

MINUTES



MEMORANDUM

To: Board Members

From: Shkreli

Subject: Minutes of the December 16, 2016,
Agenda Consultation Public Round Table Meeting

Date: June 28, 2023

cc: Maroney

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 an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Invitation to Comment on Agenda Consultation

Basis for Discussion: FASB Memos 1-8: Cover Memo; Performance Statement, Cash Flow Statement, and Segment Reporting; Inventory and Cost of Sales; Accounting for Internally-Generated Research and Development Costs; Pensions and Other Postretirement Employee Benefit Plans; Distinguishing Between Liabilities and Equity; Consolidation; Simplifying the Measurement of Asset Retirement Obligations

Length of Discussion: 1:00pm - 4:00pm (EST)

Attendance:

Board members present: Kroeker, Botosan, Monk, Schroeder, Golden, Buck, Smith, Siegel

Board members absent: None

Staff in charge of topic: Walsh

Other staff at Board table: Cospers, Esposito, Kuhaneck, Friend, Revere, Demarco, Jones, Dart, Bennett, Cheng, Egan, Mottley, Proestakes, Cheng

Outside participants: Vaughn, Uhl, Brown, Scoles, Ciesielski, Zabreyko, Bradbury, Danaher, Mims, Lehman, Beswick, Mills, Durban, Percoco, Watson, Bascom, Yungman,

Type of Document and Timing Based on the Technical Plan:

The Board met with stakeholders to discuss their feedback from comment letters about the financial reporting topics the Board should consider adding to its future technical agenda.

Tentative Board Decisions:

The Board obtained feedback from the participants who shared their concerns about the potential financial reporting topics that they recommended to be added to the agenda. The topics discussed included:

1. Distinguishing Liabilities from equity
2. Financial Performance Reporting (including the Performance Statement, Other Comprehensive Income, Cash Flow Statement, and Segment Reporting)
3. Intangible Assets (including research and development)
4. Pensions and Other Postretirement Employee Benefits (OPEB)

This public roundtable meeting was educational and the Board made no technical decisions.

General Announcements: None.

December 16, 2016
ITC, Agenda Consultation Roundtable
VoiceBase Transcript

Colin Walsh: Good afternoon everyone. Thank you very much for coming in person on a Friday afternoon in December. We appreciate it. We especially appreciate your thoughtful comment letters on the invitation to comment. The folks sitting on either side of me spent a lot of time to try to put together a quality document and we really appreciate that you know you all took that seriously and gave us some great comments. We also appreciate those of you who are customers that are coming back twice in one day I don't know why you signed up for that pain but we do appreciate it. We had a roundtable this morning on consolidations. So our tradition here is to start round tables with introductions so I'll start myself. My name is Colin Walsh and I'm a member of the staff.

Sue Cospers: Sue Cospers, FASB staff.

Matt Esposito: Matt Esposito, FASB staff.

Shayne Kuhaneck: Shayne Kuhaneck, F.A.S.B. staff.

Aarika Friend: Aarika Friend, F.A.S.B. staff.

Emily De Revere: Emily De Revere, FASB staff.

Dianora Demarco: Dianora Demarco F.A.S.B. staff.

Dylan Jones: Dylan Jones, F.A.S.B. staff.

Ben Dart: Ben Dart, FASB staff.

Keven Vaughn: Kevin Vaughn, SEC staff.

Christine Botosan: Christine Botosan, F.A.S.B.

Bob Uhl: Bob Uhl, Deloitte and Touche.

Adam Brown: Adam Brown, B.D.O. USA.

Harold Monk: Harold Monk, FASB.

Daryl Buck: This has to be a record for the most staff people ever at a FASB meeting. Daryl Buck, FASB.

Mark Scoles: Mark Scoles, Grant Thornton.

Jack Ciesielski: Jack Ciesielski, CFA Institute.

Hal Schroeder: Hal Schroeder FASB.

Aleks Zabreyko: Aleks Zabreyko, Connor Group.

Erik Bradbury: Erik Bradbury, FEI.

Russ Golden: Russ Golden, FASB.

Jim Kroeker: Jim Kroeker F.A.S.B.

Mitch Danaher: Mitch Danaher, G.E.

Bob Mims: Bob Mims, Ducks Unlimited.

Scott Lehman: Scott Lehman, Crowe Horwath LLP.

Paul Beswick: Paul Beswick, Ernst and Young.

Larry Smith: Larry Smith, FASB.

Esther Mills: Esther Mills, Accounting policy plus, advisor to Intellectual Ventures.

Pat Durban: Pat Durban, PWC.

Steve Percoco: Steve Percoco, Lark Research.

Jeff Watson: Jeff Watson, A.I.C.P.A. technical issues Committee.

Mark Siegel: Mark Siegel, F.A.S.B.

Kimber Bascom: Kimber Bascom, KPMG.

George Yungman: George Yungman, National Association of Real Estate Investment Trusts.

Mallory Bennett: Mallory Bennett, FASB staff.

Lucy Cheng: Lucy Cheng, FASB staff.

Ryan Egan: Ryan Egan F.A.S.B. staff.

Lauren Mottley: Lauren Mottley, FASB staff.

Peter Proestakes: Peter Proestakes F.A.S.B. staff.

Michael Cheng: Michael Cheng, and surprise, surprise, I'm also F.A.S.B. staff.

Colin Walsh: We are usually outnumbered at these meetings so we thought would try to make it closer to fifty-fifty. I think we're not quite there though. Before we dive into the discussion, there's a few things that the staff wanted to mention that we hope will frame our discussion for the rest of the afternoon. One item we want to cover is, which is an item that was mentioned in the I.T.C., but we thought it was important to emphasize is that all of the issues that were described in the I.T.C. are issues that stakeholders brought to our attention. They're not things that, you know, Daryl, for example, dreamed up as a parting gift to us or that you know, Russ on the golf course, these are things that people actually brought to our door and there may be some parting gifts Daryl, right? Just not this. And you know we have taken those requests and that information seriously. But you should not assume that in a matter of a few weeks the FASB will have, you know, three or five or seven major overhaul financial reporting type projects on the agenda. We do plan to continue to allocate resources to complete the projects that are on our agenda. We have a number of projects that are very important to different stakeholders like hedging, insurance, conceptual framework, and we do plan to finish all those. We plan to continue to allocate resources to implementation of the major new standards that we've recently completed on revenue, leases, and credit losses. We have teams dedicated to each of those topics to monitor

implementation as it's occurring to provide education to stakeholders about the requirements and also to answer implementation questions. Each team that we have on those topics is scalable so that we can increase or decrease the size of the team depending on the number of questions that we have at any given point in time. We also have a technical inquiry service where the staff stands ready to answer questions about any area of GAAP and including more narrow changes that we've made to GAAP beyond those three more significant projects that I mentioned. And finally, you know, notwithstanding these issues that we will discuss today we do have resources that are allocated and ready to deal with practice issues as they arise in real time whether it be, you know, a diversity in practice issue we identify and we think that diversity will actually matter to investors or it's an area that's identified where an area of GAAP is overly complex and there's an improvement we can make that we think will reduce cost and complexity without detrimentally impacting the quality of information reported to investors. One other item that we want to mention before we dive in is later this afternoon, towards the back half of our agenda, we have a topic on Path dependencies and let me give you a little bit of a primer on what we're hoping to cover there so that we can all have it in the back of our minds as we progress through this conversation. We're well aware, and you know we tried to emphasize this in the invitation to comment, that there are a number of cross-cutting issues in all the topics included in the invitation to comment. And as a matter of fact there are cross-cutting issues among those items in the I.T.C. and items that for example are already on our agenda, such as the conceptual framework. So given the themes or the cross-cutting issues that span across these projects, we're aware that it's important to be strategic as we think about how to make some of these improvements or we want your feedback on what are the path dependencies that you see among these financial reporting issues and how do you recommend that we proceed. Given the those cross-cutting themes. We're also interested in your feedback on if the FASB were to take a more holistic approach, you know for example start with the conceptual framework before making a change to intangible assets, are there specific issues that you think we should deal with in practice in the near term concurrent with thinking about financial reporting issues more holistically? For example, are there some narrow issues that you think we should deal with in liabilities in equity notwithstanding, you know a broader approach that we might be considering or are there particular issues that investors want us to think about like disaggregation before we think about more, or while we think about a more holistic approach to financial statement presentation. And then finally we'd like your input in that part of the agenda on the pace of change. So essentially how should the FASB be thinking about managing change. How do we balance all these different financial reporting topics that stakeholders have raised with the reality that we know many stakeholders are spending time right now trying to adopt some major standards and we know when preparers and auditors are done with that work then the investor's work will start to understand what, what changed in terms of outcomes, what does that mean for my analysis, and what does it mean in terms of how I think about a company? So that's coming up later this afternoon. Mike, did you want to cover a few housekeeping items and then we'll jump in?

Michael Cheng: Yeah definitely. You know as you review the agenda before coming to this meeting, I think you'll notice that there's a lot of heavy hitting topics and a lot of discussion will probably take place. And recognizing that this is Friday in the afternoon. So we will try to adjourn at four P.M. to respect travel plans, we'll try our best to stick to the schedule. You might have also noticed that there is no restroom break so I think if you have to take a break, I would probably just do it politely, but if there's a lot maybe we'll just call an audible and make that change. The other thing to make the meeting go more efficiently, we please ask you to raise your tent card and raise it up sideways. I will try to keep

track of the queue. if Colin calls on the wrong person you can just yell at me. It's my fault but if you do have something that's on point, please give, you know, call in a signal that you want to respond directly to the current comment that's being raised.

Colin Walsh: So Shane is going to kick us off with our first topic of liabilities and equity.

Shayne Kuhaneck: Thanks, and I would echo Colin's comments earlier about, thank you to all of you for coming and commenting on this. I don't have a comedic open so I let them take the comedy for me so I'll just go ahead and open with this relatively involved topic. So as a recap to the ITC, what the staff tried to do was lay out a holistic approach to addressing distinguishing between liabilities and equity and we thought that that approach was necessary because what we've discovered over the years of attempting to address liabilities and equity is that targeted improvements, meaning targeted changes to features within instruments or instruments themselves, doesn't work very well given the interdependencies of the literature as it exists today and probably contributed to a lot of the complexity that we have today. So in doing that we tried to lay out our two alternatives for simple instruments and two alternatives for complex instruments. The complex instruments really focus on conversion features because we think that that's the area within the literature that becomes most complex and most interdependent and tends to be the areas of inconsistencies. And for simple instruments we tried to answer the question of, you know, what consists of a liability. What makes up a liability. In other words, if I have the obligation to transfer what will one day be an equity instrument. If I'm going to eventually transfer an equity instrument, should that just be classified as equity today. Or should it only be that if I transfer assets then that constitutes a liability and therefore only perpetual instruments would be equity. With that I will say that we have four questions laid out and as opposed to going question by question and everyone commenting on a single question, I suspect that everyone has integrated thoughts on all of the questions, be it holistic or targeted, and your thoughts on the alternatives for simple or complex. So when you do make your comments, anything that's integrated together within that, feel free to comment on all four of the questions and with that I'll turn it over to the participants for discussion.

I guess as an alternative approach, because you've asked for that, it just seems to be the simple thing to do with distinguishing liabilities and equities is to follow the legal rules and then if you do that. It makes it very simple. In other words, treat what would be an interest in a bankruptcy as an equity, and a claim in a bankruptcy as of the date of the financial statement as a liability. That should be the first cut, and then it just seems to me that everything else falls out from there. That would probably cover ninety-five percent of the issues that come up and it seems like a simple solution. Obviously, I can't be the first one to have thought of it. So I'm wondering why you haven't adopted that type of approach.

When you say the legal rules, you mean how it's treated for tax?

For bankruptcy. Because also as an analyst, you know, a debt analyst is going to want to look at priority and, typically the priority is what flows from bankruptcy, and then likewise as an equity player I want to know who's coming ahead of me and in terms of that, if you follow that type of the approach, it just seems to me it would be very simple. You know, you may get some crossover as far as settlement goes, but I would think that it would solve ninety-five percent of the situations pretty easily.

So and so I think that probably one of the things that you just mentioned with the crossover, while it may solve a large percentage of it, I don't think that it would cover everything in that you have certain

instruments that maybe there's an alternative to either cash settle or equity settle and that alternative can be either in the hands of the holder or in the hands of the issuer and when you start making that cut, we've heard from investors that anything that could be cash settled, they'd like to see that as a liability where as anything that could only be settled in equity, they would want that in equity. So I think that there's a there's a cut there,

but just to cover that you could cover that through disclosure right. I mean you have contractual obligations so you could see that within the cash flows you could report that in the footnotes of the financial statements, you know, I mean I think we should expect that users need to do some work to understand that, but you know at the same time those provisions in a bankruptcy would just drop by the wayside. I mean if you're going to settle in assets that goes away in a bankruptcy and what happens is you treat it as a claim or an interest on that day based upon what it is and what the documents tell you it is.

So if a company doesn't go into bankruptcy and issues a stock option that's cash settled and, is there an obligation there in your mind? Is there a liability on behalf of the company that there are going to have to transfer cash if it's in the money?

There may be a liability in the future, you know, and that could be disclosed. But on that date, if the company was going to file then that would be a contract right, and so it wouldn't show up as a liability.

But I think that's one of the complex questions that we have to work through is, the ability for it to be a liability in the future in terms of how it's settled. How do investors want to evaluate those instruments in the financial statements?

Which I think, Stephen we had a little bit of I think of discussion yesterday, what you're saying is it's really a waterfall approach that is flexible depending on the facts and circumstances at the time of the balance sheet. And so I think I think that's what, we've talked before about a about a waterfall approach and how that waterfall approach could evolve, we just had not tied it directly to the legal nature and bankruptcy, we have tied it to basically their other attributes to get what we can.

So then just so that I understand and to clarify, so then preferred stock other than in bankruptcy would show up as equity?

That would be an interest.

But rather on the day of bankruptcy would flip to a liability because it has preference over the common shareholders?

