



Project	Financial Statement Presentation
Topic	Cover note

Issues to be addressed at the October 2009 joint meeting

1. The FASB and the IASB (collectively, boards) will consider the following proposals from the discussion paper *Preliminary Views on Financial Statement Presentation* at their joint meeting in October 2009:
 - (a) the use of the direct method to present operating cash flows in the statement of cash flows (SCF) [IASB agenda paper 7A/FASB memorandum 70A]
 - (b) the reconciliation schedule [IASB agenda paper 7B/FASB memorandum 70B]
 - (c) the by-function and by-nature disaggregation requirement for the statement of comprehensive income (SCI). This topic was also discussed at the IASB October 2009 meeting and the FASB October 22, 2009 education session. [IASB agenda paper 7C/FASB memorandum 70C]
 - (d) the definitions of the business and financing sections and possible categories within those sections [IASB agenda paper 7D/FASB memorandum 70D].
2. The objective for the joint meeting is for the boards to reach the same decisions on all the topics presented. However, the staff anticipate that the disaggregation topic may require consideration beyond the joint meeting. If the boards are able to support the general direction of the staff recommendations for the

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The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of IFRSs or U.S. GAAP do not purport to be acceptable or unacceptable application of IFRSs or U.S. GAAP.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

disaggregation topic, we will bring that topic back for further discussion in December.

Tentative decisions reached to date

3. Appendix A to this cover note is a table comparing the proposals in the discussion paper with the boards' tentative decisions to date. That table will be updated monthly, included with meeting materials provided to the boards, and posted to the joint project update page accessible from both the FASB and IASB website. This is the same table that was included with the boards' "October only" meeting materials.

Next steps

4. The staff plan to bring the following topics to the boards for discussion in:

November and December 2009

- (a) Statement of financial position
- (b) Financial services entity issues
- (c) Non-controlling interests
- (d) Basket transactions
- (e) Foreign currency exchange transactions
- (f) Segment disclosures
- (g) Bringing it all together – the core presentation principles and the resulting financial statements.

January 2010

- (h) Nonpublic entity scope issue
- (i) Overall costs and benefits of the presentation model
- (j) Transition and effective date.

Technical plan

5. The work plan for the financial statement presentation project envisages publication of an exposure draft in April 2010. The staff think that we are on track to meet that publication date. However, achieving the plan is contingent on the boards reaching **the same** decisions on the topics at the time the staff asks for a decision. For example, the boards must reach decisions on the SCF and the

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reconciliation schedule at the joint meeting. The staff is drafting the exposure draft as decisions are made at monthly board meetings. The staff plan to wrap up deliberations in January 2010 and meet with the project advisory groups in February 2010 to discuss an initial draft of the exposure draft. If we meet those targets, the boards should be able to ballot on the exposure draft so it is available in April 2010.

Appendix A: Summary of tentative decisions reached

This is a staff-prepared summary of the proposals included in the October 2008 discussion paper, *Preliminary Views on Financial Statement Presentation*, and the boards' tentative decisions made in deliberations to retain or change those proposals.

Discussion Paper – October 2008	Tentative Decisions as of September 2009
Scope	
<p>Affected Entities</p> <p>1.18. The Boards intend that the proposals in this Discussion Paper would apply to all entities except:</p> <ul style="list-style-type: none"> a. Not-for-profit entities. b. Entities within the scope of the IASB's forthcoming IFRS for Private Entities. c. Nonpublic entities (U.S. GAAP). d. Benefit plans within the scope of IAS 26, Accounting and Reporting by Retirement Benefit Plans, or FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans. 	<p>Not yet addressed</p>
Issues in the Scope of the Project	
<p>1.22. This project will not address recognition or measurement requirements provided in other standards for individual assets, liabilities, or transactions. Therefore, the Boards decided not to consider in this project whether to change existing requirements that describe:</p> <ul style="list-style-type: none"> a. Which items must or may be presented in other comprehensive income outside of profit or loss or net income b. Whether, when, and how items of other comprehensive income must be reclassified to profit or loss or net income (see paragraph 3.32). 	<p>Retain this aspect of the discussion paper (July 2009)</p>
Objectives of Financial Statement Presentation	
<p>2.4. The Boards propose three objectives of financial statement presentation, namely that information should be presented in financial statements in a manner that:</p> <ul style="list-style-type: none"> a. portrays a cohesive financial picture of an entity's activities b. disaggregates information so that it is useful in assessing the amount, timing, and uncertainty of an entity's future cash flows c. helps users to assess an entity's ability to meet its financial commitments as they become due and to invest in business opportunities. 	<p>Rewrite the objectives of financial statement presentation as core presentation principles. Explain how the core presentation principles relate to the conceptual framework for financial reporting. (July 2009)</p>
<p>Cohesiveness Objective</p> <p>2.5. An entity should present information in its financial statements in a manner that portrays a cohesive financial picture of its activities.</p>	<p>Retain cohesiveness as one of the core presentation principles. (July 2009)</p>

