FASB FINANCIAL ACCOUNTING STANDARDS BOARD

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MEMO

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Project	**Financial Performance Reporting**
Project Stage	**Research Agenda**
Issue(s)	**Topic 1: FASB Research—Disaggregation of Performance Information**

Purpose of This Memo

1. The FASB staff was asked to provide an update on the research it has performed in its Financial Performance Reporting (FPR) project. The scope of the FPR research project involves two main areas: (a) disaggregation of performance information and (b) structure of the income statement. The purpose of this memo is to share our research on disaggregation of performance information.

2. In August 2016, the FASB issued an Invitation to Comment (ITC), *Agenda Consultation.* That document comprised four chapters identifying potential major financial reporting areas in need of improvement. Chapter 4, "Reporting Performance and Cash Flows," considered issues related to disaggregating performance information. When relevant, this memo includes feedback on the ITC.

3. The role of the standard setter in providing guidance for disaggregating performance information[1] is to require one of three outcomes: (a) the type of performance information that can be combined, (b) the type of information that can be separated, and (c) whether specific performance information should be presented or disclosed.

4. The staff believes that disaggregation of performance information is not strictly a presentation concern. Many respondents to the ITC commented that the alternatives would be more suited to a disclosure setting to avoid cluttering the income statement.

5. Accordingly, in this paper when we refer to *presentation* we mean that the performance information appears as a line on the income statement. *Disclosure* means that the performance information appears in the notes or other locations.[2]

Sections and Structure of This Paper

6. This memo is organized into the follow sections:

Underlying Accounting Issue That Could Be Addressed

7. Entities often engage in a wide range of activities, transactions, and events that result in performance information that ultimately is simplified, condensed, and aggregated together into different types of revenues, expenses, gains and losses. Current GAAP contains few

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[1] In this memo, performance information refers to an item that is recognized in either the income statement or the statement of other comprehensive income.

[2] Throughout this paper, references to the "Board" generally refers to the FASB.

general requirements for aggregating performance information into lines. Most lines presented on the income statement aggregate performance information based on the judgment of management. Over the years, stakeholders have said that practice has developed such that performance information tends to be aggregated into a few primary lines. Research in the FPR project indicates that this concern is more pronounced in lines that relate to functional activities.

8. The FASB staff believes that although the income statement is intended to be a summary document, the **underlying accounting issue is that information tends to be over-aggregated into a few lines and that users would prefer greater granularity of performance information either in the income statement or in the notes**. **If performance information is to be reported in the notes, that information should be communicated in a way that enables users to understand the effect on individual lines.** Some components are useful for making predictions of future earnings—for example, presenting or disclosing infrequent items—and should have greater transparency.

Conceptual Framework

9. While users may prefer greater granularity, there are various ways in which performance information can be combined, separated, or specified. The FASB staff approached this issue by first considering the Conceptual Framework and the concepts for presentation and disclosure of performance information.

Presentation of Performance Information

10. The current FASB Conceptual Framework observes that financial statements result from processing vast amounts of data and involve the need to simplify, to condense, and to aggregate information. Each statement has a purpose to provide information that helps to achieve the objective of financial reporting. However, the existing concept statements are mostly silent on how performance information should be grouped together and aggregated into a line or how information is separated into a disclosure. Paragraph 20 of Statement of Concepts No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, notes the following:

> …Analysis aimed at objectives such as predicting, amounts, timing, and uncertainty of future cash flows requires financial information segregated into reasonably homogeneous groups. For example, components of financial statements that consist of items that have similar characteristics in one or more respects, such as continuity or recurrence, stability, risk and reliability, are likely to have more predictive value than if their characteristics are dissimilar.

11. In 2016, the FASB proposed concepts for aggregating information into lines. Some of these concepts are relevant for one financial statement, but not another. Paragraph PR37 of the Exposure Draft of proposed Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7: Presentation*, states[3]:

> The following are some important considerations in determining the line items that are necessary in a particular financial statement and the individual items to include in each line item:
>
> a. The *event that caused an item to be recognized*, for example, a transaction, a change in circumstances or conditions, an accounting adjustment like systematic allocation, or an accounting change
> b. The *activity* with which an item is associated
> c. Similarities and differences in the *frequency* with which similar components of comprehensive income are expected to result in similar amounts to be recognized in the future
> d. The expected time until realization or settlement of an asset or liability
> e. The expected form (for example, cash or shares) of realization or settlement of an asset, liability, or in certain circumstances an equity instrument
> f. The *types of changes in economic conditions* that can affect the cash flows related either to an existing asset or liability or to similar revenues, expenses, and gains or losses in the future
> g. Similarities and differences in *measurement methods*.
>
> Factors (a), (b), and (c) are closely related to one another and are more useful in grouping items in comprehensive income and cash flows than in grouping assets and liabilities. Factors (d) and (e) relate to assets and liabilities, and factors (f) and (g) relate to line items in comprehensive income as well as assets and liabilities. [*Emphasis* added]

[3] http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168366904&acceptedDisclaimer=true

12. Many respondents to the Exposure Draft of proposed Chapter 7 agreed with the aggregation factors, however, a few suggested the list is incomplete. Respondents offered several additional factors for the FASB to consider such as (a) the risk profile of the cash flows associated with activities and balances, (b) whether the items relate to operating versus nonoperating activities, and (c) the significance of the element.

Disclosure of Performance Information

13. In 2014, the FASB proposed concepts and decision questions for disclosing information in the notes and other locations. The purpose of the notes and other locations is to provide amplification or explanation of information that is depicted in the financial statements.

14. The FASB's proposals[4] stated that there are three broad types of performance information that is disaggregated in the notes and proposed decision questions for each: (a) additional information about the components within a line, (b) information about the reporting entity, such as segment reporting or related party transactions, and (c) information about other unrecognized events and current circumstances that can affect an entity's cash flows.

15. *Information about line items*—Paragraphs D35, D38, and DQ4 of the Exposure Draft of proposed Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, states:

> D35. …some revenues and expenses result from routine transactions, and nearly all of the information users need may be conveyed by the amounts and descriptions of the line item. In contrast, complex financial instruments or gains or losses arising from complex transactions may require significantly more explanation and elaboration [in the notes].
>
> D38. The following additional types of information will be useful for some line items in some circumstances:
>
> e. Breakdowns of line items that are aggregations of phenomena with significantly different descriptions, effects on cash flows prospects of the entity, risks, or accounting methods

[4] http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176163868268&acceptedDisclaimer=true

g. How the line items relates to other line items in the financial statements.

Question L4

Does the line item include components of different natures that could affect prospects for net cash flows differently?

Information to Be Considered for Disclosure

a. The amounts and natures of the different components of the line item
b. Unusual or infrequent items.

Question L9

Does the line include individual items (or groups) that are measured differently?

Information to Be Considered for Disclosure

a. Descriptions, carrying amounts, and measurement methods of the items or groups that are measured differently.

16. *Information about the reporting entity*—Conceptually, disclosures such as segment reporting or related party information, are viewed as an alternate form of disaggregation of the reporting entity, rather than disaggregation of a line.