No that would be an interest in the bankruptcy and so would stay as equity.

Despite the fact that they would get anything before the common?

It may have preference and like I said that could be disclosed in the footnotes, and by the way as an aside if you want to make one improvement there, instead of recording the par value of preferred stock if you could record the issue amount or the liquidation value directly in the balance sheet, that would be I think an improvement that users would appreciate. But it would still, in a bankruptcy preferred stock would be treated as an interest. So it would stay as equity.

Aleks and then Bob.

Aleks Zabreyko: So we also had thoughts about the equity liability framework and we looked at both alternative A and alternative B, and for different reasons didn't really like either one of those for simple instruments. One because we felt that it would create as much complexity as there is today and the other one because it would tend to put everything into liabilities, and the fear is it would not produce meaningful numbers in the financial statements that the users would appreciate. So we then said well, what can we suggest as an alternative and how should we build something and we started with formulating the principles and the principles that we came up with is, number one is something that is user focused. What we realized from talking to our clients, and from listening to people talk about these things is that users all have different needs and the analysts, the investors, etc... and for their own purposes they do different kind of analysis and sometimes what we create in the financial statements we try to anticipate what those needs are. But they kind of back those numbers out and they do their own analysis anyway and, it's probably, given that all of them do different analysis it's probably impossible to really anticipate what would be most helpful to them. The second principle was to make it simple and practical so that people understand it so that there is less risk of restatement, less complexity both from the preparer and the auditor perspective. And then the third one is let's try to eliminate counter-intuitive solutions, those things that people are generally unhappy with, so kind of try to get to reasonable outcomes. Some of the inspiration came up from I think one of the ideas I've heard at the IMA-FRC meeting that Bob Uhl was sharing about creating a third category on the balance sheet which is essentially similar to mezzanine, sits between equity and liability and although we kind of thought a little bit differently about this and what we said is from the classification perspective any instruments which have multiple settlement alternatives, ie. can be settled as either equity or liability, they would go into this in between category, so equity is pure equity, liability is pure liabilities, and then anything that we don't really know what it is goes into this middle category. And then from the point of view of the measurement, what we thought is, really there are just a couple of options to think about. So let's say an instrument may be settled as alternative A or as alternative B with very different economic outcomes. So you're really going to measure it as either A or B, or something in between which is really what fair value does but that's what we hear complaints about, that's what people don't really understand the numbers that come out of this something in between. And so what we said well, maybe if we think about how the performance awards of the multiple potential outcomes are currently measured under stock based compensation in 718. So you kind of say you could have outcome A, outcome B, and you account for it based on whichever outcome was probable right now and then you switch back and forth depending on which one becomes more most probable. So we would use the same approach we would say if today alternative A, let's say settlement as liability is probable, we would make the instrument follow that accounting. If alternatively it becomes probable that it will settle as equity we will just switch over and go to equity and if it's going to be settled as equity and then we treat it as equity with no remeasurement, but if it's going to be settled as a liability, we sort of thought about how to make it but we formulated the model whereby if it's essentially similar to debt, in other words it's just going to be settled at the principal plus interest and it will be an accretion based model, and if it's something that fluctuates with time then it's more like a fair value based model. So that's sort of what we formulated, that's just a general framework without going into too much detail but something that, as we compared to the principles we formulated, it's something that the people will see that's how management expects the particular instrument will be settled. That's what we will see in the financial statements and that's what we know we should anticipate. But then in the footnotes, considering that there are those multiple alternatives there, the footnotes would provide additional disclosures about,

and they should be robust footnotes, about those other settlement alternatives, for example what the details of those alternatives are, but then shall impact on the end of his financial position potentially impact on results of operations, estimates and assumptions that they put in. And kind of a side note also aligned this also with the E.P.S. presentation because right now equity liability for accounting purposes not oftentimes but sometimes is not aligned with the EPS. So that's what we were thinking about.

Daryl: There just a quick follow up, Aleks did you contemplate with that approach, obviously then for a certain period you could you flip from one classification to the other maybe back or whatever, did you think through it from the standpoint of presentation and whether you know as of the most recent period, say you are in debt classification, would you recast the other periods that are presented so that they would present the same classification? Or would you live with the differential period to period in the presentation?

Aleks Zabreyko: Honestly have not thought about this specific aspect and we agreed that's an important aspect. I probably would not recast because I think that creates pain in the financial statements and creates a lack of comparability then you basically need to reconcile all the time back to previously issued financial statements, but that's probably one of those details that we need to be thought about.

Colin Walsh: Bob and then Mark.

Bob: As we thought about it just to start, liabilities versus equity is an extremely complex area with lots of misunderstandings. So we think it's a major issue that the board, we would recommend the board to add to its agenda. We think and agree with the staff that it should be done comprehensively, we think trying to make some now improvements would be just kicking the can down the road. We'd be coming back to it years in the future because we're just kicking the can down the road and just dealing with some narrow issues would not be dealing with the root issues. In thinking about this, we think part of the problem is that we've always tried, to we know what claims are, we can think of that intuitively, and then we try to divide it and we're not really comfortable with how we divide that into two categories, we've got a definition of liabilities which is fairly good could use some improvement but it's fairly good, intuitive, It's being the sacrifice of assets in the future. But then there's things that we kind of stuff into it that don't technically meet the definition of a liability because we're not comfortable with classifying those as equity and not remeasuring them. So that's been part of our problems over the years, now for twenty five years we've been trying to do something in this two category system where we keep equity as not being remeasured and so we thought about trying to do narrow equity and that also seems to not have really satisfied us because then we've got a whole bunch of the entities' gains and losses on their own stock going through the income statement so as the company does worse they might have gains going through. So that's really not been satisfied. So we don't want to just point out what all the problems are, we wanted to come up with a solution. So as we thought about it, we kind of like, as I mentioned, the definition of liability so we kind of keep that. This would continue to show investors on the balance sheet those obligations that will require in the future the sacrifice of assets. As we thought about equity one of the things we noticed in the concept statement is, because you need an anchor right, you need something that all the comprehensive income will flow to, we noticed in the concept statement it refers to owners and refers to owners as well that's what comprehensive income accrues to, but it's not used necessarily in a synonymous way with equity and so we said well, what is an owner? and we came up with our own definition of owner and I can go through that, but just cut it short, we're thinking it's perpetual instruments, such as common stock, maybe preferred stock. So then we start to

challenge well OK so we've got a couple assumptions that we've had in the past that maybe we need to challenge. That is that we only have two categories for claims, and that is that equity is never remeasured. And so as we thought through we said OK, we like liabilities let's keep that, Let's have owners' equity and that should not be measured and that's what comprehensive income accrues to and that's what Aleks referred to then also what I was describing, that comes to our third category which we describe as non-owners equity. Now we would we measure non-owners equity and we would run that through comprehensive income, but we're going to tie this to financial performance and we would create a separate category at the bottom of comprehensive income that would be these changes in non-owners equity. So I should have clarified, non-owners equity, think of things like equity derivatives. And again in our minds tying us to financial performance, the performance statement, it would be below Net income, below that total for our net income or that numerator for EPS. So If a company was doing bad, had gains, these are like on credit it would be below. But it does show an owner what value it's either giving up or getting with these transactions with other entities that have these other type of instruments. So I know there's much more details that we could comb through but I'll stop there.

So recognizing that one of the observations you and others made is that it's very complicated today to know where the split is between liability and equity. In your thought process and I thought you articulated it very well, how do you make the distinction between liability and non-owner equity? is it is it based on settlement is it based on indexation is it based on both is it based on something else? The reason I ask is if we have difficulty between category A and B, I'm worried we're going to have difficulty between A and new one and I just don't know you've thought about this.

yeah so in our minds, it was based on settlement. Because you're absolutely right. So what we were we were anchoring with the definition of a liability being the sacrifice of assets which is a settlement notion and that all these other than that warrant owner's equity would be in that other category. That's kind of the residual So you'd be able to differentiate because you could figure out OK is it a liability and we were so taking out indexation but I realize that is that is a bone of contention.

So in other words if the company would be compelled to pay cash it's a liability, if it's residual common it's equity, and everything else is in between this

in the middle.

Yes. OK Thank you.

Christine did you want to jump in?

Christine Botosan: I did, I just wanted to explore a little bit and I think you may have answered this question for me already. But how important that third category is on the balance sheet if we're not tied to the current definition of a liability and could we kind of get to where you're going if we had a definition of a liability that allowed for two categories and the middle category that you're currently remeasuring we had a principle that helped us to understand when within that category of liabilities the remeasurement should go to the income statement or into the bottom part of the income statement as part of other comprehensive income.

Christine I think what you described is essentially the same as just, and we could talk about different terminology, but are similar. It's just different terminology.

Christine Botosan: Yeah just the two pieces I think that are essential to that are a revised definition of a liability and then a principle for deciding when the change in the market should go to the income statement versus either comprehensive income or the bottom of the comprehensive income statement.

The reason we did it our way and I think you get the same result, but again we wanted to get back to the two concepts that were intuitive and we thought the definition of a liability, the sacrifice of assets in the future, that's intuitive. The definition or a kind of creating a owner's equity being those that are perpetual only would be paid out in a liquidation scenario, that's kind of intuitive, and then it kind of creates this middle that you kind of say OK yeah I kind of know then versus this two pronged definition of a liability.

Mark and then Adam.

Mark: Yeah I would say that we see liabilities and equity as an important issue that probably should be added to the board's agenda. Knowing that you're probably looking at five years out if you take a holistic approach and I don't think that is going to interfere with the standards that have been recently issued and the standards that will be issued here soon. As far as impacting companies it won't greatly impact them negatively in that way. We kind of note that the current guidance is just a bag of rules that has been created over time and it seems like every time we try to take a targeted approach to fixing a problem or addressing something that we believe is a problem we end up with unintended consequences. My concern is that a targeted approach, while it might work, you may end up with just another case of whack a mole where you've created other problems and then you have to go solve. You know looking at what you've provided I think those alternatives provide a pretty good basis to think about the start of, for simple instruments we believe that approach B would be a good starting point to look through those. There's going to be some tension around those instruments that are you know, the legacy E.I. T.F. 0019 issues that are going to have to be looked at. You know right now they they're too punitive and they end up with results that sometimes change quickly for reasons that don't seem very apparent or very important. I like the notion of looking at indexing differently than we have in the past and I think you've talked about it, if the fair value of the instrument moves in the same direction as the fair value of a perpetual instrument that would mean it would be you know it would potentially qualify for equity. That gets away from you know that what we've got now indexed to the company's own stock and it moves in a different direction than what was FAS 150 on the predominance. So I think that could be a very strong starting point, and for complex instruments I do agree with the alternative A. I think if you're issuing convertible debt or convertible preferred stock you need to get to the actual borrowing cost or the actual dividend that you would have gotten had you not issued a convertible or as close as possible to that. You shouldn't get to wildly different answers when you issued convertible debt versus debt with warrants. And then I think then once you've, looking at those features those conversion features and then you're look going back to look at do they qualify under approach B for simple instruments and you follow the same path, realizing that's very similar to what we do now but there is enough differences that I think you'll get puttable preferred stock would end up being a liability and I think you can make the issues that we face now easier to navigate.

Do you want to jump in Jim?

Jim Kroeker: I had a follow up on Bob's and and you might have said this and I might have missed it, but compound instruments and convertible debt, would you focus on settlement so you could be compelled to pay, it would be a liability.

So no, I didn't get to it, you didn't miss it. I didn't cover it to not take up all the time. Compound instruments. So we define compound instruments as those instruments that have two settlements with different values, so like convertible debt we would bifurcate those and then the bifurcated pieces would be classified based on our classification system.

So non-owners equity and liability?

For a convertible debt, yes.

OK thanks.

Adam and then Kimber.

Adam Brown: great thanks. Some similarities and I'm glad to see liabilities and equity is the first thing on the agenda because I assume that means it's always going to be first going forward. But yes I agree with others that this is definitely at the top of the list for us from our perspective. And so let me just take off and try to respond to some of the themes that are in the questions. In terms of simple fix, if the board decides to explore some of those and also go holistic longer term one of the things that Mark mentioned is some of the really remote outcomes under 0019 that drive liability accounting today, I think are candidates. So a contingent put on a change of control where there's a poison pill that's been exhausted and there's been ten billion shares issued and it's ten billion and one where there's a check written those types of things might be candidates for some narrow fixes if you go that route. In terms of some of the guidance and potential models laid out in the I.T.C. for the simple instruments one of the reasons that I struggled with A which was the narrowest view is it said, well, if you settle in shares from the holder's perspective you delivered an asset and that's true if I issue a share on day one. I've given the holder an asset. Right. I would never have equity ever. Right. If that's the test as looking at it from the holder's perspective. So I think that's a little bit harsh and I think conceptually defining equity should start from the reporting entity's perspective rather than the holder's because you, you just would never have the concept if you're looking at it from the holder side. So therefore, we would probably be in support of exploring alternative B in that scenario. For the more complex instruments, there are a couple of things, one we just bifurcate conversion options and maybe everything else which is one way to go. This is not a recommendation but the other alternative that maybe would give some consideration is kind of linking back to what's in statement 155 which is a fair value option if there's an embedded derivative that you carve out and instead of making it an if where there's an option, you might consider marking the entire hybrid. I recognize that introduces volatility, but that would simplify the accounting and I know there's been a lot of work in this area in years past. It's very hard to get to some mixed attribute amortized cost accounting for complex instruments and so trading off a little bit of volatility for the instruments with bells and whistles, right carrying those at fair value, the entire hybrid would be a simpler model right, recognizing that there are some tradeoffs there. The other comment just a little bit of feedback, the paper talked about compound instruments which as I read that definition it sounded like freestanding. I wasn't sure what was compounded because the example was one feature gets exercised without impacting the other which makes it sound like a separate instrument, right, nothing's happened to that other thing so that was a little bit hard to intuit to understand what the difference between compound and free standing was in that scenario.

Kimber and then Pat.

