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International Accounting Standards Board

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Note: These notes are based on the staff papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.

INFORMATION FOR OBSERVERS

GPF Meeting: ***November 2008, London***

Project: ***Financial Statement Presentation***

(Agenda Paper 2)

PRELIMINARY FEEDBACK SESSION OF THE GLOBAL PREPARERS FORUM MEMBERS ON FINANCIAL STATEMENT PRESENTATION

INTRODUCTION

1. The Boards issued an initial discussion document explaining their preliminary views on Phase B of the financial statement presentation project on 16 October 2008.

OVERVIEW OF PRELIMINARY MODEL

2. The summary of the Discussion Paper is attached as appendix 1. The Discussion Paper questions for respondents are repeated in appendix 2.

3. The purpose of the agenda item is to allow initial feedback on the draft proposals.

DISCUSSION AREAS

1. The principles of cohesiveness and disaggregation for financial statement presentation; and

2. The potential impact of these principles on areas such as:

   – Cohesiveness as applied to areas such as defined benefit pension arrangements

   – Equity presentation potentially as part of financing

   – Whether the proposals facilitate the ease of ratio calculations

   – Statement of financial position presentation of assets and liabilities in line with cohesiveness or in order of liquidity

   – Desirability of single comprehensive income statement and suggested additional disclosures with regards other comprehensive income items

   see questions 1 – 18 in Appendix 2

3. What are the implications for preparers of a direct cash flow approach – see question 19 - 21

4. What is the practicality and desirability of the reconciliation schedule – see questions 23 – 25

5. Desirability of the presentation of unusual or infrequent events or transactions that are often presented as special items in earnings reports within reconciliation schedule as a memo account as suggested by FASB but not supported by IASB– see question 26

Appendix 1 – **DISCUSSION PAPER Preliminary Views on Financial Statement Presentation Summary**

Introduction

S1 How an entity presents information in its financial statements is vitally important because financial statements are a central feature of financial reporting—a principal means of communicating financial information to those outside an entity. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) initiated the joint project on financial statement presentation to address users' concerns that existing requirements permit too many alternative types of presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between the financial statements and the financial results of an entity.

S2 This discussion paper invites comment on the boards' preliminary views on a proposed model for presenting information in the financial statements. The model is designed to make an entity's financial statements more useful by requiring entities to provide detailed information organised in a manner that clearly communicates an integrated (cohesive) financial picture of an entity.

Objectives underlying the proposed presentation model

S3 The boards developed three objectives for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed objectives state that information should be presented in the financial statements in a manner that:

(a) portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible.

(b) disaggregates information so that it is useful in predicting an entity's future cash flows. Financial statement analysis aimed at objectives such as assessing the amount, timing and uncertainty of future cash flows requires financial information that is disaggregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows.

(c) helps users assess an entity's liquidity and financial flexibility. Information about an entity's liquidity helps users to assess an entity's ability to meet its financial commitments as they become due. Information about financial flexibility helps users to assess an entity's ability to invest in business opportunities and respond to unexpected needs.

Proposed format for financial statements

S4 The proposed presentation model requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).

(a) An entity should further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.

(b) An entity should present information about the financing of its business activities separately depending on the source of that financing. Specifically, information about non-owner sources of finance (and related changes) should be presented separately from owner sources of finance (and related changes).

(c) An entity should present information about its discontinued operations separately from its continuing business and financing activities.

(d) An entity should present information about its income taxes separately from all other information in the statements of financial position and cash flows. In its statement of comprehensive income, an entity should separately present information about its income tax expense (benefit) related to:

(i) income from continuing operations (the total of its income or loss from business and financing activities)

(ii) discontinued operations

(iii) other comprehensive income items.

S5 The table below illustrates the proposed classification scheme for the financial statements. (The section names are in bold italic type; required categories within sections are indicated by bullet points.) An entity may present the sections and categories within a section in a different order as long as the order is the same in each statement. Each section and category within a section would have a subtotal. The statement of comprehensive income would also include a subtotal for profit or loss or net income and a total for comprehensive income. The statement of changes in equity is not included in this table because it would not include the sections and categories used in the other financial statements.

Classification guidance

S6 To prepare financial statements using the classification scheme, an entity should first classify its assets and liabilities into the sections and categories in the statement of financial position; that classification will determine the classification in the statements of comprehensive income and cash flows. Classification should be consistent with how the asset or liability is used within an entity and the way an entity views its activities.

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business ◆ Operating assets and liabilities ◆ Investing assets and liabilities	*Business* ◆ Operating income and expense ◆ Investment income and expense	*Business* ◆ Operating cash flows ◆ Investing cash flows
Financing ◆ Financing assets ◆ Financing liabilities	*Financing* ◆ Financing asset income ◆ Financing liability expense	*Financing* ◆ Financing asset cash flows ◆ Financing liability cash flows
Income Taxes	*Income Taxes on continuing operations (related to business and financing)*	*Income Taxes*
Discontinued Operations	*Discontinued Operations, net of tax*	*Discontinued Operations*
Equity	*Other Comprehensive Income, net of tax* ---	*Equity*

An entity with more than one reportable segment should classify items according to how they are used in its reportable segments. This approach should allow management to communicate the unique aspects of its business(es) to users of its financial statements. The classification decision would reside with management and its classification rationale would be presented in the notes to financial statements as part of the accounting policy discussion. The boards support a management approach to classification rather than a prescriptive approach because they believe it will result in financial statements that reflect how management views and manages the entity and its resources.