17. *Information about other [unrecognized] past events and current conditions and circumstances that can affect an entity's cash flows*—The proposed Chapter 8 states that the notes provide information about events that have not affected a line. Those events, circumstances, or conditions may not be recognized because they have not met the criteria for recognition or because the FASB has decided to prohibit recognition.

18. In the following sections of this paper, we discuss how some of these factors for presentation and disclosure could be used as alternatives to develop standards-level guidance for the aggregation and disaggregation of performance information.

Previous Standard-Setting Attempts

19. In addition to the FASB's Conceptual Framework, we also considered the work undertaken in previous standard-setting efforts. Over the years, there have been many consultation documents that sought to disaggregate performance information. The most significant standard-setting attempts of which we are aware include:

    (a) FASB Reporting Earnings Task Force Discussion Memorandum, *An Analysis of Issues Related to Reporting Earnings* (1979)

(b) FASB Proposed Exposure Draft of a Concepts Statement, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises* (1981)

(c) AICPA Special Committee on Financial Reporting[5] *The Jenkins Committee Report: Improving Business Reporting—A Customer Focus* (1994)

(d) FASB and Other G4+1 members Special Report, *Reporting Financial Performance: Current Developments and Future Directions* (1998)

(e) UK Accounting Standards Board Exposure Draft, *Reporting Financial Performance* (2000)

(f) FASB/IASB Discussion Paper, *Preliminary Views on Financial Statement Presentation* (2008)

(g) FASB/IASB Staff Draft of an Exposure Draft, *Financial Statement Presentation* (2010).

20. These documents considered several disaggregation approaches such as (a) disaggregating functional lines into natural components, (b) disaggregating infrequently occurring or unusual items from other items, and (c) disaggregating by measurement method. Some of those approaches are similar to the alternatives discussed in this memo. Appendix A includes a table of the different approaches used in these consultation documents.

Alternative 1: Aggregation Process

21. One way the FASB could address the underlying accounting issue is to provide principles-based guidance on how to aggregate performance information within GAAP tailored for the income statement. This alternative builds on the aggregation factors from the FASB's proposed Chapter 7 on presentation.

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[5] The Jenkin's report was not issued by an accounting standard setter; however, the staff considered it together with the other documents in this list because it was such a substantial document and because Mr. Jenkins later became a FASB Chairman.

Summary of the Research

GAAP Requirements

22. Aside from requirements to separately present or disclose infrequently occurring items, GAAP contain no general requirements for aggregating performance information into lines. That is, entities have considerable latitude in making their presentation decisions. The SEC's regulations establish certain minimum income statement presentation requirements but, again, there are no general aggregation requirements.

Previous Standard-Setting Attempts

23. Appendix A summarizes the approaches from previous consultation documents that considered the aggregation or disaggregation of financial information in the statements or notes. Most of these efforts focus on disaggregation processes, rather than aggregation, because they take contemporary practices in financial statement presentation as a starting point. For example, in 2010, the FASB and IASB posted the Staff Draft on financial statement presentation on their respective websites. Paragraph 47 of the Staff Draft proposed a *disaggregation* principle and requirements to disaggregate the income statement according to the function of the item, nature of the item, and measurement basis of the item.

Summary of the FASB's Staff Proposal

24. As noted above, the FASB's Conceptual Framework distinguishes between presentation and disclosure, suggesting that aggregation is a process and set of concepts related to combining recognized items into a line. Items may be combined into reasonably homogeneous groups when they have a similar characteristic. Under this alternative, which has multiple parts, the factors could be used to describe the characteristics of a natural and functional line to provide general guidance on the aggregation process.

Part One—Meaning of Aggregation and Disaggregation

25. Part one of the staff's proposal described the processes of aggregation and disaggregation when presenting or disclosing performance information as follows:

(a) The process of aggregation refers to simplifying, condensing, and combining recognized items into a line that is presented on a statement as a caption and amount. Items may be combined if they have similar characteristics.

(b) Disaggregation is the process of amplifying information included within a line and the display of other information within the notes and other locations.

(c) Disaggregated information can be displayed parenthetically to a line, in a note, or as a break out of additional lines (for example, disaggregating a functional line into natural components).

(d) Not all disaggregated information involves the amplification of a line. Disaggregated information also can provide (a) alternative views of items recognized in the financial statements or (b) information about other unrecognized past events and current conditions that can affect an entity's cash flows.

(e) Information reported in a disaggregated format, including recognized and unrecognized items, often also requires transactions or events to be simplified and condensed from underlying data.

Part Two—The Aggregation Process and Characteristics

26. Using the aggregation factors from the proposed Chapter 7 on presentation, part two of the staff's proposal described the two classes of lines and the aggregation characteristics relevant to the performance statement as follows:

> *Classes of Lines Relevant to the Performance Statement*
>
> The lines that appear on the statement(s) of comprehensive income display information either naturally or functionally.
>
> *Meaning of a Natural and Function Line*
>
> A **natural** line aggregates the components of net income and other comprehensive income according to a characteristic similar to all of the items that have been combined.
>
> The characteristics of a natural line may include:
>
> (i) items that result from a similar *source or event* that caused the items to be recognized
>
> (ii) items that result from a similar *type of change in the carrying amount* of an *existing* asset or liability or class of existing asset or liability
>
> (iii) items that result from the derecognition of an asset or a liability that are of a similar type
>
> (iv) items that result from a similar *measurement method*
>
> (v) items that display the effect of an *infrequently occurring transaction or event*, such as that required by Subtopic 225-20, Income Statement—Unusual or Infrequently Occurring Items
>
> A **functional** line aggregates the components of net income according to the activity from which, or within which, the item or items arise.

27. The characteristics described above are slightly different to those used in the proposed Chapter 7 (see paragraph 11 of this memo). Changes were necessary because of the difficulties of directly incorporating the concepts into a potential standards-level proposal.

Part Three—Priority of One or More of the Characteristics

28. Part three of the staff's proposal discussed how follow-on guidance would be necessary to confirm in what order or priority the aggregation characteristics are applied. Three options were identified.

    (a) Under Option 1, the characteristic to be prioritized over others is infrequency of occurrence. Transactions and events that have an unusual nature or an infrequency of occurrence, as defined by Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, would be presented on the face of the income statement as a natural line. Aside from infrequency of occurrence, the characteristics are equal in their consideration. An entity selects the characteristics that it will use to aggregate revenues, expenses, gains, or losses into natural or functional lines based on their facts and circumstances.

    (b) Under Option 2, an entity would select the characteristics that it will use to aggregate revenues, expenses, gains, or losses into natural or functional lines based on their facts and circumstances.

    (c) Under Option 3, the FASB could choose either to establish a hierarchy for applying the characteristics or to prioritize one or two characteristics. The staff would need to perform additional research to analyze each of the characteristics to develop a system of ranking.

29. While a variety of aggregation characteristics are described within proposed Chapter 7 on presentation, there is, however, no priority in which those characteristics should be applied. In the basis for conclusions, the FASB decided that prioritizing one aggregation factor over another should be a standards-level consideration. A couple of respondents to the Exposure Draft of proposed Chapter 7 suggested the FASB perform further research and outreach about how to weigh specific factors and when priority should be given to a specific factor.