Kimber Bascom: So similar to some of the observations others have made that the questions around liabilities and equity are, in our view, probably the ones that should be at the top of the board's agenda. I think incremental to what some of the others have observed in terms of complexity, one of the reasons we think this is so important is because of the linkage that we see between this area and performance reporting and in our view, you can't really adequately solve performance reporting questions without completely thinking through these questions around liabilities and equity. For that reason, we would think this should be done on a holistic basis. You know, full blown concepts statements, thinking about it from the standpoint of how it links in with the rest of the financial statements, performance statements, balance sheet, cash flows, all of that and we wouldn't prejudge measurement based upon how you define debt versus equity so I think that's another important thing to point out is that one of the reasons we think that you need to think about it in the context of just both the definition as well as the performance reporting is that we don't necessarily think you should just go into it with the assumption that you're automatically going to remeasure to fair value of something is a liability and you're not going to do that if something is equity. In addition, you know, and looking at the simple instruments between the two alternatives that were offered in the invitation to comment, one of the things that we didn't see in either alternative that we thought would potentially be relevant to think about is the question of whether the instrument is potentially dilutive to the other things that are considered equity on both a fair value and a book value basis. So in thinking about whether something should be considered equity, looking at whether it would be a potentially dilutive impact to those other things that clearly are equity and that's just definitional in nature, but the those are some of the things I wanted to just kind of add to what others have said at this point.

Pat and then Jeff.

Pat Durban: So, I guess maybe it's a different way of saying what Kimber said, but I would have said when I listen to the discussion of some of these sort of fundamental reconsiderations of the distinction, you sort of have to step back and say, why does it matter? I mean it seems to me a lot of the reasons we have the debate between liability versus equity is because anything that's a liability goes through the P and L. So that leads me to think that if we thought about a different way of reporting some of the mark to market adjustments in the P and L through performance reporting, maybe some of the tension on the distinction between liabilities and equity goes away, so what is the real purpose of the distinction and I think you also have to think about, well, what do I do with those transfers of value between different claim holders or different interest holders that aren't related to the performance of the entity so we would have said, try to do something with performance reporting first and maybe that takes some of the tension off of making the distinction between what's a liability and what's an equity if you have different things that you're marking that you know people feel uncomfortable about that being in performance. Maybe they don't feel as comfortable with it if you have a different performance reporting model. So we would have said, do that one first and then we're going to talk about that one in a minute, but if you just come back to sort of the maybe a more pragmatic approach or sort of approach that seems like it could be achievable in a more reasonable timeframe if people believe this is a real problem, which I think we do believe, you know it's a challenging area to apply. You know we think you could do some targeted improvements acknowledging that that has created some of the patchwork of the guidance we have now, it's hard for people, there are a couple of things, you know a couple of people mentioned the fall off the cliff provisions and the old 0019 that seemed to not really make a lot of sense. You could potentially deal with that, you could potentially rationalize the models for

convertible instruments and so those would maybe, you know, not solve all the problems but solve some of the more common problems that seem to challenge people.

Jeff and then Mitch.

Jeff Watson: I just wanted to mention real briefly that TIC is in agreement pretty much with what folks are saying here that this is a major reporting issue, the classification of debt and equity. The one suggestion that we had was for the board to complete its projects that are currently outstanding on the agenda and then before we do any simplification or target improvements to topic 480 maybe solicit some additional feedback from stakeholders and get some additional perspective once the agenda items are addressed. And then the one thing that it will make sure that doesn't get lost in the shuffle when we're going through and reconsidering how to tackle this issue is from a private company perspective we just want to make sure that there's additional relief and simplification. That doesn't get lost in the shuffle. Thank you.

Mitch and then Paul.

Mitch Danaher: So, heard a lot of really fundamental models being proposed, and the question that I have from the outset is whether or not, you know, there's a general investor view that things are being accounted for as equity that they really believe should be accounted for as liabilities, or the other way around and to my knowledge I have not heard that, and I think that would be a very strong reason to take a fundamental approach. I am very sympathetic to complexity and I think you know some of the things that Pat suggested or really getting to the fundamentals of why people are getting the accounting wrong I'm sympathetic to that. But, this isn't the first time that that the board has tried to take on a fundamental approach and neither of the ones that I recall ended very well, there was a lot of disagreement about what fell into each bucket and you know, I don't have a lot of hope that the third time's a charm, but maybe I could be wrong about that. If the solution's going to be to put things through comprehensive income, I think you have to think about what comprehensive income really means because it's really a mixed bag. As one person said at a meeting at this group once, it's neither comprehensive nor is it income, and I think the problem is that it captures things that have been selectively measured at other than carrying amount. You know. You've got currency translation. You've got mark to market on investments. It's not really a measure that I think investors really understand very well. And you know, I suspect that more work would need to be done to try and think about how to present comprehensive income in a way that is truly useful to investors. But I do think that this is at least a five year project if you're going to take a fundamental approach but I'm not sure that's really warranted and I do think you could make a lot of progress focusing on the issues that people have with reaching erroneous conclusions in accordance with GAAP by understanding what it is that's tripping them up and trying to address that and having served on the EITF for about 8 years, I think I contributed to some of that complexity and I'm really sorry about that, it wasn't just me. And I think we need to go back and revisit some of those things. You set the bar really high for getting equity treatment and you create all kinds of issues in practice because, you know, people are having to jump through hoops. You know and create operational complexity for something that otherwise should be equity. But you know the rules are very hard to meet. I hope somebody else speaks up for targeted.

Paul then Russ.

Paul Beswick: Mitch, you're about to get your wish. As I think about this, I think there is a lot of complexity. I think there is a lot of challenges here in the ordering and you're going to ask about four specific topics here today. But you know in our letter. I think we said we should start with the conceptual framework first. While the board's working on the conceptual framework, I would give the board two pieces of advice. One is, I would go do a lot more extensive outreach with investors and then publish it, because as I'm trying to think through models, I don't know that I have a clear view about what investors actually care about in this area. And so having a comprehensive document that says, on thinking about distinguishing between a liability and equity, this is what investors want. And you know listening to the holistic approach I understand the appeal, I also lived through it in terms of when I was on the FASB staff and when I was at the S.E.C. and, I mean, there were two, and both of them were at least ten years' efforts. And so, the second piece of advice is I would go through and find the areas that are most troubling. I mean, Adam brought up some examples in 0019. You know I'd go through and look at some of the other areas, 075, Mitch I actually think you were responsible for that one, but sort of highlight the areas where people struggle with the most and then see if targeted improvements fix those and then reassess whether holistic project is necessary. But you know, I guess give us the information related to how investors think about this because that's sort of an incomplete picture in my mind. I can start coming up with models but I don't know that's going to satisfy investors views and so I think sort of a public airing of that on this piece which is so critical would be helpful.

I just had a quick question on the follow on, on targeted improvements specifically focusing on 0019. Adam and Mark and others have talked about perhaps settlement, but Bob you said your model is based on settlement, is it based on settlement as articulated in 0019 or would you be OK if there was a softer settlement line. So Adam's example of, well, you can pay stock but if you don't have ten billion shares available, you have to pay a dollar and, I forget your example, but the scenario of under any circumstances you can fathom you have to pay cash makes the whole thing a liability. Would you stay with that settlement model or would you soften it?

We have four more ten cards and we're a bit short on time so I absolutely want to get everyone I just ask you try to be incremental so we have enough time for the other topics.

Scott and then Bob.

Scott Lehman: Thank you. I'll be really quick. I just wanted to focus for a minute on the complex instrument alternative. We actually were in line with alternative B, and that is that you would only really look at those those features those equity features that were separately able to be exercised and really we looked at this, this might be one of those instances where you might have a consideration between the public company space and the private company space. We see a lot of these instruments in the private company space and when we think about what investors and users of private company financial statements are looking at they're not necessarily concerned so much with the fair value attributes of these instruments but more what cash is going to be available to settle certain obligations and pay back investment returns so this again may be one of those opportunities where we may have a situation where we might have one alternative to follow for public companies and another alternative to follow for private companies. Thank you.

I was just going to say, and I'll be the briefest. It's my opinion, and I'll overstate the obvious, that nonprofits should be excluded from anything related to this example. If you do decide to include nonprofits I like the third hybrid model for restricted gifts and that's all.

Erik and then it'll be fitting to wrap up with a user, Jack.

Erik Bradbury: So just trying to save the targeted improvements for last. So I represent larger preparers, I think they're generally comfortable with the complexity, but I think the concern is that if the discussion is you're going to have to draw the line somewhere, I'm not sure, one that you could come up with a less complex model that could draw that line somewhere. But beyond that you would trade, potentially, trade complexity for cost by drawing the line such that more instruments would be treated as a liability. Which is not necessarily a concern for larger preparers but would certainly create an issue for the smaller preparer. I do think in terms of, if there is support for you know, our members are not supportive of adding this to the agenda. I think there are some other issues that should be added. Having said that if the route is targeted improvements, I do agree with some of the comments that have been made that there are some areas where targeted improvements could be helpful. A few have mentioned 0019. That's certainly an area where it's beyond the cash settlement, excuse me, it's beyond the share settlement issues, it goes all the way to theoretically possible notions of cash settlement where essentially you can have a very such substantively similar instrument treated differently than another instrument simply because of a non-substantive feature. I'm surprised that there aren't some other issues though in this space that aren't being, all of this discussion is on day one accounting it seems, there's a lot of day two issues that could use some targeted improvements, modification, equity contracts, some other accounting issues. I think debt modification I'm guessing that the firms would agree that that's an area where they see a lot of consultation and that's an area that's got really old guidance, not necessarily doesn't contemplate the complexity of the types of credit agreements that are out there involving lines of credit, syndicated loans, etc. And then beyond that if the target is to improve convertible debt, you know, I could think of five ways to account for a convertible debt. So if the goal is to improve that then perhaps focusing on one or two models would be would be the approach that I would take.

Jack Ciesielski: Ok thank you. Just a few things that I'd like to pass on. We didn't place this as the highest of priorities in the invitation to comment, simply because we think that you have a scarce amount of resources that you can devote to really gigantic projects and this isn't the one that we would say is the top shelf one that has to be done. I understand, and we understand, that it's a significant area of problems for preparers and auditors and that said that you know I've heard a lot of really great analogies like whack a mole and targeted, and just the grab bag approach of rules is what we've had. And I think we would go along with a comprehensive top down kind of approach that takes the point of view of the equity investor to determine what constitutes equity as a starting point. Beyond that we can't tell you too much. Please don't go back to the investor and expect them to give you the answer as to what equity and liabilities are because we don't have any better idea than you. But I would tell you that most of the time where we have issues is in the area of earnings per share because most of these instruments are designed to get a kind of earnings per share result that, you know, has a Diet Coke result, all the flavor and none of the bad stuff. That said, you know, it's not our favorite project. I don't think that we would say you have to do this to get to performance reporting first, I don't think there's a path the pendency there and I know Kimber mentioned that you have to do this like hand in hand and I'm not sure that we would go along with that point of view that it really is more independent of something like performance reporting than conjoined.

Colin Walsh: So Shayne you know to do now.

Shayne Kuhaneck: I've got a plan.

Colin Walsh: OK great. Let's move on to our next topic, performance reporting and cash flows, and Lauren Motley will kick that off for us.

Lauren Motley: So chapter four of the agenda consultation looked at performance and cash flow reporting quite holistically. And we asked people if this was an area that was in need of improvement. We looked at it broadly to include the income statement, OCI, and segments. However to manage the feedback in that chapter, we asked people to provide comments on the subtopic basis. Some of the respondents provided feedback on a holistic view which marries up with some of the comments we've heard earlier, and they combined the feedback including both the income statement and other comprehensive income, while other respondents really provided it on the individual basis. So the plan today is ideally to go through each of the subtopics of both income statement and segments and cash flows. But we might not get time to go through the OCI topic. But we acknowledge that obviously considering earlier comments that people might like to raise that so we would encourage you to bring out that discussion if you would like to when we talk about the income statement. So in terms of starting off with the income statement the consultation really focused on two aspects, whether there should be greater disaggregation of the information that's reported in the income statement, and whether or not we should require a new structure or revised structure to the income statement along the lines of operating and nonoperating. In terms of the desegregation options we really talked about three alternatives. One was whether or not we wanted to disaggregate infrequent items, another whether we should focus on re measurements and a third of whether or not we should focus functional lines into natural components. So to start the discussion today perhaps it would be best to begin with whether or not you think that performance reporting and the income statement is a major financial area, and how you would recommend that the board consider desegregation. And then finally we could go through what type of revised structure you think we should place on that statement.

Colin Walsh: Jack was your card up from last time or do you want to be the first out of the gate.

Jack Ciesielski: OK. Yeah I'll be first out of the gate. Yeah this is our highest priority. We are I think fans of a disaggregated model probably along the lines of function functional expenses and functional revenues. We would recommend that you dredge up our business reporting, comprehensive business reporting model from two thousand and seven which is still, you know, heavily influencing our thinking in that area. That's all I have right now. I think we had about maybe ten topics there that you were fishing for an answer for but I only caught like the first two.

We can come back to you. Pat and then Jeff.

Pat Durban: So we had this, sort of what we thought, was the highest priority. Primarily because of two reasons. One, we think it might enable a more expedient resolution of some of the liability and equity debates but that's probably actually the second reason we put it as number one. The more important reason I think is just that the performance reporting model seems to me to be critical to the continued relevance of the GAAP reporting framework. As you look at what's happening in the investor communications space with the proliferation of all of the non GAAP measures there's clearly a desire for some different way of capturing performance and I think it's, I think the underlying cause of that is there

are so many things imbedded in the performance statement that arguably don't relate to the performance of the entity from sort of a business perspective. And so I think some model that does a better job of enabling through a GAAP reporting framework disaggregation of those different qualitative elements of the income statement. So I think we would propose separating what I'll call, you know, transactions, things that happen as a result of performance from re measurements that are a function of things arguably outside the entity's control, disaggregation between things that are clearly sort of a non-recurring nature or not something that would be expected to recur and be part of an entity's performance in the future. And then perhaps, this is probably where it gets a bit more challenging, is you know distinguishing those things that are really not part of the entity's core activities and moving to you know some sort of core versus non core reporting with sort of the the overall perspective on performance reporting.

