

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Drum (ext. 296)
Subject: Minutes of the October 31, 2007 FASB meeting (Financial Statement Presentation) **Date:** November 2, 2007
cc: FASB: Bielstein, Lott, MacDonald, Allen, Stoklosa, Posta, Klimek, Gabriele, Project team, FASB Intranet; IASB: Gomez, Suzuki, Hickey; GASB: Reese and Schermann

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
Basis for Discussion: FASB Memoranda No. 56A-B
Length of Discussion: 9:00 a.m. – 10:45a.m.
Attendance:
FASB Board members present: Herz, Crooch, Linsmeier, Seidman, Smith, Young
Board members absent: Batavick
Staff in charge of topic: Drum, Kawanishi
Other staff at Board table: Beckendorff, Bielstein, Cafini, Gomez, Leverenz, Petrone, Smith
Outside participants: None

Summary of Decisions Reached

The Board decided to change its view on which entities should be required to present a classified statement of financial position in order to be consistent with the IASB view. That is, an entity would be required to present a classified statement of financial position except when presenting assets and liabilities in order of increasing or decreasing liquidity provides information that is reliable and is more relevant.

The Board discussed its previous decision to adopt the capital management disclosures currently required by IAS 1, Presentation of Financial Statements and the recent IASB decision that operating items would not be included in those disclosures. The Board noted that those disclosures are particularly important for entities that have externally imposed capital restrictions. However, the purpose of the Preliminary Views should be to assess the usefulness of capital management disclosures that would apply to entities more broadly. Thus, the Board decided that the Preliminary Views should solicit information about what type of information about capital and management of that capital should be disclosed by all entities

The Board confirmed its March 2007 decision that cash receipts and payments should not be offset (presented net) in the statement of cash flows unless there is no incremental value in the additional information provided by a gross presentation. The Board agreed that the Preliminary Views should describe that principle, describe the characteristics of some cash receipts and payments that would meet it (such as when turnover is quick, the amounts are large, and the maturities are short), and ask for feedback on the appropriateness of the principle and whether additional application guidance would be necessary.

The Board decided that for purposes of the preliminary views document, the classification of common dividends payable and the related cash flows should be based on the current classification of dividends payable as a liability. Thus, common dividend payments would not be classified in the equity section in the statement of cash flows. Board members observed that the classification of dividends payable and certain types of equity instruments may change as a result of the Liabilities and Equities project.

The Board decided that foreign currency translation adjustments (FCTA) related to consolidated subsidiaries should be presented in a separate FCTA section and that FCTAs related to equity method investments should be presented in the same category as the investment.

The Board discussed whether the effects of basket transactions (single transactions that involve multiple assets or a combination of assets and liabilities that would be classified in more than one category under the working format) should be allocated to multiple categories or whether those effects should be classified in one category. The Board did not reach a decision and directed the staff to develop some reasonable allocation methods for discussion at a future meeting.

Objective of Meeting

The objective of the meeting was to discuss the following issues that the Boards had previously discussed:

- a. Which entities should present a classified statement of financial position
- b. Capital management disclosures
- c. Whether “former” cash equivalents can be presented net on the statement of cash flows and whether the existing netting guidance should be retained.
- d. The classification of dividends payable on common shares in the statement of financial position and the classification of related payments in the statement of cash flows.
- e. The classification and presentation of foreign currency translation adjustments
- f. The presentation of single transactions that involve multiple assets (or a combination of assets and liabilities) that would be classified in more than one category under the working format (basket transactions).

The objectives were met.

Matters Discussed and Decisions Reached

Issue 1: Classified statement of financial position

1. Mr. Drum opened the meeting by stating that the Boards have reached different conclusions on how to describe entities which are required to present a classified statement of financial position. He stated that the FASB has tentatively decided that financial institutions would not be required to present a classified statement of

financial position while the IASB has tentatively decided that an entity would not be required to present a classified statement of financial position when a presentation of assets and liabilities in order of liquidity provides information that is reliable and is more relevant. Mr. Drum stated that the staff's recommendation to the FASB is to change its views to be consistent with the IASB's view. The staff also recommends that the preliminary views document include examples of entities which engage in certain listed activities for which a statement of financial position presented in order of liquidity may be more relevant.