30. Subtopic 225-20 requires an item that has an unusual nature or is infrequently occurring to be separately presented or disclosed. Arguably, this is the only instance in which a presentation or disclosure characteristic is prioritized. Option 1 would retain this priority.

Feedback Received

31. FASB members had mixed views on this alternative. While the research and proposals were helpful for Board members' thinking and the relationship with the proposed Conceptual Framework chapters, most FASB members noted that the proposals were very principles-based and not necessarily helpful for preparers and practitioners. Those Board members generally preferred the idea of choosing one or two of the aggregation characteristics to incorporate within GAAP.

FASB Staff View

32. Although Alternative 1 may align more faithfully with the proposed chapters of the Conceptual Framework, there may be better ways to establish guidance while still using the aggregation factors, for example, selecting one or two of the aggregation factors and implementing them within GAAP. We acknowledge, however, that there is a significant cross-over between the ideas within the aggregation proposal and the ideas in Alternative 3 to disaggregate functional lines into natural components (discussed below).

IASB Primary Financial Statement Project

33. At its March 2017 Board meeting, the IASB discussed overarching general principles for classification, aggregation, and disaggregation, as well as definitions of those terms and steps involved in applying those principles. We understand that the IASB's approach is similar in many ways to the FASB's staff proposal as outlined above.

34. With respect to the IASB's proposal, we are interested in understanding what factors or characteristics for aggregation the IASB will identify as a basis for aggregation and how the IASB will decide to prioritize those factors or characteristics for the purposes of aggregation and disaggregation of performance information.

Question for the IASB—Alternative 1
1. Do IASB members have comments on or questions about Alternative 1?

Alternative 2: Infrequent Items

35. A second alternative to address the underlying accounting issue would be to standardize the frequency characteristic from the proposed Chapter 7 of Concept 8. This section of the memo provides a summary of the staff's research and proposals.

Summary of Research Findings

GAAP Requirements

36. Current GAAP requires an entity to separately present or disclose infrequently occurring items in the income statement or the notes. Topic 225 defines *infrequency of occurrence* as follows:

> **Infrequency of Occurrence**
>
> The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 225-20-60-3).

37. To implement the definition, Subtopic 225-20 provides the following guidance:

> **225-20-55-2** For purposes of this Subtopic, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which an entity operates. Accordingly, a specific transaction of one entity might meet that criterion and a similar transaction of another entity might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular entity provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future.

38. Collectively, this guidance requires an entity to identify when, if ever, a similar transaction or event occurred in the past and whether a similar transaction or event is expected to occur in the foreseeable future and the probability of doing so. Because there is no set time frame for the "look back" period or foreseeable future time frame, preparers tend to interpret these

periods to mean that a transaction or event only demonstrates infrequency of occurrence when a similar item has never happened before and is never expect to occur again.

39. Some entities may simply prefer to voluntarily report this information within the financial statements, management discussion and analysis (MD&A), and non-GAAP communications.

Previous Standard-Setting Attempts

40. There were several previous efforts to present or disclose infrequently occurring items, which are discussed in Appendix A. In the Staff Draft on financial statement presentation, the Boards included proposals that involved four different notions of infrequency. These included:

   (a) *Unusual and infrequently occurring items*—The definitions from GAAP essentially were retained and would be displayed as separate income statement lines.

   (b) *Noncash transactions that are neither recurring nor routine*—These items were not described but would be displayed in the reconciliation of opening to closing balance sheet accounts.

   (c) *Remeasurements*—Defined as (i) a change in/realization of a current price/value, (ii) a change in estimate of a current price/value, and (iii) a change in method used to measure an asset/liability. Remeasurements would be disclosed in a separate note.

   (d) *Cash flows that are not expected to occur every reporting period*—Those items would be displayed separately in the cash flow statement.

41. Some stakeholders commented on the redundancy necessitated by the four infrequency notions; for example, similar information would be reported in the income statement, the cash flow statement, the rollforwards, and the remeasurement note. Preparers noted that it was unnecessary to repeat the same information multiple times.

Conceptual Framework

42. In paragraph PR37 of the proposed Chapter 7 on presentation, the Board describes the frequency characteristic as follows:

(c) Similarities and differences in the frequency with which similar components of comprehensive income are expected to result in similar amounts to be recognized in the future

43. Deconstructing this, there appears to be two concepts being discussed here, that is, frequency of occurrence and frequency of amount. Paragraphs PR40 through PR43 of proposed Chapter 7 state:

> Many financial analysis techniques involve identifying trends in amounts and timing of transactions and other events. [Sentence omitted] Some types of revenue and expense transactions tend to occur frequently in amounts that can be anticipated at least in general because an entity can influence (though not control) the occurrence of those transactions.
>
> *Frequency of Occurrence* [heading added by the staff]
>
> Different events have different effects on or send different signals about future profitability and, ultimately, cash flows. Some might clearly be one-time occurrences, but others might indicate the beginning, continuation, or end of a pattern of similar events.
>
> *Frequency of Amount* [heading added by the staff]
>
> Some gains or losses also can provide useful information about a particular activity even though gains or losses in similar amounts probably would not be expected to occur frequently or at all. For example, a loss that results from recognizing the impairment of an operating asset may indicate that future revenues or profits associated with that asset are likely to be less than in past years.

44. The FASB staff is unable to think of a way in which the concept of frequency of amount is operable. However, we think that frequency of occurrence could have a standardized meaning; that is, recognition of similar items. Some items are recognized daily, monthly, yearly, once every five years, or once in the history of the entity. This concept of there being a spectrum of occurrence is important when considering standards-level proposals.

45. A few respondents to the Exposure Draft of proposed Chapter 7: Presentation suggested that on its own the frequency characteristic was either not clear in its meaning or did not go far enough in improving presentation. These respondents suggested that users are seeking information about performance that relates to both operating activities and items that have low predictive value. That is, the frequency factor would be more effective if it were tailored to whether the line relates to operating or nonoperating activities.

Summary of the FASB's Staff Proposal

46. Under this alternative, which has multiple parts, the frequency factor could be used as a basis for redefining infrequency of occurrence, lowering the current threshold for identifying an item as infrequent and separately presenting or disclosing these items.

Part One—Unit of Assessment

47. Part one described the unit of assessment when evaluating frequency. That is, the assessment is made at the level of the individual transaction or event that results in a revenue, expense, gain, or loss.

48. We believe it would be inappropriate to make the unit of assessment the "circumstances" that cause an item to be recognized (for example, a fire at an entity's warehouse). Rather, the assessment is of the recognized item (for example, impairment losses and insurance recoveries). Subtopic 225-20 similarly applies a unit of assessment at the transaction or event level.

Part Two—Concept of Frequency of Occurrence

49. Part two describes the concept of frequency of occurrence. The staff did not use or develop a notion of frequency of amount because there is no way to identify a recognized item based on its amount or value relative to similar amounts or values in the past. Any effort to do so would be arbitrary. It also would mean that frequency has two unit of assessments, that is, frequency of similar recognized transactions and events and frequency of similar recognized amounts. We acknowledge that users may want greater transparency of certain recognized amounts, however, we believe it is impractical to have two units of assessments for each recognized item. For example: assume an equipment rental business routinely recognizes impairment losses on its rental machines and then recognizes a single large impairment loss resulting from a warehouse accident that damaged multiple rental machines. The staff is unable to conceptualize a way in which the single large loss on multiple machines is identified as infrequent.

