Project	**Financial Statement Presentation**
Topic	**Definition of a remeasurement and related guidance**

Background

1. At the joint meeting in October 2009, the FASB tentatively agreed to require disaggregation of remeasurements on the statement of comprehensive income (SCI) in a columnar format. The IASB expressed a preference for presenting information about remeasurements in the notes to financial statements. Both boards seem to agree that providing this type of information could help users understand and assess an entity's performance, but there remains a lack of agreement on what exactly to disaggregate as a remeasurement. Both boards also agreed that the notes to financial statements should include a description or explanation of the remeasurement information presented on the SCI/in the notes. If that explanation accompanies the related analyses of change in the balance of the item, it would not have to be repeated elsewhere in the notes.

2. In December the boards considered a revised definition of a remeasurement and some additional guidance on what types of items would be included in the definition. However, a number of concerns were either raised or reiterated. The staff met with a subset of board members in late January to discuss those concerns and revisions to the definition.

3. This paper presents the definition and guidance the staff recommend be included in the exposure draft. This paper also explains the staff recommendation to include estimates and exclude some remeasurements from the presentation of

remeasurement information. At the February joint meeting we will ask the boards to reach a decision on the issues presented in this paper. We also will address those issues at the February 12, 2010 JIG/FIAG meeting, prior to the joint meeting.

Staff recommendation

Definition of a remeasurement

4. The staff recommend that the following definition of a remeasurement and related guidance be used for the purpose of presenting remeasurements on the SCI/in the notes and in the analyses of changes in significant statement of financial position (SFP) line items:

> A *remeasurement* is an amount recognised in comprehensive income that reflects the effects of a change in the net carrying amount of an asset or liability and is the result of:
>
> a. a change in (or transacting at) a current price or value,
> b. a change in an estimate of a current price or value, or
> c. *a change in any estimate or method used to measure the carrying amount of an asset or liability*.

5. In addition, the staff recommend that the sale of ordinary inventory (including the realised income from the market-making activities of broker-dealers) should **not** be presented as a remeasurement.

6. The staff also considered whether to exclude from the presentation of remeasurements other remeasurements that arise as a result of selling or holding ordinary inventory (e.g., reassessments of the collectibility of receivables or the write down of inventory to lower-of-cost-or-market). Although there are reasonable arguments for excluding these types of items, for the reasons explained below, the staff recommend that these items **be included** in the presentation of remeasurements.

Related guidance on the definition of a remeasurement

7. The following paragraphs provide an additional explanation of the remeasurement definition that would be included in the exposure draft.

8. A remeasurement includes (but is not limited to) changes in fair value (e.g., financial instruments), changes in the method of estimating an allowance for items measured at net realisable value (e.g., accounts receivable), asset impairments, including inventory impairments, and the realised gain/loss on the sale of property, plant, and equipment (PP&E).

9. A remeasurement does not include the initial recognition of an asset or liability, a change in an asset or liability attributable to the passage of time (e.g., the accretion of a liability), or routine allocations (e.g. depreciation, amortization).

10. A remeasurement also does not include the initial recognition of, or changes in, a provision or allowance associated with an asset or liability when that provision or allowance is recognized or changed as part of the initial measurement of the underlying asset or liability (e.g., the initial recognition of a reserve, or adjustments to an existing reserve, to reflect newly originated or acquired loans).

11. Similarly, the initial recognition of a net contract position would not be a remeasurement. However, adjustments to current period revenue arising from a reassessment of prior period performance would be disaggregated as a remeasurement. Similarly, the loss recognized on an onerous contract would constitute a remeasurement.

12. A remeasurement also does not include amounts that are "partially realised" during a period (e.g., the receipt of cash related to debt securities, dividends on equity securities, or rental income on investment properties). In such cases, the recorded values of the underlying assets or liabilities will decline, but not necessarily because expectations about future cash flows have changed.

Examples of remeasurements

13. Below is a table that illustrates, for some common assets and liabilities, the changes in carrying amounts that would be disaggregated as a remeasurement (that is,

included in the remeasurement column on the SCI or in the notes) and the changes that would not using the definition and guidance in paragraph 4. The amounts that relate to estimates (see paragraph 4c) are in italics.