Colin Walsh: Jeff and then Aleks.

Jeff Watson: The technical issues committee was supportive of alternative A. We still think that debt versus equity was the top priority then followed by performance reporting and cash flows. But we were supportive of an alternative A with a preference of emphasizing and breaking out infrequently occurring items separately on the face, and then we also thought it was beneficial to include disclosures concerning operating activities explaining the nature of the reporting measures of operations and items excluded from operations. And then we thought the greatest issue was with the cash flow statement. Today there were a lot of peer review findings coming through the AIPCA, and you know there's issues with noncash items and classification within the categories in the cash flow statement and we think that's an area where there could be a lot of bang for the buck.

In addition to the EITF?

Jeff Watson: Yes, in addition to that.

Aleks and then Bob.

Aleks Zabreyko: Thank you. So we were looking at alternatives A, B, and C. And as we were thinking through them, we felt that the income statement would get very cluttered actually might become more difficult to evaluate the trends that happen in the business under any of those alternatives and so what we thought is although that's great information for financial analysis, but we thought that some of this information might better belong in either footnotes or MD&A disclosures. Things about identifying significant items that don't occur on a regular basis or disclosing perhaps amounts that may differ significantly from period to period ,their impact on financial performance et cetera. For the income statement itself what we thought would be helpful is establish concepts described, not defined, but describe the operating versus non-operating where you can say it's core versus non core type activity, defined the principles kind of maybe in a way similar to how characteristics of growth versus net revenue reporting under today's guidance so there are some criteria that point towards gross, point towards having companies make judgments. So kind of a similar type of approach for operating versus not nonoperating activities. Also importantly, I'm jumping a little bit ahead, align this with how operating activities are defined in the cash flow statement because it seems that if we define it this way for the income statement, that's operating activity, why should this not be operating activity for the cash flow statement as well. So that's, those were our thoughts on the income statement.

Bob.

Bob: Similar to some others we thought this was an important project to take on, as it is in our top two. Not only because we thought that there were ties with liabilities versus equity, but just on its own there are things that because its such an important communication tool, I think that could be some improvements as well as we recognize that it could take some pressure off of other standard setting projects. I mean, we've encountered several times where the FASB has issued a proposal and there is some dissent around it because we're not really crazy about where its presented in the performance statements so we think that one, it has some potential for future standard setting projects. And looking at a structure, we were sort of between A and B. And that we would hope that we could lay out some broad principles that companies could then use and follow. So, for example, what we were thinking about is our performance statement, we would have four categories. We'd start with central operating activities. These would be transfers, exchanges, I'm talking about transactions, not re measurement, but transactions that were part of the entities core activities. So obviously things like sales. The second category would be peripheral activities. These would be more of your infrequent, one off, transactions. Maybe like some sale of PPE. Then we would have below that re measurements and allocations, and then obviously below that is what we have talked about in the last session on changes and non-owners equity. Just to come back to a question you asked me, Russ, on my approach on liabilities and equity where I said I would be pure settlement and that would be in the balance sheet. But what if somebody had a contract that was indexed to gold, but settled in their own shares. And what we could do here is, well, the changes in your own shares stock goes into this fourth category but the piece that's reflective of the change in price of gold goes into the re measurement aspect of it. So those would be our, we laid out those principles, and those would be the four categories. Where we think you need to do further research and haven't yet laid out is OK, now where do you put the subtotals and where is that all important subtotal that is the numerator for EPS. We think there would have to be more work done on how you would, we think it would have to be somewhere either after re measurements or maybe somewhere in re measurements, but I think that needs more work.

So Bob, effectively what you're saying is you would move things out of O.C.I. and they would effectively slide up into the re measurement category almost in its entirety.

Bob: That's right. So we would have no longer have an O.C.I. category. Get rid of that, that doesn't have a concept, and is often confusing and it also gets rid of recycling. The one other aspect that we haven't dealt with yet that we would have to think about is cash flow hedging. So real quick, back to your point about the gold, so if you take a pure settlement approach that's going to distinguish your balance between liabilities equity and I had thought, but I think I'm now wrong, that anything in mezzanine goes into re measurements. But you're not saying that, so you would make another step... Anything in the mezzanine, the non-owners equity, that gets re measured in the performance statement. Where it goes in the performance statement, if it's related to stock, the company's own stock, is on our fourth category. If it's related to something else, that's up in re-measurements. So if its indexed to stock it's re measured, but if it's not indexed to stock it's... They're all re measured.

I'm sorry, they are re measured in the re measurement category.

Bob: No, sorry. Russ. In the balance sheet it's always, it's re measured. I'm not saying it has to be fair value, but some value. The change in that value, if that change in value is related to the entities own share price goes into this fourth category in the performance statement.

But which I thought you labeled as re measurements.

Bob: No, the four are central, peripheral, re measurements, and non owners equity.

But then if it's not indexed to the equity, it goes to re measurements?

Bob: If its indexed to gold it goes into the measurements, just like changes in, if I owned an equity instrument, those would be re measurements, not my own equity, but somebody else's equity. If I had a derivative it goes into re measurements.

OK. So then would then you just shift the indexation rules from classification to measurement. So then we would still have to have the indexation rules to determine which are your share price and which, ok.

Bob: But I think I can figure out what's changes in my own share price. But that's the problem with that, I thought that was a problem that, I thought the primary problem in simple instruments was settlement and indexation, and your model retains settlement and indexation.

It is a complexity that I have to address because I've got some complex transactions. If I'm, if I've got a derivative on gold that's settled in my own shares that's a complex transaction that I kind of have to... it's different than an option on my own stock.

You know I completely understand why you've created this, because you're saying stock settled gold is different than cash settled gold and stock settled gold is different than stock settled options. I can see the vision.

Colin Walsh: So I want to follow up, and I think Pat raised the same thing about isolating re measurements, and exactly in your model what you would think is a re measurement? For example, day one loss in CECL seems like that's a transaction, but your next year's estimate I guess is a re measurement. Or in revenue, you know, assume we keep the revenue standard we have, we're not going to redo every standard all at once, you know, I have a constraint so I put revenue, initial estimate of revenue subject to constraint up above and then changes in the constraint as a re measurement, or I recognize revenue over time and I also have a change in estimate with respect to whatever my measure of progress so I have a portion of that that goes up above which is my progress and a portion of your revenue go down below because I would change my estimate with respect to my progress. I'm trying to figure out how in a system in which we don't separate today, how we would decide in accounting allocations, accounting changes, which would be re measurement subject to going in a line below and then what would be the purpose for sort of doing that.

Yeah you know you bring up a great point and it is, it's a difficult area. What we were trying to separate is really those things that are actual transactions from where the guidance requires us to continuously re measure. I can see, you know, you can draw the line in different ways. The ones that you, just take the the sales that you are dealing with, well that is a transaction that I'm trying to estimate what it is. And so I can see those, I know I live with mine as re measurements, and this is technically re measurement, but that really is trying to get to what that transaction is, the value of that transaction, that would go in my mind would be in this central activities category versus a, the the literature requires me to mark to market every single period my investment in equity securities. So something like CECL we'd have to decide, are you marking credit to your current estimate, is that every measurement, or it has aspects of that. Can I just jump in on the question Jim, because it was sort of embedded in our model as well, and I

think we would distinguish something that I would view as part of your core business activities and sort of changes in estimates related to that as, you know, not being a re measurement. So it would sort of be embedded in performance. You know, we were thinking more of the re measurements that are driven by some sort of external market event that's maybe more ancillary to the business. So admittedly hard maybe to distinguish, but you know, I think we would have said like change of estimate on revenue and consideration, deferred consideration. Goodwill impairment would be a remeasurment. Fair value changes if you were a bank might be core, so probably not re measurements? So we'd have to come up with a whole set of rules? Principles maybe.

George: Thanks Cullen. Just to remind you I represent the public real estate industry. And probably there is no industry that has used non GAAP reporting more than our industry probably for fifty years or more. We were focused on this project, performance reporting cashflow project, because we have defined some performance metrics, especially one that has been defined for twenty years that our companies reported, and we thought well gee, it's time the industry report a meaningful GAAP performance measure and we thought, well gee, if the project that the F.A.S.B. takes on provides a management approach, then then maybe we can turn this non GAAP industry metric into a GAAP metric and that would of course enhance the credibility of the metric. So this was important to us, as I sit here and I listen to all of the views and read the paper of course, chapter four, and and I wonder if we can get there, i.e. the management approach. I think more than almost anything else, defining operating income, you know for all industries, is a bit crazy. I'm not sure that will be meaningful for any industry, for maybe one or two. But so we really focus on, we hope that we can talk about at least, a management approach to performance reporting. We the industry, globally, got very focused on the F.A.S.B. I.A.S.B. financial statement presentation project about ten years ago. And as crazy as it sounds, seven organizations like NAREIT formed a coalition. We filed a comment letter with the joint boards on that project, and what we were excited about was it was a management approach to the performance reporting to the income statement. And that's what we'd like to see. We don't know if it would reduce the amount of non GAAP reporting, but hopefully it would. So I'm not sure that any of the strictly defined ways of disaggregating the income statement would be helpful to us or other industries or companies that report non GAAP metrics.

Could I just jump in there. Can I ask you a question: How would a management approach differ from the GAAP approach other than just putting F.F.O. let's say, as a separate line item on there and then having things back down. How do you envision a management approach being different from GAAP.

George: Well thanks for asking that, the global coalition put together a model, and it actually incorporates a lot of things that have been said here. There's an operating section, and it actually would report two of the industry's very important metrics that investors use all the time. And so it would segregate operations and provide these metrics as subtotals and then it had re measurements. Real estate companies reporting under IFRS, over ninety percent of them report their investment property at fair value. So all those fair value changes would be below the operating metrics so. There's actually a copy of the statement that we formulated in our comment letter on this project.

So the key to the management approach is that GAAP would set out categories and then management would assign the activities to the category based on management's view as to what are their operations and what are not. So in Pat's model, what is core and what is not core involves what is central. So

everyone would have a central and peripheral under Bob's approach, but it might be different company by company because a manager will be in the best position to determine what they believe is their central or their peripheral.

Colin Walsh: Kimber and then Adam.

Kimber: So for us this was also one of the most important things that the Board could be looking at, similar to some of the comments that have been relative to the relevance of the financial statements generally, this is one of the reasons why we thought this was a critical thing for the FASB to be focused on. I'll confess that in the span of four months we haven't cooked up a fully baked answer here and it seemed to us that it would take a good amount of thought and research to actually make that happen. However that said it did seem to us that would be helpful to have more disaggregation and it did seem to us that operating and nonoperating are things that are of interest in general to users as we've seen practice in our experience. To us it also seemed like that if you had guidance around operating and non operating elements of performance that it might well be the case that for both of those components there would be re measurements and for both components there might be frequently and infrequently occurring items. We also were quite focused on other comprehensive income and the benefits of a project in this area around trying to figure out whether that is an element of the performance that is supposed to be a performance measure or whether it needs to be retained at all. I think maybe similar to Bob Uhl's comments we didn't think it would necessarily need to be retained if the board we're able to, you know, provide some guidance around disaggregation in a way that would provide the information and make it apparent to users the sorts of things that they might like to see that currently are perhaps going through other comprehensive income. The last point I wanted to make is that we also thought that this would be an opportunity to try to tie in the statement of cash flows better to the income statement or the performance statement. That's an area that we think would be very beneficial is to try to align what happens in those two statements much better so that you can see direct linkage or cohesiveness between the two statements more so than you do currently.

Colin Walsh: We have Adam, Mark, Stephen, and then we should try to move on to statement of cash flows.

Adam Brown: Thanks, and I'll be brief. I may be a bit of the contrary on this one. I'm not at all opposed to some of the improvements that we could probably make in the presentation, this comes down to probably my sense of priorities. I remember the financial statement presentation project was, you know, in vogue or was something that was being worked on. I remember matrix columns between fair value and amortized cost and accruals and articulating cash flows to the income statement. Arguably improvements, but major changes, and I think trying to sell that when I think about just the change to one line item. The fundamental changes to this to the statements would be a big big sell for the the non accounting group. Right. We try and socialize this a little bit. I also think about some of the comments I've heard from users, and admittedly users have diverse views here. Marc Lamont, last week, said users hardly read the statements, they have their own models, they pull things in automated. So if I'm looking at a major major change in the system that some portion of the group at large won't understand and another group says we're not using it, at least as much as we could, and then I go back to things like debt equity where we know we have big practice problems right, you just look at the restatements for the last ten years, that just governs how I would rank this. So I'm not opposed to operating versus non

operating, frequent versus infrequent, but when I try and rank these things it seems like that one becomes a little lower.

Adam, I appreciate your comments, I just wonder, Mark made a similar comment just yesterday here at FASAC meeting. I think in clarifying his comments, he was saying that investors really just don't pick up the paper document anymore and read it from cover to cover. They strip out information and this is been going on for a decade or two, they strip out information and use it in different forms. Instead the paper form it's electronic form. That's all he was saying and that I didn't want anybody to infer that they were in effect using the financial statements, it was just the form in which they were using it.

Colin Walsh: Jack do you want to jump in?

Jack Ciesielski: Yeah just a couple add ons to Adam's remarks. There are a lot of users that do read them in paper form, but you also have to remember that a lot of times what drives what gets picked up by the third party providers of financial information, the machine readable form, it's driven by what's in the formatted financial statements anyway. And I would also argue that while revenue is one line and it's been a ton of work to get that line changed, you're talking about a change in accounting principles, not a change in presentation. A lot of the information that we're talking about changing here other than operating and non operating really is just how you're going to reconfigure the financial statement, not providing new information, it's information that we already have compiled.

Yeah I think some of the challenge mentioned earlier, that if you have more categories, you'll have more tensions potentially to classify things where they go. It will have an accounting and recognition sort of feel to it.