50. The staff's proposal identified the following attributes to the concept of frequency of occurrence:

(a) The interval period between when a transaction or event occurred (that is, recognized) and when a similar transaction or event occurred again is the item's frequency.

(b) Frequency of individual transactions or events is only ever evaluated with similar types of transactions or events over time. It is inappropriate to compare the frequency of dissimilar transaction or events. For example, the frequency of revenue transaction or events should not be compared with the frequency of transaction or events that result in gains or losses.

(c) The frequency of occurrence is a spectrum that is a result of recognizing similar items routinely, occasionally, or rarely.

51. Bringing all this together, the staff's proposal described frequency of occurrence as:

> Frequency of occurrence is not simply characterized by whether a transaction or event happens often or rarely, nor is frequency of occurrence a comparison of one type of event to an unrelated type of event. Rather, the frequency of occurrence of a transaction or event is relative to the recognition of similar transactions or events over time. Some transactions or events are recognized routinely, some occasionally, and some rarely.

52. The threshold for identifying an item as frequent or infrequent would be lowered to the level of "routine" or "nonroutine" transactions or events, respectively.

Part Three—Description of an Infrequent Item

53. Part three of the staff's proposal incorporated all of the previous elements—the unit of assessment, the concept of frequency of occurrence, and the threshold for nonroutine transactions and events for infrequent items.

54. The proposal involved reciprocal descriptions and indicators of frequent and infrequent items to illustrate how the frequency spectrum could be divided into two outcomes. However, going forward, dual descriptions may be unnecessary.

55. The staff's proposal suggested the following description of a frequent item:

> A *frequently occurring item* is a transaction or event that arises from recognized transactions or events that are routine. Indicators of a routine item include:
>
> (a) The transaction or event forms part of a series of similar recognized items occurring in the past.

(b) The series of transactions or events forms a regular pattern of intervals in which transactions or events are recognized. Transactions and events that are recognized at regular intervals (for example, daily, weekly, monthly, quarterly, or annually) are generally considered routine.

(c) The transaction or event is with a type of counterparty that the entity has experience dealing with (for example, customers, suppliers, or employees).

(d) The transaction or event could have been reasonably anticipated. For example, items contemplated by management or the Board of Directors in internal budgets 12 months before the item occurred or in the latest annual budget for the current period typically indicate that the transaction or event is routine.

(e) The item is a change in the carrying amount of an asset or liability that is a systematic allocation or a continual or periodic change.

56. The staff suggested the following reciprocal description of an infrequent item:

An *infrequently occurring item* is a transaction or event that arises from recognized transactions or events that are not routine. Indicators of a nonroutine item include:

(a) The transaction or event does not form part of a series of similar items occurring in the past.

(b) The transaction or event is part of a series of similar transactions or events; however, the series does not form a regular pattern of intervals in which those items are recognized. Items (i) that are not recognized at regular interval periods or (ii) that have no pattern generally are considered nonroutine.

(c) The transaction or event is with a type of counterparty with whom the entity has limited experience (for example, acquirees, acquirers, political or charitable organizations, or certain regulatory authorities).

(d) The transaction or event could not have been reasonably anticipated. For example, items not contemplated by management or the board of directors in internal budgets either 12 months before the item occurred or in the latest annual budget for the current period typically indicate that the transaction or event is nonroutine.

(e) The item results from a change in the carrying amount of an asset or liability that is occasional, episodic, or triggered.

57. For the purposes of this summary, the rationale for each of the characteristics are not discussed.

Feedback Received

Feedback from FASB Members

58. FASB members had mixed views on this alternative. While current GAAP has a high threshold for identifying an infrequent item, some FASB members observed that lowering it

would introduce judgment that would add cost to the financial reporting system with added disputes between auditors, preparers, and regulators. Large multinational organizations are likely to consider most recognized items to be frequent because of their wide-ranging activities. This alternative potentially would affect smaller organizations disproportionately.

59. Other FASB members supported this alternative because the current definition of *infrequency of occurrence* is not providing useful information. While items determined to be infrequent may differ across entities, this alternative would standardize the way those items are identified and would minimize the selective reporting of some infrequent items and not others by reporting entities.

Feedback on the ITC

60. Eight respondents to the ITC expressed some level of support for redefining infrequency of occurrence, particularly if that information is displayed in a disclosure setting. Reasons for this view include:

    (a) When forecasting, users seek to separate recurring and nonrecurring items.

    (b) There would be improved consistency of how management identifies infrequent items within an entity over time. It would minimize selectively calling out certain infrequent items and not others.

    (c) Such information might be helpful to users to enable comparison of infrequent items over time.

    (d) This alternative is closer to a principle or concept than the other approaches.

61. A few respondents opposed this alternative. Reasons included:

    (a) The Board considered the principles of infrequency in Accounting Standards Update No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* Those requirements are robust and should not be revised.

    (b) Even if the FASB redefines infrequency, outcomes will differ across entities.

FASB Staff View

62. For this alternative, we think the Board could (a) leave the current guidance intact while acknowledging that it neither improves nor harms performance reporting, (b) remove the literature from GAAP and potentially remove some of the cost from the system, or (c) improve upon the current concept and threshold of frequency. We acknowledge that there are considerable challenges for developing this alternative further. Some of the follow-on issues are very difficult, for example, associating a cluster of recognized items with a single infrequent event, accelerating or decelerating interval periods, and subsequent measurement of an infrequent item.

IASB Primary Financial Statements Project

63. At its March 2017 Accounting Standards Advisory Forum meeting, the IASB staff considered an alternative that involved requiring a "recurring operating profit" subtotal in the income statement. While a recurrence concept is different from the concept of frequency of occurrence, there are similarities. The FASB staff would be interested to understand how the IASB would approach this concept within a standards-level project.

64. In March 2017 the IASB issued a discussion paper on the Disclosure Initiative—Principles of Disclosure, where it discusses whether to provide guidance on the presentation of unusual and infrequently occurring items. The IASB's preliminary view is that it should allow entities to present such items and that a general disclosure standard should explain when and how items can be presented in the performance statement as unusual and/or infrequently occurring. The discussion paper observes that some stakeholders suggest that the IASB address whether:

   (a) the term 'infrequently occurring' can be applied to describe an item that has occurred more than once within a stated reference period, say the previous five years.

   (b) the size or amount of an item, in addition to its nature and frequency, should be considered when determining whether the item is unusual or infrequently occurring.

   (c) an entity should be permitted to isolate the impact of a circumstance that results in recognized items that affect several line items, for example, a hurricane.

65. The FASB staff would be interested to understand how the IASB might develop these ideas further within a standards-level project, particularly issues related to the unit of assessment, "look back" periods, and the concept of infrequent amounts.

Question for the IASB—Alternative 2
2. Do IASB members have comments on or questions about Alternative 2?

Alternative 3: Disaggregating Functional Lines into Natural Components

66. A third alternative to address the underlying accounting issue would be to require functional lines to be disaggregated into natural components. This section of the memo provides a summary of the staff's research and proposals.