	Presented as a remeasurement?	
Item	**Yes**	**No**
Revenues	• Gains/losses on derivatives to fix the sales price of anticipate sales • ***Adjustments to revenue arising from re-estimation of the contract receivable*** • ***Losses on onerous contracts***	• Gross margin earned on sale of goods • Spread earned by broker dealers • Initial recognition of and adjustments to allowance for sales returns
Costs of goods sold	• Gains/losses on derivatives hedging the purchase price of inventory • Changes in the market price of inventories measured at estimated market value • **Write down of inventory to lower-of-cost-or-market (if not routine or if for discrete projects)** • ***Adjustments to methods of estimating inventory value and COGS***	• Cost of sales
Bad debt expense (or other similar provisions)	• ***Revisions of existing allowance due to changes in the character of the receivable/portfolio such as deteriorating credit quality*** • ***Other income/expense arising from changes in the method of estimating allowance***	• Initial recognition of allowance for an individual account or portfolio, if recognized as part of the initial measurement of the associated asset • Routine changes in allowance
Pension expense / pension liability adjustment	• Return on plan assets • **Settlements/curtailments** • ***Actuarial gain/loss on obligations***	• Service cost • Prior service costs • Interest cost

	Presented as a remeasurement?	
Item	**Yes**	**No**
Depreciation and other gains/losses related to fixed assets	• Revaluation • Impairment • Disposal gains/losses • ***Change in depreciation estimates***	• Depreciation expense
Amortization and other gains/losses related to intangible assets	• Impairment • Disposal gains/losses • ***Change in amortization estimates***	• Amortization expense
Income/expense and other gains/losses related to financial investments	• OTTI • Holding gains/losses • Realized gains/losses	• Interest income • Dividend income
Income/expense and other gains/losses related to financial liabilities	• Changes in fair value • Realized gain/loss on retirement	• Interest expense
Investment property	• Changes in property values	• Rent
Income taxes	• **Changes in tax rates** • ***Revisions to valuation allowance on deferred tax asset/liability***	• Current period income tax expense
Foreign currency gain/loss	• All income/expense	

Note: No highlighting indicates a remeasurement to a price or an estimate of price
Bold highlighting indicates a remeasurement to a value or an estimate of a value
Bold and italic highlighting indicates a remeasurement due to a change in estimate or method.

Explanation of recommended changes to the definition and presentation

Changes in estimates

14. The primary change to the definition the boards discussed in December 2009 is part (c) of the definition in paragraph 4, which brings in the effect on current period income arising from changes in any estimate or method used to measure the carrying amount of an asset or liability. The definition of a *remeasurement* in the discussion paper did include changes in estimates (see definition below).

> A remeasurement is a change in the carrying amount of an asset or liability attributable to a change in a price or an estimate.

15. The staff initially revised the definition in the discussion paper to clarify that, while the definition applied to changes in the estimate of a price or value, the definition was not intended to include **all** changes in carrying amounts of assets or liabilities. Changes in the methods of allocating the original cost of assets to future periods, such as with depreciation amounts and some changes in bad debt allowances, would not be considered remeasurements because these changes do not reflect adjustments from the base price of the asset or liability to a current price or value. Rather, these reflect changes in the timing or pattern of expense recognition over time. The staff was able to clarify that point and still maintain the view of the boards (in the discussion paper) that users of financial statements are interested in information about changes in estimates.

16. The staff agree with the concern expressed by some board members that presenting only those changes that are tied to prices as remeasurements could be misleading by implying that the changes in *market* expectations somehow have different implications for the future than changes in *management* expectations. Unbiased changes in management estimates, just like unbiased changes in market expectations, should have a relatively low correlation with the changes in those same prices or estimates in future periods. Therefore, providing feedback on how both types of expectations have evolved during the period is likely to be useful to users of financial statements.

17. In addition, feedback from ITAC members at a recent meeting suggests that users of financial statements think that changes in estimates and other assessments that management has previously made about the measure of an asset or liability should be included in any segregation of remeasurements done in this project. The staff agree that users can better analyse an entity’s performance when they understand how changes in management’s estimates have impacted the carrying value of its assets and liabilities from one period to the next, as noted above.

18. It was observed in the small group meeting held in late January that US GAAP and IFRS require disclosure of the effect of a change in estimate if material. While this creates some redundancy in disclosure, the staff believe there is a benefit to having

the impact of these changes all in one place to clearly see the relationship to reported earnings and asset and liability carrying values. In addition, the existing requirement for an entity to report the effect of material changes in estimates mitigates the marginal cost of including these types of changes in the definition of remeasurements.

