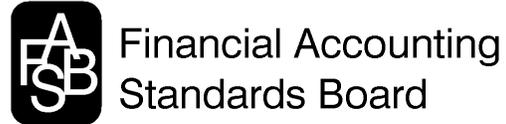


MINUTES



To: Board Members

From: Drum (ext. 296)

Subject: Minutes of the March 12, 2008 FASB
Board Meeting (Financial Statement
Presentation)

Date: March 14, 2008

cc: FASB: Bielstein, Lott, MacDonald, Golden, Allen, Stoklosa, Posta, Chookaszian,
Klimek, Gabriele, Project team, FASB Intranet;

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. 58

Length of Discussion: 9:00 a.m. – 9:45a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: Petrone and Drum

Other staff at Board table: Bielstein, Cafini, Gomez, Leverenz, Lipe,
Smith,

Outside participants: None

Summary of Decisions Reached

1. The Board discussed its tentative view expressed in September 2006 that income taxes should be presented as a separate section in each of the financial statements rather than allocated as required under FASB Statement No. 109, *Accounting for Income Taxes*. The Board agreed that the preliminary views document would be more effective in soliciting comment on this issue if it explored and illustrated both views (separate income tax section and disaggregating income tax among various categories such as income from continuing operations, discontinued operations, and other comprehensive income). Thus, it will not contain a preliminary view on this issue.
2. The Board agreed with the IASB's decision that in addressing the allocation view, the document should discuss whether an entity should allocate income taxes to all or some of the components of comprehensive income. For example, income taxes could be allocated to (a) all of the categories and sections in the working format, (b) continuing operations, discontinued operations, items of other comprehensive income, or (c) only items of other comprehensive income. In addition, the Board agreed with the IASB's decision that the document should discuss whether income taxes on transactions with owners should continue to be charged or credited directly to equity.
3. The Board had previously agreed that presentation of income taxes in a separate section should be accompanied by supplemental disclosures in the notes to financial statements. The Board decided those proposed disclosures would include the following:
 - a. A numerical reconciliation between the effective income tax rate (income tax expense divided by pre-tax comprehensive income) and the statutory (applicable) rate, and between the effective income tax rate and the "current" effective tax rate (the current portion of income tax expense divided by pre-tax comprehensive income). Alternatively, the reconciliation could be between the corresponding tax amounts rather than the tax rates.

- b. A discussion about each significant reconciling item in (a) above, focusing on the effect of tax rates in different jurisdictions, and on the transactions or events that influenced effective tax rates and how those factors may affect effective rates in the future.
- c. A discussion about the impact of income taxes on the operating, investing, financing, discontinued operations, and other comprehensive income categories/sections in the statement of comprehensive income (to the extent not covered in (b)). The focus of the disclosure should be on whether income taxes in each category differ from what a user would expect based on the entity's statutory tax rate. If major differences exist, the disclosure should provide information that allows a user to gauge whether each difference is likely to be maintained or reversed in future periods.

Objective of Meeting

The objective of the meeting was to decide on the content of the preliminary views document related to the allocation of income taxes and income tax disclosures.

Matters Discussed and Decisions Reached

Issue 1: Presentation of Income Taxes

4. Mr. Drum opened the meeting by stating that the Boards had previously expressed a preliminary view that income taxes should be presented in a single section in the financial statements. However, the staff has heard two reasons why the Board should reconsider their non-allocation view:
 - a. Preparers are able to allocate income taxes under current guidance
 - b. Net income is an important metric to both users and preparers.
5. Mr. Drum noted that in the memorandum for this meeting, the staff had recommended that the Boards not revisit the issue of income tax presentation until they have received comments on their preliminary view and the related disclosures. However, as discussed at the Education session on March 5, 2008, and the IASB meeting on March 11, 2008, the staff now recommends that a neutral discussion of

tax allocation alternatives should be included in the preliminary views document. He stated that the neutral view would provide a critical analysis of alternatives but would not state a preliminary view. He stated that the IASB voted 7 to 5 for the neutral discussion (with one absence).

