

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members

**From:** Debbeler, ext. 353

**Subject:** Minutes of the September 23, 2009  
Board Meeting: Financial Statement  
Presentation

**Date:** October 26, 2009

**cc:** FASB: Golden, Bielstein, Stoklosa, Posta, Chookaszian, Gabriele, Sutay, Petrone, Cafini, Cappiello, Hales, Milne, Debbeler, FASB Intranet; IASB: Leisenring, Gomez, Schmidt, Perkovich

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.*

<u>Topic:</u>	Financial Statement Presentation
<u>Basis for Discussion:</u>	FASB Memorandums No. 67, 67A, 67B, 67C
<u>Length of Discussion:</u>	8:00 a.m. to 10:00 a.m. (Eastern)
<u>Attendance:</u>	
Board members present:	FASB: Herz, Linsmeier, Seidman, Smith, and Siegel IASB: Leisenring
Board members absent:	None
Other participants:	IASB: Gomez, Perkovich (by phone)
Staff in charge of topic:	Schmidt (IASB), Milne, and Cappiello
Other staff at Board table:	Golden, Petrone, Cafini, Hales, C. Smith, Debbeler

### Summary of Decisions Reached:

The Board began deliberating the proposals in the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation*, making the tentative decisions described below.

- (1) An entity would be required to present financial statement items in sections that distinguish between business activities (value creating activities) and financing activities (funding of that value creation) in each of the financial statements, as proposed in the Discussion Paper.
- (2) In a change from the Discussion Paper, the Board agreed to be more specific in defining the *financing section*. The Board directed the staff to draft a definition of the financing section that includes at least two components: treasury assets and financing liabilities. That draft definition will be considered at a future meeting.
- (3) The Board decided to retain an approach to classification within the *business section* that is based on how a reporting entity organizes its activities and how it uses its assets and liabilities. In a change from the Discussion Paper, the Board decided that there would not be an operating or investing category within the business section. Rather, additional groupings of information within the business section (that is, categories) would reflect the facts and circumstances of that entity and would be left to management's discretion. At a future meeting, the Board will discuss application guidance to help management determine meaningful groupings of information within an entity's business section.
- (4) As proposed in the Discussion Paper, the Board would require an entity to present information about discontinued operations in a separate section in each of its primary financial statements (except the statement of changes in equity).

- (5) The Board decided that an entity would *not* be required to present information about net debt in its financial statements. The Discussion Paper did not address presentation of net debt information.

#### Objective of Meeting:

The objective of this meeting was for the Board to:

- (1) Discuss the management approach to classification, decide how to classify information within the primary financial statements, and decide how to define the financing and business sections
- (2) Decide whether to retain the proposal in the discussion paper to present discontinued operations in a separate section in each financial statement
- (3) Decide whether to require information about net debt to be presented in the financial statements.

The objectives for this meeting were met, with the exception of definitions for the business and financing sections, on which the staff is going to do more work.

#### Matters Discussed and Decisions Reached:

### **FASB Memorandum #67A--Classification: Definitions and Management Approach**

#### **Issue 1: Management approach to classification of assets and liabilities**

1. Ms. Schmidt began by discussing the management approach to classification. She explained that many respondents to the discussion paper interpret the management approach to classification to be either a “free choice” or the same as the management approach used in segment reporting. She noted that the staff intend to clarify in the exposure draft that an entity is required to make classification decisions based on how that entity organizes its activities and uses its assets and liabilities. She noted that application of the management approach could be altered based on the definitions, which will be discussed further as the project

continues deliberations. She noted that if the Board intends to define the financing section narrowly, management discretion will be most important in deciding how to group and label different strands of value creation within the business section. She asked if the Board had any specific comments about the management approach.

2. Mr. Smith asked if it would be appropriate, under the staff recommended definitions and management approach, for an entity to break out its operations into varying “segments” (not intended to have the same meaning here as in the segment reporting footnote) on the face of the financial statements. Ms. Schmidt responded that it would be acceptable, as long as the separation represented distinctions between different strands of value creation.
3. Mr. Siegel clarified that the discussion regarding classification and disaggregation of information between the face of the financial statements and the notes, which was discussed at the Board meeting on September 21, 2009, was not part of the discussion today about management approach and definitions. Ms. Schmidt clarified that no, it was not, and that the staff plan to discuss classification and disaggregation in October and November.