Possible exclusions

19. The other change to the definition is the notion that the sale of ordinary inventory (including the realised income from the market-making activities of broker-dealers) should not be presented as a remeasurement.

20. Although the sale of ordinary inventory at an amount different than carrying amount would, in principle, reflect a remeasurement, these remeasurements are fundamentally different in character than other types of realised remeasurements (e.g., the sale of PP&E). Whereas most realised remeasurements reflect a correction of previously estimated values (e.g., having previously taken too much or too little depreciation relative to the amount of consideration realised on disposition), the realised “remeasurement” that occurs when inventory is sold reflects the (previously unrecognised) gross margin from an entity’s major operations. Therefore, the staff is recommending that the sale of ordinary inventory (including the realised income from the market-making activities of broker-dealers) should not be presented as a remeasurement.

21. As with the selling of inventory, the decrease in value of inventory due to factors such as breakage, shrinkage, spoilage, or obsolescence also meet the proposed definition of a remeasurement. However, for many firms, inventories are routinely manufactured or otherwise produced on a large scale, repetitive basis, and so regularly experience predictable amounts of breakage, shrinkage, spoilage, and/or obsolescence. Some board members have expressed concern that capturing these costs as remeasurements offers little informational benefit to justify the cost of doing so. Similar arguments can be made for the cost of bad debt arising from trade receivables.

22. While the staff agree that such remeasurements are likely to be highly predictable for some firms, variation in these amounts (either between firms or for the same firm across time) can provide useful information to users about how firms manage their inventory and collections processes. In addition, allowing exceptions for these items would introduce subjectivity into the presentation of remeasurements. Therefore the staff is recommending that an entity not be permitted to exclude these "ordinary" remeasurements from presentation.

Staff analysis

23. The staff think that the definition proposed in paragraph 4 and related guidance will result in the presentation of information useful in assessing the persistence of comprehensive income components.

24. In particular, disaggregation of comprehensive income in this manner would help users identify those portions of current period income that are not the result of routine allocations (which affect future earnings in predictable ways) and help users identify those portions of current period income that are, instead, the result of changes in market prices, revisions in management's estimates, or the realisation of amounts that are different from the previously reported carrying value of an asset (other than inventory) or liability.

25. This information is important because changes in prices and estimates, if unbiased, should have a relatively low correlation with the changes in those same prices or estimates in future periods. In addition, this information is likely to be useful to users of financial statements because it provides feedback on how management's expectations (or, for fair values, market expectations) have evolved during the period.

Analysis of changes in significant asset and liability line items

26. Some board members asked about the interplay between the remeasurements presented on the SCI/in the notes and the "remeasurement" components that are required to be presented in the analysis of changes in significant SFP line items. The illustrations at the end of this paper show where and how a remeasurement

presented on the SCI/in the notes will be presented in the analysis of changes note disclosure. As can be seen in Note 1 (revenues and billings) and Note 3 (long-lived assets), the analyses of changes note will provide a place to disaggregate the various remeasurement amounts that can affect an asset or liability account. (Paragraph 24 of IASB agenda paper 4A/FASB memorandum 76A addresses the need to clarify that an entity should separately distinguish **within** each component any elements of change that are different.) The remeasurements in both notes have been highlighted to make it easier to identify where the remeasurement in the SCI.

Questions on remeasurement definition and related guidance
1. In paragraph 4, the staff recommend that the definition of a remeasurement include “a change in any estimate or method used to measure the carrying amount of an asset or liability.” **Do board members agree with that staff recommendation?** If not, do board members want to limit the definition to “changes in a current price or value or an estimate of a current price or value”?
2. In paragraphs 5 and 6, the staff recommend that an entity be permitted to exclude from the presentation of remeasurement information the sale of ordinary inventory, but not other “ordinary” remeasurements that relate to inventory and receivables. **Do board members agree with that staff recommendation**?
3. Paragraphs 8–13 provide guidance that the staff recommend be included in the exposure draft (as application guidance). **Do board members agree with including that guidance in the exposure draft?**

