Project	**Financial Statement Presentation**
Topic	**Divergent issues**

Purpose and introduction

1. The purpose of this paper is to address and possibly resolve differences in the boards' tentative decisions to date.

2. As of the end of January 2010, the divergent tentative decisions are as follows:

   (a) The IASB tentatively decided to present information about **net debt** in the notes to financial statements. The FASB tentatively decided not to present any information about net debt in the financial statements.

   (b) The IASB tentatively decided to include the **minimum line item requirements** from IAS 1, *Presentation of Financial Statements*, in its exposure draft. The FASB tentatively decided not to include minimum line item requirements in its exposure draft.

   (c) The FASB tentatively decided that an entity should disaggregate **remeasurements** on the statement of comprehensive income (SCI) in a columnar format. Those two columns will be labelled *total comprehensive income* and *remeasurements*. The IASB tentatively decided that an entity should present information about remeasurements in the notes to financial statements.

   (d) The FASB tentatively decided to amend its **segment reporting** requirements to require an entity to:

      (i) Present a measure of operating cash flow for each reportable segment and reconcile the sum of operating cash flows of its reportable segments to operating cash flow as reported in the statement of cash flows (SCF).

(ii) Include a measure of operating assets and operating liabilities by reportable segment.

The IASB tentatively decided not to make those amendments to the segment reporting requirements.

(e) Because the IASB will not finalize the exposure draft to amend IAS 12, *Income Taxes*, prior to issuance of the FSP exposure draft, there is potentially a difference in how an entity **classifies deferred tax assets and liabilities** in the statement of financial position (SFP). While IAS 1 prohibits the classification of deferred taxes assets (liabilities) as current assets (liabilities), Topic 740 in US GAAP allows classification of deferred taxes as short term or long term.

3. The following paragraphs include the staff's recommendation on how to minimize the differences between the boards' exposure drafts on these issues.

Issue 1: Information about net debt

4. The IASB tentatively decided at its meeting on January 20, 2010, to require an entity to analyze changes in specific line items (all the line items in the debt category, cash, any short-term investments, and finance leases) and present those analyses in a single note disclosure. The IASB noted that those line items typically constitute what users of financial statements sometimes refer to as net debt; however, they did not want to label this as a net debt note disclosure. That note disclosure might look like the following (the entity does not have a finance lease).

Note X - Analysis of debt, cash, and short-term investments	Balance at 1 Jan 2010	Net cash flow	Other non-cash changes	Foreign exchange	Other remeasurements	Balance at 31 Dec 2010
Long-Term Debt	(2,050,000)	-	(100,000)	(1,353)	-	(2,151,353)
Short-Term Debt	(400,000)	(162,000)			-	(562,000)
Interest payable	(112,563)	83,515	(10,000)			(39,048)
Total	(2,562,563)	(78,485)	(110,000)	(1,353)	-	(2,752,401)
Cash	861,941	308,951		3,209		1,174,101
AFS Securities	485,000	(56,100)	18,250		26,450	473,600
Interest bearing deposits	240,000	23,760		(2,160)		261,600
Total	1,586,941	276,611	18,250	1,049	26,450	1,909,301
Net amount	(975,622)	198,126	(91,750)	(304)	26,450	(843,100)

5. Because net debt does not appear to be a concept that is important to users of US GAAP financial statements, the staff does not believe this is a significant difference between the boards' tentative decisions. Prior to issuing the discussion paper, the FASB decided not to require disclosure of information about capital that is required in IAS 1. Thus, if the FASB does not change its decision about this note disclosure, it will not be the only disclosure difference between the boards' exposure drafts.

Question 1

Does the FASB want to require an entity to analyze changes in specific line items (all the line items in the debt category, cash, any short-term investments, and finance leases) and present those analyses in a single note disclosure?

