30 Cannon Street, London EC4M 6XH, United Kingdom
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:	**February 2009, London**
Project:	**Annual Improvements** IAS 1 *Presentation of Financial Statements:*
Subject:	**Presentation of the statement of changes in equity (Agenda paper 4C)**

Background

1. At the February 2009 Board meeting the staff will propose an amendment to IAS 1 *Presentation of Financial Statements* (as revised in 2007) regarding the presentation of the statement of changes in equity. Paragraphs 106 – 110 of IAS 1 set out the current requirements for the structure and content display of the statement of changes in equity. The staff proposes amendments to **paragraphs 106** and **107.**

2. A number of constituents have asked the IASB to clarify the content of paragraph 106(d) in IAS 1. In their view, the requirement to display a reconciliation between the carrying amount (beginning and end balances) for **each** component of other comprehensive income (OCI) is excessive.

3. In addition constituents have pointed out a potential conflict between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the implementation guidance, *Part I: Illustrative presentation of financial statements,* accompanying IAS 1. While the example displays only a single line for *total comprehensive income* (plus footnote information showing the underlying calculations for each amount which may or may not imply that more information should be shown directly on the statement of changes in equity) and additional lines for transactions with owners, the requirements in paragraph 106(d)(i)-(iii) seem to go further by requiring a separate display and reconciliation of beginning and ending balances **in** the statement of changes in equity of:

   i. profit or loss

   ii. **each** item of other comprehensive income; and

   iii. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

4. The content of paragraph 106(d)(i-iii) is a result of an amendment from IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008), which made *explicit* the requirement to present classes of accumulated OCI **in** the statement of changes in equity, along with profit or loss and transactions with owners. Constituents have interpreted paragraph 106(d) (ii) as a requirement to present **each** class of accumulated OCI **on the face** of the statement of changes in equity, which has created confusion among constituents.

5. Therefore, constituents have urged the Board to clarify:

   a. whether the reconciliation between the carrying amount at the beginning and end of the period for each class of OCI items was intended by the Board; and if so, if such presentation was intended to be made on the face of the statement of changes in equity or if disclosure within the notes is acceptable; and

b. to make the requirements in paragraph 106(d) (i)-(iii) consistent with the implementation guidance in IAS 1.

Staff Analysis

Guidance in IFRSs

6. Paragraph 7 of IAS 1 states that changes in OCI for the period are by definition "items of income and expense", but are also items "not recognised in profit or loss as required or permitted by other IFRSs".

7. For presentation purposes, paragraph 81 in IAS 1 requires an entity to present components of OCI either in a single statement of comprehensive income (together with components of profit or loss) or in a second statement of comprehensive income that begins with profit or loss and displays OCI items.

8. As mentioned above, paragraph 106(d) of IAS 1, as currently written, requires reconciliation for each class of *accumulated* OCI **in** the statement of changes in equity. In addition, particular standards already require reconciliation of certain classes of accumulated OCI in the notes to the financial statements, as shown below:

   a. **IAS 16 *Property, Plant and Equipment*** (par. 39) require the recognition of increases in an asset's carrying amount (as a result of a revaluation) in OCI and its accumulation under the heading of revaluation surplus. Paragraph 73(e) (viii) further requires a reconciliation of the carrying amount at the beginning and at end of the period, showing increases resulting from revaluations under paragraph 39. **IAS 38 *Intangible Assets*** (paragraphs 85 and 118 (e) (iii)) contains similar requirements for revalued intangible assets.

   b. **IFRS 5 *Non –current Assets Held for Sale and Discontinued Operations*** (par. 38) requires a separate presentation of any *cumulative* income or expenses recognised in OCI, related to a non-current asset (or disposal group) classified as held for sale. Paragraph 73(e)(ii) of IAS 16 and paragraph 118(e)(ii) of IAS

38 further requires a reconciliation of the carrying amount at the beginning and at the end of the period of assets classified as held for sale or included in a disposal group in accordance with IFRS 5.

c. **IAS 19** ***Employee benefits*** (par. 93A) permits the recognition of actuarial gains and losses in OCI and its recognition immediately in retained earnings. Paragraph 120A requires disclosure of actuarial gains and losses so recognised in the period.

d. **IAS 21** ***The Effects of Changes in Foreign Exchange Rates*** (paragraph 52 (b)) requires a reconciliation of net exchange differences recognised in OCI and accumulated in a separate component of equity at the beginning and end of the period.

e. **IAS 39** ***Financial Instruments: Recognition and Measurement*** A gain or loss on an available-for-sale financial asset shall be recognised in OCI until the financial asset is derecognised (par. 55b). Paragraph 95 (a) and 101 require the cumulative gain or loss on the effective portion of the hedging instrument that has been recognised in OCI from the period to remain separately in equity until the forecast transaction occurs. Paragraph 20 of **IFRS 7** ***Financial Instruments: Disclosures*** requires separate disclosure of the amount of gain and loss recognised in OCI during the period.

Guidance in US GAAP

9. Statement 130 *Reporting Comprehensive Income* has similar requirements to IAS 1 for the presentation of changes in OCI items, either in one single statement of comprehensive income or in a second statement of earnings and comprehensive income. However, it additionally allows the display of comprehensive income and its components in a statement of changes in equity.