6. Mr. Drum presented the question for the Board: Do the Board members want to retain their preliminary view that income taxes should be presented in a separate section or present a neutral analysis in the document?
7. Mr. Young reaffirmed his opinion that some transition presentation is necessary to aide users and preparers. He asked what, if anything, the IASB had said about this at their meeting. Ms. Petrone stated that the topic was not really discussed and that some members expressed a preference for allocating taxes only to OCI for what appeared to be “transition” reasons.
8. Ms. Seidman stated that the split vote by the IASB indicates that the Boards truly do not have enough information to reach a preliminary view. She stated that by presenting a neutral view, the Boards may still receive helpful comments but avoid harsh criticism.
9. Mr. Smith stated that he is of the view that in order to get useful commentary, the document must discuss the arbitrariness of intra-period income tax allocation.
10. Mr. Linsmeier stated that the document may draw more attention to the income tax allocation issue and demand better comments by outlining the Boards’ thought process to the neutral view from the non-allocation view.
11. The Board agreed that the document should not include a preliminary view but rather present a neutral analysis of both views – allocation and non-allocation (presentation in a separate section).

Issue 2: Additional Income Tax Disclosures

12. Mr. Drum stated that the Boards’ preliminary view is that if income taxes are not to be allocated in the statement of comprehensive income, an entity should disclose information in the notes to financial statements that will assist users in analyzing income tax information. The recommended disclosures are summarized in paragraph

33 and an illustrative example is included in the appendix of the Board meeting handout.

13. Mr. Drum stated that the main enhancements of the recommended disclosures over current tax disclosures required by Statement 109 and International Accounting Standard (IAS) 12, *Income Taxes*, are that the recommended disclosures:
 - a. Are based on pre-tax comprehensive income instead of income from continuing operations and
 - b. Provide a tabular reconciliation to current provision for income taxes as opposed to a reconciliation to the overall provision as required by FAS 109 and IAS 12. The recommended reconciliation also provides a more useful presentation of information regarding deferred tax assets and liabilities.
14. Mr. Drum stated that the IASB voted in favor of the recommended disclosures and that the question for the Board is: Do the Board members agree with the recommended disclosures for purposes of the preliminary views document?
15. Mr. Batavick questioned whether the IASB members expressed an opinion as to whether the disclosures should be based on amounts or rates. Ms. Petrone stated that there was not a prolonged discussion but Steven Cooper noted that he prefers both, but would take the amounts over the rates. Mr. Batavick also questioned whether the disclosure requirements will describe how to choose a statutory rate. Ms. Bielstein responded that IAS 12 contains guidance for selecting a statutory rate for disclosure purposes.
16. Ms. Seidman noted that the disclosures focused on the impact of income taxes on the operating, investing, financing, discontinued operations, and other comprehensive income categories is only relevant if taxes are not allocated to those sections. She stated that the document should express this fact.
17. Mr. Linsmeier noted that he supports the illustrative example of the note disclosure. However, he expressed concern that the actual implementation of the proposed disclosures may fall short of the staff's example. He stated that he thinks the

description of the disclosure requirements should be improved to ensure that not only is an entity required to disclose the nature of major causes of differences between the statutory rate and effective rate, but that it also must disclose the magnitude of differences in the statutory and effective tax rates. He also suggested that better commentary will be received if the document expresses a preliminary view that both rates and amounts are to be disclosed and asked whether both are necessary.

18. Mr. Lipe addressed the concern expressed by FASB and IASB members that the proposed disclosures effectively require an entity to do an allocation. He stated that the disclosures provide some of the same information as an allocation would, but avoids some of the complications and arbitrariness that arise from a full allocation. He stated that the disclosures would help a user gain a basic understanding of the effective rates for discontinued operations and items of other comprehensive income.
19. Ms. Bielstein tried to illustrate the difference between a full allocation and the proposed reconciliation. She stated that if all of an entity's income items were taxed at the same rate, the entity would still need to allocate income taxes in the statement of comprehensive income. However, there would be no reconciling items in the note disclosure because the entity's effective rate and statutory rates are the same.
20. Ms. Seidman encouraged the staff to work with a preparer to understand how an entity could derive the information required by the disclosures. She stated that she expects that some arbitrary allocation will be necessary.
21. Mr. Linsmeier stated that there may be a great deal of interest in information regarding differing tax rates for different segments. The staff responded that the third proposed disclosure encourages an entity to disclose that information if it is used for internal decision making.
22. Mr. Smith expressed concern over the volume of details that may result from the required disclosures.
23. Mr. Young stated that some users forecast deferred tax liability balances as a source of financing and that the proposed disclosures would provide these users with very valuable information.

24. The Board agreed that the document should include the proposed disclosures (modified to reflect the Board member suggestions) as part of the discussion related to not allocating income taxes.

25. Mr. Batavick asked the staff if this was the last issue for Board deliberation. Ms. Petrone stated that this is the last significant issue and that the staff plans to bring “sweep” issues back to the Boards in April or May along with a draft of the document.

Follow up issues:

None.