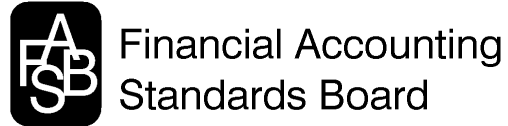


MINUTES



**To:** Board Members

**From:** Drum (ext. 296)

**Subject:** Minutes of the November 14, 2007  
Board Meeting - Financial Statement  
Presentation

**Date:** November 20, 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. 57A-C

**Length of Discussion:** 9:00 a.m. – 10:20a.m.

**Attendance:**

FASB Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman,  
Smith, Young,

Board members absent: None

**Staff in charge of topic:** Drum, Petrone

**Other staff at Board table:** Bielstein, Cafini, Leverenz, Smith

**Outside participants (by phone):** Gomez, Kawanishi, Suzuki

## Summary of Decisions Reached

1. The Board agreed to modify the information to be disaggregated in the reconciliation schedule (that is a reconciliation of the statement of cash flows to the statement of comprehensive income) so as to reach a converged view with the IASB for purposes of the preliminary views document. The Board agreed to combine the presentation of contractual accruals and other changes that are not remeasurements. Under the converged view an entity would, at a minimum, disaggregate the difference between cash flows and amounts reported in comprehensive income into four components:
  - Cash flows not affecting income
  - Accruals and systematic allocations
  - Recurring valuation changes
  - Remeasurements other than recurring valuation changes.

The Board confirmed that the right-most column of the reconciliation schedule should include unusual or infrequent events or transactions.

2. The Board discussed the totals and subtotals that should be required in the financial statements and reached the following decisions:
  - a. A total should be presented for each category and section in each of the financial statements. Other totals and subtotals may be presented when such presentation is relevant to understanding an entity's financial position and changes in that financial position.
  - b. Short-term items should be clearly distinguished from long term items in a classified statement of financial position.
  - c. Operating assets should be clearly distinguished from operating liabilities in the statement of financial position.
  - d. Other comprehensive income should be clearly distinguished in the statement of comprehensive income.
  - e. The categories and sections should be presented in the same order in each of the financial statements; however, that order would not be prescribed

### Objective of Meeting

3. The objective of the meeting was to discuss the issues below; the objective was met.
  - a. The statement of cash flows
  - b. The reconciliation schedule
  - c. Totals and subtotals.

### Matters Discussed and Decisions Reached

#### **MEMORANDUM #57A**

#### **Issue 1: The Statement of Cash Flows and the Reconciliation Schedule**

4. Mr. Drum stated that in June 2007, the Boards discussed three Alternatives for disaggregating changes in assets and liabilities: the statement of financial position reconciliation, the reconciliation of the statement of cash flows to the statement of comprehensive income, and the comprehensive income matrix. Of these Alternatives, the Boards indicated a preference for the reconciliation of the statement of cash flows to the statement of comprehensive income. Mr. Drum stated that while the Boards have expressed a preference for the statement of cash flows to the statement of comprehensive income reconciliation, they have expressed different preferences on the reconciling columns.
5. Mr. Drum stated that if the Board's respective views are both included in the initial discussion document, the staff is concerned that the comments will focus on the number of columns in one view versus the other rather than the substance of the reconciliation schedule. Mr. Drum expressed the staff's preference to illustrate only one view of the reconciliation schedule in the preliminary views document. Mr. Drum stated that the staff's recommended converged view of the reconciliation combines aspects of the IASB view and the FASB view.
  - a. At a minimum, an entity would disaggregate the reconciling items into the following four columns:

|           |  |
|-----------|--|
| Column B. | Cash flows not affecting income                        |
| Column C. | Accruals and Systematic Allocations                    |
| Column D. | Recurring valuation changes                            |
| Column E. | Remeasurements other than recurring valuation changes. |