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Discussion Paper – October 2008	Tentative Decisions as of September 2009
<p>Disaggregation Objective 2.7. An entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing, and uncertainty of its future cash flows.</p>	<p>Retain disaggregation as one of the core presentation principles. (July 2009)</p>
<p>Liquidity and Financial Flexibility Objective 2.12. An entity should present information in its financial statements in a manner that helps users to assess the entity’s ability to meet its financial commitments as they become due and to invest in business opportunities.</p>	<p>Consider liquidity and financial flexibility in the context of the disaggregation principle, rather than as a separate core presentation principle. (July 2009)</p>
<p>Principles of Financial Statement Presentation and Related Application Guidance</p>	
<p>Presenting a Cohesive Set of Financial Statements 2.15. To present a cohesive set of financial statements, an entity should align the line items, their descriptions, and the order in which information is presented in the statements of financial position, comprehensive income, and cash flows.</p>	<p>Modify application of the cohesiveness principle so that cohesiveness is not necessarily required at the line-item level. (July 2009)</p> <p>Address application of cohesiveness principle at a future meeting.</p>
<p>2.16. The Boards’ preliminary view is that, ideally, financial statements should be cohesive at the line item level. Aligning line items across the financial statements should provide more information and increase the transparency of the information provided—something that users have requested repeatedly. However, alignment of every line in each of the three statements may not be feasible. The goal of line-item cohesiveness is for a user to find an asset or liability and the effects of a change in that asset or liability in the same or similar location in each financial statement and to be able to identify related information in different statements. In presenting information in its financial statements, an entity should comply with the spirit of that goal.</p>	
<p>Separating Information into Sections and Categories 2.19. An entity should 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).</p>	<p>Retain this aspect of the discussion paper (September 2009)</p>

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Discussion Paper – October 2008	Tentative Decisions as of September 2009
<p>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. (See paragraphs 2.31–2.33.)</p> <p>b. An entity should present information about the financing of its business activities separately depending on the source of that financing. Specifically, information about nonowner sources of finance (and related changes) should be presented separately from owner sources of finance (and related changes). (See paragraphs 2.34–2.36.)</p>	<p>Do not retain separate operating and investing categories (September 2009)</p> <p>Retain this aspect of the discussion paper (September 2009)</p>
<p>2.20. An entity should present information about its discontinued operations separately from its continuing business and financing activities. (See paragraph 2.37.)</p>	<p>Retain this aspect of the discussion paper (September 2009)</p>
<p>2.21. 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 income from continuing operations (the total of its income or loss from business and financing activities). An entity’s income tax expense (benefit) related to discontinued operations and other comprehensive income items should be presented in either the statement of comprehensive income or the notes to financial statements as required by IFRS and U.S. GAAP. If income tax expense or benefit relates to transactions with owners in their capacity as owners and IFRSs or U.S. GAAP require it to be charged or credited directly to equity, that income tax expense or benefit should be presented in the statement of changes in equity, not in the statement of comprehensive income.</p>	<p>To be addressed in October 2009</p>
<p>Presenting Meaningful Subtotals</p> <p>2.23. An entity should present subtotals and related headings for each section and category within a section in the statements of financial position, comprehensive income, and cash flows. An entity may present additional subtotals and headings if such presentation is helpful to understanding its financial position and changes in its financial position and if those subtotals and headings are presented consistently in the three statements.</p>	<p>Not yet addressed</p>

