members stated that the remeasurement information might be captured in the analyses of changes in significant asset or liability line items and, thus, might not need to be segregated in a separate note or on the face of the financial statements. Working group members generally did not support presenting information about remeasurements on the statement of comprehensive income.

Working Group Paper 6: Transitional provisions

21. Working group members who are users of financial statements expressed the need to have comparative periods to help them understand trends over time. It would be better to wait an additional year for adoption so that companies have time to prepare comparative information. One working group member, a preparer, said it would be difficult to implement all the changes at once in a company with hundreds of subsidiaries. It was suggested that companies could run parallel systems doing a phased-in approach. On the other hand, a working group member pointed out that companies can deal with implementing all the standards at once if the boards give them enough time. They noted that the discontinuity caused by companies adopting standards at different times will be disruptive. Along with this view, several working group members agreed that early adoption should not be permitted in order to ensure comparability between companies.
22. Working group members were divided as to whether or not the final financial statement presentation standard should be implemented before or after other standards resulting from the current convergence projects. One view was that standards introducing

accounting changes (recognition and measurement) are more important than a standard on presentation, so they should be implemented first. On the other hand, working group members noted that it might be better for people to get used to the new presentation before they implement standards introducing accounting changes.

23. Working group members also referred to the aspects of the proposed model that are most difficult to implement. Most agreed that the direct method statement of cash flows will be the most difficult change to implement. One member mentioned that it would not be necessary to require the analyses of changes in assets and liabilities for comparative years (in the year of adoption).
24. Concerning the number of comparative periods to be presented, one working group member suggested the boards leave that decision with the regulators. Several others suggested providing two prior years of comparative statements. One working group member also brought up the fact that it takes a long time to educate people on the new standards and emphasized that the boards consider that in setting effective dates.

Working Group Paper 7: Package of decisions and illustrations

25. The staff asked the working group members if the boards and the staff had been responsive to constituents' concerns and if the package of decisions was complete and operational. Generally, working group members stated that the boards have been responsive to concerns except those related to a single statement of comprehensive income.
26. Working group members who disagreed with the single statement of comprehensive income noted that they perceived a fundamental difference between components of other comprehensive income (OCI) and components of net income, and that they found it misleading to present both of those elements on one statement. Several working group members expressed an opposite view, including some working group members who advocated a full reconsideration of what items should be included in OCI and whether or not OCI items should be reclassified to net income. The staff noted that the boards are deliberating a single statement of comprehensive income in a separate joint project. The

boards plan to release for comment separate but similar exposure drafts during the first half of 2010.

27. A few working group members noted that they did not think the boards had been responsive on the direct method cash flows issue either. The Board members and staff present encouraged participation in the comment letter process and reassured working group members that the boards rely on the information provided to them in that process.
28. The staff asked if a four month comment letter period would be appropriate for the exposure draft. Working group members objected to the proposed time frame for the comment letter period on this project. They noted that four months would be adequate but that the time frame being proposed, May – August 2010, would overlap with reporting deadlines at the end of June and with traditional European holidays in August. Working group members generally agreed that if the exposure draft is released at the end of April, as planned, they would prefer a five month comment period, through the end of September 2010.
29. Working group members also generally agreed that the illustrations are helpful for the exposure draft, but that the staff should clarify that the illustrative financial statements that are included in the Exposure Draft are not templates or strict requirements on how information has to be presented.

Working Group Paper 8: Costs, benefits, field testing, communication, and outreach

Field Testing

30. Working group members agreed that the staff should do more field testing. Suggestions included gathering more information from software providers about the costs of implementing a new system in order to get an upper bound on the cost and meeting with companies to determine what drives the cost for the direct method cash flows statement as well as how the other major changes will affect them. It was also suggested that after some education about the Exposure Draft, preparers and users be asked to complete a survey about the key changes proposed in the Exposure Draft. That survey would ask preparers to rank key attributes of the proposed presentation model from high to low

based on cost and users would rank the changes based on the decision-usefulness of information.

31. Having companies recast financial statements was also discussed. To avoid the legal obstacles created by securities laws faced in the last field test, a working group member suggested asking a non-public subsidiary of a large company to recast their financial statements or using old data. Other working group members suggested having private companies recast their financial statements or “engineering” some financial statements, like ToolCo in the discussion paper.

Costs and Benefits

32. One working group member asked that the basis for conclusions in the Exposure Draft include a preliminary assessment of how the marginal benefits of the proposed model will exceed the marginal costs. However, several participants noted that quantifying the benefits is impossible and that the boards are charged with issuing final standards that improve financial reporting.

Outreach

33. Several working group members volunteered to help with outreach related to the Exposure Draft. One working group member suggested approaching institutions with their own instructional/promotional platforms that the FASB and IASB could possibly use to help them reach a broader base of users and preparers. A working group member also suggested using PowerPoint packages and webcasts with follow-up, as the IASB has done on recent projects. Board members should also take advantage of speaking opportunities to help educate their constituents about the presentation proposals. A working group member suggested that the staff reach out to data aggregators (e.g., Bloomberg, Reuters, and FactSet).