- b. An entity would **not** be able to classify valuation adjustments in the accruals column based on the view that the alternative classification would be more useful.
  - c. An entity would identify unusual or infrequent events or transactions in the right-most column of the reconciliation.
6. Mr. Young asked why the Board has decided against the reconciliation from beginning to ending statement of financial position. He noted concern over a lack of information about “non-cash, non-income” items. Mr. Young stated that he believes that the statement of financial position reconciliation provides the same information as the reconciliation from the statement of cash flows to the statement of comprehensive income, plus it provides additional information. Mr. Young admitted that several transactions, such as foreign currency translations, will not fit well in a statement of financial position reconciliation but expressed a preference for laying foundations for financial reporting in the long-term. He noted that many standards may need to change to fit within a new financial reporting model.
7. Ms. Bielstein noted that an important goal of the reconciliation schedule is to disaggregate the earnings numbers. She stated that because of the additional information provided in the statement of financial position reconciliation, it is overwhelming and thus does not clearly accomplish this goal.
8. Mr. Linsmeier noted that multiple columns may be necessary to capture all items that are both non-cash and non-income. He stated that he is in favor of the statement of financial position reconciliation; however, he noted that the Board decided on the reconciliation from the statement of cash flows to statement of comprehensive income for cost-benefit reasons. Mr. Linsmeier noted that he expects the staff to raise questions in the preliminary views document relating to the costs and benefits of a statement of financial position reconciliation. He also noted that the staff should include a discussion of entities for which a statement of financial position reconciliation would be more relevant. Mr. Linsmeier expressed concern that constituents will oppose the idea of a reconciliation if they are intimidated by the volume of information necessary in the statement of financial position reconciliation.

9. Ms. Seidman noted that both reconciliations will be exposed in the preliminary views document and that the staff and Board will receive valuable feedback from constituents. Mr. Batavick suggested that some of the concerns over the statement of financial position reconciliation could be addressed through disclosures.
10. Ms. Seidman stated that she does not agree with an approach that classifies initial estimates and changes in estimates in different columns. Mr. Smith stated that he agrees that they should be categorized in the same column. Mr. Linsmeier stated that he agrees that bad debt expense should not be split between two columns. He noted that changes in estimates may be due to changes in economics, or a selective choice by the entity. He stated that the costs of separating changes in estimate from initial recognition of an estimate outweigh the benefits.
11. The Board agreed that a converged view of the reconciliation, as recommended by the staff should be included in the preliminary views document. However, they agreed that initial estimates and changes in estimates should be classified in the same column.
12. Mr. Linsmeier noted that the column representing cash flows not affecting income is not comprehensively illustrated or discussed. He noted that a clear distinction must be made between cash flows not affecting income and contractual accruals.
13. Mr. Young noted that the cash purchase of a long-lived asset will be classified as a cash flow not affecting income, however, the sale of a long-lived asset will be classified in other accruals. He noted that because of this presentation, transactions involving long-lived assets are very difficult to understand.
14. Ms. Petrone indicated that the staff would continue to modify the reconciliation schedule to address Board member concerns.

## **MEMORANDUM #57B**

### **Issue 2: Common Totals and Subtotals**

15. Ms. Petrone stated that the staff recommends that each required section and category in the financial statements contain a total. She stated that the staff is of the view that requiring common totals for each section and category is a logical extension of the cohesiveness principle in the working format.
16. Ms. Seidman questioned whether current GAAP provides any guidance on totals and subtotals. Ms. Bielstein noted that certain subtotals are required for discontinued operations.
17. Mr. Smith proposed a scenario where an auditor has found no evidence of material misstatements, however, certain totals or subtotals are not presented as required by the FASB. He questioned whether an auditor should qualify its opinion in such a scenario. Mr. Smith expressed that he has no interest in prescribing certain subtotals.
18. Ms. Seidman stated that different entities have been totaling different items. She noted that totals and subtotals is a broader issue than simply defining an operating performance metric.
19. Mr. Linsmeier noted that because of the new format for the financial statements, presenting subtotals for each category provides discipline to ensure that items are classified in the correct category and helps to clearly identify each category.
20. Mr. Batavick stated that he agrees with Mr. Linsmeier that providing subtotals for the sections and categories is beneficial. However, he stated that he is not interested in prescribing subtotals beyond the common subtotals.
21. Messrs. Crooch and Herz stated that they agree with the staff's recommendation.
22. Ms. Seidman stated that her preference is to illustrate the financial statements based on the staff's recommendation but not prescribe any required subtotals. However, she would not object to the staff's recommendation.

23. Mr. Young stated that he is in favor of prescribing totals by major activity (sections) but not for prescribing any additional totals or subtotals.

### **Issue 3: Subtotals Unique to the Statement of Financial Position**

24. Ms. Petrone stated that the staff recommends requiring subtotals for short-term and long-term assets and liabilities in a classified statement of financial position. She stated that the staff recommends that assets should be listed separately from liabilities, but that subtotals should not be required. Ms. Petrone stated that the staff also recommends that the statement of financial position should be presented in a prescribed order so that natural totals and subtotals can be drawn. Ms. Petrone noted that the Boards previously agreed that the notes to financial statements should include totals for short-term and long-term assets and liabilities as well as for total assets and total liabilities.

25. Ms. Seidman questioned the rationale for presenting discontinued operations after business and before financing. She noted that this presentation implies that the discontinued operations consists only of business activities.