10. Paragraph 26 in FAS 130 requires the separate display (from retained earnings and additional paid-in capital) of *accumulated other*

comprehensive income in a statement of financial position at the end of an accounting period. This is not a current requirement in IAS 1 for the statement of financial position.

11. Under FAS 130 paragraph 26, an entity can disclose the components of accumulated OCI on the face of a statement of financial position, in a statement of changes in equity, or in notes to the financial statements.

12. Paragraph 38(c) of FAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (December 2007) states that an entity shall disclose a reconciliation (at the beginning and the end of the period) of the carrying amount of total equity, equity attributable to the parent, and equity attributable to the non-controlling interest, **either** in the consolidated statement of changes in equity, **or** in the notes. That reconciliation shall separately disclose the following components: net income, transactions with owners and **each** component of other comprehensive income. Paragraph 106(d) (i-iii) of IAS 1 requires the presentation of these same components (refer to paragraph 3 of this paper) **in** the statement of changes in equity.

Should the reconciliation between the carrying amount at the beginning and end of the period for each class of OCI items be presented on the face or disclosed in the notes?

13. The requirements in IAS 1.106(d) and in particular standards confirm the Board's intent to require a reconciliation of accumulated carrying amounts for each class of OCI. IAS 1 requires this information **in** the statement of changes in equity and particular standards require reconciliation of certain classes of accumulated OCI in the notes. In US GAAP, Statement 160 *explicitly* allows that reconciliation either on the face or in the notes.

14. The staff would like to confirm with the Board whether the reconciliation between the carrying amount at the beginning and end of the period for **each** class of OCI should be made *necessarily* on the face of the statement of changes in equity (as required by IAS 1), as

this reconciliation **in** the statement of changes in equity has been misinterpreted as a presentation requirement on the face of the statement of changes in equity. Or, whether this reconciliation of each class of OCI could be presented **either** on the **face** of the statement of changes in equity or disclosed in the **notes** (as required by other particular standards).

15. The staff believes that the Board never intended to require the reconciliation between the carrying amount at the beginning and end of the period for **each** class of OCI *necessarily* **on the face** of the statement of changes in equity. The example of the statement of changes in equity within the implementation guidance, accompanying IAS 1, supports this fact. While the example displays only a line for *total comprehensive income*, there is footnote information showing the roll-forward of this single line, as part of the notes to the financial statements (refer to Appendix C) to avoid unnecessary clutter in the statement of changes in equity.

16. In addition, the staff notes that one of the main features in IAS 1 (as revised in 2007) is the segregation of owner changes in equity (in the statement of changes in equity), from non-owner changes in equity (in the statement of comprehensive income). Even though OCI items are simultaneously items of income and expense and components of equity (when accumulated), it seems intuitive that the face of the statement of changes in equity should give prominence to the display of owner changes in equity.

17. Consequently, the staff believes that the Board could confirm its intent to allow flexibility on the reconciliation disclosure for classes of accumulated OCI, by permitting entities to present them **either** on the **face** of the statement of changes in equity or disclose them in the **notes**. To achieve this, the staff considered two alternatives, which are discussed in the following paragraphs.

Alternative A

18. Alternative A would amend the first sentence in paragraph 106 to allow the presentation of the components of equity (including **each** class of accumulated OCI) **either** on the face of the statement of changes in equity **or** in the notes. This alternative shows a minor modification to paragraph 106 and allows flexibility to decide what information should go on the face of the statement of changes in equity or in the notes. In addition an advantage of this alternative is that paragraph 106(d) in IAS 1 and paragraph 38(c) in Statement 160 will remain convergent.

19. A drawback is that too much flexibility might impair the comparability of the presentation of the statement of changes in equity across entities.

20. The staff also proposes an amendment to current paragraph 107 in IAS 1. Entities may comply with this paragraph by either presenting dividends on the face or disclosing them in the notes. This seems contradictory with current paragraph 106d (iii) where transactions with owners (including dividends) are required to be shown *only* on the face of the statement of changes in equity. If the Board adopts alternative A, the reference in paragraph 107 to the amount of dividends would become redundant. Therefore, the staff proposes to delete the reference to dividends recognised in paragraph 107. The reference to per share amounts would remain.

21. **Appendix A** includes proposed drafting for Alternative A.

Alternative B

22. Alternative B would specify a “minimum content” on the face of the statement of changes in equity, similar to how current IAS 1 requires minimum line items for the statement of financial position and the statement of comprehensive income (paragraphs 54 and 82-83 of IAS 1).

23. Specifically, alternative B would replace paragraph 106 with paragraph 106A to include minimum content requirements on the face of the statement of changes in equity.

24. The required minimum components that should be reconciled on the face would be: share capital, retained earnings, *total accumulated other comprehensive income,* non-controlling interest and total equity. The minimum line items that should be included for each component of equity would be: profit or loss, total comprehensive income, the effects of retrospective application or retrospective restatement in accordance with IAS 8 and transactions with owners as owners.

