



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: 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: 18 July 2007, London

Project: Annual Improvements

Subject: Reporting Compliance with IFRSs (revised) (Agenda paper 5J)

1. The Board decided at the December 2006 meeting, as part of the Annual Improvements process, to amend IAS 1 *Presentation of Financial Statements* in respect of reporting compliance with IFRSs. The Board decided to include the following additional paragraph in IAS 1:

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 are applicable to its financial statements; and
- (b) describe how its reported financial position and performance of the entity would have differed if it had complied with IFRSs.

The Board also decided to require disclosure of a description of the differences from IFRSs when paragraph 14A applies (new text is underlined):

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.

A copy of the full proposed amendment discussed and agreed at the December 2006 meeting is included in the Appendix. This proposed amendment has been published as a near-final draft on the public website.

- 2. The amendment was proposed because an entity might refer to IFRSs in describing how its financial statements have been prepared, but without stating that those financial statements have been prepared in accordance with IFRSs. An example is when the financial statements are described as being “in accordance with IFRSs as adopted/modified for use in [country X]”. A concern exists that users of such financial statements might assume a close relationship between those financial statements based on IFRSs and financial statements in compliance with IFRSs. A statement describing the differences from IFRSs is expected to avoid inappropriate assumptions.

Concerns raised by SAC members

- 3. Members of the Standards Advisory Council have raised concerns over the proposed amendment. These concerns are:
 - (a) The statement of compliance with IFRSs should refer to “IFRSs as published by the IASB” to draw a greater distinction with a statement of compliance with “IFRSs as adopted for use in country X”. This would also align the compliance statement with the basis on which the SEC is proposing to exempt a Foreign Private Issuer from presenting a reconciliation with U.S. GAAP.
 - (b) The ability to refer to IFRSs in the financial statements and disclose the differences between the financial statements as presented and the financial statements prepared in accordance with IFRSs as published by the IASB should be restricted only to circumstances when:

- (i) the reporting framework which deviates from IFRSs published by the IASB is imposed by law or by an empowered authority in its jurisdiction; and
 - (ii) the reporting framework used is not significantly different from IFRSs as published by the IASB.
- 4. The staff does not believe that, in IFRSs, we should attach any qualifying phrase to our description of IFRSs. That is, we should describe IFRSs simply as IFRSs. The staff does not advocate the addition of the description ‘as published by the IASB’.
- 5. The staff believes that the other concerns described above can be addressed by amending the proposed changes to paragraph 14A. Suggested revised wording for paragraph 14A is as follows:

14A When an entity is required by law or by the relevant statutory authority to prepare its financial statements on a basis that is described by reference to IFRSs, but is not able to make an explicit and unreserved statement of compliance with IFRSs, the entity shall:

- (a) refer to the basis on which its financial statements are prepared;**
- (b) describe each difference between the basis on which its financial statements are prepared and IFRSs that are applicable to its financial statements; and**
- (c) describe how its reported financial position and performance of the entity would have differed if it had complied with IFRSs.**

Staff recommendation

6. The staff recommends that IAS 1 is amended as proposed in paragraph 8 of this paper instead of the proposed amendment included in the Appendix to this paper to address the concerns raised by the SAC members.
7. **Does the Board agree?**

Drafting

8. The staff recommends that IAS 1 should be amended as follows. Paragraph 14A is added. 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 is required by law or by the relevant statutory authority to prepare its financial statements on a basis that is described by reference to IFRSs, but is not able to make an explicit and unreserved statement of compliance with IFRSs, the entity shall:**
 - (a) **refer to the basis on which its financial statements are prepared;**
 - (b) **describe each difference between the basis on which its financial statements are prepared and IFRSs that are applicable to its financial statements; and**
 - (c) **describe how its reported financial position and performance of the entity would have differed if it 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 – Proposed Amendment discussed at the December 2006 Meeting

Proposed amendments to IAS 1 *Presentation of Financial Statements*

In the Standard, paragraph 14A is added. 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 are applicable to its financial statements; and
 - (b) describe how its reported financial position and performance of the entity would have differed if it had complied with IFRSs.
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 - (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).