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Discussion Paper – October 2008	Tentative Decisions as of September 2009
<p>Classifying Information in the Sections and Categories</p> <p>2.27. An entity should classify its assets and liabilities in the business section and in the financing section in a manner that best reflects the way the asset or liability is used within the entity. This Discussion Paper refers to this as a management approach to classification.</p> <p>An entity with more than one reportable segment (as that term is defined in IFRSs and U.S. GAAP) should classify its assets and liabilities in the business and financing sections on the basis of the way those items are used in each of its reportable segments.</p>	<p>Retain this aspect of the discussion paper, but do not refer to it as “management approach to classification” (September 2009)</p> <p>Not yet addressed</p>
<p>2.28. Even though an entity uses a management approach to classify its assets and liabilities in the business and financing sections, it should refer to existing standards when classifying its assets, liabilities, and equity items in the income taxes section, the discontinued operations section, and the equity section. (See paragraphs 2.36–2.38.)</p>	<p>To be addressed in October 2009</p>
<p>2.29. To present information in a cohesive manner, an entity should present changes in its assets, liabilities, and equity items in the same section and category in the statement of comprehensive income and the statement of cash flows that the asset or liability is classified in the statement of financial position. In other words, the classification of assets and liabilities in the statement of financial position determines the classification of changes in those assets and liabilities in the statements of comprehensive income and cash flows. For example, an entity would classify its revenues, expenses, gains, losses, and cash flows related to operating assets and liabilities in the operating category in the statements of comprehensive income and cash flows.</p>	<p>Not yet addressed</p>
<p>2.30. An entity should present changes attributable to transactions with owners in their capacity as owners in the statement of changes in equity.</p>	<p>Not yet addressed</p>
<p>2.31. The business section should include assets and liabilities that management views as part of its continuing business activities and changes in those assets and liabilities. Business activities are those conducted with the intention of creating value, such as producing goods or providing services. The business section normally would include assets and liabilities that are related to transactions with customers, suppliers, and employees (in their capacities as such) because such transactions usually relate directly to an entity’s value-creating activities.</p>	<p>Discussed in September 2009, will continue to address at a future meeting.</p>

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<p>2.32. The operating category within the business section should include assets and liabilities that management views as related to the central purpose(s) for which the entity is in business. An entity uses its operating assets and liabilities in its primary revenue- and expense-generating activities. All changes in operating assets and liabilities should be presented in the operating category in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.</p>	<p>Do not retain separate operating category (September 2009). The boards will address disaggregation/groupings within the business section at a future meeting.</p>
<p>2.33. The investing category within the business section should include business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business. An entity may use its investing assets and liabilities to generate a return in the form of interest, dividends, or increased market prices but does not use them in its primary revenue- and expense-generating activities. All changes in investing assets and liabilities should be presented in the investing category in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.</p>	<p>Do not retain separate investing category (September 2009). The boards will address disaggregation/groupings within the business section at a future meeting.</p>
<p>2.34. The financing section should include a financing asset category and a financing liability category. Financing assets and financing liabilities are <i>financial assets</i> and <i>financial liabilities</i> (as those terms are defined in IFRSs and U.S. GAAP) that management views as part of the financing of the entity’s business and other activities. In determining whether a financial asset or financial liability is part of an entity’s financing activities, management should consider whether the item is interchangeable with other sources used to fund its business activities. For example, an entity could acquire equipment using cash, a lease, or a bank loan. The financing section would normally include liabilities that originated from an entity’s capital-raising activities (for example, a bank loan or bonds) because capital is usually raised to fund value-creating (business) activities. However, as discussed in paragraph 2.79, because of the management approach to classification used in the proposed presentation model, items classified in the financing section by a manufacturing entity may differ from those classified in that section by a financial services entity. All changes in financing assets and financing liabilities should be presented in the financing asset and financing liability categories, respectively in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.</p>	<p>In a change from the Discussion Paper, the boards agreed to be more specific in defining the <i>financing section</i>.</p> <p>The IASB decided to define the financing section as financial liabilities used as part of an entity’s capital raising activities that have an agreed-upon schedule of repayments with an interest component (and that interest component is either explicit or implicit). Items directly related to those financial liabilities, such as fees, would also be classified in the financing section. A derivative held as part of an entity’s non-equity sources of funding, regardless of whether it is an asset or a liability at the reporting date, would also be presented in this section.</p> <p>The FASB directed the staff to draft a definition of the financing section that includes at least two components: treasury assets and financing liabilities for discussion at a future meeting. (September 2009)</p>