25. In addition, alternative B includes an amendment to paragraph 107 to allow an entity **either** to present the reconciliation of each type of accumulated OCI on the face **or** to present a reconciliation of *total accumulated other comprehensive income* on the face of the statement of changes in equity and disclose the reconciliation of **each** class of OCI in the notes.

26. In the amendment to paragraph 107, alternative B would also delete the reference to dividends recognised. Per share amounts would be required either on the face or in the notes.

27. The advantage of Alternative B is that it gives a clearer structure and format to the statement of changes in equity and specifies minimum components, promoting comparability across entities. Likewise, similar to Alternative A, it gives flexibility on the presentation of each class of accumulated OCI (either on the face or in the notes) alleviating constituents' concerns that this information is excessive. However, although Alternative B meets current requirements in IFRSs and US GAAP for the presentation of equity components, it creates additional presentation requirements (e.g. additional line items not required before).

28. **Appendix B** includes the proposed drafting for Alternative B.

Staff recommendation

29. The staff supports **Alternative A** for practical reasons. The staff understands that at this stage the Board is not pursuing a significant amendment to IAS 1, provided that Phase B of the Financial Statement Presentation project will involve a full review of IAS 1 and major amendments to its content. This alternative represents a quick amendment that mitigates constituents' concerns about having excessive information on the face of the statement of changes in equity.

30. The staff is not proposing a reduction on the current information provided for the statement of changes in equity; instead, the staff proposes an alternative to provide the reconciliation for each class of *accumulated other comprehensive income* either on the face or in the notes to the financial statements to allow more flexibility and avoid unnecessary clutter in the statement.

31. Therefore the staff recommends:

    a. **To amend paragraphs 106 and 107 to allow the reconciliation for each class of *accumulated other comprehensive income* either on the face or in the notes to the financial statements.**

Questions for the Board:

1. **Was the Board intent to require the reconciliation between the carrying amount at the beginning and end of the period for each class of OCI items?**
2. **If so, where should that reconciliation be shown, on the face of the statement of changes in equity, in the notes, or either?**
3. **If the Board's intent is to show the reconciliation either on the face or in the notes, which Alternative does the Board support, Alternative A (staff's recommendation) or Alternative B?**

Implementation Guidance in IAS 1

32. The staff does not propose to modify the illustrative example of the statement of changes in equity included within the Implementation guidance in IAS 1 (shown in **Appendix C**), as preparers will have a choice to disclose a reconciliation of each class of accumulated OCI either on the face of this statement or in the notes.

Question for the Board:

4. **Does the Board agree <u>not</u> to modify the Implementation Guidance *Part I: Illustrative presentation of financial statements* for the statement of changes in equity in IAS 1?** (refer to Appendix C)

Effective date

33. The staff recommends that the Board include this item in the next exposure draft of *Improvements to IFRSs* expected to be issued in August 2009. Comment letters would be due in November 2009 and the final amendment issued in April 2010 with an effective date of 1 January 2011. Early adoption would be permitted.

Question for the Board

5. **Does the Board agree with the proposed effective date of 1 January 2011?**

APPENDIX A (Alternative A)

106 An entity shall present a statement of changes in equity showing in the statement or in the notes:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application

(c) [deleted]

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) each item of other comprehensive income: and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

107 An entity shall present, either in the statement of equity or in the notes, ~~the amounts of dividends recognized as distributions to owners during the period and the related amount per share~~ the per share amount of dividends recognized as distributions to owners.

APPENDIX B (Alternative B)

Information to be presented in the statement of changes in equity

106 [deleted]

106A The statement of changes in equity shall reconcile the following from the beginning to the end of the period:

(a) the following components of equity, as a minimum
  (i) Share capital;
  (ii) Retained earnings;
  (iii) Total accumulated other comprehensive income;
  (iv) Non-controlling interests
  (v) Other
(b) total equity

As a minimum, the statement of changes in equity shall include line items that present the following amounts for each component of equity:

a) Profit or loss
b) Total comprehensive income for the period;
c) The effects of retrospective application or retrospective restatement in accordance with IAS 8;
d) Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control

Information to be presented in the statement of equity or in the notes

107 An entity shall either present in the statement of changes in equity or disclose in the notes ~~the amounts of dividends recognized as distributions to owners during the period and the related amount per share. :~~

a) The line items required by paragraph 106A for each class of accumulated other comprehensive income; and
b) The per share amount of dividends recognized as distributions to owners.

APPENDIX C (current implementation guidance in IAS 1)

XYZ Group – Statement of changes in equity for the year ended 31 December 20X7

(in thousands of currency units)

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	Non-controlling interests	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year[a]	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
Balance at 31 December 20X6	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
Changes in equity for 20X7									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year[b]	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	200	–	–	–
Balance at 31 December 20X7	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

Notes for the statement of changes in equity

a The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus actuarial gains on defined benefit pension plans of 800 (1,333, less tax 333, less non-controlling interests 200).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, e.g. other comprehensive income related to available-for-sale financial assets for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less non-controlling interests 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

b The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus actuarial losses on defined benefit pension plans of 400 (667, less tax 167, less non-controlling interests 100).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, e.g. other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less non-controlling interests 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.