Illustration of remeasurements in the analysis of changes note disclosure

Note 1 - Revenues and Billings			
	Accounts Receivable	**Bad Debt**	**Customer Advances**
Beginning balance 1 January 2010	541,375	(13,534)	(425,000)
Collections from customers	(2,491,950)	-	(324,000)
Sale of receivables	(8,000)	-	-
Total Cash Changes	(2,499,950)	-	(324,000)
Revenue accrual	2,920,600	-	567,000
Write-offs	(12,960)	12,960	-
Accrual - adjustment for receivables growth	-	(23,068)	-
Remeasurement - change in estimates		**(5,302)**	
Remeasurement - loss on sale of receivables	**(4,987)**	-	-
Remeasurement - foreign exchange	**1,600**	-	-
Ending balance 31 December 2010	945,678	(28,944)	(182,000)

Note 3 - Long-lived Assets				
	PP&E	**Building Net**	**Asset Retirement Obligation***	**Lease Liability Including Interest**
Beginning balance 1 January 2010	3,041,500	23,500	(14,250)	(346,500)
Cash paid to purchase PP&E	54,000	-	-	-
Cash paid for lease	-	-	-	33,500
Cash paid for interest	-	-	-	16,500
	(37,650)	-	-	-
Total Cash Changes	16,350	-	-	50,000
Accrual - interest	-	-	-	(14,825)
Accrual - ARO recognition	14,580	-	(14,580)	-
Allocation - depreciation, accretion	(312,620)	(1,500)	(810)	-
Remeasurement - change in depreciation	**35,000**	-	-	-
Remeasurement - gain on sale of assets	**22,650**	-	-	-
Remeasurement - revaluation surplus	-	**5,620**	-	-
Ending balance 31 December 2010	2,817,460	27,620	(29,640)	(311,325)

* Amount is included as part of Other long-term liabilities (litigation + Decommissioning) in the Statement of Financial position.

Illustration of remeasurements in the statement of comprehensive income
(IASB: the remeasurement column would be presented in the notes)

	Comprehensive Income	Remeasurements
BUSINESS		
Operating		
Net sales-wholesale	2,786,871	15,000
Net sales-retail	697,520	
Total revenue	3,484,391	
Cost of goods sold		
Materials	(1,043,100)	
Labor	(405,000)	
Pension expense	(51,975)	9,000
Overhead-depreciation	(219,300)	**25,692**
Overhead-transportation and other	(160,800)	
Loss on obsolete and damaged inventory	(29,000)	(29,000)
Total cost of goods sold	(1,909,175)	
Gross profit	**1,575,216**	
Selling Expenses		
Advertising expense	(60,000)	
Compensation expense	(56,700)	
Bad debt expense	(28,944)	**(5,302)**
Other selling expenses	(13,500)	
Total selling expenses	(159,144)	
General and administrative expenses		
Compensation expense	(321,300)	
Pension expense	(51,975)	9,000
Depreciation expense-property plant and equipment	(58,320)	**9,308**
Depreciation expense-building	(1,500)	
Stock compensation expense	(22,023)	(6,250)
Interest expense on lease liability	(14,825)	
Other	(12,960)	
Research and development	(8,478)	
Litigation	(1,998)	(1,500)
Accretion expense on asset retirement obligation	(810)	
Total general and administrative expenses	(494,189)	
Income before other operating items	921,883	
Other operating		
Gain on disposal of PPE	22,650	**22,650**
Earnings in equity of affiliate A	23,760	
Realized gain on cash flow hedge	3,996	3,996
Loss on sale of receivables	(4,987)	**(4,987)**
Total other operating income	45,419	
Total operating income	**967,302**	
Investing		
Dividend income	54,000	
Gains on AFS securities	18,250	18,250
Earnings in equity of affiliate B	7,500	
Total investing income	**79,750**	
TOTAL BUSINESS INCOME	**1,047,052**	
FINANCING		
Interest expense	(111,353)	
Interest income on cash	8,619	
TOTAL FINANCING EXPENSE	**(102,733)**	
Income from operations before taxes	**944,319**	
Income tax expense	(333,625)	
NET INCOME	**610,694**	
OTHER COMPREHENSIVE INCOME (after tax)		
Unrealized gain on available for sale securities (investing)	17,193	17,193
Revaluation surplus (operating)	5,620	**5,620**
Foreign currency translation adjustment-consolidated subsidiary (operating)	2,094	**2,094**
Foreign currency translation adjustment on equity method investee (operating)	(1,404)	(1,404)
Unrealized gain on futures contract (operating)	1,825	1,825
Total other comprehensive income	**25,328**	
Total comprehensive income	**636,022**	