Jack Ciesielski: It may have that feel but I'm not sure it's completely redeveloping like revenue was.

Yeah I think we had this at the top of our list for some of the same reasons. I don't know whether it, liabilities and equity go before it or concurrent with it, but you really need to think about the two when you're doing them, but we think it's important. We kind of are in favor of looking at categorizing operating and non operating. We're not probably in favor of trying to break out re measurements. I think that becomes problematic for some reasons thought about here and the vast number of things that people refer to as re measurements. It would have to you know would have to include a lot of rules to get there and in some cases, you know, I'm not sure that people are precluded from breaking out a line item on re measurement now in certain areas that wouldn't be beneficial. So I guess those are a couple of broad issues. One thing from a presentation standpoint. You know the proliferation of non GAAP measures doesn't mean that they're not using the financial statements to come up with those non GAAP measures. And we could see some benefit in the board undertaking some research to look at, are there improvements that can be made to make sure that people are applying similar principles and similar guidance in determining the items that are oftentimes part of the pro forma adjustments. Some of those items, depreciation and interest and amortization and what what might be in there, what might not be in there, what things might qualify, what what might not, because GAAP is, there's a lot of GAAP that impacts these line items, and things. And I think you know the investing community would be probably, would benefit from this if we could make sure that there's as much consistency in those things as possible. Knowing that they're going to be used, the financial statements are going to be adjusted for these.

Colin Walsh: Stephen and then Pat we'll give you the last word.

Stephen: I just want to say that I am OK with the existing structure of the income statement. I think it is the ultimate management approach, really, gives companies flexibility and there is usefulness in seeing companies approach it. Any differences that I might have with it really have to do with the way the company's apply the standards and that's going to happen, you know, regardless of whether you change the standards or not. Companies are going to take different approaches and people are going to disagree with it or agree with it. I also would be wary of core versus non core, separating that out or formalizing that. If by core you're getting at some kind of non gap measure because I do think that users have different views of what non GAAP or core might be and they may make their own adjustments so I would be wary of having, kind of, as a single line because I think that there would be disagreements, you know, rightful disagreements, about how those would be presented

I was just going to react to the discussion on some of the user commentary and maybe specifically Jack your point. At least as I envision that there would be new information not just sort of a rearrangement of the existing information by separating the nature and, not nature in the way it's used in the discussion paper, but the nature of the item as sort of a transaction based event or an event based recognition versus a re measurement that's sort of influenced by outside forces or some of the other qualities of you know, recurring non recurring, core or non core, things that are currently pulled out in non GAAP reporting in my mind getting it into a GAAP framework so there are standards that underlie it, and then when people take it and they disaggregate it or they they use the data aggregators to rearrange the information, at least the element has a common definition, is sort of the way I was thinking about it.

I think it depends on what you're considering to be remembered, what I'm talking about re measurements, and I think what we're talking about re measurements at the institute, we're talking about things that are already in the financial statements but aren't necessarily brought out separately. A good example and something will be moving on to later is re measurement of the pension obligation. That's not new information, but the way it's presented could be different. Impairments, that's a re measurement. And the way it's presented in the income statement could be presented in a separate component that includes all re measurements by separate line items. I mean, we don't have the answer right here today, but I'm saying there's maybe another section of the income statement where we have already determined these re measurements or, you know, going one step further, other comprehensive income where we have available for sale security re measurements, why put it there? Have a section for the re measurements of fair value of financial instruments and included in one income statement. So that's where I come from when saying I don't think we have new things to re measure. It's just where we're going to put it in the income statement. And just one last word, some of the stuff really could be framed better in X.B.R.L. so that if people want to change their formatting in the income statement they could do it themselves. But I don't think we are quite at that stage yet.

Colin Walsh: Lauren could you lead us on to segments?

Lauren: Sure the sort of second subtopic I want to do is kind of changing from going from vertical arrangement to horizontal into the segments. This topic, really the consultation, was looking at three areas of potential improvement. The underlying proposition under the whole of the section was that the board would want to retain the management approach. They were never going to try to pierce that approach.

The first area that the board looked at is whether segment disclosures could be enhanced, and three options really included in that discussion, we could include additional disclosure requirements that would be added to the current list of required disclosures and topic 280. The second option is that we could look at the current disclosures and require them to be reported in a structured table with the amounts that are not regularly reviewed annotated as such. And the third option, was perhaps the most ambitious, is that we would take the information that's regularly reviewed and would require that to be reported using the same captions from the income statement and the line items from the balance sheet. The remaining couple areas we talked about for improvements to segments is whether or not we should reopen the aggregation criteria and whether or not we should move the standard from a C.O.D.M. perspective to a governance perspective, so a higher look. So perhaps maybe we could begin the discussion as whether or not you think this is an area that the board should look to make improvements, and which alternatives do you think the board should pursue in that effort.

Stephen?

Stephen: No. So what we discussed, we think we favor is alternative B, which incorporates alternative A as well. It provides good information in tabular form that's convenient to use and measures like gross margin, operating cash flows, and working capital from our experience and from what we understand seem to be important to investors as well in their analysis of financial performance. One word of caution there, though, is the way companies would report this information internally may very well be on a non GAAP basis. So you would have a consolidated financial statement GAAP gross margin, but within a segment it may include things which are not on the GAAP basis. Same thing with operating cash flows and I think this is one of the similar to one of the issues that was discussed in the by the E.I.T.F. recently, how to classify cashflow as between parent and subsidiaries. So companies when they do internal reporting, when they report operating cash flows, that could very well be things that would be in standalone GAAP financials classified as investing or financing. Kind of things. Alternative C seems to be a little bit too much and probably information that companies don't really have today. So that may not be as easy to produce or as robust. And then in terms of management versus government, we thought that the management approach is a good way to go, but the way to go there is, and especially with the proliferation of information that C.O.D.M.'s have these days, that just, I mean with the packages that they get being on the e-mails or just normal packages they might get anything and everything. What we thought actually is, because they report on their performance to the board or other governance institutions looking at the board packages may be a good way to look at what the segments are, because likely as the C.E.O. of C.O.D.M. reports to the board about his or her performance, well then they would be covering the specific business units and what happens with those business units so the board would have this information in their hands and this could be supplemented with things like let's say looking and structure of the Enterprise, the budgeting process, the reporting responsibility, the org chart, etc... and then also looking to see what kind of information was used to actually make the decisions that are important to the company, at what level etc... and so its a combination of those things. Thank you.

Certainly interested in any other feedback either from a user perspective of whether there are improvements that should be made to segment disclosures and also from a practitioner perspective of difficulties associated with preparing an auditing segment disclosure was certainly a lot of noise about this topic.

OK, we support segment reporting as an issue to be addressed and I think we pretty much agree with what Aleks outlined. We like all of the proposed models that were in the invitation to comment, but mostly because we really can't tell if there are enough segments being shown now or not, without naming any companies. I mean we've seen some companies that we know are in incredibly diverse businesses yet report a single segment or maybe at most two. And we know that some of this is because the internal management can see whatever format they want because of the information system they have. It changes at will. So we would think of the board information as sort of a safety net if there isn't anything that management looks at in making our capital allocation decisions or reviewing performance. What does the board look at? But we wouldn't say one or the other should always rule. Should be a check on each other and obviously we'd like to see more granularity in the segment reporting for the information like gross margin, other measures of profitability. But we'd also like to see, you know, more cash flow information to the degree that it's pushed down to the segments. We know that a lot of times working capital is centrally located within the firm and not at the segment level. But we'd like to see how it's allocated to the degree it is. Pat. I think we would view segment reporting as something that's obviously an important element of disaggregation. So I understand its usefulness to the investors which should flow from anything that happens in the performance statement, so some additional subtotals that might be relevant, maybe some more standard subtotals. Margin is one that we've heard particularly from investors as being relevant. So I think broadly some flow from the performance statements of the segment disclosures. I don't think being overly prescriptive on, you know, a table or you must have all these captions is necessarily, you know, a great idea because it's fundamentally a management approach and I think we've also heard from investors that they find value in, just sort of, what what is management looking at. I think the one area that is definitely a challenge and probably would benefit, well two things maybe, first just on the identification of the segments. I think we've heard some discussion recently on maybe how to think a little bit more broadly about how to identify operating segments beyond just this one single sort of function of the chief operating decision making. You know sort of stepping back and looking at the organization, really how it's run, how it's structured, as you know to provide some additional insight. So that's one. And then I think the other area that is definitely a challenge is on aggregation, and I think it's because it's sort of there as an option. So if you're so inclined to do it as a preparer you might, you know, avail yourself of that for whatever reason. As opposed to really starting with a premise that, you know, you should be focused on operating segments and it's only when it gets to a point where that distinction between operating segments is really not meaningful that aggregation makes sense and I'm not sure that's how it's really applied in practice and I think, you know from an auditors perspective, auditing those aggregation decisions is definitely very challenging. So I think, you know, it's tough to figure out what the right model would be but you'd almost more of a presumption that you don't aggregate and you only aggregate when it's clearly, you know, you have let's say dozens of operating segments if you didn't aggregate. Something that's really sort of extreme.

Colin Walsh: Paul then Mark.

Paul Beswick: You had asked about practice problems. I mean, the only thing I'll comment, I mean, more broadly performance reporting wasn't high on our list for a number of reasons. But in terms of practice problems, aggregation is probably the number one sort of throughout performance reporting that we think should be addressed on a narrow scope. You know over time people's views have changed on

aggregation, how you think about aggregation, how you weight different factors, and so this may be providing more clarity through the E.I.T.F. would be helpful to us.

A number of people mentioned the aggregation criteria, I know Jack you said that as well in your remarks about how it's a little frustrating that things are aggregated and you like them split apart. In terms of the respondents who replied on this point there seem to be two streams of thought in terms of whether or not we should carry towards more standardization or more flexibility in fixing the aggregation criteria. Can I get a sense from Paul and Pat where you might lie on that since you're talking about practice issues.

Paul Beswick: I just think right now there is somewhat of a principle and that depending on how the regulator thinks about it, the application of that principle can change over time and if you go back, I mean, there were quantitative thresholds at one point and then there weren't quantitative thresholds and now there's relative aggregation which I'm not sure is even in the standard. And so just providing a little more guidance on the principle of aggregation I think would be helpful. I don't think, I mean, if it's a management's approach I don't think standardising is the right way to go. I'm just thinking about, you know, could we put some more words on the paper in terms of how one should think about it. I don't have the answer in terms of, I mean, Pat's got an idea that's a presumption you don't aggregate. I don't know if that's the right answer or not, I haven't thought enough about it, but I was just literally sticking to the idea that, you know, of the areas you've identified this is probably the one people struggle with the most. I would just say, I agree as long as it's a management approach I don't think you can force standardization. And I do think we probably just need, you know, some more parameters around, you know, when it's appropriate to aggregate. I know we have a lot of words there now, but I'm sure they do tend to evolve over time. I'm not sure they're really consistently applied so it's probably worth some exploration of, you know, where people really think aggregation is the wrong answer and sort of work backwards from there. Mark. I think my views are very similar to Pat and Paul's. Really that this is a significant practice issue that we face out there, and when you think about it from the standpoint of investors and users, it's got to be top of mind as well if there's that many issues that we face and that many questions that come around. And I think, again you know the guidance has been around for a while, thoughts of evolved over time but I don't think that's captured in the guidance, and you know, what you know, and technology, what the chief operating decision maker reviews on a regular basis, what do they review to make decisions based on. Those are all questions that you know, I think were thought of in a very different context when the statement was issued. So I think all those things could use some looking at. Can we provide some better guidance to get help people get it right and be more consistent in how they look at this stuff? As an overall observation maybe like Jack said the governance approach might be a backstop as far as what exactly does the board look at when they review Executive Management.

Colin Walsh: Lauren, I know we've already had some good comments on cash flows but do you want to briefly tee that up and see if there's anything incremental to draw out.

Lauren: The third subtopics that we included in the consultation document is whether or not the board should reconsider elements of the cash flow statement. Many preparers and users think that the principles that differentiate the operating, investing, and financing categories are not intuitive. One of those reasons is because the operating cash flow section is defined as the residual category. So one option the Board could do is reopen those definitions and revise the structure of the cash flow

statement and the consultation document really talks about three different areas. We could reopen the definitions, maybe define operating directly and align that to the income statement and have a residual. The other option is that we remove the structure and allow management to internally use their cash flow management policy, as how they would structure the statement. And lastly the third was really we do away with categories but we focus heavily on the interrelationship with the income statement lines. So those are really the three options that we provided in the consultation document. So perhaps it might be good to sort of start with whether or not you think this is an area that the board should pursue and what type of structure you think that we should consider in those efforts.

So I think clearly cash flows are critical information. Personally I feel like the three category structure that we have now is right. I do think we would be better off trying to define operating directly rather than making it be the residual. But I don't think we need a fourth category, I think you should be able to figure out whether it's one of the three. It seems like there's some momentum, I would say, based on the recent the E.I.T.F. discussions for this linkage concept of linking the operating section of the cash flow statement to the profit and loss. If we just want to be specific about that, that would probably at least help. The other thing that probably warrants some attention though is that if you look at some of the different discussions about the statement of cash flows now, sometimes it seems like it should be more of sort of a liquidity statement reconciliation of flows, more of a balance sheet focus, versus you know a more direct measure of cash operating performance that is P and L focused. So I think there may be a little bit of, you know, some conflicting priorities that add to some of the confusion. I think some some work in this area would make sense and I think we'd be a proponent of something that focuses more on cash generating performance if you look at what most of the non GAAP measures seem to be designed to do is provide some sort of a proxy for cash from operations. Can we get something closer on the GAAP cash flow statement to that number the is helpful to investors.

Colin Walsh: Bob and then Scott.

Bob: I'll make it short. Yes, this is a major area of complexity and misunderstanding. So it would be great if the board did something here. I think operating, investing, and financing are great sounding terms that nobody understands at least not consistently. And because we want consistency we've written, and I'm part of this you know just having dealt with eight new issues on cash flows, we write rules around classification that are sometimes internally inconsistent. So if it was me I'd blow up those classifications, start over. I'd like to see cohesiveness with the performance statement and obviously then you'd have to have some parts for the balance sheet, but this is the way I would go.