Summary of Research Findings

Current Practice—U.S. Public Entities

67. The staff reviewed fiscal year 2014 XBRL data for 6,061 entities to evaluate how many and what type of lines typically are presented in the income statement. We observed that, including subtotals, registrants on average present 16 lines in the income statement, with 90 percent of the population presenting between 10 and 30 lines. There was no substantial variation in the number of reported lines by industry except for the finance, insurance, and real estate sectors for which on average those entities present 24 lines, including subtotals.

68. There are two primary reasons for the different lengths. First, the SEC's Regulation S-X is the primary source of income statement presentation guidance, which varies by industry. That regulation requires commercial and industrial companies to present 15 lines, excluding subtotals, whereas bank holding companies are required to present 14 lines but also must separately present or disclose individual items within "other" income and expenses that exceed 1 percent of the aggregate of total interest income and other income. This means that banks are more likely to present additional lines because of this threshold. Second, commercial and industrial entities can combine and aggregate items within a functional line

that other entities generally cannot under the Regulation S-X requirements. In other words, the staff found the "problem" of over aggregation to be most concentrated in functional lines.

Other U.S Accounting Frameworks That Disaggregate Functional Lines

69. In the United States, there are two accounting frameworks that currently require entities to disaggregate functional lines into natural components. The first framework applies to not-for-profit (NFP) entities. Topic 958, Not-for-Profit Entities, defines functional[6] and natural[7] expense classification methodologies and defines two primary functions relevant to NFPs: (a) program services and (b) supporting activities. Supporting activities are represented by three secondary functions, which include management and general activities, fundraising activities, and membership development activities. In the FASB's staff proposal, we used this notion of primary and secondary functions.

70. Certain NFPs are required to provide a "statement of functional expenses" as part of the financial statements. Functional expenses for program services and supporting activities are required to be broken out into their natural components. Topic 958 suggests that the natural components include salaries, rent, electricity, interest expense, depreciation, awards and grants to others, and professional fees.

71. The other U.S. accounting framework that disaggregates functional lines arises in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which requires governments to prepare a statement of activities and to report earnings based on the governmental agency's program activities or functions. All expenses should be reported by program (function) except for extraordinary items, depreciation that cannot be allocated to a function, and interest on general long-term liabilities (all of which should be displayed naturally).

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[6] *Functional Classification*: A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are *program services* and *supporting activities*.
[7] *Natural Expense Classification*: A method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, supplies, rent, and utilities.

72. Revenues should be reported as either program revenue or general revenue. Program revenues are disaggregated according to the following natural categories: charges for services, operating grants and contributions, and capital grants and contributions. General revenue also should be disaggregated into its natural categories of taxes and earnings on endowments or investments.

Previous Standard-Setting Attempts

73. The FASB has undertaken several previous efforts to disaggregate functional lines into natural components in either a presentation or disclosure setting. A summary of these efforts is included in Appendix A.

74. In the Staff Draft on financial statement presentation, the Boards proposed disaggregation principle would have resulted in functional lines being disaggregated into natural components. Paragraphs 140 and 142 of the Staff Draft would have required:

> An entity shall disaggregate and present its income and expense items by function within each section and category in the statement of comprehensive income so that the information is useful in understanding the activities of the entity and in assessing the amount, timing, and uncertainty of future cash flows.
>
> An entity shall disaggregate its income and expense items by their nature within the related functional grouping to the extent that the information is useful in assessing the amount, timing, and uncertainty of future cash flows. As described in paragraphs 144 and 146, income and expense items disaggregated by nature shall be presented in the statement of comprehensive income or disclosed in the notes.

75. The proposal would require entities to allocate performance information to functions within the operating, investing, and financing categories and then to disaggregate those functional lines into natural components. The Boards defined both function and nature.[8] Suggested, but undefined, functions included selling goods, research and development, manufacturing, marketing, and administration. Suggested natural lines included materials, labor, transportation, and energy.

[8] *Function* refers to the primary activities in which an entity is engaged.
Nature refers to the economic characteristics or attributes that distinguish assets, liabilities and items of income, expenses, and cash flows that do not respond similarly to similar economic events.

76. Preparers' feedback suggested that there were two significant concerns about operability with these proposals. First, many preparers stated that internal allocations of shared services or overhead expenses lose their identity after they are allocated to functions. For example, if Department A provides services to Department B, some of the expense that Department A incurs (salary, occupancy, allocated overhead) are recharged and allocated as a single expense to Department B. Allocated amounts lose their identity through the recharge process. Preparers were uncertain how to disaggregate natural components when significant recharges and allocations occur throughout the organization.

77. Second, many preparers stated that when costs, such as employee compensation, are capitalized into the cost of another asset, such as inventory, the capitalized costs lose their identity. Preparers were uncertain how to disaggregate cost of sales into natural components when this occurs.

Summary of the FASB's Staff Proposal

78. Under this alternative, which has multiple parts, the proposed Chapter 7 presentation aggregation factors could be used as a basis to describe the meaning of a functional line and to separately present or disclose the natural components that comprise those lines.

Part One—The Two Types of Lines That Can Appear on the Performance Statement

79. Using the concepts from the proposed Chapter 7 on presentation, part one of the staff's proposal described the two classes of lines as follows:

> *Classes of Lines Relevant to the Performance Statement*
>
> The lines that appear on the statement(s) of comprehensive income display information either naturally or functionally.

80. The lines that report the components of other comprehensive income are required to be displayed naturally, whereas the lines that report the components of net income can display information either functionally or naturally.

Part Two—Meaning of a Natural Line

81. Part two of the staff's proposal used the aggregation factors to describe the meaning of a natural line and its characteristics as follows:

> A **natural** line displays the components of net income and other comprehensive income according to the basic trait that is possessed by all items that have been aggregated together. The characteristics of a natural line may include:
>
> (i) The line displays the effect of aggregating items from a similar *source or event* that causes the items to be recognized
>
> (ii) The line displays the effect of aggregating items according to a similar *type of change in the carrying amount* of an *existing* asset or liability or class of existing asset or liability
>
> (iii) The line displays the effect of aggregating items that result from the derecognition of an asset or a liability that are of a similar type
>
> (iv) The line displays the effect of aggregating items that result from a similar *measurement method*
>
> (v) The items display the effect of an *infrequently occurring transaction or event*, such as that required by Subtopic 225-20, Income Statement—Unusual or Infrequently Occurring Item
>
> Only one of these traits would be needed to result in a natural line.

82. The ideas for describing a natural line are the same as those discussed in Alternative 1.

Part Three—Meaning of a Functional Line

83. Part three of the staff's proposal also used the aggregation factors to described the meaning of a functional line and the notion of there being primary and secondary functions as follows:

> A **functional** line displays the components of net income according to the activity from which, or within which, an item arises.
>
> The components that result from an activity often have different natures; that is, the combined items within a functional line will possess more than one of the natural basic traits.
>
> Typically, a functional line will aggregate a number of smaller activities or functions together and will present performance information at the level of the entity's **primary functions**. Primary functions include *selling and producing activities involving goods or services* and *general and administrative activities*. Other functions that are not necessarily primary functions may include distribution activities and research and development activities.
>
> Examples of primary functional lines include:

(i) Cost of goods sold, Cost of services or similar terms
(ii) Selling expenses
(iii) General and administrative expenses.

