



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: 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: 11 March 2008, London

Project: ED Annual improvements process–Comment analysis

Subject: IFRS 7 Presentation of finance cost (Question 3) (Agenda Paper 8G)

Introduction

- 1 This paper deals with question 3 in the annual improvements ED. The Board proposed an amendment to resolve the conflict between paragraph IG13 of the Implementation Guidance in IFRS 7 *Financial Instruments: Disclosure* and IAS 1 *Presentation of Financial Statements*.

- 2 IAS 1 precludes the presentation of net finance cost (or similar term) in the statement of comprehensive income, unless required or permitted by a Standard or an Interpretation. However, paragraph IG13 of the guidance on implementing IFRS 7 indicate that *total* interest income and *total* interest expense could be included as a *component* of finance costs. By indicating that ‘total interest income’ and ‘total interest expense’ disclosed in accordance with paragraph 20(b) might be a single component of finance costs, the guidance in paragraph IG13 is potentially in conflict with the requirements of IAS1. The Exposure Draft aimed to resolve this by proposing an amendment to Paragraph IG13 of IFRS 7 (as set out in paragraph 3 of this paper).

- 3 The staff does not intend to discuss these issues at the Board meeting unless otherwise requested by Board members.

Proposed amendment

- 4 The proposed amendment to IFRS 7 paragraph IG13 was as follows:

Total interest income and total interest expense (paragraph 20(b))

IG13 ~~The total interest income and~~ Total interest expense disclosed in accordance with paragraph 20(b) is a component of the finance costs, which paragraph 82(b) of IAS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts that arise on ~~non-financial assets or~~ non-financial liabilities.

Staff recommended action

- 5 The amendment to paragraph IG13 was a partial amendment. The title of the paragraph still refers to ‘interest income’ while the proposed amendment removed the reference to ‘interest income’ from the text of the paragraph.
- 6 The staff recommending amending the title to refer only to ‘Total interest expense’. The staff do not think that any other amendments to the proposal in the ED are required. (The proposed drafting is included in Appendix A of this paper.)

- 7 Question to the Board:

Does the Board agree with the staff recommendation?

Respondent comments

8 The majority of the respondents agreed with the proposal in the Exposure Draft or made no comment. As a result of the partial amendment some respondents have made some suggestions, that will be evaluated under the following headings;

- a. IAS 1 should be amended.
- b. IG 13 should refer to interest income as a component of revenue.
- c. Other comments made.

a. Suggested amendment to IAS 1

Respondent Comments

9 One respondent suggested amending IAS 1 rather than paragraph IG13 of IFRS7. This respondent suggested just amending IAS1.82(b) to refer to both interest income and interest expense rather than just referring to 'finance cost'.

10 The respondent noted that if this suggestion were to be adopted, separate presentation of interest income and interest expense would be required by IAS 1.82, even though they are described as components of finance cost in IFRS 7.

Staff evaluation

11 The Board's objective was to remove a potential conflict caused by implementation guidance in IFRS 7, not to rethink the requirements in IAS 1. These are being considered as part of the Financial Statement Presentation project.

b. Suggested amendment to paragraph IG13

Respondent comments

- 12 One respondent suggested that in IFRS7.IG13, reference could be made to link interest income to revenue in IAS1.82. This reference could explain that interest income is a component of revenue which should be presented separately from total interest expense.

Staff evaluation

- 13 The staff disagrees with amending paragraph IG13 to make reference to IAS1.82(a). Interest income will not always be classified as revenue because it will not always arise in the course of an entity's ordinary activities. It might therefore be presented under other income in some circumstances.

c. Other comments

- 14 Some comments have been made that do not directly relate to the question posed in the ED. The staff has set out these comments and evaluated them below.

| Respondent's comments | Staff evaluation |
|---|--|
| <ul style="list-style-type: none">One respondent asked the Board to clarify that the line item 'finance cost' set out in paragraph 82(b) of IAS1 is not a net amount of interest income and interest expense. | <ul style="list-style-type: none">The staff think that such a clarification is unnecessary. Whether or not an entity can offset its interest income and interest expense should be based on IAS1.32 and other relevant IFRSs and should not be based on IAS1.82(b)). |
| <ul style="list-style-type: none">Two respondents did not agree with the proposed amendment. They think | <ul style="list-style-type: none">In October 2004, the IFRIC discussed the presentation of 'net finance costs' |

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|--|---|
| <p>it is appropriate to include a line item in the statement of comprehensive income that presents the net of interest income and expense, provided that the two amounts are separately disclosed in the notes to the financial statements. They regarded the presentation of a single measure 'net finance cost' in the statement of comprehensive income as appropriate, provided that finance cost and finance income are disclosed in the notes to the financial statements.</p> | <p>and whether it is acceptable to present a line item 'net finance costs' (or a similar term) on the face of the income statement without showing the finance costs and finance revenue composing it. The IFRIC members noted that paragraph 81 of IAS 1 requires the face of the income statement to include line items that present, inter alia, amounts for revenue and finance costs. Paragraph 32 of IAS 1 disallows the offsetting of revenues and expenses (except where permitted by another Standard or Interpretation).</p> <p>The IFRIC members agreed that taken together, paragraphs 32 and 81 of IAS 1 preclude presenting 'net finance costs' (or a similar term) on the face of the income statement without showing the finance costs and finance revenue composing it. However, this does not preclude presentation of finance revenue followed immediately by finance costs and a subtotal (e.g. 'net finance costs') on the face of the income statement. The IFRIC agreed not to develop an Interpretation on this issue.</p> |
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APPENDIX A – Drafting suggestions

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

DRAFTING

~~Total interest income and~~Total interest expense (paragraph 20(b))

IG13 ~~The total interest income and~~Total interest expense disclosed in accordance with paragraph 20(b) is a component of the finance costs, which paragraph 82(b) of IAS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts that arise on ~~non-financial assets or non-financial~~ liabilities.