## **Issue 2: Separating business activities from financing activities**

### Staff Recommendation

4. Ms. Schmidt stated that the staff recommend that the Board reaffirm the preliminary view expressed in the discussion paper that each financial statement should distinguish the business activities of an entity from activities that finance those activities. She noted that users will still rearrange information to suit their needs, regardless of the Board’s decision, and that disaggregation criteria may be important in order to facilitate easy adjustment of reported amounts into user-preferred metrics.

### Board Vote

5. The Board voted to support the staff recommendation of separating business from financing activities. All Board members agreed.

### Board Comments

6. Mr. Linsmeier expressed support for the separation of business activities from financing activities. He stated that he perceives one of the challenges to be whether financial assets are included in the financing section. He noted that he would support the inclusion of financial assets in the financing section, as he believes users are interested in internal, debt, and equity components of financing.

### **Issue 3: Defining the financing section**

#### Staff Recommendation

7. Ms. Schmidt stated that the staff recommend that the financing section be re-labeled as “non-equity sources of funding” and that it be defined as financial liabilities that have an agreed upon schedule of repayments with an interest component, which is either implicit or explicit. She noted that items directly related to those financial liabilities, such as fees and derivatives held as part of an entity’s non-equity sources of funding, regardless of whether they were assets or liabilities, would also be classified in that section. She noted that the recommendation was based on input from the analyst portion of the field test as well as the project’s working groups. She noted that constituents have stated that they would like the Board to be very specific about what the financing section represents so that the section can be populated consistently by entities.

#### Board Vote

8. The Board decided that the financing section should be defined more specifically than in the discussion paper. The Board asked the staff to draft definitions based on their discussion that would include financial liabilities and treasury assets. All Board members agreed.

### Board Comments

9. Mr. Smith stated that he believes the recommended definition is highly dependent on the decisions made in the liabilities and equity project. He noted that he thinks the recommended definition, combined with the discussion paper, would exclude perpetual preferred stock.

10. Ms. Schmidt noted that defining an upper and lower boundary around the financing section will leave “hanging chads” somewhere, and that the solution for those items was not obvious. Mr. Herz suggested including several types of debt or equity instruments in the financing section, clearly labeled. He noted that the distinction that those items are used to finance value-creating activities might be more important than the distinction between liabilities and equity. Mr. Herz identified several issues: first, separating business from financing; next, deciding about items whose classification is unclear, such as pensions and asset retirement obligations (AROs); and last, deciding what to do with internal cash or other treasury assets.
11. Ms. Schmidt noted that the IASB’s vote, which was narrowly in favor of the staff recommendation, was essentially a vote for narrowing the financing section. Ms. Schmidt stated that she expected to do more work to refine the specific definition of the financing section. Ms. Schmidt noted that the IASB voted not to use the staff’s recommended label, *non-equity sources of funding*.
12. Ms. Seidman stated that she agreed with Ms. Schmidt and the IASB in saying that the Board needed to provide a more specific definition of the financing section in order to provide an “anchor” in the model, and in retaining the label “financing.” Ms. Seidman also stated that she was more concerned with the upper boundary of the financing section, between business and financing, and less concerned about the boundary with equity. Ms. Seidman noted that she believes enough guidance should be issued to ensure that items for which opinions about classification differ, such as pensions, could be readily identified.
13. Mr. Siegel stated that he agreed with Ms. Seidman that the Board should narrowly define the financing section and provide guidance about specific “tension points” so users would know where to find those items. He noted that he believes internal financing and treasury assets would be one of the largest “tension points,” but that he does not know exactly how to craft an adequate way to identify them.
14. Mr. Herz noted that the Board could either specifically identify where treasury assets should be categorized or provide a principle that directs management to

separate cash and equivalents that support the operating needs of the business, with the rest labeled as internal financing. Ms. Schmidt noted that one specific allocation methodology could be cash supporting operating needs is equal to the difference between receivables and payables. She then noted, however, that one of the problems with an allocation method is that an entity's intentions can change, causing the allocation at one point in time to become irrelevant.

15. Mr. Linsmeier stated that he believes how the cash is managed impacts whether it is a source of funding or available for use in a particular business unit. He stated that he would use "how the cash is managed" as a starting point for determining treasury function as more likely to be part of financing. Mr. Smith disagreed, stating that he did believe where the assets are managed within the business should not matter for classification.
16. Mr. Linsmeier suggested defining the financing section in pieces, such as equity, financing liabilities, and treasury assets.
17. Ms. Seidman asked if a hedge of debt would be classified in the financing section, and Ms. Schmidt answered yes, that linked presentation would still be used.
18. Mr. Linsmeier stated that he did not believe the interest component of the staff's recommended definition was necessary, since all time value of money circumstances have an implicit interest component. Ms. Schmidt stated that the note about explicit or implicit interest was an attempt to capture a zero-coupon bond, and that she realized the definition was not perfect as it was written. She noted that all liabilities have an explicit or implicit interest component and all liabilities have a schedule of repayments, even if it is only one instance, so that the distinction as written comes down to the definition of *financial liabilities*.
19. Mr. Herz noted that using "financial liabilities" as the definition of the financing section becomes problematic when considering pensions and AROs. Mr. Herz stated that he believes there is a distinction between pension obligations for vested and unvested benefits. Mr. Leisenring noted that there might be a similar distinction for AROs. Ms. Seidman stated that she believes the discussion could be limited by identifying which types of counterparties were to be considered.

