



**International  
Accounting Standards  
Board**

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

*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:**            **March 2006, London**

**Project:**                **Performance Reporting**

**Subject:**                **Scope, Objective, and Principles (Agenda Paper 6)**

---

1. At today's meeting, the Board will affirm the scope and objective of the FASB and the IASB's joint performance reporting project and discuss working principles for Segment B issues. The issues in Segment B relate to how information should be presented in the financial statements (including classification, display, and aggregation into subtotals and totals).

### **ISSUE 1: PROJECT SCOPE**

#### **Background and Staff Recommendation**

4. The Boards agreed in April 2004 and confirmed in April 2005 that the scope of the financial performance reporting joint project should extend beyond the income statement to include all of the required financial statements.
5. Before discussing Segment B issues, the staff would like the Boards to affirm and clarify the scope of this joint project. The following points describe the scope of the overall project as previously agreed to by both Boards:
- a. This project will address the organization and presentation of financial information on the face of the financial statements; it will *not* address recognition or measurement guidance that is provided in other Statements/Standards. The staff does not consider changes in display or

presentation requirements, including changes to the current required totals and subtotals, a change in recognition or measurement guidance.

- b. This project will address the necessity for totals and subtotals within the financial statements including the subtotal of net income/profit or loss. This project will assess whether to make changes to the mechanism of recycling as it is used today.
- c. This project will not include a *comprehensive* review of the notes to the financial statements. However, this project may result in amendments to existing disclosure requirements due to changes made to the face of the financial statements. In addition, this project may result in new disclosure requirements in areas where the project objective cannot be achieved on the face of the financial statements.
- d. This project will address all the financial statements that constitute a complete set of financial statements, not just the income statement/statement of recognised income and expense (statement of earnings and comprehensive income).
- e. This project will focus on a complete set of financial statements (most commonly annual financial statements); it will not address condensed financial information (most commonly interim financial information/reports). Reporting requirements for condensed financial information will be addressed in a later segment of this project (only by the FASB).
- f. The resulting standard will apply to *all* business entities (both public and nonpublic). However, the Boards will consider whether there should be different presentation provisions for financial institutions.
- g. The resulting standard will not apply to nonbusiness entities such as not-for-profit organizations or defined benefit plans (therefore, it will not amend or replace FASB Statements No. 35, *Accounting and Reporting by Defined Benefit Plans*, and No. 117, *Financial Statements of Not-for-Profit Organizations*).
- h. This project will not address:
  - (1) Management discussion and analysis or management commentary
  - (2) *Pro forma* measures (while pro-forma reporting, which is not part of GAAP, may diminish as the result of this project, reduction or elimination of pro-forma reporting is not an objective of this project)
  - (3) A comprehensive review of segment reporting requirements (FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and IAS 14, *Segment Reporting*). However, this project may result in amendments to the segment reporting requirements due to changes made to the financial statements. (Note: the IASB is addressing IAS 14 in a separate short-term convergence project.)
  - (4) Financial ratios (except EPS and other per-share amounts)

- (5) Forecasts of information
- (6) Nonfinancial ratios or other nonfinancial information
- (7) Financial statements for specific industries (except for, as noted in (f) above, how the implications of decisions in this project may affect the financial statements of financial institutions).

**Question 1:** Do the above points adequately describe the project scope (both what is included and what is excluded)?

## **ISSUE 2: PROJECT OBJECTIVE**

### **Background and Staff Recommendation**

6. The project objective is currently described as “to establish standards for the presentation of information in the financial statements that would improve the usefulness of that information in assessing the financial performance of a business enterprise.” The staff recommends that the term *performance* not be used in describing the project objective because it is an elusive term that means different things to different people. In addition, as noted in the previous issue on the project scope, this project is about more than just the income statement/statement of recognised income and expense, and many people think of *performance* only in terms of those statements.

7. In reworking the project objective to be more descriptive of what the Boards are trying to achieve, the staff looked to the decisions on the objectives of financial reporting reached by the Boards in their joint conceptual framework project. It follows from those decisions that the financial statements should be designed to provide information about an entity’s resources and claims to those resources (and changes therein) in a way that facilitates a user’s assessment of the amounts, timing, and uncertainty of cash flows.

9. The staff suggests that the project objective be re-oriented to be consistent with the overall objective of financial reporting. The staff recommends the following revised project objective:

**In this project, the Boards will address how the presentation of information in the individual financial statements (and in the financial statements as a whole) can be improved to help investors, creditors, and others fully understand an entity's financial position and changes in that position and use that information to assess the amounts, timing, and uncertainty of an entity's future cash flows.**

In doing so, the Boards will address the classification and display of line items in the financial statements, including their aggregation into subtotals and totals. In addition, the Boards will address how to best present information in the financial statements so that those statements are complementary.

