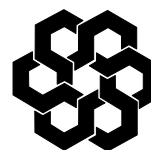




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).

These notes are based on the staff papers prepared for the IASB and FASB. Paragraph numbers correspond to paragraph numbers used in the joint IASB-FASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: March 2009, London

Project: Financial Statement Presentation

Subject: Field Test and Project Plan (Agenda paper 4)

OBJECTIVE OF MEETING

1. The **objectives of the March joint board meeting** on financial statement presentation are to **update the Boards on the field test** on the presentation model proposed in the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation* and **discuss the project plan**. This agenda paper also provides an update on an experimental research study that FASRI (Financial Accounting Standards Research Initiative) is conducting.

FIELD TEST

2. As discussed previously with the Boards, the purpose of the field test is two-fold, to:
 - a. Determine whether the proposed presentation model improves the usefulness of the information in an entity's financial statements to users in making decisions in their capacity as capital providers

- b. Understand the costs of implementing the proposed presentation model and identify any unintended consequences in applying that model.
- 3. The field test consists of three parts:
 - a. **Preparer information:** recast financial statements, preparer responses to a post-completion survey, and cost estimates to implement the proposed presentation model.
 - b. **Quantitative information** that will provide a description of the additions, changes, and movements of line items between the non-recast and recast financial statements.
 - c. **Analyst information:** responses to a survey about their review of specific recast and non-recast financial statements.

The Recasting Exercise

- 4. We asked field test participant companies to recast any two consecutive years of financial statements using the principles and application guidance provided in the Discussion Paper. We asked participant companies not to make any information systems changes to accommodate the field test; however, we asked them to employ the principles to the furthest extent possible. If there was something they were unable to complete due to cost or time constraints, they were to document those constraints as thoroughly as possible.
- 5. We permitted participant companies to make estimates or employ accounting shortcuts to produce the requested information. To the extent that they used estimates or shortcuts, their results were to flow through the recast financials to maintain cohesiveness.
- 6. After finalizing their recast financial statements, participant companies completed a 35-question survey about their experience in applying the principles and application guidance in the Discussion Paper. The survey also asked the preparers to comment on how different aspects of the model might help them communicate their company's financial results to users of their financial statements.
- 7. Participant companies had a target submission date of January 9, 2009. At the end of January, we had about 17 submissions. As of March 6, 2009, **22 participant companies have submitted their recast financial statements**, 16 have completed the survey. We anticipate getting recast financials from **13 more companies** by the

end of March. We will provide a brief overview of the survey responses at the joint meeting.

8. The table below indicates the industry sector and geographic area of the participating companies; those that have submitted recast statements are in bold type; those that we expect to receive by the end of March are in italic type. Given the global financial crisis that was unfolding at the time we started the field test, we had trouble finding financial institutions (other than insurance companies) to participate. However, a few non-US banks did agree to participate early in 2009. In addition to banking and insurance, participant companies are from the following industries: pharmaceutical, energy, fast-moving consumer goods, extractive, information technology, and telecommunication.

Sector	Total	US	Europe	India	Japan	NZ, Australia
Manufacturing	14+7	5+5	3+2	1	4	1
Conglomerates	1+1	<i>1</i>	1			
Retail	<i>1</i>	<i>1</i>				
Insurance	4+2	1	2+2		1	
Banks	1+2	<i>1</i>	1+ 1			
Other services	2		1			1
Total	22+13	6+8	8+5	1	5	2

9. Confidentiality of the recast financial statements was a major obstacle in getting preparers to participate in the field test. In addition to concerns with Regulation Fair Disclosure (see paragraphs 12 and 13), some of the potential participants were concerned about how the recast statements would look and how they might be misinterpreted. Others were private companies concerned with competitive information issues. As a condition of participating, we promised participant companies that we would keep their identity confidential.
10. Only two staff members have access to the original recast information (including the identities of the field test companies) and we have instituted a number of other protocols to ensure the confidentiality and security of that “raw” data. To achieve

confidentiality and still provide useful information to the Boards, we implemented a two-step masking procedure for the field test. First, we asked the participant companies to remove or modify any unique elements in their financial statements. Second, the field test team altered the numbers in both the non-recast and recast statements and further modified line item descriptions in the statements and the notes.