84. A primary functional line aggregates performance information according to the primary activity that is shared by all items that have been combined. For example, the cost of sales line may comprise the following natural components: inventories recognized as an expense, warranty costs, and expenses arising from distribution and selling activities.

Part Four—Display the Natural Components of a Functional Line

85. Part four of the staff's proposal required the disaggregation of a functional line into natural components. This could be displayed in either a presentation or disclosure setting. The proposal suggested the following wording:

> A functional line aggregates items according to the activity from which, or within which, the items arise. The combined items will have different natures.
>
> Information about the natural components within a primary functional line is useful for the assessment of the entity's future earnings and cash flows. Therefore, if an entity reports a **primary functional line**, an analysis of that line's natural components should be provided.

Feedback Received

Feedback from FASB Members

86. FASB members were more supportive of this alternative compared with the other alternatives discussed in this memo. They generally agreed that over-aggregation is concentrated in functional lines. Users want to know more about the components of functional lines to make future predictions at the component level. In general, FASB members acknowledged there would be challenging aspects to developing this proposal further, particularly how to define natural and functional lines and ascertaining the level of disaggregation. However, Board members tended to prefer this direction.

Feedback on the ITC

87. Several respondents to the ITC supported this type of alterative, particularly if that information is displayed in a disclosure setting. Those with this view stated:

(a) This alternative would be less costly because entities already perform fluctuation analysis of lines in the MD&A.

(b) This alternative would be the easiest to develop into a standard, but would not address the issue of comparability across entities.

(c) There will be greater transparency of lines such as cost of goods sold.

88. Some respondents opposed this alternative. Those respondents commented that it would be costly for entities to implement, the information would be redundant with segment reporting, and disclosure of natural expenses would not be relevant to users.

FASB Staff View

89. This alternative is not as aligned with the Conceptual Framework as describing the aggregation process in Alternative 1; however, using the presentation factors as a basis for describing the different classes of lines may be more effective as standards-level guidance. We acknowledge that there are challenges to develop this alternative further, including defining the meaning of a functional or natural line, primary functions, and allocations and capitalization of costs that lose identity.

90. We also acknowledge that this alternative does not address the fact that comparability varies in terms of the types of natural components that may be aggregated into a functional line. However, that diversity also exists today. The benefit of this approach is that users would be able to use the trend information in prior periods to predict future earnings and compare the information across entities.

Question for the IASB—Alternative 3
3. Do IASB members have comments on or questions about Alternative 3?

Alternative 4: Minimum Lines

91. The final alternative the staff considered to address this issue was whether the FASB could specify certain performance information to be presented or disclosed. Aside from

approaching this on a topic-by-topic basis, we were unable to think of a systematic or conceptual basis for approaching this alternative. This section of the memo provides a summary of the staff's research.

Summary of Research Findings

GAAP Requirements

92. GAAP currently requires performance information to be communicated in a variety of ways. Those requirements tend to follow a hierarchy:

(a) *Minimum line requirements*—In some, albeit, limited cases, GAAP requires certain performance information to be presented as a line on the income statement. For example, goodwill impairments should be presented as a separate line.

(b) *Disclosure requirements* with *locational*[9] *information*—In certain other instances, GAAP provides that when an entity discloses a certain piece of information, it also is required disclose the specific line or lines in the income statement in which that amount has been aggregated. For example, an entity is required to disclose the line or lines in which restructuring charges are aggregated.

(c) *Disclosure requirements* without *locational information*—GAAP also contains instances in which performance information is required to be disclosed in the notes; however, those types of requirements do not require locational information. For example, disclosure of total advertising expense.

(d) *Explicit choice to present or disclose*—In other instances, the guidance allows for an explicit choice of whether to present or disclose a piece of information. If disclosed, there may or may not be requirements to provide locational information. For example, revenue from contracts with customers may be presented or disclosed.

[9] Locational information or locational disclosures refer to requirements to communicate which line or lines in the income statement that an item has been aggregated.

93. Unlike IAS 1, *Presentation of Financial Statements,* there is no single location in GAAP that contains a list of presentation requirements. Aside from industry guidance, there are only three minimum required lines that are relevant for all entities:

(a) Income from equity method investees

(b) Discontinued operations

(c) Impairment of goodwill.

94. In general, the guidance allows significant flexibility about the placement of performance information within the statements or notes. An entity could choose to present, rather than disclose, a piece of information. The current system of presentation and disclosure requirements has developed over many years and there is no apparent conceptual basis for why flexibility exists in certain areas and not in others.

SEC Requirements

95. As mentioned previously, the primary source of presentation guidance for public entities is Regulation S-X, which varies by industry.[10] It also structures those requirements within a hierarchy:

(a) *Minimum line requirements*—Commercial and industrial entities are required to display certain minimum income statement lines such as "net sales and gross revenues," "cost of tangible goods sold", and "selling, general, and administration expenses." For the other industry groupings, different line requirements are in place that are designed to capture the nuances of their business models.

(b) *Disclosure requirements without locational information*—Regulation S-X also contains disclosure requirements for certain pieces of performance information based on the different industry groupings.

[10] Regulation S-X requirements have five industry groups: commercial and industrial entities; registered investment companies; employee stock purchase, savings, and similar plans; insurance companies; and bank holding companies.

(c) *Choice to present or disclose*—In many other instances, Regulation S-X provides for an explicit choice to present or disclose certain performance information. For example, commercial and industrial companies have an explicit choice to present or disclose dividend and interest income.

96. To our knowledge, Regulation S-X requires no disclosures with locational information. We believe this is because these requirements are quite old and locational disclosures have only recently become more common by standard setters in the past 10–15 years.

Conceptual Framework

97. In exploring this alternative, we acknowledge that there are no concepts for minimum lines. This absence is specifically addressed in the basis for conclusions of proposed Chapter 7 of Concept 8 as follows:

> BC7.9 The Board considered how to determine the amount of detail to be provided in each financial statement and how the information in a statement might be organized. Specifying certain line items that all entities must present would make it easier for resource providers to locate information. However, the Board concluded that at a conceptual level no single set of line items, subtotals, and totals for the income statement would serve all entities equally well. The Board also briefly considered that identifying different sets of subtotals and line items for different types or classes of entities would enhance the comparability of reported information. However, that is not feasible in a Concepts Statement because of the wide variety of activities in which different entities engage and the fact that some individual entities engage in several very different activities. Ultimately, the Board concluded that specifying line items for different entities could be done only in standards, if at all.

Why Proposals Were Not Developed by the FASB Staff

98. To approach this alternative in a systematic way, we encountered two significant challenges: identifying what lines should be presented in the income statement by all reporting entities and why that performance information should be presented rather than disclosed.

99. We quickly realized that identifying lines, relevant to all entities, was exceedingly difficult because of different types of industries. This “industry issue” was most obvious for entities engaged in financial instruments, such as banks, insurers, investment companies, and conglomerates. We also realized that even if we could develop a list of minimum line requirements, the concern would focus on whether the composition of items aggregated into

those lines would be defined by GAAP or self-defined by the reporting entity, for example, the composition of interest expense or revenue lines.

