30 Cannon Street, London EC4M 6XH, England
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

INFORMATION FOR OBSERVERS

Board Meeting: **January 2006, London**

Project: **Performance Reporting – Segment A (Agenda Paper 5)**

Agenda Paper 5: Performance Reporting – Segment A sweep issues

Introduction

1. The purpose of this paper is to discuss issues that the staff identified in drafting the second pre-ballot draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements* (distributed to the Board for review on 9 January 2006).

2. There are six issues discussed in this paper:

   1 Composition of a complete set of general purpose financial statements.

   2 Proposed consequential amendments to IAS 34 *Interim Financial Statements*.

   3 Proposed consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

   4 Proposed amendments to titles of Standards.

   5 Presentation of dividends.

6 Round-table meetings.

Staff Recommendations

3. The staff recommends that:

(a) a complete set of general purpose financial statements includes a statement of financial position at the beginning of the period (paragraphs 4 to 9).

(b) an interim period is interpreted as the current year to date in the context of the presentation of a statement of financial position at the beginning and end of the interim period (paragraphs 10 to 22).

(c) IFRS 1 is amended to require first-time adopters to present a reconciliation of total recognised income and expense (or its equivalent) under previous GAAP to total recognised income and expense under IFRSs (paragraphs 23 to 28).

(d) the titles of IAS 7 *Cash flow Statements* and IAS 10 *Events after the Balance Sheet Date* are amended to IAS 7 *Statement of Cash Flows* and IAS 10 *Events after the End of the Reporting Period* respectively (paragraphs 29 to 31).

(e) dividends recognised as distributions to equity holders are not permitted to be presented on the face of the statement of recognised income and expense (paragraphs 32 to 34).

(f) the Board assess whether to hold round-table meetings on the Exposure Draft at the end of the comment period (paragraphs 35 to 37).

Staff Analysis

Issue 1: Composition of a complete set of financial statements

4. The proposed amendments to IAS 1 include a statement of financial position as at the beginning of the period in a complete set of general purpose financial statements.[1] The consequence of the proposed amendment is that an entity is required to present a third statement of financial position, at the beginning of the comparative period. For example, an entity presenting IFRS financial statements for the year ended 31 December 2007 would be required to present a statement of financial position as at 31 December 2007, 31 December 2006 and 31 December 2005/1 January 2006.

5. The reasons for the inclusion of a statement of financial position as at the beginning of the period in a complete set of financial statements is given in the draft Basis for Conclusions to the Exposure Draft.[the remainder of this paragraph is not included in observer notes].

6. The Board took this decision jointly with the Financial Accounting Standards Board (FASB) at its April 2005 meeting, at which time the decision resulted in convergence with US GAAP on the required financial statements. In December 2005, the FASB decided not to proceed with the publication of an Exposure Draft on Segment A of the performance reporting project. As a result, the proposed requirement to include a statement of financial position as at the beginning of the period is more onerous than the current requirements of US GAAP and also the Securities and Exchange Commission (SEC)[2].

7. A number of Board members have indicated to the staff that their preference would be to publish the Exposure Draft without the requirement for a statement of financial position as at the beginning of the period.

[1] Paragraph 8 of the proposed amendments to IAS 1.

[2] US GAAP does not require the presentation of a statement of financial position, although practice dictates that a statement at the end of the period is presented. The Concepts Statements include a statement of financial position at the end of the period in a full set of financial statements. The SEC requires the presentation of two statements of financial position, whilst requiring three income statements.

8. The staff recommends that the proposed amendments to IAS 1 include a statement of financial position as at the beginning of the period in a complete set of financial statements for the reasons given in the draft Basis for Conclusions.

9. **Does the Board agree that the Exposure Draft should include a statement of financial position as at the beginning of the period in a complete set of financial statements, and thus, that an entity is required to present three statements of financial position in its financial statements?**

Issue 2: Proposed consequential amendments to IAS 34

10. Assuming agreement with the staff recommendation on Issue 1, the Board needs to consider the implications of that proposed amendment to IAS 1 on IAS 34 *Interim Financial Reporting*. (Absent agreement with the recommendation on Issue 1, a discussion on Issue 2 is not required.)

11. IAS 34 paragraph 8 specifies the minimum components of an interim financial report as follows:

    (a) condensed balance sheet;

    (b) condensed income statement;

    (c) condensed statement showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;

    (d) condensed cash flow statement; and

    (e) selected explanatory notes.

12. The minimum components of an interim financial report are based on IAS 1's definition of a complete set of financial statements[3]. In addition, IAS 34 states that the form and content of interim financial statements may conform to a complete set of financial statements as defined by IAS 1, or condensed financial statements (the minimum components as described in paragraph 11 of this paper)[4].

---

[3] Paragraph 8 of IAS 1
[4] Paragraphs 9 and 10 of IAS 34

13. As noted in Issue 1, the Board decided that a complete set of financial statements should include a statement of financial position as at the beginning, as well as at the end, of the reporting period. Therefore, as a consequence, the staff's view is that the minimum components of an interim financial report should also be amended to include a condensed statement of financial position at the beginning, as well as at the end, of the interim period.