26. Mr. Young stated that he is of the view that discontinued operations should be classified in both the operating and financing sections. He stated that discontinued operations would be identified in the segment disclosures, thus, it wasn't necessary to classify them in a separate section. He stated that the net presentation of discontinued operations provides very limited information for users.

27. Mr. Herz stated that some European users find it inappropriate to separate discontinued operation in the statement of comprehensive income. He stated that those users find it necessary to evaluate how an entity has managed all of the assets and liabilities it owns.

28. Ms. Seidman noted that users have expressed interest in drawing a subtotal for income from continuing operations.

29. Ms. Bielstein suggested that the preliminary views document should contain a principle that states that if an entity presents a category, a subtotal should be drawn on that category. She also stated that entities should be required to distinguish between short-term and long-term items and between operating assets and operating liabilities, but subtotals should not be required for those subcategories. All Board members agreed with her suggestion. The Board also confirmed the note disclosures previously agreed to.

30. Ms. Petrone asked whether the Board wants to prescribe an order of categories. Mr. Linsmeier stated that he believes no order should be prescribed but the preliminary views document should state that the order of categories must be consistent across the different financial statements. All of the Board members agreed with that suggestion.

#### **Issue 4: Subtotals Unique to the Statement of Comprehensive Income**

34. Ms. Petrone stated that the staff has presented four alternative presentations for the statement of comprehensive income. She stated that all of the alternatives include a gross profit line and a bottom line labeled “net comprehensive income”. She noted that Alternatives 1 and 2 include a total for income before other comprehensive income and a total for OCI subcategories. Alternative 3 and 4 would include a pretax income number. She stated that the staff recommendation is that the following subtotals would be required to be presented in the statement of comprehensive income for:

- All Alternatives: *Gross profit*  
*Net comprehensive income*
- Alternative 1: *[Operating/Investing/Financing] income before OCI*  
*Other comprehensive [operating/investing/financing] income*  
*Pre-tax comprehensive income*
- Alternative 2: *Pre-tax income before other comprehensive income*  
*Other comprehensive income*  
*Pre-tax comprehensive income*
- Alternative 3: *Pre-tax income (for both columns)*  
*(Net) Income (for both columns)*
- Alternative 4: *Pre-tax comprehensive income*

35. Mr. Herz noted that gross profit is a mostly a manufacturing and retail notion and not a service industry notion. He noted that some entities are likely to question how they are to present gross profit. Ms. Petrone suggested that the preliminary views document specify that gross profit is only required for those entities for which gross profit is a meaningful number.
36. Mr. Linsmeier stated that segregating other comprehensive income items from other items by activity is very important. He stated that since gross profit is not a concept that goes across all entities, he would prefer not to require it.
37. Ms. Bielstein questioned whether subtotals are necessary for other comprehensive income items, or if specifying that entities should clearly distinguish other comprehensive income items is sufficient.
38. Ms. Seidman questioned how the staff plans to explain why some statements will be presented in the preliminary views document with taxes allocated. Ms. Petrone responded that statements of comprehensive income with taxes allocated will be presented for comparative purposes.
39. Mr. Linsmeier asked whether the staff plans to revisit the question of the number of alternatives presented. Ms. Seidman stated that she would support reducing the number of alternatives. Ms. Petrone stated that the Boards could revisit the number of alternatives to be presented in the preliminary views document after reviewing a complete first draft of the document.
40. Mr. Herz asked if the Board agrees that illustrations of all four alternatives, including the staff's recommended subtotals, should be presented in the preliminary views document; however, none of those subtotals should be required. The Board agreed and also agreed that other comprehensive income items be clearly distinguished.

#### **Issue 5: Subtotals Unique to the Statement of Cash Flows**

41. Ms. Petrone stated that the staff recommends no additional subtotals for the statement of cash flows. The Board agreed.

**Issue 1: Overall Aggregation Principle.**

42. Ms. Petrone stated that the staff recommends retaining the overall aggregation principle that the Boards agreed to last year. That is, that an entity would present additional line items, headings, and subtotals on each of the financial statements when such presentation is relevant to an understanding of its financial position and changes in that financial position. She stated that the staff recommends that the following guidelines be incorporated in the aggregation principle:
- a. Subtotals must flow from the order of the sections; that is, an entity cannot randomly choose subtotals or line items to add together.
  - b. Additional subtotals an entity chooses to include should be presented with no more prominence than any required subtotals.
43. Mr. Herz suggested that the staff contact the SEC to discuss how this project will interact with Regulation S-X.
44. Board members were not interested in adding guidelines to the aggregation principle. Board members reiterated that the sections should be presented in the same order in the statements of financial position, comprehensive income, and cash flows, however, the order should not be prescribed.