



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

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

INFORMATION FOR OBSERVERS

Board Meeting: 13 December 2006, London

Project: Annual improvement process

Topic: Reporting compliance with IFRSs (Agenda Paper 10A)

-
1. The purpose of this paper is to discuss matters raised by the Board at the November meeting in relation to the issue below:

Issue: Should IAS 1 *Presentation of Financial Statements* be amended to provide guidance on situations where the financial statements of an entity are based on, but not in full compliance with, IFRSs?

Structure of the paper

2. The main body of this paper presents the background to this issue, discussion of the drafting issues raised by the Board in November and the (revised) proposed amendments to IAS 1.
3. A draft of the annual improvements Exposure Draft section relating to this issue has been included in the Appendix for reference purposes.

Staff recommendation

4. The staff recommends that IAS 1 should be amended in accordance with the proposed drafting in paragraph 18 of this paper.

Background

5. At the November Board meeting, the staff presented a paper on ‘Reporting Compliance with IFRSs’. This paper discussed situations where entities prepared financial statements in accordance with frameworks based on, but not fully compliant with, IFRSs. The staff believe there is potential for misunderstanding by the users of these financial statements.
6. The Board agreed to add requirements to IAS 1 for entities to disclose information about the differences between the framework used and IFRSs. However, the Board requested the staff to consider some drafting issues relating to the proposed amendments presented in the November paper.

Drafting issues

7. The proposed amendments to IAS 1 presented at the November Board meeting are reproduced below:

Fair presentation and compliance with IFRSs

- 14A Where the entity's financial statements are described as being based on IFRSs but are not fully compliant with IFRSs, the entity shall disclose:**
- (a) all instances where IFRSs are not complied with; and**
 - (b) indicate the significance of those differences to its financial statements.**

8. This paper discusses three of the drafting issues raised by the Board at the November meeting. Several minor drafting issues discussed by the Board have been incorporated into the revised proposed amendments (see paragraph 18) but have not been discussed.

Prominence of the disclosures

9. The Board discussed the location of the proposed disclosures in the notes to the accounts. Some Board members had a preference for requiring the disclosures to be the first note to the accounts. This would give prominence to the disclosures which would highlight their importance to the users.
10. Paragraph 105 of IAS 1 states that an entity's statement of compliance with IFRSs is normally the first note in the notes to the accounts. It would follow that a statement regarding differences from IFRSs should also be presented as the first note (in the place of the statement of compliance). The staff have proposed changes to paragraph 105 of IAS 1 to incorporate the disclosures relating to differences from IFRSs in the note hierarchy.

Location of the requirements

11. The Board discussed the location of the proposed amendments. It was suggested that the proposed amendments (designated as paragraph 14A)

should be combined with paragraph 14 (which outlines the statement of compliance with IFRSs). Another alternative was to link paragraph 14A to paragraph 14. Both approaches would have the effect of aligning paragraph 14A with 14. The staff chose to link 14A to 14 in order to make the requirements clear and obvious.

Alternative view

12. One staff member suggested that the proposed amendments should not be designated as paragraph 14A as this may encourage selective adoption of IFRSs. This staff members' suggestion was to place the amendment at the end of IAS 1 and not in the section titled 'Fair Presentation and Compliance with IFRSs'.
13. Other staff do not agree with this view. Locating the proposed amendments below (or combined with) paragraph 14 provides greater consistency in the standard. Requirements regarding areas of non-compliance with aspects of IFRSs should logically follow the requirements for compliance. Burying the non-compliance requirements in other sections of the Standard would be misleading to preparers.

Significance

14. The Board discussed the use of the term 'significance' in paragraph 14A(b). The purpose of paragraph 14A(b) was to require an entity to disclose the impact non-compliance with IFRSs had on the entity's financial position and performance. The Board thought that the use of this term was vague and confusing and that the staff should further clarify the requirement in the Standard and the Basis for Conclusions.
15. As a result, the staff replaced paragraph 14A(b) with a requirement to describe the difference between complying with IFRSs and the basis on which the financial statements were prepared (see paragraph 18).