2. Mr. Crooch asked whether the staff expects financial statements of banks to be presented in a significantly different manner than they are today. Ms. Petrone stated that the presentation should be the same.
3. Mr. Linsmeier encouraged the staff to include a discussion in the preliminary views document about why a statement of financial position in order of liquidity may be more useful for a financial institution. Ms. Seidman noted that the approach for financial institutions is not changing as a result of this decision. Ms. Seidman asked whether the implications of a converged approach would be that all entities would be required to provide contractual maturity information for long term assets and liabilities and entities which present a statement of financial position in order of liquidity would be required to disclose contractual maturity information for short term assets and liabilities as well. Ms. Petrone responded that Ms. Seidman's assessment was correct.
4. Mr. Linsmeier noted that a conglomerate with several reportable segments would be required to choose one approach for presenting information on the statement of financial position even if it is not appropriate for all reportable segments. Ms. Seidman stated that this is true for many decision made under this model.
5. The Board generally agreed with the staff's recommendation. Mr. Batavick indicated his support through his vote proxy.

Issue 2: Capital management disclosures

6. Mr. Drum stated that the Boards had tentatively decided that all entities should disclose the capital management information required by IAS 1, *Presentation of Financial Statements*. He stated that the FASB had been of the view that the term *capital* should be clarified to items in the operating, financing and equity sections as appropriate. However, at their October 2007 meeting, the IASB decided that capital management disclosures should not address assets and liabilities classified in the operating category. Mr. Drum stated that the staff asks the Board whether they want to change their view in light of the recent IASB decision.
7. Ms. Seidman noted that the essence of this issue is the meaning of *capital*. She also noted that most of the IAS 1 disclosure requirements are related to cases where entities have externally imposed capital requirements. She stated that financial institutions would likely classify most of their assets and liabilities in the operating category and are very likely to have externally imposed capital requirements. Therefore, she stated that it would be inappropriate not to include assets and liabilities held in the operating category in the capital management disclosures.
8. Mr. Herz questioned whether current regulatory capital requirements of banks and broker dealers include items that would be classified in the operating section under the working format. He also stated that there are conflicting capital disclosure requirements: some that require disclosure of what management views as capital and some that require disclosure of regulatory capital.
9. Ms. Smith stated that the IASB discussion related to expanding the scope of the capital management disclosure to include working capital items focused on non-financial entities (that is, those that do not have externally imposed capital requirements).
10. Mr. Linsmeier stated that the capital management disclosures were initially intended to relate to externally imposed capital requirements and that they cannot be imported into this project to fulfill a broader purpose. He stated that he believes that the

financial statement presentation project should develop a principal for disclosures that identify what an entity views as capital and how it manages capital.

11. Ms. Bielstein noted that the disclosure as written seems to presume that those items that are managed as capital may not be identified as capital in the financial statements. She noted that IAS 1 was developed in a different environment—there was no management approach to classification. She questioned the usefulness of the IAS 1 disclosure under a model where management has flexibility in classifying financing and equity items in the financial statements. She questioned whether the notion of capital in the capital management disclosure would parallel the definition of financing and equity items.
12. Ms. Seidman stated that she believes entities should disclose any externally imposed capital requirements and how they meet those requirements. She questioned whether that requirement is appropriate for the financial statement presentation project to address. She asked if there is a way the staff can test whether constituents agree with requiring a general discussion of capital that may or may not align with the financing and equity sections and later decide if the preliminary views document should include such a requirement.
13. Mr. Smith stated that he thinks the fundamental question in this debate is what the FASB defines as *capital*. He stated that he had the impression that the focus of the disclosures presented was primarily on regulatory capital. He stated that if the focus is regulatory capital, the disclosures should address only regulatory capital and not address a broader definition of capital. He also stated that he would disagree with the IASB decision if financial institutions would classify regulatory capital in the operating category.
14. Mr. Herz asked how a principal on capital management disclosures would interact with the SEC's required management discussion and analysis disclosure. He suggested that the proposed disclosures could be based on the current SEC requirements.