14. **However, in this context, should the 'interim period' be interpreted as the current interim period or the current financial year to date?**

15. The staff recommends that an interim period is interpreted as the current year to date for the following reasons:

    (a) The staff's view is that the wording of IAS 34 implies that an interim period is the current financial year to date (see paragraphs 16 to 17).

    (b) An interpretation as the current financial year to date results in no change to interim reporting requirements (see paragraph 21). An interpretation as the current interim period would result in additional interim reporting requirements when an entity prepares more than one set of interim financial statements (ie when it reports more frequently than half-yearly) (see paragraph 22). [the remainder of this paragraph has not been included in observer notes].

Interim period as defined in IAS 34

16. IAS 34 defines an interim period as "a financial reporting period shorter than a full financial year", which could be interpreted as the current interim period or the current financial year to date. For example, if an entity (with a financial year ending on 31 December) prepares interim financial statements quarterly, the interim period ending on 30 September could be interpreted to be the quarter ended 30 September, or the nine months ended 30 September. In this example, current IAS 34 refers to the quarter ended 30 September as the '*current* interim period'[5].

[5] Paragraph 20 of IAS 34.

17. The staff's view is that paragraph 20 of IAS 34 implies that an interim period should be interpreted as the current financial year to date. The requirements of paragraph 20 of IAS 34 are illustrated in Appendix A to IAS 34 as follows:

"Entity publishes interim financial reports quarterly

A2 The entity's financial year ends 31 December (calendar year). The entity will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 30 June 2001:

Balance sheet:

At	30 June 2001	31 December 2001

Income statement:

6 months ending	30 June 2001	30 June 2000
3 months ending	30 June 2001	30 June 2000

Cash flow statement:

6 months ending	30 June 2001	30 June 2000

Statement of changes in equity:

6 months ending	30 June 2001	30 June 2000"

18. The requirements suggest that the interim period is the 6 months ending 30 June 2001 (ie, information on profit, cash flows and changes in equity are required for the year to date), and that income statement information for the 3 months ending 30 June 2001 is given as supplemental information.

Consequences of the interpretation of 'interim period' as current interim period or as current financial year to date

19. As noted in paragraph 13 of this paper, the staff's view is that the minimum components of an interim financial report should be amended to include a condensed statement of financial position as at the beginning and end of the interim period.

20. Paragraph 20 of IAS 34 states that interim reports shall include a "balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year".

21. Therefore, assuming that the ‘interim period’ is interpreted as the current financial year to date, the amendment would not change the periods for which interim financial statements are currently required to be presented. This is because the beginning of the current financial year to date would be the same as the end of the immediately preceding financial year (as referred to in paragraph 20 of IAS 34 and in paragraph 20 of this paper).

For example, an entity has a financial year end of 31 December and reports on a quarterly basis as at 31 March, 30 June and 30 September. At 30 September, the beginning of the current financial year to date (start of 1 January) would be assumed to be the same as the end of the immediately preceding financial year (end of 31 December).

22. However, if the ‘interim period’ is interpreted as the current interim period, an entity’s interim reporting requirements would change as follows (illustrated by example for quarterly and half-yearly reporting):

For example, an entity has a financial year end of 31 December.

Scenario 1: The entity prepares interim financial statements on a half-yearly basis as at 30 June 2005. It has the following reporting requirements in relation to the statement of financial position:

30 June 2005:

Statement of financial position	Current IAS 34	Amendment to IAS 34
at	30 June 2005	30 June 2005
	31 December 2004	31 December 2004

The beginning of the current interim period (start of 1 January) is assumed to be the same as the end of the immediately preceding financial year (end of 31 December). Therefore, the interim reporting requirements for an entity reporting on a half-yearly basis would not change from current requirements.

Scenario 2: The entity prepares interim financial statements on a quarterly basis as at 31 March, 30 June and 30 September 2005. It has the following reporting requirements in relation to the statement of financial position:

31 March 2005:

Statement of financial position	Current IAS 34	Amendment to IAS 34
at	31 March 2005	31 March 2005
	31 December 2004	31 December 2004

30 June 2005:

Statement of financial position	Current IAS 34	Amendment to IAS 34
at	30 June 2005	30 June 2005
		31 March 2005
	31 December 2004	31 December 2004

30 September 2005:

Statement of financial position	Current IAS 34	Amendment to IAS 34
at	30 September 2005	30 September 2005
		30 June 2005
	31 December 2004	31 December 2004

If the interim period is interpreted as the current interim period, the entity is required to present one additional statement of financial position in its interim financial statements for the second and third quarters.