**Question 2: Do Board members agree with the project objective as recommended by the staff?**

### **ISSUE 3: PROJECT NAME**

#### **Background and Staff Recommendation**

12. Assuming that a majority of both Boards agree with the project scope and revised project objective clarifying that the focus of this project is on more than assessing the performance of an entity, the staff recommends that the name of the project be changed to communicate that change in focus. The staff recommends that the name be changed to *Financial Statement Presentation for Business Entities*.

**Question 3: Do Board members agree with changing the name of the project to *Financial Statement Presentation for Business Entities*?**

### **ISSUE 4: PRINCIPLES**

#### **Background and Staff Recommendation**

13. Principles are necessary to aid the Boards in making specific decisions regarding *how* information should be displayed and presented in the financial statements. The staff proposes the following principles (they are in no special order; all have equal priority):

#### **Principle 1 (§15-18)**

Financial statements should present information in a manner that portrays a cohesive financial picture of an entity and is comparative and consistent from one period to another.

18. In Segment A, the Boards addressed the notion of cohesive and comparative, but not the notion of consistency. There are many reasons why financial statements may not be consistent from period to period. The staff would like the Board to confirm which type of items that cause financial statements to be inconsistent are within and outside the scope of this project. The staff proposes the following:

- a. Inconsistencies that focus on how an item is recognized and measured (such as, an accounting policy change or a business combination) are addressed in other Statements/Standards and therefore, *are not* included in the scope of this project (see paragraph 5a)
- b. Inconsistencies that focus on how information that has already been recognized and measured is displayed in the financial statements (such as a discontinued operations or an amount in the present period that is significant enough to require separate display whereas corresponding past amounts did not require separate display) *are* included in the project scope.

**Principle 2 (¶19)**

Financial statements should present information in a manner that helps a user assess the liquidity of an entity's assets and liabilities (nearness to cash or time to maturity).

**Principle 3 (¶20-21)**

Financial statements should present information in a manner that separates an entity's value-creating activities from its capital activities.

**Principle 4 (¶22-23)**

Financial statements should present information in a manner that helps a user understand:

- a. The different methods used to measure assets and liabilities
- b. The relative precision of those measurements
- c. What caused a change in reported amounts of individual assets or liabilities (such as a transaction or a change in value or measurement method).

**Principle 5 (¶ 24-28)**

Information in the financial statements should be disaggregated and categorized into groups that respond similarly to changes in the same economic condition.

24. In deciding how to apply the fifth principle, the Boards will consider differentiation in display and presentation by (a) nature or function, (b) gross or net, (c) continuing or discontinued operations, (d) before or after income taxes, (e)

expected or known volatility, and (f) the risks associated with the final settlement of the asset or liability.

29. The staff recommends that the Boards adopt those five principles as *working principles*. Those principles are consistent with the Boards' frameworks and support the project objective. As working principles, the staff will use the notions in those principles to develop application guidance for presentation of information in the financial statements. Once the Boards agree on working principles, the staff will refine those principles and address possible conflicts and the relative priority of each principle; however, we do not expect to change the substance of the principles.

**Question 4: Do Board members support the substance in each of the five principles and agree that they should be used as working principles?**  
**Are there *additional* principles that should be considered working principles?**

## **ISSUE 5: ADDITIONAL FINANCIAL STATEMENTS**

### **Background and Staff Recommendation**

31. In Segment A, the Boards decided that a complete set of financial statements should include:

- a. The statement of financial position for the beginning and end of the period
- b. The statement of earnings and comprehensive income (statement of recognised income and expense) for the period
- c. The statement of cash flows for the period
- d. The statement of changes in equity for the period.

The expectation is that the Boards would discuss in Segment B whether additional statements are warranted or if an existing statement should be eliminated.

32. The possibility of requiring an additional financial statement (for example, a statement of remeasurement-type items) has been discussed by various individuals at Board meetings and at meetings of the Joint International Group (JIG). The staff is working under the presumption that in developing solutions to meet the project objective, the starting point should be the existing financial statements (as modified to reflect Segment A decisions). To the extent the staff is unable to effectively meet the project objective (and user information needs) within the confines of the existing financial

statements, it will consider developing a new financial statement that would meet that objective. Similarly, the staff may consider eliminating an existing financial statement.

**Question 5:** Do Board members agree that in developing solutions to meet the project objective, the staff should start with the existing financial statements (as modified to reflect Segment A decisions)?

## **ISSUE 6: PURPOSE OF EACH FINANCIAL STATEMENT**

### **Background and Staff Recommendation**

33. The Boards do not intend to address the purpose of each *individual* financial statement in the near term (Phase E of the framework project will address this issue).