Colin Walsh: Scott then Aleks.

Scott Lehman: Thank you. We actually had this as our number two on the list right behind debt equity issues. You know, while we do acknowledge the changes that the board has undertaken especially with the issuance of ASU 2016-15, I believe there are several studies out there that show restatements due to cash flow errors being second only to debt equity, out there for a fair number of years. We really liked alternative A. We thought that approach struck a pretty good balance. We believe that the board should describe rather than define the cash flow categories. And we thought perhaps a good start, for example, might be to describe operating cash flows as those cash flows to directly result from revenue generating activities. They would go into investing and financing in a similar fashion. But that's all I had.

Colin Walsh: Aleks and then Jim.

Aleks Zabreyko: So what we thought about is having four categories in the cash flow statement as too many. But we also thought that actually having three is too many as well. So what we thought might be useful is if there are just two categories, one that is aligned to the income statement, that is operating or core activities of the company. And then the other one is really everything else. So the operating cash flows can be indirect or direct method, but then the all other cash flows which will combine investing, financing and your non-operating activities that follow through the income statement. So that would be all gross up direct cash flows and some of the benefits of this would be, I think a lot of the issues that we see right now where people put things into the wrong category or where we conclude that the cash flow needs to be bifurcated, I think a lot of the reason for the E.I.T.F. issues, the thing was that those cash flows really belong into perhaps non operating, perhaps investing, perhaps financing kind of things. A lot of the judgments were that they need to be bifurcated and presented separately. Those kinds of things by and large get eliminated because it's not the operating cash flows that oftentimes require this bifurcation, it's the non-operating and balance sheet stuff that does. So what we kind of observe and I'm curious to hear what the representative of investors here would say is that total investing cash flows and total cash flows from financing activities in and of themselves may not be meaningful numbers. What's meaningful numbers is the actual numbers reported within investments, purchases of property and equipment, or borrowings, or payments of borrowings. Those things but not the actual totals. So that's kind of what we thought might be a good way to go and then a couple of minor improvements. Things like, let's say, for the operating activities, align the presentation to the balance sheet from what we know from investors perspective. Those looking at the changes in the balance sheet items tend to be important to the valuation of the companies. Capital expenditures probably would be very difficult to break down and to, you know, maintenance versus expansion. So that may be a good thing for M.D.&A. but probably not for the cash flow statement. Another one that, you know, we kind of all think that direct cash flow method is better than indirect, but at the same time most companies don't use it and one of the reasons is availability of information but perhaps maybe a good compromise is including in the footnotes or perhaps supplementary information the amounts of cash paid to vendors, the amounts of cash received from customers, and that may be more readily available and easier to report and that may be actually what users might be looking for rather than the whole direct method statement. So those those were the thoughts we had and maybe just to jump ahead, probably aligning with some of the other thoughts we heard as, on the next topic other comprehensive income we probably would advocate getting rid of it as well just like some of the other people have mentioned we just don't see conceptual basis to have it. Thank you.

So a couple people have brought up the cohesiveness idea, we've explored it before if I recall there are some pretty serious concerns about what conclusions that might lead to and whether people, you know, want us to explore what we explored before and whether we'll be on a journey that says, well, if you acquire a business of course most of those are operating assets, they'll be used to generate net income so therefore you know the two billion dollars you paid this quarter for business is an operating cash outflow, buying operating assets, same thing with P.P.E. If you want cohesiveness, that is where something comes through in the income statement, we just made some changes on pension accounting saying your service cost is operating all other is not operating. Whether people would have the practical ability to break up their payment to the plan next year between that portion that is the operating component of that payment versus that is the non operating component. So I'm just wondering, is this a practical problem that people really need us to solve or is this an intellectual discussion about whether

it would be interesting, whether, you know, if we did this? Particularly given that we've spent years exploring it.

OK well, I'll be brief. We do support examining the cash flow statement again, we would not be opposed to a fourth category, if needed. We support the cohesive approach to tying it to the income statement, but we also support as Aleks mentioned the direct method instead of the indirect method and I think probably the one, maybe one anecdote that would help frame it a little bit. Lots of users look at EBITA and think that that's a measure of cash flow and think that that's the measure of you know how much the company's operations put out in terms of cash and it's not. They think they're looking at a cash basis statement number and I think that's what they want to see. In the direct method gets you a lot closer to that and if you had a direct method operating section of the cash flow statement it would be very comparable to the income statement and gets you, the part of that, partially solves the cohesiveness problem. And also if you had those two statements in the financials anybody that wanted to reconcile the two could come up with their accruals between the difference between the income statement and the direct method cash flow statement and you don't have to worry about doing an accruals reconciliation if you don't want to put that into the presentation. So those are just a few ideas that we have. I think that we're all pretty much rowing in the same direction, just at different rates.

Erik.

Erik Bradbury: I'll be quick because I know we are out of time. So if we were given the choice to trade one for the other we'd probably trade debt and equity for this category. We're not necessarily in favor of this partly because if you think about everything that's been talked about this would add enormous cost too, I mean this is in many cases a complete redesign of systems, processes, controls, etc... Huge burden on preparers. I think I like what Jim said actually, because I think the question is, would this, you know, it's not clear to us what what would be the benefit to investors of any of these sort of changes that are being proposed.

George: I just want to quickly say that ninety-five percent of NAREIT members probably would kick my ass but the global coalition that I talked about before, the model that we developed recommended a direct cash flow method and if you really think about it that provides good information and we keep hearing from our investors we need more cash flow information and then you look at their cash flow statement and it's indirect method which, I don't know, just says nothing. And and I think one of the reasons the global group kind of fell on the direct method is because Australia does it, and they were a big part of our group, and they're all direct method. I'm not sure why it's so hard, why it's so difficult. Maybe I've never tried to do it.

Colin Walsh: Now we know why they might kick your ass. Stephen and Jack we'll give you the last word.

Stephen: I just wanted to say I guess again from my perspective the existing standards both of cash flow segments, income statement, provide enough for me as an analyst to understand what's going on at the company. If there are differences, things that I don't like, it's because of the way it's implemented but not, as I see it, because of the standards themselves and that speaks to the issue of whether the stakeholders should be pushing for changes in reporting because I think the framework allows for most of those changes to take place already as is. My issues more relate to whether I can trust the numbers, those types of things, rather than how the standards are structured right now because I think they're pretty comprehensive pretty much as is.

Jack Ciesielski: OK Just a couple of responses. One I forgot, Aleks wanted to know what investors think of looking at the different components of investing and financing cash outflows. That's absolutely correct. They look at the components not so much the subtotal. It's very important that they see where it's going. If anything they'd want more granularity on the kinds of expenditures that go into capital expenditures. How much of that was spent for replacing capacity, how much was spent for growing capacity, and all other for instance. Those things matter. And as far as the expense of moving to something like a direct cash flow statement and the benefit. First of all, the benefit is you'd be giving investors something that they think they have now and they'd actually be seeing something that means more to them than what they're looking at. The other point I'd like to make is that we do spend a lot of money, I think, or I hope companies are spending money on disclosure controls over non GAAP financial measures and trying to get them right so that they don't get comment letters and you know they worry about that. There's expense to that too, so maybe if we get the disclosure right on cash flows, income statement ,maybe there's less expense spent on, you know, putting together volumes of non GAAP information and worrying about lawyers to oversee it, and getting something in the hands of investors that actually means something, to more investors at one time. That's the point.

Colin Walsh: Thank you for that. So let's move on. Aarika would you like to open up for intangibles.

Aarika Friend: Accounting for intangible assets including research and development or R. and D. has been a contentious issue throughout standard setting history. The F.A.S.B. along with other standard setters and academics have performed significant research on the topic over the years. Stakeholders and previous board members have diverse views to very fundamental questions including which intangibles meet the definition of an asset. If intangible assets were to be recognized how should they be measured initially and subsequently. And finally whether recognition of internally generated tangible assets would provide useful information to investors and maybe most importantly have financial reporting benefits that justify the costs. Broad alternatives were included in the I.T.C. in order to spark discussion among these very fundamental questions to determine if there was a need to improve accounting for intangible assets and if there was more information that could be provided for investors to be helpful in their analysis. And if so, if there was a cost effective way to do so. About three quarters of all respondents addressed intangibles in the I.T.C.. Of those respondents, a little over a majority of those did support it and had it as a higher priority because they felt the accounting needs to be modernized because inconsistencies between internally generated tangible assets and those acquired in business combination or asset acquisition needs to be resolved and also most importantly to users that value is missing from the balance sheet. The remaining that ranked it as a lower priority acknowledge that there are some improvements that could be made but other projects are a higher priority. Those respondents had concerns over the relevance and reliability of measurement under the alternatives as well as that they did not feel the alternatives would be cost beneficial. So with that said, we'd like to get specific feedback from today's discussion to help the board in considering whether the accounting for intangible assets should be or could be improved. The first ,most important question, is are intangible assets including R. and D. a major financial reporting issue. And if you think so, should the board provide a series of targeted improvements and tackle a subset first, such as R. and D. or software costs as respondents have suggested, or take a holistic approach to all intangibles. And if the board pursues recognition of intangibles, what assets should be recognized, what threshold should be used for recognition, and how should those assets be measured, initially and subsequently. And along those lines, a more specific question, should the board require recognition of R. and D.. Is that seen as an asset

and would that be helpful to users. And finally if the board pursues disclosure improvements, what specific information should be disclosed that would balance preparers concerns over proprietary issues and would that be helpful to users. And how would users use this in their analysis. And with that I'll turn over to the participants for discussion of these topics.

Colin Walsh: Esther.

Esther Mills: So Intellectual Ventures believes that accounting for intangible assets should be on the agenda and it should be high priority for the FASB. For those of you who are not familiar with the company, Intellectual Ventures is a private company engaged in research and development work and invention. It, the inventions span a wide range of different technologies from wireless communication to drone technology, medical devices. To date it has invested hundreds of millions of dollars in developing new technologies and has filed for thousands of patents. It seeks to monetize its intellectual property through licensing, sales, and the creation of spin out entities that commercialize products using patented technologies. When it reports its, when it presents its financial statements to investors, the costs that it has expended are nowhere to be found on the balance sheet because they are internally generated and the company feels this is a major flaw in the accounting model specifically when you compare one company that is internally generating intangible assets versus another company that is acquiring them. Investors have a hard time determining how much the portfolio of intellectual property is worth and conceptually there doesn't seem to be difference between the two other than how they were initially generated. So Intellectual Ventures favors a recognition approach as opposed to a disclosure approach, believes that fair value has conceptual merit but there are drawbacks in terms of the reliability of your values for very new and emerging technology and on balance believes that a cost based approach, alternative B, is probably the most feasible and workable in practice. It has proven to be workable for items like internally developed software and many companies already track costs for purposes of tax credit and management purposes. The company also favors a phased approach and whether that is identifying various classes of intangible assets and then working on how a framework would apply or developing an overarching framework first and then rolling that out in phases, that could be a model as well. But the company believes it's important to think about how a conceptual framework would apply in the real world. In terms of the capitalization threshold, that's a difficult question but the company is concerned with adopting, wholesale, the IAS 38 approach. Given that so few assets have been capitalized under the approach, as the invitation to comment had noted, the company has started to think about what would be the appropriate capitalization threshold, but it turns out that it's really hard to develop. The company would be happy to discuss with the FASB and staff members' various approaches and how they might apply in a real world setting.

So Ester I start just wanted to ask you about the measurement statement that you just made, fair value being conceptually based, and can you just help me understand a little bit about how fair value would be determined for intangible assets such as a patent.

Esther: It's difficult. I mean I think that, you know, the problem is that for something that is completely new, a completely new technology, I think it would be challenging and I think it would also be quite costly involving third party service providers but also a lot of input from the company itself and so that's why on balance the company believes that a cost accumulation or cost approach probably makes the most sense.

OK, so even though you would believe that fair value has more conceptual basis, the practical approach to measuring would be cost accumulation.

Yes. Thank you.

I know you said you hadn't come up with the right threshold, just wondering if you thought through yet whether or not it should be an asset by asset threshold or more of a full cost approach. So if you look at that, you know, is this a pool of R. and D. for what you would capitalize costs or would you say whatever threshold you come up with there should be some threshold with respect to each piece of R and D. Yeah I mean sort of the thinking is early days on that, but certainly currently I think the way that the patent development technology development is approached is on a pooled basis. So there's certainly I think an appeal to that. I think it is harder once you try to get more granular to apply a threshold to each particular asset, but I think there's pros and cons.

So I think Esther summarized some of the challenges very, pretty well. I mean I think it is clearly sort of a hole in GAAP when you look at companies that have internally generated their own intangibles just as those that have been through an acquisition, but the point at which you might start capturing that value is very difficult, I think to determine, if you did that and you have some an arbitrary period where you gather costs, that really serve more or less as a placeholder as opposed to any real indication of value. I'm not particularly a fan of, you know, measuring all intangible assets at fair value. I think that just has a lot of practical challenges to it so I find myself conflicted on this one. But I do think there are some intangible assets that I would say are maybe more tangible than others and there probably are certainly businesses that have a pretty good idea of when they have, you know, started creating something that has real value as opposed to purely experimenting or doing truly, you know, sort of trial and trial and error activities. And so I feel like there is some progress that could be made by, you know, starting with, we recommended starting perhaps with software as that feels like something that you could get your arms around maybe a little bit more easily. Trying to develop a model that might be more of a cost accumulation approach because the other piece of this in my mind is you have to leave some room for companies to demonstrate an ability to generate a return on their activities and if you sort of constantly are anticipating and pulling forward that value that they potentially created I think you start to lose that measure of performance. So you could say I'm a historical cost advocate which I probably am.