15. Mr. Herz stated that the Board should evaluate whether this project should replace current industry practice and management discussion and analysis requirements. He noted that one difference between U.S. GAAP and IFRS is that much of the management discussion and analysis requirements are included in audited financial statements under IFRS but required separately by the SEC under U.S. GAAP. Mr. Smith asked whether the FASB's strategy is to move closer to the IFRS model. Mr. Herz stated that he believes it would be appropriate to move to a model similar to the IFRS model where management commentary is presented as part of the audited financial statements.
16. Mr. Linsmeier stated that externally imposed capital requirements should not be included in the financial statement presentation project. He stated that disclosures established in this project should apply to all entities. He stated that the liquidity working principal was discussed to include the notion of solvency and that the way an entity manages working capital will have an impact on its solvency. Mr. Linsmeier said that the Board should address how the project should meet the solvency working principle more holistically.
17. Ms. Seidman asked whether analysts evaluating financial statements of U.S. financial institutions would be concerned if regulatory capital information was not included. She suggested that the preliminary views document explicitly state that it is not the Board's intention to override any existing regulatory capital disclosure requirements.
18. Ms. Petrone suggested that the discussion document include a discussion of how the working principle is being met and request feedback on whether additional disclosures would be useful. The Board generally agreed with this suggestion.
19. Mr. Young stated that he believes there is benefit to further developing possible capital management disclosure requirements as those disclosures could help communicate what the Boards are trying to achieve by having the layout of the financial statements be based on operating, investing, and financing activities. Mr. Young stated that the IAS 1 disclosure requirement is not the best place to start as it only relates to regulatory capital.

20. Ms. Petrone asked the Board to confirm that the capital management disclosure issue should be addressed through expanded discussion and questions in the preliminary views document. Ms. Seidman, Mr. Linsmeier, Mr. Herz, Mr. Young, Mr. Smith and Mr. Crooch agreed.
21. Mr. Batavick indicated through vote proxy that operating items should be excluded from the capital management disclosures. He indicated a preference for including a question in the discussion paper as to whether this disclosure should be expanded to include working capital items.

Issue 3: Netting on the Statement of Cash Flows.

22. Mr. Drum stated that the Boards decided that “cash”, rather than “cash and cash equivalents” should be used as the basis for presenting the statement of cash flows. He also stated that the Boards directed the staff to consider whether net amounts of cash receipts and payments related to items currently classified as cash equivalents could be presented on the statement of cash flows.
23. Mr. Drum said that the current netting principle in the working format states that entities should prepare financial statements using a gross presentation except when
- a. Net presentation is required or permitted by the authoritative accounting literature; or
 - b. There is no incremental value in the additional information provided in a gross presentation – that is, there is no benefit in a user of the financial statements knowing the two amounts; the net amount provides all of the information that is necessary.
24. He then described that the existing general netting guidance in FASB Statement No. 95, *Statement of Cash Flows*, and IAS 7, *Cash Flow Statements*, permits net presentation of cash receipts and payments relating to:
- a. Short term investments not classified as cash equivalents in which:
 - (1) The turnover is quick
 - (2) The amounts are large
 - (3) The maturities are short.
 - b. Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity.

25. Mr. Drum stated that there is also specific guidance in Statement 95 and IAS 7 that permits netting in the following circumstances [Statement 95: for banks, savings institutions, and credit unions; IAS 7: for financial institutions]:
- a. Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date
 - b. The placement of deposits with and withdrawal of deposits from other financial institutions
 - c. Cash advances and loans made to customers and the repayment of those advances and loans.
26. Mr. Drum stated that the staff identified the following three alternatives for dealing with the netting principle in relation to the existing netting guidance and that the staff recommends Alternative c:
- a. Retain the existing netting guidance as written in order to provide clarity to the netting principle.
 - b. Eliminate the existing netting guidance and include a question in the discussion document asking whether any aspect of the existing guidance should be retained to supplement the netting principle.
 - c. Eliminate the **general** existing netting guidance because the netting principle will capture those same criteria, but retain the more **specific** existing netting guidance to provide clarity and additional application guidance.
27. Mr. Linsmeier stated that he supports Alternative b. Mr. Linsmeier stated that he is of the view that many amendments to existing literature will be necessary while moving forward in the project. He questioned whether evaluating specific existing guidance related to financial statements in this stage of the project would be productive.
28. Mr. Herz stated that he is apprehensive about providing examples that could lead to restrictive interpretation of the netting principle.
29. Mr. Smith stated that he considers the examples to be rules that do not meet the principle. He also noted that the basis for conclusions of Statement 95 indicates that these additional rules were included because the information was very difficult for entities to obtain. He specifically questioned why net presentation should be