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Discussion Paper – October 2008	Tentative Decisions as of September 2009
Statement of Financial Position	
<p>Presenting Information about Liquidity and Financial Flexibility of Assets and Liabilities 3.2. An entity should classify its assets and liabilities (except those related to a discontinued operation) in the statement of financial position into short-term and long-term subcategories of the operating, investing, financing assets, and financing liabilities categories unless a presentation based on liquidity provides information that is more relevant. In a presentation based on liquidity, an entity should present its assets and liabilities in increasing or decreasing order of liquidity, and it should present in the notes to its financial statements information about the maturities of its short-term contractual assets and liabilities. All entities should present information about the maturities of their long-term contractual assets and liabilities in the notes to financial statements.</p>	<p>The boards will address in November 2009</p>
<p>Presenting <i>Cash</i> in the Statement of Financial Position 3.14. Cash equivalents should be presented and classified in a manner similar to other short-term investments. An entity should not present any securities as part of cash in the statement of financial position.</p>	<p>The boards will address in November 2009</p>
<p>Disaggregating Similar Assets and Liabilities with Different Measurement Bases 3.19. An entity should disaggregate similar assets and similar liabilities that are measured on different bases and present them on separate lines in the statement of financial position.</p>	<p>The boards will address in November 2009</p>
<p>Total Assets and Total Liabilities 3.22. An entity should disclose total assets and total liabilities either in the statement of financial position or in the notes to financial statements. An entity that presents its assets and liabilities in short-term and long-term subcategories also should disclose subtotals for short-term assets, short-term liabilities, long-term assets, and long-term liabilities either in the statement of financial position or in the notes.</p>	<p>The boards will address in November 2009</p>

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Discussion Paper – October 2008	Tentative Decisions as of September 2009
Statement of Comprehensive Income	
<p>A Single Statement of Comprehensive Income 3.24. An entity should present comprehensive income and its components in a single statement of comprehensive income. Items of other comprehensive income¹ should be presented in a separate section that is displayed with prominence equal to that of all the other sections (for example, business or financing).</p> <p>a. The statement of comprehensive income should display a subtotal of profit or loss or net income for the period. b. The statement of comprehensive income also should display the total amount of comprehensive income for the period.</p>	<p>The boards implicitly agreed with this aspect of the discussion paper in July 2009. The FASB decided tentatively in its project on financial instruments to require a single statement of comprehensive income. The IASB plans to consider that issue in October 2009.</p>
<p>3.25. For each item in the other comprehensive income section except a foreign currency translation adjustment on a consolidated subsidiary (and a proportionately consolidated joint venture [IFRSs]), an entity should identify and indicate in the statement of comprehensive income whether the item relates to (or will relate to) an operating activity, investing activity, financing asset, or financing liability. (See paragraphs 3.37–3.41.)</p>	<p>Not yet addressed</p>
<p>3.26. An entity should reclassify an item in the statement of comprehensive income from the other comprehensive income section to one of the other sections or categories in that statement if and as required by existing standards. The item should be reclassified into the same category as the asset or liability in the statement of financial position that generated the income or expense.</p>	<p>Not yet addressed</p>
<p>Disaggregating Income and Expense Items 3.42. An entity should disaggregate by function income and expense items within the operating, investing, financing asset, and financing liability categories in the statement of comprehensive income to the extent that this will enhance the usefulness of the information in predicting the entity’s future cash flows.</p>	<p>The boards will address in October 2009</p>

¹Other comprehensive income comprises items of income and expense that an entity does not immediately recognize in profit or loss or net income as required or permitted by IFRSs and U.S. GAAP.

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<p>3.44. An entity should further disaggregate its income and expense items by their nature within those functions to the extent that this will enhance the usefulness of the information in predicting the entity’s future cash flows.</p>	<p>The boards will address in October 2009</p>
<p>3.48. An entity that does not disaggregate its income and expense items by function because such disaggregation would not enhance the usefulness of the information in predicting the entity’s future cash flows should nevertheless disaggregate those items by their nature to the extent that this will enhance the usefulness of the information in predicting the entity’s future cash flows.</p>	<p>The boards will address in October 2009</p>
<p>3.49. If an entity has an income or expense item that is not presented separately by function or nature and separate presentation of that item enhances the usefulness of the information in predicting the entity’s future cash flows, that item also should be presented separately in the statement of comprehensive income.</p>	<p>The boards will address in October 2009</p>
<p>Allocating Income Taxes in the Statement of Comprehensive Income 3.55. An entity should apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income. This may result in an entity presenting income tax expense or benefit in the discontinued operations and other comprehensive income sections in addition to the income tax section. An entity should not allocate income taxes to the business or financing section or to categories within those sections.</p>	<p>The boards will address in October 2009</p>
<p>Presenting Foreign Currency Gains and Losses in the Statement of Comprehensive Income Transaction Gains and Losses 3.63. An entity should present foreign currency transaction gains and losses, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.</p>	<p>Not yet addressed</p>