20. Mr. Linsmeier suggested perhaps the differentiation could rest on items that were or were not tied to value creation, using the distinction between accounts payable (which he would classify in business) and bonds payable (financing) as an example.
21. Ms. Petrone asked if the Board was in general agreement about the liabilities that should be included in the financing section, and the Board members indicated that they were. Mr. Smith noted that the details of the definition were important.
22. Mr. Linsmeier noted that the definition of *financial liabilities* has a very specific connotation within U.S. GAAP. He noted that leases, for example, might be considered a financial liability but have been excluded from the scope of other Standards related to financial instruments. Ms. Schmidt noted that the discussion paper definition of *financial liabilities* was intended to be “meets the definition of financial assets and financial liabilities as in respective GAAP”. However, in the comment letters, respondents were confused whether to apply the definition in GAAP or consider the scope of a particular financial instruments standard.
23. Mr. Smith asked if the staff is planning to address financial institutions separately, and Ms. Schmidt answered no, they were not. Ms. Schmidt clarified that a rider should be attached to the financing definition that relates to the entity’s intent, which says something to the effect of “...and you’ve entered into this transaction for the purpose of raising capital.” She noted that the rider would provide some clarification around what the staff intended, and that financial institutions might not classify anything in the financing section.
24. Ms. Seidman suggested that one distinction might be, for example, that dealing with a customer in their capacity as a customer is not a financing transaction. Mr. Linsmeier observed that that statement could be expanded to include suppliers and employees as well. Ms. Seidman noted that this distinction might not work for leases.
25. Mr. Linsmeier noted that ITAC and the CFA Institute suggested that the following transactions cannot be financing: (a) financing related to suppliers or customers, or (b) financing that is off-market terms, since they are likely to be tied to some other



operating activity of the company. Ms. Schmidt noted that sometimes one entity can behave as both a customer and a supplier, and noted that a strict reading of ITAC's position would exclude all dual-purpose items from the financing section.

26. Ms. Petrone asked the Board to consider the question of whether assets should be included in the financing section. Mr. Herz stated that he supported including assets in the financing section but was concerned that it might not be practically feasible, in which case he would support highlighting them somewhere in the business section. Mr. Siegel stated that he agreed. Mr. Linsmeier stated that highlighting these items in the business section would still require them to be well-defined.
27. Ms. Petrone noted that the IASB did not address this question because they agreed to support the staff's recommendation about the definition of the financing section. Ms. Schmidt noted that she was planning to discuss classification of treasury assets with the IASB members that dissented to that vote, as some interest had been expressed around highlighting those items within the business section.

#### **Issue 4: Defining the business section**

##### Staff Recommendation

28. Ms. Schmidt stated that the staff recommend that the business section be re-labeled to the "operating section" and that no additional categories are defined for that section, with the Board instead providing application guidance to help management determine meaningful groupings of information within an entity's operating section. Ms. Schmidt noted that the IASB voted unanimously not to rename the section, mostly due to connotations around the word *operating*.

##### Board Vote

29. The Board decided that the label "business" be retained, and that there would not be an operating or investing category within the business section. Rather, additional groupings of information within the business section (that is, categories) would reflect the facts and circumstances of that entity and would be left to management's discretion. All Board members agreed.

### Board Comments

30. Ms. Seidman asked about the IASB's vote, and Ms. Schmidt stated that it was 8-7 against the staff's recommendation, but that she perceived the overall message to be "wait to see what the staff develops."
31. Ms. Seidman stated that she supported allowing management to classify items in the method they think is best and would like the guidance to specifically address the items whose classification was unclear, such as pensions.
32. Mr. Siegel and Mr. Linsmeier stated that they had some sympathy for being more prescriptive within the business section, but expressed concerns about creating the definitions of the categories. Mr. Siegel noted that one of the reasons he was considering being more prescriptive was to ensure that the sub-sections are tracked through the statements in a consistent manner. Ms. Schmidt noted that the sections would be required to track through the statements, but that there might be issues with allocations or items whose effect on the other statements were unclear, such as pensions. Ms. Schmidt stated that one way might be to specifically identify the items that are most difficult to classify, such as pensions and asset retirement obligations, within the business section so that they are readily identifiable.