Quantitative Analysis

11. The second part of the field test is designed to gather information about how the participant companies' financial statements changed as a result of applying the principles in the Discussion Paper. For example, how many additional lines were added, what type of line items are they, and where do they appear? Additionally, we are tracking the movement of certain line items, such as financial instruments, between the non-recast and recast financial statements. We are able to map this information by coding each line item on the non-recast and recast financial statements and entering the coded statements into a data base for analysis. The resulting information will help the Boards determine whether recast financial statements achieved the expected outcome with respect to the disaggregation objective.

Analyst Review

12. The final part of the field test is the review of the financial statements by analysts. This has been the most difficult part of the field test for reasons related to SEC **Regulation Fair Disclosure (Reg FD) and insider trading laws** (refer to the attachment at the end of this paper). These two issues are **proving difficult to navigate through and still meet our original objectives for the field test**. Reg FD applies to U.S. SEC registrants and it potentially affects 14 of the 35 field test companies.
13. We consulted with SEC staff throughout the design of the field test. Based on those discussions, the masked non-recast and recast financial statements have been "unlinked". In addition, the financial statements the analysts will review will be in a

highly standardized format that will provide additional masking of the company's identity and minimize ordering or wording variations in the statements that might influence the analysts' survey responses.

14. We plan to provide analyst participants with at least four sets of financial statements, two non-recast and two recast financial statement (and limited notes) that they will use to respond to a standardized survey. An individual analyst will not receive non-recast and recast financial statements of the same company. The analyst participants will answer a separate survey for each set of financial statements they review.
15. The analyst survey contains 84 questions, of which 10 are demographic in nature and 18 relate only to the recast statements. The actual number of questions that an analyst will answer will vary because of the "if/then" nature of some questions. The survey contains a mixture of multiple choice, ranking, and open-ended questions.
16. To date, two credit rating agencies have volunteered analysts to participate in the field test and a third agency also may participate. If we can overcome Reg FD concerns, we have approximately 50 equity analysts willing to participate as well. We are also actively soliciting the academic community for analyst participants. Ideally, we would like a diverse, representative group of analysts.
17. Analyst participants will access the masked financial statement files through a FASB server. Which files an analyst participant can view, when they can view it, and how long they can view it will be strictly controlled by the field test team. We hope to have the analysts' review completed around the middle of May.

Bringing it All Together

18. Once we have summarized quantitative information about the recast financial statements and the preparer and analyst responses to the surveys, we plan to meet separately with preparer participants as a group and with analyst participants as a group to discuss the field test results. We will ask a few Board members to participate in those meetings.
19. We plan to hold small group meetings with Board members to review the field test results once the analyst portion of the field test is complete. At those meetings, we

would review the results of our quantitative analysis (described in paragraph 11); a summary of the survey responses from preparer and analyst participants; and a sample of recast financial statements. **Reg FD concerns may have implications regarding the process we undertake in presenting the non-recast and recast financial information to the Boards.** We are still working with the SEC regarding the best way forward regarding this aspect of the field test. **We will update the Boards on our efforts and progress at the joint meeting.**

20. We will discuss field test results at a public Board meeting once we have considered and summarized all of the input received at the meetings with preparers, participants, and Board members (see paragraph 28).

EXPERIMENTAL RESEARCH STUDY

21. FASB's Financial Accounting Standards Research Initiative (FASRI) is now conducting an experiment designed to examine how changes proposed in the Discussion Paper affect user judgments and decisions. The following paragraphs briefly explain the experiment and the progress to date.
22. One intended beneficial effect of the changes proposed in the Discussion Paper is to help users assess an entity's creditworthiness. The researchers test the effectiveness of these changes by asking experienced professional credit analysts and MBA students to provide forecasts and credit ratings for two firms in the same industry that differ primarily in how a negative economic shock to market demand for their (similar) products will affect their income, liquidity, and solvency. The experiments manipulate two dimensions of the proposed presentation model:
 - a. **Classification by activity:** whether the entity classifies financial statement items by operating, investing and financing activities cohesively across financial statements, or provides such a classification only in the statement of cash flows (as required under U.S. GAAP/IFRS)
 - b. **Provision of detail:** whether the entity provides detailed information on the nature and function of income and expenses, and if so, whether that detail is provided in footnote disclosure or on the face of the financial statements.
23. Both classification by activity and provision of detail provide analysts with additional information about the two entities, and therefore should magnify

differences in their projections and credit ratings for the entities. The information provided by classification and detail are complementary, suggesting that classification should have more effect when detail is provided, and that providing detail should have more effect when the financial statements are classified by activity.