35. While the existing literature (FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and IAS 1, *Presentation of Financial Statements*) may not address the purpose of each individual financial statement, that literature should be of some benefit to the Boards in making decisions about presentation and display in the financial statements. Thus, the staff does not intend “defining the purpose of each financial statement” to be a separate issue that the Boards will deliberate and resolve in this project. However, to the extent the staff finds the existing literature (a) in conflict with the objective, principles, or resulting application guidance or (b) not adequate to resolve presentation and display issues that are within the scope of this project, the staff intends to modify or further clarify the purpose of each financial statement.

**Question 6:** Do Board members agree that defining the purpose of each financial statement is not an issue the Boards will deliberate and resolve in this project?

## **ISSUE 7: EARNINGS PER SHARE**

### **Background and Staff Recommendation**

36. The staff is working under the presumption that Board discussion of whether to keep EPS (or other per-share amounts) displayed in the financial statements should wait until the Segment B principles and their application have been exposed for comment (in an initial discussion document). Therefore, that initial discussion document would not include the Boards’ view on this issue. However, the document would include a

discussion of EPS and other per-share amounts in light of the project objective and a related question.

**Question 7:** Do Board members agree that the Boards should not discuss presentation of EPS or any per-share amount until after comments have been received on the initial document issued and that the initial discussion document would include a discussion of that issue and a related question, but it would not include the Boards' view on that issue?

## **ISSUE 8: CONFLICTING DECISIONS WITH THE IASB'S SEGMENT A EXPOSURE DRAFT**

### **Background and Staff Recommendation**

37. It has been suggested that the Boards should not make any Segment B decisions on scope, objective, and principles that would conflict with the IASB's March 16, 2006, Segment A Exposure Draft, *Proposed Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation*, before Segment A is finalized (for example, whether changes in assets and liabilities related to nonowners should be presented in a single statement).

38. Because Segment B is intended to be a comprehensive review of financial statement presentation, the staff contends that the Boards should not be constrained by what is proposed in the IASB's Segment A Exposure Draft. Accordingly, the staff recommends that the work on Segment B be sensitive to the progress of the IASB's work on Segment A, but not constrained by what is proposed in its Segment A Exposure Draft.

**Question 8:** Do Board members agree that Segment B decisions should not be constrained by decisions exposed in the IASB's Segment A Exposure Draft?

## **ISSUE 9: PLANS TO MOVE FORWARD**

### **Background and Staff Recommendation**

#### ***Project Plan***

40. After the Boards have agreed on and committed to the scope, objective, and working principles, the staff plans to hold a brainstorming meeting (with a mix of FASB and IASB members) to discuss the implications of those principles, application of those



principles along with possible solutions, and the prioritization of those principles (if necessary).

41. After the brainstorming meeting the staff would begin further developing solutions. Due to the interrelationship of the issues and solutions, the staff envisions that the next formal discussion at a Board meeting would focus on *all* of the principles and their application. The staff anticipates needing two or three Board meetings to reach closure on those issues (ideally, ending with the October 2006 joint Board meeting).

#### ***Initial Discussion Document***

42. With regard to Segment B, the Boards agreed that the first due process document should be similar to a Preliminary Views (FASB) or a Discussion Paper (IASB) (hereinafter the Document). The Document will be similar to an Exposure Draft in that it will include the more significant alternatives considered by the Boards, and indicate the Boards' preference for those alternatives. However, the Boards' preferences in the Document will be more *tentative* than in an Exposure Draft.

43. One of the primary reasons the Boards agreed to issue a Document prior to issuing an Exposure Draft is to provide an opportunity to educate and consult with our constituents about the issues in the project and the Boards' views on those issues. This is especially important due to the potentially far-reaching effects of the anticipated changes to how financial information is displayed and presented in the financial statements. Based on the above plans, the Boards should be able to issue a Document similar to a Preliminary Views/Discussion Paper in the first quarter of 2007.

#### ***Role of the Joint International Group***

45. In discussing the plans to move forward with Segment B, the staff (and certain Board members) has discussed how to best utilize the JIG. The JIG provides valuable input to the Boards and staff; however, we have to balance the benefits of meeting with the JIG on a regular basis with moving this project forward in a timely manner. Thus, the staff suggests that the Boards and staff receive a majority of the input from JIG members *outside* of a public meeting on a real-time basis. The staff would provide them with regular updates on the status of the project and ask for their input as the staff is

developing alternative solutions. This means that the staff would communicate with JIG members primarily on an informal basis (via email or over the phone).

46. While the staff intends to hold public meetings with the JIG, the staff thinks that a formal public meeting with the JIG as a group should be held only if there are issues the Boards wish to discuss with JIG members as a group. For example, we might hold a formal JIG meeting after the Boards initially discuss the application of the principles, but *before* completing Board discussion on those issues. The best time to do this might be in conjunction with a roundtable on the IASB's Segment A Exposure Draft.

**Question 9: Do Board members have any concerns with the plans for moving forward toward issuance of an initial discussion document as described above?**

**Do Board members have any concerns with the proposed plans regarding the JIG as described above?**