Staff recommendation

16. The staff recommend that IAS 1 should be amended in accordance with the proposed drafting in paragraph 18 of this paper.
17. **Does the Board agree?**

Drafting

18. The following amendments are proposed to IAS 1 *Presentation of Financial Statements* should the Board agree with the staff recommendations:
- 14A When an entity refers to IFRSs in describing the basis on which its financial statements are prepared but is not able to make an explicit and unreserved statement of compliance with IFRSs, the entity shall:**
- (a) describe each difference between the basis on which its financial statements are prepared and IFRSs that is relevant to its financial statements; and**
 - (b) describe how the reported financial position and performance of the entity would have differed if the entity had complied with IFRSs.**
- 105 Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
- (a) a statement of compliance with IFRSs (see paragraph 14) or description of differences from IFRSs (see paragraph 14A);
 - (b) a summary of significant accounting policies applied (see paragraph 108);
 - (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented; and
 - (d) other disclosures, including:
 - (i) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

APPENDIX

Invitation to Comment

The International Accounting Standards Board invites comments on the amendment to IAS 1 Presentation of Financial Statements proposed in this Exposure Draft. It would particularly welcome answers to the question set out below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 1 not addressed in the Exposure Draft.

Question

The Exposure Draft proposes to include in IAS 1, a requirement for disclosure by entities that prepare their financial statements using a framework that is based on, but not fully compliant with IFRSs. Do you agree with the proposal? If not, why?

Summary of change

The change proposed in this Exposure Draft is to include disclosure requirements in IAS 1 *Presentation of Financial Statements* for entities that prepare their financial statements in accordance with a framework based on, but not fully compliant with, IFRSs.

The Exposure Draft proposes to require an entity that has used such a framework to provide disclosures about relevant differences between the basis on which its financial statements are prepared and IFRSs and disclose the impact of those differences.

Proposed amendments to IAS 1 *Presentation of Financial Statements*

In the Standard, paragraph 14A is added and paragraph 105 is amended (new text is underlined). For ease of reference, paragraph 14 is included although no changes are proposed to it.

Overall considerations

Fair presentation and compliance with IFRSs

14 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.

14A **When an entity refers to IFRSs in describing the basis on which its financial statements are prepared but is not able to make an explicit and unreserved statement of compliance with IFRSs, the entity shall:**

(a) describe each difference between the basis on which its financial statements are prepared and IFRSs that is relevant to its financial statements; and

(b) describe how the reported financial position and performance of the entity would have differed if the entity had complied with IFRSs.

- 105 Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
- (a) a statement of compliance with IFRSs (see paragraph 14) or description of differences from IFRSs (see paragraph 14A);
 - (b) a summary of significant accounting policies applied (see paragraph 108);
 - (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented; and
 - (d) other disclosures, including:
 - (i) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

Basis for Conclusions on Proposed Amendment to IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Reporting compliance with IFRSs

BC1 An entity might refer to IFRSs in describing the basis on which its financial statements are prepared without describing those statements as complying with IFRSs. For example, the accounting policies may be described as being ‘in accordance with IFRSs as adopted/modified for use in [country X]’. In some situations, a financial reporting framework based on IFRSs and the complete set of current IFRSs may not be significantly different. In other cases, however, such differences may have a significant effect on the reported financial position or performance of some or many entities. Consequently, such references may be misleading to users. Some users may expect there to be a close relationship between financial statements “based on” IFRSs and those in compliance with IFRSs. Further, users may not be able to identify the differences between a financial reporting framework “based on” IFRSs and the complete set of current IFRSs.

BC2 The Board decided that, when an entity refers to IFRSs as the basis of its financial reporting framework, it shall disclose each instance where IFRSs are not complied with, relevant to its financial statements. Further, it shall describe the difference between complying with the accounting required by IFRSs and that applied by the entity. This will enable users to make judgments about the usefulness of the information presented and the significance of those differences on the financial statements.