100. Because GAAP currently allows for flexibility in whether a piece of performance information is presented or disclosed, the next challenge to approaching this alternative was developing rationale for why this flexibility should be limited and only require a presentation outcome. After considering this at length, the staff was unable to develop any basis or rationale. We did, however, observe that there are substantial benefits for users when locational disclosures are required. This is because locational information allows users to analyze the composition of income statement lines when that information is disclosed.

101. For those reasons, the FASB staff was unable to systematize this alternative and develop proposals for minimum lines. Any requirements would have needed to be developed on a topic-by-topic basis. We recommend, however, that when the FASB permits a choice to present or disclose a piece of performance information, it also should require locational disclosures to enable users to understand how those items related to lines in the income statement.

Feedback Received

Feedback from FASB Members

102. FASB members acknowledged the challenges the staff faced in researching this alternative. Significant practice concerns might arise for any minimum line proposals and whether the composition of any proposed line should be defined by GAAP or self-defined by the entity. A few FASB members agreed that there are benefits when locational disclosures are required. For example, providing locational information for depreciation expense and amortization of intangible assets would enable users to analyze the composition of the lines and to predict earnings at the component level.

Feedback on the ITC

103. While the ITC excluded this as an alternative to improve performance reporting, several stakeholders commented that targeted improvements and locational disclosures would be

useful. Those with this view commented that the FASB should provide locational disclosures of the following information:

(a) Provide locational information of depreciation and amortization expense in a note or present depreciation and amortization expense as a separate line or lines on the statement.

(b) Disaggregate the components of interest expense and interest income in a note.

(c) Disclose in a note the total employee benefits recognized in the period as short-term benefits, postemployment benefits, other long-term benefits, and termination benefits. Ideally, provide locational information for this expense.

IASB Primary Financial Statement Project

104. We understand that the IASB is exploring the development of industry templates for the structure and presentation of the income statement for banking, insurance, real estate, and corporate industries. The templates would display line requirements that are akin to minimum lines. We understand that no decision has been made about whether the templates would be illustrative or authoritative. Should the IASB decide that the templates are authoritative, we would be interested in how the IASB will consider whether the lines are self-defined or GAAP-defined and the rationale for why that performance information should be presented rather than disclosed.

Question for the IASB—Alternative 4
4. Do IASB members have comments on or questions about Alternative 4?

Feedback on the ITC

105. In this final section of the memo, we discuss:

(a) Stakeholders’ broad messages on the ITC

(b) Summary of the February FASB meeting

Stakeholders’ Broad Messages on the ITC

106. Many stakeholders commented that performance reporting is a priority area and recommended that disaggregating the income statement should be a priority in the FASB’s future agenda. Most of those stakeholders supported efforts to provide greater granularity of performance information in either a presentation or disclosure setting. However, they acknowledged that there were limitations in all the disaggregation alternatives discussed in the ITC. Several respondents supported more than one disaggregation alternative and advocated that one or more alternatives could be implemented by the FASB to provide greater granularity of information.

107. In contrast, a few respondents did not consider performance reporting or disaggregation a major area that needs improvement. Those with this view commented that users already have sufficient information to make informed decisions and the alternatives would not improve the way information is reported. Those respondents also expressed concerns about the cost and complexity of requiring more disaggregation of performance information through presentation or disclosure.

FASB Advisory Groups

108. Most members of the FASB’s Financial Accounting Standards Advisory Council and other advisory groups supported the FASB’s future efforts to disaggregate the income statement. Some suggested there is a broad need for more granularity and specificity on how preparers should provide performance information. Others, however, suggested that the FASB should focus on targeted improvements to the income statement because entities tend to self-regulate the level of disaggregation by industry.

109. While many comment letter respondents and advisory groups supported efforts for greater disaggregation, very few mentioned the type of technical project that should address this issue. For example, there was support for redefining infrequency of occurrence; however, most respondents were silent on whether this matter should be addressed as a separate project focused solely on disaggregation or as part of a holistic project that considers both disaggregation and the structure of the performance statement. Potentially, stakeholders would support a separate income statement project that focuses on disaggregation.

Summary of the February FASB meeting

110. FASB members acknowledged that the respondent's views on the ITC were mixed with respect to the structure of the performance statement. However, stakeholders largely agreed that providing further disaggregation of performance information in either a presentation or disclosure setting would improve the quality of information available to investors.

111. Some FASB members commented that the proposed Chapter 7 and Chapter 8 of Concept 8 of the Conceptual Framework provide sufficient concepts on aggregating and disaggregating performance information to take on a project at the standards-level, focusing on disaggregation.

Next Steps

112. The FASB staff plans to discuss the potential paths forward on this issue and interdependencies with the Conceptual Framework project at our next Board meeting.

Question for the IASB
5. Do IASB members have comments or questions on this section?

Appendix A: Previous Standard-Setting Attempts for Disaggregation of Performance Information

A1. The purpose of this table is to present a side-by-side of each key standard-setting document that considered the process of aggregating performance information into the face of the income statement or in a note, the display of unusual, infrequent or nonrecurring items, the display of natural or functional lines, and minimum lines.

FASB Reporting Earnings Task Force (1979)	**FASB Conceptual Framework ED (1981)**	**The Jenkins Committee (1994)**	**FASB and G4+1 Special Report (1998)**	**U.K. Accounting Standards Board (ASB) ED (2000)**	**FSP Discussion Paper (DP) (2008)**	**FSP Staff Draft (2010)**
Summary of the Document	Summary of the Document	Summary of the Document	Summary of the Document	Summary of the Document	Summary of the Document	Summary of the Document
The 1979 Discussion Memorandum focused on separating regular earnings from irregular earnings. Regular expenses could be displayed in a functional arrangement with a further disaggregation of the natural components within the functional groupings. All items within the irregular section would have been displayed in a natural way.	The 1981 ED proposed four sections to the income statement: ongoing operations, discontinued operations, peripheral activities, and price changes. Concepts were included to guide the separate reporting of minimum and triggered lines.	The Jenkins Report proposed two sections to the income statement: core and noncore activities. The Report suggested various minimum and triggered lines. It also included ideas to disaggregate certain functional lines into their natural components and to separately display natural items.	Most G4+1 members supported three sections to the income statement: operating activities, financing and treasury activities, and other gains and losses. Certain triggered lines would be displayed within the operating section.	The ASB proposed classifying earnings into three sections: operating activities, financing and treasury activities, and other gains and losses categories. Certain minimum lines and triggered lines were required for each section.	The 2008 Preliminary Views DP focused on two sections to the income statement: business activities, (comprising an operating and investing category) and financing activities.	The Staff Draft on financial statement presentation continued to focus on an operating, investing, and financing split. However, the definition and classification of operating items differed from those of the 2008 paper.