permitted for items 26.b and 26.c. Therefore, Mr. Smith stated that his preference is Alternative b.

30. Ms. Seidman noted that the first provision in the general netting guidance represents the current literature, while the second provides an override to existing guidance. She noted that the second provision was included because the notion of cash equivalents has been eliminated. Ms. Seidman stated that she feels it's important to communicate that the Board's intentions were not to override existing netting guidance but to allow netting for former cash equivalents.
31. Mr. Linsmeier stated that he supports augmenting the netting principle with an explanation that netting may be appropriate in instances where the turnover is quick, the amounts are large and the maturities are short. Ms. Bielstein agreed and stated that describing the circumstances where net presentation would be appropriate is more useful than describing the items for which net presentation is appropriate.
32. Mr. Linsmeier questioned whether the principle applies equally to all financial statement or only to certain statements. Mr. Herz responded that he believes there is a different principle for other statements. Ms. Petrone stated that the netting principle was developed for all statements; however, it seems most appropriate for the flows statements.
33. Mr. Young stated that the language in the general netting principle "no incremental value" is too absolute. He noted that one could always argue that the information does provide some incremental value. The Board agreed that the language should be softened.
34. Ms. Seidman, Mr. Linsmeier, Mr. Herz, Mr. Young, Mr. Smith and Mr. Crooch all agreed that the guidance in paragraph 12 of Statement 95 (repeated in paragraph 24a above) should be retained to provide clarity to the netting principle. Those Board members would not retain the specific guidance in Statement 95 as recommended by the staff.

35. Mr. Batavick indicated his preference through vote proxy that all existing guidance should be eliminated and the preliminary views document should ask a question as to whether specific guidance is needed.

Issue 4: Dividends payable

36. Mr. Kawanishi stated that the Boards will be discussing the classification of dividends payable in the liabilities and equities project, however, for the purpose of the preliminary views document, the classification of dividends payable and related cash flows should be based on the current classification of dividends payable as a liability and application of the cohesiveness principle. He stated that the IASB agreed with the staff recommendation at the IASB's October 2007 meeting.

37. Mr. Smith stated that he views the presentation of dividends payable as a financing liability not representationally faithful to the underlying transaction. He stated that financing liabilities are generally incurred in order to finance a certain activity and dividends payable are not related to an activity.

38. Mr. Linsmeier identified that there is a tension in the project that the business and financing categories are distinguished by type of activity, however, the equity section is distinguished by type of element. Mr. Linsmeier suggested that the equity section could be titled "equity activities" and could contain liability elements and equity elements as appropriate. He noted that "equity activities" really represents financing activities. Ms. Seidman suggested that the title of such a category could be "transactions with owners."

39. Ms. Bielstein questioned the implications of this approach. She stated that there is a view in the Liabilities and equities project that dividends payable are equity items not liabilities. She suggested that an easier solution would be to think of dividends payable as equity. Mr. Herz clarified that under the ownership approach a dividend payable would meet the definition of equity. Mr. Herz stated that he is ready to vote with the staff's view.