Issue 3: Proposed consequential amendments to IFRS 1

23. IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires a first-time adopter to include the following reconciliations in its first IFRS financial statements. The reconcilations are required to explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows:

    (a) reconciliations of its equity reported under previous GAAP to its equity under IFRSs for both of the following dates:

        (i) the date of transition to IFRSs; and

        (ii) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP;

    (b) a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period.[6]

    As an example, if an entity reported its first IFRS financial statement for the year ended 31 December 2005, presenting one year of comparative information and having reported its last financial statements under previous GAAP at 31 December 2004, the entity would be required to present:

    (a) a reconciliation of equity at 1 January 2004 and 31 December 2004; and

    (b) a reconciliation of profit or loss for 2004.[7]

24. In reaching its conclusions, the Board noted "that such disclosures are essential, in the first (annual) IFRS financial statements as well as in interim financial reports (if any), because they help users understand the effect and implications of the transition to IFRSs and how they need to change their analytical models to make the best use of information presented under IFRSs."[8]

---

[6] Paragraphs 38 and 39 of IFRS 1.
[7] Illustrative example 11 to IFRS 1 illustrates these requirements.
[8] Paragraph BC91 of IFRS 1.

25. The proposed amendments to IAS 1 require all components of recognised income and expense to be presented in either a single statement or two statements. This means that recognised income and expenses are not permitted to be recognised directly in equity as is the case today for certain income and expenses eg, revaluation gains and losses, translation gains and losses, valuation gains and losses on available for sale financial assets.

26. As a consequence of the proposed amendments to IAS 1 regarding recognised income and expense, should IFRS 1 be amended to require a reconciliation of total recognised income and expense, rather than profit or loss in an entity's first IFRS financial statements?

27. The staff's view is that there are two possible ways to think about this question:

(a) The proposed amendments to IAS 1 do not change the recognition and measurement of income and expenses, nor do they create any new disclosures of recognised income and expenses. They simply require the presentation of all income and expenses in either one or two statements, separate from owner changes in equity that are presented in the statement of changes in equity (ie, the presentation of certain components of recognised income and expenses is moved from the statement of changes in equity to a separate statement). Given the limited nature of the proposed amendments to IAS 1, the requirements in IFRS 1 regarding the explanation of transition of IFRSs should not be changed.

(b) The proposed amendments to IAS 1 emphasise that income and expenses are different to owner changes in equity, and that all components of recognised income and expense provide information useful for users of financial statements, not only those components that are recognised in profit or loss. Therefore, a first-time adopter should be required to reconcile total recognised income and expense under previous GAAP to total recognised income and expense under IFRSs, rather than profit or loss.

28. The staff recommends that the requirements of IFRS 1 in relation to the explanation of transition to IFRSs are changed to require a reconciliation of total recognised income and expense (or the previous GAAP equivalent) for the following reasons:

(a) The rationale for the requirements in IFRS 1 is to help users understand the effect and implications of the transition to IFRSs and how they need to change their analytical models to make the best use of information presented under IFRSs. The amendments to IAS 1 regarding presentation of income and expenses mean that users may have analytical models or change their analytical models such that information in those models include items of income and expense that are recognised both in profit or loss and outside profit or loss. It would be beneficial to those users to provide information on the effect and implications of the transition to IFRSs on all income and expenses, rather than only on those income and expenses recognised in profit or loss.

(b) Many other GAAPs may not include a notion of total recognised income and expense and some could argue that it is difficult to find a starting point from which to reconcile to total recognised income and expense under IFRSs. However, the staff would propose that the wording of IFRS 1 is amended to require a reconciliation of total recognised income and expense, *or its equivalent*, under previous GAAP to total recognised income and expense under IFRSs. The equivalent under previous GAAP could be profit or loss or net income.

Issue 4: Proposed amendments to titles of Standards

29. The proposed amendments to IAS 1 include the following changes to the titles of financial statements:

    (a) the balance sheet becomes the statement of financial position.

    (b) the cash flow statement becomes the statement of cash flows.

30. Consequently, the staff recommends that the titles of IAS 7 and IAS 10 are amended as follows:

    (a) IAS 7 *Cash Flow Statements* becomes IAS 7 *Statement of Cash Flows*

    (b) IAS 10 *Events after the Balance Sheet Date* becomes IAS 10 *Events after the End of the Reporting Period*.

31. **Does the Board agree?**

Issue 5: Presentation of dividends

32. The amendments to IAS 1 propose the following change to paragraph 95 of IAS 1:

    "An entity shall disclose, either on the face of ~~the income statement or~~ the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share."

33. The staff recommends this change to paragraph 95, without permitting such dividends to be presented on the face of the statement of recognised income and expense, because the statement of recognised income and expense presents non-owner changes in equity; it does not include any owner changes in equity. Dividends are distributions to owners (and thus, owner changes in equity) and as such, should be presented in the statement of changes in equity or in the notes.

34. **Does the Board agree?**

Issue 6: Round table meetings

35. At its April 2005 meeting, the Board decided to hold round table meetings to discuss the Exposure Draft to be published on Segment A of the performance reporting project. At that time, the Board had also decided that the Exposure Draft would include the requirement to present all recognised income and expenses in a single statement of earnings and comprehensive income. That tentative decision was changed at the Board meeting in November 2005.

36. [the beginning of this paragraph has not been included in observer notes]. Therefore, the staff recommends that the Board assess whether to hold round table meetings on the Exposure Draft at the end of the comment period.

37. Does the Board agree?