FASB Reporting Earnings Task Force (1979)	**FASB Conceptual Framework ED (1981)**	**The Jenkins Committee (1994)**	**FASB and G4+1 Special Report (1998)**	**U.K. Accounting Standards Board ED (2000)**	**FSP Discussion Paper (2008)**	**FSP Staff Draft (2010)**
Aggregation/ disaggregation	Aggregation/ disaggregation	Aggregation/ disaggregation	Aggregation/ disaggregation	Aggregation/ disaggregation	Aggregation/ disaggregation	Aggregation/ disaggregation
Revenue/expenses would be categorized into regular and irregular categories. Regular expenses would be presented with functional lines aggregated based on how those items relate to the entity's main outputs. Other factors for disaggregation include: (a) Fixed vs. variable (b) Direct vs. indirect.	The ED suggests that financial information should be aggregated into reasonably homogeneous groups. Basis for aggregating and disaggregating expenses include: (a) Functions (b) Variable (c) Discretionary (d) Stable over time.	Suggested basis for aggregating expenses into lines include: (a) Fixed vs. variable (b) Selling from general and administrative (c) Depreciation from amortization. COGS should be disaggregated into separate components.	No aggregation principle was proposed for how to roll up information into a line.	No aggregation principle was proposed for how to roll up information into a line.	2008 DP suggested revenues and expenses be aggregated into lines based on functional groupings and then disaggregated into additional lines according to their nature. If an entity chose not to aggregate by function, then it should aggregate by nature.	The Staff Draft on financial statement presentation suggested income and expenses be aggregated into lines by function and then disaggregated by nature within the functional grouping.

FASB Reporting Earnings Task Force (1979)	FASB Conceptual Framework ED (1981)	The Jenkins Committee (1994)	FASB and G4+1 Special Report (1998)	U.K. Accounting Standards Board ED (2000)	FSP Discussion Paper (2008)	FSP Staff Draft (2010)
Infrequent items	Infrequent items	Infrequent items	Infrequent items	Infrequent items	Infrequent items	Infrequent items
Irregular earnings were described as amounts that "usually exhibit a high degree of volatility." *Unusual activity* is defined as "one that is intended to be of limited duration and involves production of goods or services, dealing with a market, or using a technology, not customary for the enterprise." Irregularities arise from unusual activities, chance factors, periodic expenditures, holding gains and losses, and changes in the law, among others. Irregular and unusual items would be displayed as discrete line items within irregular earnings.	Unusual items would be displayed within peripheral activities. *Unusual in amount* was described as a significant item in which its amount is unusual "[as] judged by the experience of previous periods." Unusual in amount items would be displayed as separate line items within peripheral activities. *Unusual in occurrence* (infrequency) was described as activities that may not recur. It is unclear how unusual in occurrence items would be displayed.	Nonrecurring and unusual items would be displayed as a separate line item within noncore income. *Nonrecurring* meant that the activity, transaction, or event is not expected to occur again in the foreseeable future or before a specified interval. *Unusual* meant "not typical for a particular company."	Unusual or infrequent items could arise in all three categories. No description of frequency or recurrence was provided, except for the observation that "recurrence is an entity-specific situation and entails judgment." Infrequent items could be presented as separate line items within the three classifications.	*Exceptional items* were defined as material transactions or events "[that] individually, or, if of a similar type, in aggregate, need to be disclosed by their size or incidence if the financial statements are to give a true and fair view." By definition, exceptional items should be infrequent. Exceptional items would be displayed in the notes or as separate line items within the three classifications.	Three notions of infrequency were used: *Nonrecurring remeasurements* were items that were recognized "only after a triggering event happens," and would be displayed in the reconciliation schedule. *Less persistent* items were transactions or events within a line item that are less indicative of future amounts of that income item and would be displayed in a memo column to a reconciliation schedule. *Unusual nature* and *infrequency of occurrence* definitions from GAAP were retained and would be displayed in the reconciliation schedule.	Four notions of infrequency were used: *Unusual* and *infrequently occurring* definitions from GAAP were essentially retained and would be displayed as separate line items within the three classifications. *Noncash transactions that are neither recurring nor routine* is not described but would be displayed in the reconciliation schedule. *Cash flows that are not expected to occur every reporting period* is implicit in meaning and would be displayed separately in the cash flow statement. *Remeasurements* were defined as a change in/realization of a current price/value, a change in estimate of a current price/value, and a change in method used to measure an asset/liability, and would be disclosed in a separate note.

FASB Reporting Earnings Task Force (1979)	FASB Conceptual Framework ED (1981)	The Jenkins Committee (1994)	FASB and G4+1 Special Report (1998)	U.K. Accounting Standards Board ED (2000)	FSP Discussion Paper (2008)	FSP Staff Draft (2010)
Functional or Natural Disaggregation	Functional or Natural Disaggregation	Functional or Natural Disaggregation	Functional or Natural Disaggregation	Functional or Natural Disaggregation	Functional or Natural Disaggregation	Functional or Natural Disaggregation
Regular expenses could be presented within functional categories, such as production, selling, administration, finance, and distribution. Some functional categories, such as production or purchasing, would further disaggregate their related expenses (cost of goods sold) into component parts of labor, materials, energy, and other overhead costs.	The document briefly refers to certain functions (production, administration, and selling) as potentially useful for reporting. However, no ideas on the types of disaggregation were proposed.	Various proposals: (a) Cost of sales should be disaggregated into its natural components of materials, salaries, fringe benefits, occupancy costs, property taxes, and other major costs. (b) Selling expenses should be displayed separately from general and administrative expense. (c) The portion of cost of sales, selling activities, and general and administrative expenses that is depreciation should be disclosed. (d) Depreciation and amortization should be separately disclosed. (e) Disclose the portion of costs and expenses on employee benefits.	The document is silent on functional or natural disaggregation of items.	The document is silent on functional or natural disaggregation of items.	Income and expense items would be disaggregated by function and by nature within the related functional groupings. A natural item should be displayed uniquely—outside of the functional grouping—if that item is viewed by management as unrelated to a function. Examples include gain on disposal of fixed assets, loss on a receivable, and impairment of goodwill.	Income and expense items should be disaggregated by function and by their nature within the related functional groupings.

FASB Reporting Earnings Task Force (1979)	**FASB Conceptual Framework ED (1981)**	**The Jenkins Committee (1994)**	**FASB and G4+1 Special Report (1998)**	**U.K. Accounting Standards Board ED (2000)**	**FSP Discussion Paper (2008)**	**FSP Staff Draft (2010)**
Minimum Lines	Minimum Lines	Minimum Lines	Minimum Lines	Minimum Lines	Minimum Lines	Minimum Lines
No minimum lines were suggested.	Minimum lines included: (a) Discontinued operations (b) Prior period adjustments.	No minimum lines were suggested.	Minimum lines included discontinued operations.	Minimum lines by section: *Operating* (a) Turnover. *Financing* (b) Interest pay/rec (c) Unwinding of disc. on long-term items (d) Income from treasury activities (e) Gains or losses on debt settlements or repurchases. *Other Section* (f) Revaluation G/L on PPE/investment prop. (g) G/L on disposal of properties (h) Actuarial G/L on pension plans (i) G/L on discontinued operations.	Minimum lines included (a) Income taxes (b) Discontinued operations.	Minimum lines included: (a) Revenue (b) Income tax expense (c) Discontinued operations (d) Interest expense.

Staff Note: All documents recommended minimum subtotals for each section, subsection, and category of the income statement. However, we have excluded (a) subtotals and totals and (b) items classified within other comprehensive income