40. Mr. Herz noted that there were a number of implications if the equity section were to include both liability and equity elements. For example, share buyback programs or other activities that relate to an entity's own stock.
41. Ms. Seidman noted that a way to distinguish liabilities from equity would be that returns **on** capital are considered financing and returns **of** capital would be considered equity.
42. Mr. Linsmeier stated the equity classification problems are alleviated if the equity section was combined with the financing section. Ms. Bielstein stated that even if equity elements are presented in a financing category, there would be a subtotal that distinguishes equity elements from financing liabilities. Ms. Seidman stated that one way to distinguish liabilities from equity is that equity items are not remeasured.
43. Ms. Bielstein noted that this problem is indicative of a greater overall problem with the underlying assumptions relating to the working format. She stated that changing the section to "equity activities" raises various problems, and has far reaching implications for the Liabilities and equity project.
44. Mr. Smith stated that he believes the problem with dividends payable is that the Board is putting undue emphasis on the cohesiveness principle. He also stated that he is worried that presenting dividends payable as a financing liability will create more objections to the project.
45. Ms. Petrone stated that the preliminary views document can address Board member's concerns and ask for feedback. She stated that it would be important to note that the Boards' preliminary views are based on current GAAP and acknowledge that the view may change as GAAP changes.
46. Mr. Herz called for a preliminary vote. Mr. Herz and Mr. Crooch stated that they support of the staff's recommendation; Mr. Batavick indicated through his vote proxy that he supports the staff's recommendation.

47. Ms. Seidman questioned whether underwriting fees paid to issue equity instruments should be in an equity activities section in the statement of comprehensive income. She also stated that she disagrees with Mr. Smith's assertion that revisiting the appropriateness of a separate equity section would not slow down the project.
48. Ms. Petrone asked the Board if they have an interest in revisiting whether equity items should be included in the financing section. Mr. Young asked Ms. Petrone how much revisiting the separation of equity and financing categories would delay the project. Ms. Petrone estimated that the project could be delayed by two months. Because of the potential delay, Mr. Young, and Ms. Seidman changed their votes to support the staff's recommendation. Mr. Herz encouraged the staff to include in the preliminary views document a discussion of some of the issues and problems that arise from the classification of dividends payable and related cash flows.
49. Mr. Batavick indicated through vote proxy that for the sake of convergence he agrees that dividends payable should be classified as a financing liability. However, he recognizes that the equity section is a more logical fit.

Issue 5a: Classification and presentation of foreign currency translation adjustment for consolidated subsidiaries

50. Mr. Kawanishi stated that the Board had previously discussed this issue in March 2007 but did not reach a decision. He stated that the staff recommends that foreign currency translation adjustments (FCTAs) related to a consolidated subsidiary should be classified in a new section on the statement of comprehensive income. He stated that the reasons for the staff's recommendation are i) classifying the FCTA effects in the operating category would include effects related to investing and financing assets and liabilities and therefore would be misleading and ii) any exception to the cohesiveness principle should be prominently displayed by presenting it in a separate section in the statement of comprehensive income. Mr. Kawanishi stated that the IASB agreed with the staff's recommendation at their October 2007 meeting.

51. Mr. Linsmeier questioned what the costs are related to allocating FCTAs. Mr. Herz responded stating that the complication is in translating between the foreign exchange rate used on the statement of financial position and the average or transaction rate used on the statement of comprehensive income.
52. Ms. Seidman questioned why an entity would allocate FCTAs when FASB Statement No. 52, *Foreign Currency Translation*, requires that the effects should be recognized as one amount in other comprehensive income. Ms. Bielstein stated that the Board voted to include an OCI subcategory for the operating, investing, and financing categories and complications will arise in allocating between categories.
53. Mr. Young questioned whether simply separating the financing effects would alleviate some of the complication. He stated that for many entities, extricating the financing element of FCTAs may not be a high cost item.
54. Mr. Linsmeier stated that the financial statement presentation project is currently struggling with three “one-to-many” issues: taxes, basket transactions, FCTAs. He suggested that it would be productive to develop a principle related to how “one-to-many” should be handled in the working format. He stated that he worries that creating additional sections will erode the benefit of the classifications.
55. Ms. Seidman stated that the FASB and IASB have different views on the presentation of other comprehensive income items. She stated that if the Board adopted the IASB view, some of the additional effects of “one-to-many” transactions would be dropped into a single other comprehensive income section.
56. Mr. Herz stated that most foreign currency denominated debt is borrowed in foreign currency in order to match funds with the asset at a local level. He stated that this raises questions whether the FCTA should be measured based on the debt and the asset separately or on a net basis. He questioned whether users find economic meaning in disaggregating the FCTA into various categories.
57. Mr. Herz, Mr. Smith and Ms. Seidman, agreed with the staff, Mr. Batavick indicated that he agrees with the staff through vote proxy.