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Statement of Cash Flows	
<p>What is Cash in the Statement of Cash Flows? 3.71. An entity’s statement of cash flows should reconcile the beginning and ending amounts of cash.</p>	<p>The boards will address in October 2009</p>
<p>Disaggregating Cash Receipts and Payments 3.75. An entity should disaggregate cash receipts and payments within each of the sections and categories in the statement of cash flows in a manner that helps users to understand how those cash flows relate to information presented in the statements of comprehensive income and financial position. To accomplish that, an entity should present all of its cash flows directly, including its operating cash flows. This means that an entity should use a direct method of presenting its cash receipts and cash payments during the period.</p>	<p>The boards will address in October 2009</p>
Statement of Changes in Equity	
<p>3.84. An entity should present a statement of changes in equity that provides information about the beginning and ending amount of each component of equity and how each amount changed during the period. In preparing that statement, an entity should present the following:</p> <p>a. Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to the noncontrolling interest, if any</p> <p>b. 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:</p> <p>(1) Profit or loss or net income (2) Each item of other comprehensive income (3) 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</p> <p>c. For each component of equity, the effects, at the beginning of the earliest period presented, of retrospective application or retrospective restatement, recognized in accordance with IFRSs or U.S. GAAP.</p>	<p>Not yet addressed</p>
<p>3.90. The Boards did not reach a preliminary view on how to classify and present the effects of basket transactions in the statements of comprehensive income and cash flows. Instead, they decided to seek respondents’ views on that issue. The Boards note that a fundamental decision would be whether the effects should be:</p> <p>a. Classified in more than one section or category, thereby requiring an allocation of the total effect; or b. Classified in a single section or category, which would not require allocation of the total effect.</p>	<p>Not yet addressed</p>

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Notes to the Financial Statements	
Classification Accounting Policy 4.2. As a matter of accounting policy, an entity should explain its bases for classifying assets and liabilities in the operating, investing, financing assets, and financing liabilities categories and any change in its bases for classification.	Not yet addressed
Information Related to the Liquidity and Financial Flexibility Objective Operating Cycle 4.5. An entity with an operating cycle longer than one year should describe its operating cycle in the notes to financial statements.	The boards will address in November 2009
Contractual Maturity Schedules 4.7. An entity that presents its assets and liabilities in order of liquidity in the statement of financial position should present information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements.	The boards will address in November 2009
4.11. An entity should present information about the maturities of its contractual long-term assets and liabilities in the notes to financial statements.	The boards will address in November 2009
Information about Noncash Activities 4.16. An entity should disclose in the notes all relevant information about its significant noncash activities unless that information is presented elsewhere in the financial statements. An entity may describe the information in a narrative disclosure or summarize it in a schedule.	The boards will address in October 2009
Reconciliation Schedule 4.19. An entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into the following components: a. Cash received or paid other than in transactions with owners b. Accruals (including contractual accruals and systematic allocations such as depreciation) other than remeasurements² c. Remeasurements that are recurring fair value changes³ or recurring valuation adjustments⁴ d. Remeasurements that are not recurring fair value changes or valuation adjustments.	The boards will address in October 2009

²A *remeasurement* is defined as a change in the carrying amount of an asset or a liability attributable to a change in a price or an estimate.

³A *fair value change* (FASB) is a change attributable to a remeasurement of an asset or liability to fair value. A *recurring fair value change* arises when U.S. GAAP requires an asset or liability to be measured at fair value “on a recurring basis” as that notion is used in paragraph 32 of FASB Statement No. 157, *Fair Value Measurements*.

⁴A *valuation adjustment* (IASB) is a change attributable to remeasurement of an asset or liability to a current value. A current value includes fair value, fair value less costs to sell, value in use, and net realizable value. A *recurring valuation adjustment* arises when IFRSs require an asset or liability to be measured at current value every period (on a recurring basis).

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<p>Alternatives Considered 4.47. The Boards discussed two other multicolumn formats for presenting disaggregated information that would help users of financial statements understand the cause of a change in recognized amounts of assets and liabilities: the statement of financial position reconciliation and the statement of comprehensive income matrix. Those alternatives are described and illustrated in paragraphs B.10–B.22 in Appendix B.</p>	<p>The boards will address in October 2009</p>
<p>Unusual and Infrequent Events or Transactions 4.48. An entity should present information about unusual or infrequent events or transactions as part of the reconciliation schedule. [FASB’s preliminary view]</p>	<p>Not yet addressed</p>