Presenting a cohesive set of financial statements

S7 To present a cohesive set of financial statements, an entity should align the line items, their descriptions and the order of presentation of information in the statements of financial position, comprehensive income and cash flows. To the extent that it is practical, an entity should disaggregate, label and total individual items similarly in each statement.

Doing so should present a cohesive relationship at the line item level among individual assets, liabilities, income, expense and cash flow items.

How the financial statements might change

Statement of financial position

S8 As illustrated in the table above, the statement of financial position would be grouped by major activities (operating, investing and financing), not by assets, liabilities and equity as it is today.

The presentation of assets and liabilities in the business and financing sections will clearly communicate the net assets that management uses in its business and financing activities. That change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows should make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities.

S9 Assets and liabilities would be disaggregated into short-term and long-term subcategories within each category unless an entity believes presenting assets and liabilities in order of liquidity provides more relevant information. Totals for assets and liabilities and subtotals for short-term and long-term assets and liabilities would be presented in the statement of financial position or in the notes to financial statements.

Statement of comprehensive income

S10 The proposed presentation model eliminates the choice an entity currently has of presenting components of income and expense in an income statement and a statement of comprehensive income (two-statement approach) or, alternatively, of presenting information about other comprehensive income in its statement of changes in equity (US generally accepted accounting principles only). All entities would present a single statement of comprehensive income, with items of other comprehensive income presented in a separate section. This statement would include a subtotal of profit or loss or net income and a total for comprehensive income for the period. Because the statement of comprehensive income would include the same sections and categories used in the other financial statements, it would include more subtotals than are currently presented in an income statement or a statement of comprehensive income. Those additional subtotals will allow for the comparison of effects across the financial statements. For example, users will be able to assess how changes in operating assets and liabilities generate operating income and cash flows.

S11 Another important aspect of the boards' proposed presentation model is that an entity should disaggregate line items when such presentation will enhance the usefulness of the information in predicting future cash flows. In addition to classifying its income and expense items into the operating, investing and financing categories, an entity should disaggregate those items on the basis of their function within those categories. An entity should further disaggregate its income and expense items by their nature within those functions to the extent that this disaggregation will help users in predicting the entity's future cash flows.

• Function refers to the primary activities in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration.

• Nature refers to the economic characteristics or attributes that distinguish assets, liabilities, and income and expense items that do not respond equally to similar economic events. Examples of disaggregation by nature include disaggregating total revenues into wholesale revenues and retail revenues or disaggregating total cost of sales into materials, labour, transport and energy costs.

Statement of cash flows

S12 In the statement of cash flows, an entity should present separately the main categories of its cash receipts and payments for operating activities, such as cash collected from customers and cash paid to suppliers to acquire inventory (a direct method), rather than reconciling profit or loss or net income to net operating cash flows (an indirect method) as most entities do today. The boards observed that a direct method is more consistent than an indirect method with the proposed objectives of financial statement presentation. Presenting cash receipt and cash payment line items in the operating category provides a more useful disaggregation of cash flow information. In addition, a direct method presentation helps users relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments.

New reconciliation schedule

S13 The proposed presentation model includes a new schedule (to be included in the notes to financial statements) that reconciles cash flows to comprehensive income. This reconciliation schedule disaggregates income into its cash, accrual other than remeasurements, and remeasurement components (for example, fair value changes). Users analyse those components separately because the components often differ in their ability to help users predict future cash flows and assess earnings quality.

Costs and benefits

S14 The boards hope to learn about the costs and benefits of their proposed presentation model through the comment letters they receive on this discussion paper and through discussions with interested parties during the comment period. In addition, a number of entities will be field testing the proposed presentation model during the comment period. The boards will consider that input when they redeliberate the issues addressed in this discussion paper during the next stage of this project, the development of an exposure draft of a proposed standard.

Appendix 2: Questions for respondents

Chapter 2: Objectives and principles of financial statement presentation

1 Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

2 Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

3 Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

4 In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

5 The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

6 Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

7 Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

8 The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the

boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

9 Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

10 Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and US GAAP as proposed? Why or why not?

Chapter 3: Implications of the objectives and principles for each financial statement

11 Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect not to present a classified statement of financial position? Why?

(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

12 Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

13 Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

14 Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

15 Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

16 Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or

why not?

17 Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

18 Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

19 Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohensiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

20 What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

21 On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

Chapter 4: Notes to financial statements

22 Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

23 Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

24 Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

25 Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

26 The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

(b) APB Opinion No. 30 *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

(c) Should an entity have the option of presenting the information in narrative format only?

Question specific to the FASB

27 As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider

about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.