Esther I just had a follow up question for you. At the beginning you had mentioned that there's inconsistencies between when you're acquiring intangible and when they're not on the books if you're internally generating them. Under your alternative you said you wanted to do a cost approach. Do you have any concerns I guess that then it would still be inconsistent if you acquired them in a business combination or asset acquisition?

Esther Mills: You know right now you're looking at zero, so I think you know it's important to add this project to the agenda because I think anything is better than where we are today. Right now as Pat said it's a big hole in the accounting literature and it's completely inconsistent and I think there might not be an ideal solution but it's important to bridge that gap.

Colin Walsh: Adam and then Aleks.

Adam Brown: Just to respond that question and then I'll step back. But recognizing there are differences and in a model like that, that, the one thing with the business combination, the asset purchase or the R.

and D. the commonality with those in a cost accumulation world is that they're all a function of what somebody paid. So if I go out and buy a business, I start with what my check was and so I think that that's the thread if there is one. But to step back and intangibles was high on our list, it was number two after debt equity, for reasons that have been mentioned. Modernization, we've had statement two for a long time, and it's been a very durable standard so maybe that one was good. I think our, you know, our push or at least our interest in exploring a model is that something is better than nothing. Where we are today in a lot of cases, I would not go down a fair value model right now just practically and this is kind of where I sit. It's tough. There's a lot of challenge in practice that all of the work around a fair value estimate is appropriate. So drawing a line somewhere else on a cost accumulation model, we were kind of toying with the idea of a cost approach too. Got that on the one hand where everything is an asset, you amortize it and maybe even impair it, to a very high threshold on an individual asset basis under which almost nothing gets recognized. In the IAS 38 outreach that I did, kind of confirm what you guys have. On that particular point one of the comments it came back was that establishing a probable threshold under IAS 38 is part of where the challenge is. And so that's kind of what gave us an interest to exploring a cost accumulation approach, recognizing it's imperfect and it's a little bit crude but it does send a signal about where the companies investments are. Then you would establish some sort of life, some sort of life span, where you're assessing impairment write offs, it wouldn't be just be an indefinitely lived sort of things, so it would react to setbacks what people are developing different types of technology.

So you would go down a probable threshold, is that what you said, you would go down a probable threshold path?

Adam Brown: No we would probably soften that because I think that's what pushes people in, at least that's how I understand it today in IAS 38, that will push a lot of people into a charge. So softening to that, something closer to say a full cost approach or an easier threshold to get it on and then perhaps amortizing or testing for impairment within a reasonable timeframe from the cost of things.

Colin Walsh: Aleks and then Scott.

Aleks Zabreyko: So when we think about this, I think it would be great if we could to figure out a way to put the intangibles on the balance sheet but when we look at the practical requirements for this, that's where we feel skeptical that something can be done that would really be an improvement. And if we think about intangibles, let's say like non technology and non R. and D. intangibles, let's say customer relationships or branding. So for example a chief executive officer of a company oftentimes contributes a lot to building key customer relationships or branding of the company you would be trying to go and try to figure out how much of the C.E.O.'s time to capitalize as intangibles. Well I'm sure that's part of the cost accumulation would not seem like a good good idea. If we go to the R. and D./ technology type intangibles, very practical questions here again, great idea to capitalize but what we see in reality, you know the capitalization of the internal use software development costs, in this day and age a lot of times cloud companies they have to capitalize the costs of developing their cloud products. So they worked on their cloud products for a few years and then they say, oh yeah let's get to serious financial statements, let's get audited, let's get to do I.P.O. Oh, by the way we haven't capitalized anything for the last three years and that's very very real. That's what's happening, and then they hire somebody like ourselves or somebody else to go and try to figure out how much we should have capitalized for the last three years and there are no records, there's nothing. And the culture of the people who do this work of the R. and

D, the engineers, it would require a major cultural change to force them to start tracking time, where it goes, which projects, to start tracking these projects creating good, quality, auditable records. What happens right now is that you essentially go there, you figure out at a high level, what was the project that you worked on over the last two years and then you try to figure out if the project managers are still around, how many people who worked on this in the month of May of 2014, and then you kind of rely on them remembering or pulling up whatever information is available. So yeah, numbers are generated. How high quality these numbers are? Not very high quality. So that's very practical aspect. Another other practical aspect is let's say that, somebody mentioned, where do we set the threshold? So there are a lot of very high risk R. and D. projects out there. If you take, let's say, life science industry as a whole. When they start a project developing a drug, different data exists, but overall the probability of success is under ten percent at the point where they start before going into clinical trials. And then it starts going up, and let's say when they're in phase two they might be twenty five percent of being successful, to be successful to get to a drug, when they pass phase two they might be at fifty percent. Phase three might be sixty seven percent, and sixty seven percent is still not probable by most definitions, so essentially they wouldn't get to probable until they're essentially where they are right now which is the point of the F.D.A. approval. And there are, there would be, so if we think about this industry or perhaps some of the other industries where there would be high returns, high reward, high risk projects. What would we capitalize, would we be comfortable carrying these projects, these costs on the books, when the likelihood of recovery is let's say ten percent, twenty percent, and and who knows how to even assess whether that's ten percent or twenty percent. So that's another another aspect of this. There are also a lot of companies maybe investing in a lot of different projects and then they know that they invest in five and out of five just one will come back to fruition. How do we figure out when to impair, how to impair, et cetera. So practical challenges will arise as well. So, because of this, kind of, we feel that although it's not ideal, and although it does result in differences with companies that are getting acquired, but we probably would never get to a point where we will fully eliminate those differences and where we are today would seem like maybe that's a lesser of the sort of multiple evils that we have to look at. Maybe one other side comment is, right now, we have two different models for capitalization of software costs, internal use and software to be sold, et cetera, and that feels really odd in practice and people don't really understand why two dramatically different models with dramatically different results should exist. Thank you.

Colin Walsh: We are a bit short on time and we have a fair number of cards up so we'll try to get as many as we can, but to be respectful to all those that have cards up and if you could try to be just incremental and brief that would be much appreciated.

Scott Lehman: Great thank you. I'll be very very quick. You know this is one of those projects that I think would cause the board to have to go back again and revisit its conceptual framework. I'm going to borrow a quote here from concept statement number one, objectives of finance reporting by business enterprises, as amended. It goes on to say that financial accounting is not designed to measure directly the value of a business enterprise but information may be helpful for those who wish to estimate its value. So I know we kind of have this bridge or this gap that we need to bridge between what companies are worth versus what, what they kind of show from a historical cost basis. You know, I think some of the issues and some of the things that stymied the FASB's initial decision, I think back to 1974, and again, revisit it again, in a Special Report in 2001. You know some of the issues with respect to measurement and measurability in future economic resource correlation and matching, I think a lot of

those still hold true today, so there's certainly a lot of work ahead for the staff and the board if they intend to head down this path. But as somebody who spends a lot of time with private companies as well as small to mid-size public companies, the ability the board desires perhaps to go down this path of recognizing these intangibles could cause a lot of problems. Thank you.

Just real quickly, I just wanted to present the TIC side and then I'm going to conclude with my own personal thoughts. So basically TIC was supportive of targeting disclosures over recognition and measurement. We had listed some examples in our comment letter so I won't go repeat those here, but then also if the Board did decide to go down and pursue recognition, we were thinking that maybe starting with IAS thirty eight would be the best place to start initially. And then on a personal note, personally I just think that you know the cost approach from a disclosure perspective would be more appropriate in the financials. I'm opposed to recognition of internally generated intangibles, I think that if we even record them, you know, that's not appropriate, let alone at fair value. If so then we're going to start going down the path of.. it will just be disastrous.

Responding to your comment for the costs about adding disclosures, and you said the cost approach, total R. and D. for the period and the cost basis is a require disclosure. What do you think could be added as a disclosure then?

Scott Lehman: Well I was referring to additional items that aren't currently today.

Yeah, I guess what do you think could be disclosed that would be helpful.

Scott Lehman: It would almost be more of a qualitative aspect of the intangible and the potential surrounding the future cash flow.

Colin Walsh: Mitch and then Bob.

Mitch Danaher: So this category didn't get a lot of enthusiasm among the preparers that I talked to, primarily for reasons that have been covered earlier about you know capitalizing things that are highly uncertain if you think it's less than fifty percent probable that you're going to produce future cash flows out of the investment. I feel really reluctant to put it on the balance sheet because it creates all kinds of issues with impairment and you know, the trouble with impairment is, when was it impaired? And adding to that, you know, uncertainty about tracking that and knowing when the right period is to do that. That is a big problem, but, you know as you move closer to the development side, I think there's some merit to that suggestion that was made earlier about maybe conforming to the IAS standard because I think those concerns about research, capitalizing research, ameliorate and it's more like building on proven technology.

Colin Walsh: Bob and then Jack.

Bob: We did not have intangible assets as a top priority, not because we don't think that there are vexing issues here, but because we didn't see a clear vision on how to deal with the root issues of what to capitalize and how to re-measure. What I wanted to add, was so if the board did decide to pick this up and decide to do what seems to be the most advocating which is start small like with development that would be fine, but our warning would be, but you got just also keep an eye on the bigger picture because I think this project more than any of the others has the potential for creating cross-cutting

inconsistencies with tangible assets, financial assets, and services and then if we create these inconsistencies that would be then be fodder for the next invitation to comment.

Jack Ciesielski: OK I'll be brief. Somebody has to stick up for fair value. So that's why I'm here. We supported recognizing intangible assets at fair value, and for a couple of reasons. One, it happens in acquisitions now. You can take the standpoint that we're not having trouble recognizing intangible assets when one company acquires the other. It's been in GAAP since 2000. Go through, look at the balance sheet, come up with a fair value for these intangibles that you purchase, record them, and then impair them when they're indicated to be impaired. I feel like we can actually do that as preparers taking the standpoint of somebody that's acquiring the company and making a value of the intangible assets owned. We use a third party point of view when we're looking at asset retirement obligations. And that's a self recorded obligation as well. A self reported obligation, and we could have self reporting of fair values of intangible assets to, the re measurement of them on an annual basis like we re measure pensions, find a place in the income statement for the re measurements so that they have a different weighting in the valuation of the earnings by users. I think it can be done. I think if you go down the cost accumulation approach, then you're getting into all the threshold problems of, when does it become an asset, you know what stage does the life of an asset begin and when is it impaired. And I think it's actually easier if you're taking the standpoint of a third party acquirer. Looking at the balance sheet and trying to come up with a fair value for them the way that that acquirer would. So anyway.

Colin Walsh: Christine and then Esther you have the last word.

Christine: Ok, very quickly. I've heard a number of people say that the conceptual basis for measurement that the conceptually correct measurement for intangibles is fair value and I'm just wondering if someone who holds that view can explain to me what the conceptual basis is that they have in their mind for fair value for intangible assets.

Anybody. Ok, the conceptual basis for fair value is it more accurately reflects something on the balance sheet that's a future benefit other than zero. Expensing R. and D., expensing the investment in marketing or the investment in a patent right now says nothing on the balance sheet. And if those things are going to be driving values, driving the cash flows of the firm and then the resulting values of the for afterwards, it would be good to have that in a place where people see it rather than having people guess.

That's an argument for having fair value, something other than zero, but it doesn't tell me why cost versus fair value or fair value versus cost.

Well, first of all we've got relevant fair values on the balance sheet for companies that have been acquired by other companies.

Well that's actually cost to them.

It's cost, but at the time it was fair value.

Yeah but so when you buy property, plant, and equipment at the time it is fair value so we don't re measure or revalue property plant equipment to fair value.

So would you argue that the whole balance sheet should be at fair value?

That would make me happy.

And would you include internally generated goodwill at fair value so that the balance sheet equates to the value of the firm?

Depends on how you're going to come up with that internally generated value for goodwill.

OK.

Colin Walsh: Esther the last word, for today anyway.

Esther Mills: Not without its challenges, I think actually cost tracking is probably the least challenging aspect if you went that route. I firmly believe that at least some of these, the more tangible of the intangibles, meet the definition of an asset, which is a probable future economic benefit controlled by an entity as a result of past transactions or events. I think IAS 38 sounds appealing but I'm not sure it would really result in meaningful improvement, but I think the most important thing is to put it on the agenda, because as our economy moves increasingly to an information based economy, 2016 is a very different world from where we were in the 1970s.

Thank you. Lucy.

Colin Walsh: Aleks, really quick and I really have to move on.

Aleks Zabreyko: So what we see from the experience, because one of the capitalization criteria is ability to measure reliably development expenditures, we see that this really results in some companies. They choose to have ability and they capitalize, other company's exercise discretion, they say we don't have tracking and it would be a very inconsistent model.

Lucy: I struggle with my opening statement, should I say saying last but not least or last also least topic. Well, we figure out later. Today the accounting model for pension OPEB has three fundamental features. One is delaying recognition of certain events. Second is reporting net cost. Third is offsetting liabilities and assets. As Jim mentioned before a final ASU will be out in January two thousand and seventeen, and that will change of the features of reporting net cost. Does everyone want more changes in pension accounting? From what we heard from the comment letters, the majority of respondents did not rank this topic as a higher priority. According to them the current pension accounting model is well understood and the future benefits of a significant amendment may be limited, but a few that you rank this topic as higher priority stated that certain elements in the accounting for pension OPEB do not necessarily provide faithful and useful information. Most of the respondents support targeted improvements including the issue one and two in the I.T.C. if the board decides to add this topic on the agenda. So the questions we want to ask you are, is this topic a major financial reporting issue? If the board pursues target improvements which areas are most in need of improvement? With that I open up for discussion. Thank you.