24. In addition to testing hypotheses about the effects classification and detail have on analyst judgments and decisions, the FASRI study also includes extensive debriefing questions intended to understand the path by which these effects arise, and to understand how participants processed the data they analyzed. Additional debriefing questions elicit opinions on the transparency and helpfulness of the financial statements, allowing the participants to provide comments informed by their own experience studying and interpreting financial statements that incorporate features of the proposed presentation model.

Status of Research Study

25. The FASRI research team has already collected data from approximately 60 credit analysts from two large credit rating agencies. Participants have an average of about 10 years experience with credit analysis, providing a highly sophisticated subject pool. Because the benefits of improved financial statement presentation may be greater for less sophisticated users of financial reports, the researchers also plan to conduct similar experiments with MBA students, who have been shown in prior research to behave similarly to individual investors. Data collection with MBA students is scheduled for March 2009, and a **formal report to the Board should be available in June 2009.**

PROJECT PLAN

26. The comment period on the Discussion Paper ends on April 14, 2009. In addition to the field test work and our outreach efforts (webcasts and meetings with various IASB constituent groups), the team has been researching and discussing issues that the Discussion Paper did not address but that the Exposure Draft will need to address. Those issues include potential “consequential” amendments to US

GAAP/IFRS, disclosure redundancy, presentation of non-controlling interests, net debt reconciliation, and provisions in IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows*, and FASB Statement No. 95, *Statement of Cash Flows*. The project team also is preparing for comment letter analysis and planning for redeliberations.

27. In March/April, we plan to hold an informal meeting in Norwalk with a small group of preparers and users to discuss the costs and benefits of preparing a direct method cash flow statement. As noted in paragraphs 18 and 19, we plan to meet informally with Board members and with field test participants to discuss field test results. We will most likely hold those meetings in June.
28. **At the July joint meeting**, we expect to be in a position to discuss the following with the Boards:
 - a. **Field test results** (what did the statements look like, what did we learn from preparer and analyst participants) and **FASRI results**
 - b. A summary of the key issues raised in the **comment letters**
 - c. What does the information we learn through the comment letters, field testing, and research experiments tell us about the proposed model and **direction of project**?
 - d. The proposed **objectives of financial statement presentation**.
29. Before that meeting with the Boards, we plan to hold a conference call with our working groups (the Joint International Group and the Financial Institutions Advisory Group) to update them on the comment letters and the field test. In September, we hope to be in a position to hold a formal **working group meeting** (JIG and FIAG members) to discuss the most controversial issues in detail, prior to the Boards deliberating those issues.
30. We plan to hold Board meetings almost monthly, ideally wrapping up redeliberations in December 2009 or January 2010. This would keep us on track with our June 2008 technical plan that called for an Exposure Draft in April 2010, followed by a standard in June 2011. However, until we receive the comment letters and field test results, **it is unclear how long redeliberations will take and whether those two milestones are achievable as planned.**

SEC Regulation Fair Disclosure (Reg FD)

Regulation FD provides that when an issuer, or person acting on its behalf, discloses material nonpublic information to certain “enumerated persons” (in general, securities market professionals and holders of the issuer’s securities who may well trade on the basis of the information), the issuer must make public disclosure of that information. Foreign private issuers appear to be exempt from Reg FD.

The regulation does not define *material* or *nonpublic* but relies on existing definitions of these terms in established case law. Information is considered *material* if there is a substantial likelihood that a reasonable shareholder would consider it important in making an investment decision. In addition, there must be a substantial likelihood that the reasonable investor would have viewed a fact as having significantly altered the “total mix” of information made available. Given the objectives of the financial statement presentation project, there is a substantial likelihood that material information would be produced under the proposed presentation model (and hence in the recast financial statements prepared by field test participants).

Insider Trading Laws

Insider trading laws are a concern for **anyone that becomes privy to the information** in the recast financial statements. In the United States, the definition of *insider trading* was expanded in October 2000 from a “use” standard to a “knowing possession” standard. This means that it is not necessary to prove that an individual used the information as the basis of any trading. Under the new definition, a trade can be an insider trade “if the trader was aware of the material, nonpublic information when the person made the purchase or sale.”

The majority of countries have some type of insider trading laws. However, the interpretation and enforcement of these insider trading rules and laws can vary greatly. While our focus to date has been from a U.S. perspective, participants in the field test (analysts as well as Board and staff) will need to be aware of any other applicable securities laws that may affect them and any related implications before reviewing recast financial statements—even those that have been masked.