### **FASB Memorandum #67B—Presentation of Discontinued Operations**

#### Staff Recommendation

33. Ms. Milne stated that the staff recommend that the Board retain the proposal in the discussion paper that an entity present information about its discontinued operations in a separate section in each of its primary financial statements, except the statement of changes in equity. The staff also recommend that the Board not prescribe the level of detail that an entity should present about its discontinued operations and where that information should be presented (that is, in the financial statements or in the notes to those financial statements).

#### Board Vote

34. The Board supported the staff's recommendation. All Board members agreed.

### Board Comments

35. Ms. Seidman asked for clarification about how decisions made in this project relate to the Board's project on discontinued operations. Mr. Golden stated that the other project relates to improving the definition of when a discontinued operation would be reflected. He stated that the financial statement presentation project's decisions related to the display of discontinued operations, however it is defined.

### **FASB Memorandum #67C—Information about net debt**

#### **Issue 1: Usefulness of information about net debt**

### Staff Recommendation

36. Mr. Cappiello stated that the staff recommend that the Board require information about net debt to be presented in the financial statements.

### Board Vote

37. The Board did not support the staff's recommendation, which was to require disclosure of net debt information. All Board members agreed. Because the Board disagreed with the first issue, they did not discuss Issues 2 and 3.

### Board Comments

38. The Board asked about the outcome of the vote on this issue at the IASB. Ms. Schmidt stated that the IASB voted to require net debt information to be presented in the notes to the financial statements, and voted to tie half of the definition (the "debt" component) of net debt to the financing section. The IASB decided to leave it up to an entity to determine which assets are available to service that debt. Ms. Schmidt clarified that the only firm decision was to require net debt as a disclosure item, which is in agreement with the staff's recommendation on Issue 1.
39. Mr. Smith asked for more information about the companies that present this information in Europe. Mr. Cappiello stated that it was prevalent in Germany, the U.K., and France, and Ms. Petrone added that some U.S. companies do provide this information. Mr. Cappiello stated that the staff attempted to recreate the net

debt disclosure for some entities and was only able to do so for some of the companies, which would suggest that the information is not necessarily duplicative from other parts of the financial statements.

40. Mr. Cappiello stated that equity was included in the net debt calculation for one of the companies that the staff considered, and Ms. Seidman asked for clarification on why that was the case. Ms. Schmidt answered that there are components of equity with debt-like characteristics, which entities assert that they manage as debt.
41. Mr. Smith asked if this was primarily a European convention, and the staff responded affirmatively. Ms. Smith noted that U.S. companies that present this information usually do so for a reason, such as wanting to highlight something about their financial statements. Mr. Cappiello stated that entities that provide this information and users who support it believe that it provides better information about the changes in leverage and includes information about non-cash increases in debt.
42. Mr. Herz stated that he would prefer to allow U.S. companies to present this information if they chose to, but not require it, since the Board was not hearing demand for this from the U.S. analysts.
43. Mr. Leisenring stated that he does not see a reason to require this disclosure if it is not used in the United States. Furthermore, he stated that he believes that the information included in this disclosure overlaps with management's ability to disclose what they find meaningful in other places, such as management commentary.
44. Mr. Golden asked if the desire for net debt information stemmed from wanting a consistent definition of net debt or wanting net debt to be provided where it currently is not. Mr. Cappiello stated that he believes users want the disclosure to be mandated for both reasons, along with consistency and comparability between companies.

45. Ms. Seidman asked about the level of detail provided along with the net debt disclosure and whether there was information about jurisdictions or restrictions on the movements of cash or assets. She stated that the disclosure could be misleading unless an entity provides this detailed information. Mr. Cappiello stated that assets included in net debt disclosures are usually tied to the balance sheet, and that he did not see a qualitative discussion of these issues. Mr. Siegel stated that he has listened to European companies discuss their financial statements, and has never heard that type of discussion around net debt.
46. Mr. Siegel stated that he believes that defining a net-debt metric would be just as difficult as defining other non-GAAP metrics such as same-store sales, and that defining those metrics was not entirely suited for this project. Mr. Linsmeier stated that if net debt could be adequately defined, the definition might also be appropriate for the financing section.

Follow-up Items:

None.

General Announcements:

None.