So I feel almost obligated to go first on this topic because in some ways my career has been defined by defined benefit pension accounting in a lot of weird ways that I won't bore you all with today. But you know we did not rank this as a high priority for the board and I think really one of the themes that we had in our our letter overall was you have to really be convinced that there is going to be a significant improvement in financial reporting to outweigh the cost of change, especially for, you know, a model that at least I believe is comprehensive. Yes it's probably not a model that we would arrive at if we were

setting the standard today with delayed recognition and all of the other elements that really only an accountant could love, like I do. So I think that's why we didn't rank it as a priority. I do think if there were you know two specific things that maybe would be marginal improvements and without fundamental reconsideration, we would propose allowing, sort of almost, an election without needing to justify preferability of immediate recognition and also include in the immediate recognition the cost of prior service cost or plan amendments which you know right now you cannot immediately recognize. So for those companies that wanted to move to sort of a current measure through the income statement, they could. And the other one would be, I do think there are some modern plan designs that really weren't well, or were not well contemplated on when the statements were originally issued. The so-called cash balance plans, or I think what the paper may refer to as hybrid plans, so something that would be a better reflection of the economics. I think there are measures for those plans and they've been shoehorned into the existing model, but that's probably an area where there could be some marginal improvement made, but a fundamental reconsideration probably doesn't seem like it's worth the effort.

Colin Walsh: Paul and then Adam.

Paul Beswick: I think we are in many of the same spots, just not trying to defend any aspect of pension accounting, and Pat I don't have the history that you do with pension accounting, but when you're looking at finite resources we think there's a number of other projects that are much more valuable from the board's time, and so given the fact that, you know, pension plans are decreasing overtime and the number of pension plans are going away. And it's just not a major financial financial reporting issue. Though the one thing that gives us a little pause are the hybrid plans, and about whether we're doing a little too much shoehorning and whether we should have some specific guidance on those, but I wouldn't advise taking on a major project to fix pension accounting. we have more or less similar views, trying to be repetitive, but my expertise in pension is that I hope to have when I retire. So I don't know a lot about them, but I did spend time talking to folks in our office that do. We have the same answer, no one felt a lot of urgency for an overhaul here. Two comments, one, if there were going to be targeted improvements eliminating some of this moving in the corridor and just going to a full mark might make sense, and part of the reason for that is that it would then start pulling away from some of the stuff that's in O.C.I. and we didn't spend a whole lot of time talking about that, but I'm kind of in the camp that there's not a lot of value in O.C.I. not a lot of principle there, but recognizing there are some very real tradeoffs that get people to that answer. You know cash flow hedging and some others. And so if we can't just do away with O.C.I. out right maybe we can chip away at it.

Adam Brown: All right. The CFA institute did not believe that this was one of the top priorities, they considered it a lesser priority, but they did believe that it was in need of repair. The delayed recognition of gains and losses causes distortion in gains and losses of the current period in general. And we would support anything that eliminates the smoothing effect, and also, you know, we like immediate recognition and narrowing of choices in presentation. Elimination of delayed recognition of also, the elimination of O.C.I. instead of you know multiple income statements. Just one income statement. I would also like to add that there probably aren't new defined benefit plans being created all the time like they did fifty, sixty years ago, but there are more of them out there now than there were ten years ago, at least in the S. and P. five hundred. I just would like to point out that because of spin offs and carve outs and taking away plans from one company and putting them in another, they're like amoebas. They've divided and they're everywhere in the S. and P.. You know in two thousand and fifteen, there

were three hundred and two firms at the end of two thousand and fifteen with a projected benefit obligation in the S. and P. five hundred. In two thousand and six there were two hundred eighty six. So you know slim margin, but the number is going up. It's not like the whole pool of pension assets is increasing, it's just dispersed among more companies now. So it becomes more of a prevalent problem in financial reporting as users look at more financial statements for more different companies. And also on the subject of OPEBs, it's hand in glove with pensions and we know that as far as the accounting goes, but you know some of the quirks that have been developing over the years are that we have a lot of companies with OPEB with negative OPEB costs while, you know, the cost of health care and health care premiums for insurance companies is a national topic of debate. So we think there are some things wrong that need to be addressed, but probably most of them can be taken care of by eliminating some of the smoothing and choices. So we have made it through the the four major topics. Did you have anything else Adam? No. We made it through that the four major topics of the ITC and we have, sorry Bob.

I'll just add one thing in the contemplation of the priority for pension. It's a high priority for preparers and in nonprofit sectors. Simply because it tends to take up a third of my financial statement audit, in terms of bulk of words and disclosures. So simplification would be great, and getting rid of O.C.I. would be great as well and throwing it into non operational, and the contemplation of where that measure is I'm not sure, but most of the plans are frozen and yet they still take up thirty percent of the financial statement disclosure of the entire financial statements for many companies.

Colin Walsh: We have two final topics to discuss in the last fifteen minutes or so, I think will group them together since we may only have time to go around the horn one more time. So those two topics are, one path dependencies and something we had mentioned towards the beginning of our discussion where this would be a good chance to give the board some feedback on how should we go about managing change. How should we learn from our past projects. So in terms of paths dependencies by way of example, should the FASB we make improvements to the conceptual framework before thinking about making any improvements to intangibles or liabilities and equity. Should the FASB, build a better income statement with Lauren before considering whether to change the number of assets and liabilities that are measured at fair value. So that's the notion we're trying to get at in terms of path dependency and also providing your feedback in the context of the current pace of change, how we balance the various suggestions you all had today with the reality of companies and auditors being in the midst of some potentially major financial reporting changes with revenue leases and credit impairment. The last topic on the agenda where we'd appreciate any input you have is on other areas for financial reporting that are beyond the four major topics that we discussed in the ITC. And in the interest of time, maybe for the purposes of today's discussion, we would be interested if there are any issues that you have beyond those four that are in your, let's say ,one or top two ranking, many of you and many others that submitted comment letters had some great suggestions. I don't know that they were broadly in their top categories but still some great suggestions. I think as you all know the door is always open here, so there's many other chances to talk about some of those issues, but if you if you did have something that you think was really high on your priority list that we haven't yet hit, you know, by all means please share that. Paul I think you won.

Paul Beswick: We spent a lot of time in our letter talking about path dependency so I'm not going to go there. In terms of pace of change, I think this is the most critical issue in terms of what's going on in the broader financial reporting market, and you know people are spending a lot of resources and a lot of

effort trying to implement revenue, leases, credit impairment and you know, I think there's a perception or a thought that well once they get those implemented they can just jump into the next information implementation project, and you know I think there is general concern out there about, you know, having preparers and auditors catch their breath at some point. And not trying to say that these projects aren't important, but you know you've got a system that is getting taxed pretty heavily right now. And so as you're thinking about these projects and about timing, it would be really helpful if you do keep that in mind. So that's my only point on pace of change. Jeff and then Adam. I personally agree with Paul's comment about the pace of change. I think that's really important to keep in mind. From a small firm perspective you know, there is burnout considerations and so forth. The technical issues committee primarily had identified three additional reporting issues that we would like the board and staff to at least consider at some point. The three relate to, one relates to employee share based payments for private companies. There's a couple of specific items in our comment letter, primarily disclosure relief. The second item is equity method simplification for private companies accounting for basis differences. I know that there was, I thought there was a project at one point, but we would like the FASB to at least re consider targeted improvements in this area. And then lastly the consideration for a possible disclosure relief for fair value disclosures as it relates to held to maturity debts by the companies. Thanks. Adam and then Erik.

Adam Brown: We made the same comment around pace of change and so, the path dependencies, I think the conceptual framework in an ideal world would be finished first or at least you know slightly ahead of some of the other big projects that we've talked about if for no other reason it kind of establishes a fair way to assist the Board as they make decisions at a standards level. how does that square with what was decided in the framework, and the time it would take to do that I think would help future standard setting, but it would also give people the time that they need to get through some of the big implementation projects. So I think there's a little bit of a symmetry on that one. The other comment around pace of change, you can kind of think of the agenda or at least idea maybe in three buckets, right, how does it get on to the agenda, then you have the project, and then you have the implementation phase. And so maybe re-challenging what comes onto the agenda in terms of the criteria, and I know you guys have criteria that you think about. When I step back, I look at just two examples, the recent cash flow project was very targeted, very practical and it touched on a lot of different companies that will be impacted, and the other I kind of scratch my head on defining the customer for service concession arrangement. While its a relevant question to some, by no means as prevalent as cash flow, and so when we challenge where do we actually need to change GAAP I think the bias for the last ten years has been to react with standard setting. And so maybe taking a look at what are we going to allow on the agenda, so that when you make that decision, you can focus with the resources that are there. So I think those things will kind of all go together with pace of change. In terms of other projects, the only one that we mentioned in our letter potentially, and this is not at the top, is the basis that there are some questions out there. The practical place I.C.M. is in joint ventures. You know a lot of big companies will come together and go work on some new project. Most of the guidance that's out there is on the investor site, including the new one on 610-20. Some accounting down to the entity level warrants consideration.

Erik and Stephen.

Erik Bradbury: So we do think that there's other projects that are more important right now than the four we've talked about today. I guess the only certainty, regardless of which project is taken on, is that

it likely will add to disclosures and that's actually one of our recommendations is that you know we do feel that the board should consider the fundamental premise of its disclosure framework. Right now everything around disclosure relies on the voluntary efforts of companies to make determinations about what to disclose and if it's otherwise required on the basis of materiality, eliminating it from disclosure is a call that they make. So we do think, and there's movement on the SEC side as well. they've proposed in their update and simplification to pass along certain requirements to the FASB for consideration, as you know. So we think that's really important especially as we move forward and financial reporting becomes a better vehicle for communicating financial information to investors. So we feel like that's really important, but more broadly, not on a standard by standard basis, but broadly looking at disclosures to see how we can improve the disclosure framework. I thought one of the best things the FASB did recently was the hedging proposal. It was narrow in scope, it really, I think, I was at the Round Table and nearly everyone was supportive and partly because it was all in the effort to really recognize many of the risk management strategies that are used today in a very simplified way. We did say in our letter however, that you know it was important to get that out, we feel like that there should be a phase two. It took a long time to get derivatives on the agenda in the first place. The concern is perhaps if it doesn't, if it goes back and there's not a phase two at all, then it might not get picked up for a long time and we do feel like, at least from our preparers, we hear that there are many risk management strategies that this narrow scope improvement wouldn't capture. And we talk about some of those in our letter, but part of that is that we feel it's important to reach out to those constituents to understand what are those other strategies where they feel like that the guidance could be expanded. I think it's, and I agree with some of the comments, I think it's important from a preparer perspective I don't know the implementation of these new standards if any of the projects get picked up are our concern, because likely they wouldn't get implemented for years and years. But it is important to have preparer input along the way. I think lease accounting is a perfect example where it went one direction. Preparer input certainly helped craft where it ended up today. And that's where they're resource constrained. If they're focused on implementing arguably what is the most comprehensive accounting change in recent history, they need, you know, their input is important they need to be able to allocate resources to the process. And then finally, high on our list is, and we said this in our letter, but interim disclosures. That's an area where there's a lot of burden, compressed timeline, not much guidance around interim reporting, interim disclosure, and we think that could be helpful.

Stephen: I just wanted to come at the disclosure issue from a little different perspective. I know the board put out a pensions disclosure or pensions E.D. earlier in the year and backed away a little bit from setting minimum disclosures or to encourage disclosure effectiveness for companies to work their disclosures in a way that would make them more effective. I just think that the board has to be in the business of setting minimum disclosure requirements I don't think the board can get away from that and I'll give one example. And I don't mean to pick on Mitch here, but it's the only example that I have right now. In G.E.'s 2015 annual report they took four pages of pension disclosures out of the pensions footnote and put it in supplemental information along with derivatives disclosure from financial instruments. Now when I look at supplemental information I think optional, right, and maybe that's not what was intended, but my concern is if you back away from minimum disclosure requirements you're going to find things being cut back to a level that creates a lot of problems I think for the financial markets down the road. And so I do think that the board has to be in the business of setting minimum disclosure requirements however tough that might be.

Paul Beswick: I want to commend the FASB on the Invitation to Comment. I thought it was very well done with lots of thought. I also appreciate the seeking of broader input on the different projects as well as pace which we've been just been talking about. On pace, I think we're all sensitive to, right now, it's with the three major projects just issued and now being implemented. There is a lot stress, but that will gradually ease and there's on the other side, in order to stay relevant, we need to continuously improve. So there is this pressure from both sides. So fortunately or unfortunately I'm sorry ,you have to play Goldilocks and you're going to figure out what is the right pace, but I do recognize that there is pressure on the... we need to improve. Other areas, so things that we thought about are cross-cutting issues. Issues that are treated inconsistently over several pieces of the Codification. Such as variable consideration, both from the receiving and the paying side, as well as control. We have different, same concept, but different definitions of control in a sale financial assets, and just 606 and revenue recognition, and consolidation.

Colin Walsh: Mitch.

Mitch Danaher: So I want to do with Paul's remarks on pace of change, and Erik's remarks on potential new projects. Particularly interim disclosure in phase two on hedging. On disclosure effectiveness, you know, I think it's a good opportunity to just take a step back and ask yourself where you want to end up with this project because I don't think the current model that we have a sustainable. The rate at which we add disclosures and the natural reluctance of preparers when presented with a list of required disclosures to choose not to disclose things is in our regulatory environment is wishful thinking and I'm not sure that at the end of the day you end up with the best result. In fact I would say that you've capped the result that you're going to get. You've defined the disclosure set by virtue of what your standard setting process has produced over the last thirty five, forty years. It's a little bit like giving somebody a multiple choice test and what you really want is an essay, and you want it to be an essay about the most relevant things about the company, and that's not what you get.

Colin Walsh: Kevin we will give you the last word.

Kevin: Yeah this won't be the first time that the S.E.C. person has kept people late on a Friday because of comments. So I apologize. I'll try to be quick. I just want to again, I think echo some of the comments made about me pace of change. I agree with that I do think one thing that I've observed today obviously is that there are no easy answers and I think there's a lot of research work that will need to be done and certainly that work can continue. I appreciate your comments at the beginning about continuing to support the implementation activities. Obviously that's critical as companies are facing those challenges today. But certainly a lot of opportunities to do research and seek out stakeholder input, but also appreciated the comments about stakeholders not having, maybe not having full resources to respond as timely as maybe they would. So certainly I think keeping that in consideration during the process. That's all I have.

Colin Walsh: Great well thank you very much everyone again for coming. We really appreciate it. Really appreciate your feedback. Happy holidays.