58. Mr. Young stated that the CFA Institute was interested in understanding the FCTA effect on the statement of financial position. He stated that this information would not be provided under the staff's recommendation.

Issue 5b: Foreign currency translation adjustments related to equity method investments

59. Mr. Kawanishi stated that the staff recommends that the FCTAs related to equity method investments be classified in the same category as the investment in the statement of financial position. He stated that the IASB supported the staff recommendation in their October 2007 meeting.

60. Ms. Seidman noted that this is another other comprehensive income item and that the answer to how to allocate FCTAs is dependent on how other comprehensive income is presented. Ms. Petrone noted that under the IASB view, a separate other comprehensive income section will contain operating, investing, and financing subcategories.

61. Mr. Young stated that he believes the decision on how to treat FCTAs related to equity method investments should mirror the decision for FCTAs related to consolidated subsidiaries. Mr. Smith agreed, noting that it's just a one-line consolidation.

62. Ms. Seidman stated that she supports the staff recommendation but hopes the Board will revisit the presentation of other comprehensive income items. Ms. Petrone stated that the staff does not plan to revisit the presentation of other comprehensive income with the Board, but will include several alternative presentations in the preliminary views document.

63. Mr. Smith, Mr. Young, Mr. Linsmeier, Mr. Herz, Ms. Seidman and Mr. Crooch stated they agreed with the staff recommendation. Mr. Batavick indicated through proxy vote that he agrees with the staff recommendation.

Issue 6: Basket transactions

64. Mr. Kawanishi stated that basket transactions are defined as single transactions that involve multiple assets (or a combination of assets and liabilities) that would be classified in more than one category under the working format. He stated that the staff recommends that the effects of basket transactions should be allocated because while perfect cohesiveness may not be achieved, application of the cohesiveness principle is still an effective way to communicate the relationships between the statement of financial position and the change statements.
65. Mr. Linsmeier noted that the staff's recommendation is counter to its recommendation for taxes and FCTAs. Ms. Bielstein stated that basket transactions may be different than taxes and FCTAs because basket transactions can be allocated in a non-arbitrary way.
66. Mr. Smith questioned whether under the staff's recommendation the effects of a basket transaction will be allocated to individual line items. Ms. Bielstein stated that the effects will be allocated to the categories not the individual line items. Mr. Smith stated that in a business combination, the acquirer does not pay for individual assets and liabilities but rather for the business as a whole. He questioned whether the staff recommendation is representative of the economics of the transaction.
67. Mr. Herz stated that he agrees with Mr. Smith's assessment for purchase or sale of a business but noted that his view is different for the sale of property subject to a mortgage. Mr. Linsmeier stated that allocating the net gain or loss in a basket transaction would most likely be arbitrary. Ms. Seidman stated that when a debt is settled by transferring property, it is very easy to calculate the gain or loss on the individual items in the transaction.
68. Mr. Linsmeier questioned whether net cash flows related to a basket transaction would be grossed up to represent hypothetical cash inflows and outflows. Ms. Smith stated that none of the staff is in support of presenting hypothetical transactions on the financial statements.

69. Ms. Bielstein stated that this question is related to the question of when netting results in a significant loss of information. She noted that the gain or loss resulting from sale of a business is really a net gain from the disposition of assets and liabilities.
70. Mr. Kawanishi stated that the IASB directed the staff to develop potential allocation methods for basket transactions and that the staff has been working on allocation principles.
71. Ms. Seidman asked the staff to present a list of issues where the FASB and the IASB currently have differing views and ask the Boards if they are willing to converge at a future meeting.
72. Mr. Herz directed the staff to develop some reasonable allocation methods for discussion at a future meeting.
73. Mr. Batavick indicated through vote proxy that he believes allocating the effects of basket transactions is appropriate, as it is consistent with the cohesiveness principle.