Issue 2: Minimum line items

6. Section 5.3 of the staff draft includes the minimum line item requirements for the SFP that will be in the IASB exposure draft. One could view disclosure of minimum line items as similar to providing a list of possible line items that an entity might include in the sections and categories in a given statement. Because the SEC requires minimum line items in Regulation SX, the staff does not think this is a substantive difference between the boards' decisions on this issue.

7. Section 6.3 of the staff draft includes the minimum line items that should be presented on the SCI. Those line items are primarily for subtotals other than the required subtotals (e.g., profit or loss before continuing operations before income taxes, discontinued operations, and other comprehensive income; and profit or loss). Therefore, the FASB may want to include the line item requirements that are in that paragraph (other than the line items specific to associates and joint ventures). The staff will suggest that the IASB move those two line item requirements (associates and joint ventures) to IAS 28, *Investments in Associates*, as part of the consequential amendment process.

Questions 2a and 2b
2a. Does the FASB want to require minimum line item requirements for the SFP in its exposure draft? 2b. Does the FASB want to require the minimum line items for the SCI that are in section 6.3 of the staff draft (modified as necessary for US GAAP)?

Issue 3: Presentation of remeasurement information

8. At their December 2009 meeting, the IASB tentatively decided to present remeasurements in the notes, knowing that the FASB had tentatively decided to present that information in the SCI. At the December 2009 joint meeting, the FASB was asked if it wanted to change its tentative decision to present remeasurements in the SCI; it did not. After that decision, the boards addressed how the exposure drafts would deal with the difference in views on presentation of remeasurements. The boards agreed that the exposure draft would present the respective board's preference and ask a question about the other board's preference.

Question 3
3a. Does the FASB want to retain its tentative decision on remeasurements (as presented in section 6.5 of the staff draft)? 3b. Does the IASB want to retain its tentative decision on remeasurements (to be modified using section 6.5 of the staff draft)?

Issue 4: Classification of deferred tax assets and liabilities

9. Paragraph 3.3 of the discussion paper proposed that:

> Deferred tax assets and liabilities should be classified as short-term or long-term according to the classification of the related asset or liability as now required by FASB Statement No. 109, *Accounting for Income Taxes*."[1]
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> [1][IAS 1] requires an entity to present deferred tax assets and liabilities as noncurrent in the statement of financial position. The Boards are working to align their income tax standards as part of a convergence project. The IASB plans to publish in 2008 an exposure draft of proposals to replace IAS 12. In that exposure draft, the IASB will propose, among other things, adopting the guidance in Statement 109 on the classification of deferred tax assets and liabilities. The FASB plans to solicit input from its constituents by issuing a Discussion Paper containing the IASB's proposed replacement of IAS 12.

10. In October 2009, the boards indicated that they would consider undertaking a fundamental review of accounting for income taxes at some point in the future. In the meantime, the IASB is considering how it should proceed with the proposals in the exposure draft. It is unlikely that the project will proceed in its current form.

11. Because of the likely change in direction on the boards' income tax projects, unless the IASB agrees to expose the proposal to classify deferred tax assets and liabilities as short-term or long-term in the same manner as deferred taxes are classified in US GAAP as part of the FSP project, this possibly will be another difference in the boards' exposure drafts.

Question 4
Does the IASB want to change the requirement in IAS 12 to classify all deferred tax assets and liabilities as long-term and instead require those assets and liabilities to be classified as either short-term or long-term consistent with their presentation under US GAAP?

Issue 5: Segment disclosures

12. The staff recommended the use of the segment note as a place to present by-nature information because it potentially provides a useful context for the information since reportable segments consist of operating segments that are

economically similar in several ways. The staff also considered the need for the by-nature information to align with the entity's consolidated information to remain decision useful.

13. Existing segment standards specifically require the presentation of a measure of segment profit or loss and a measure of segment assets by reportable segment. A measure of segment revenues is an implicit requirement because the guidance requires the total of segment revenues to be reconciled to an entity's consolidated revenues. All other items identified for presentation in the segment note are dependent upon whether they are included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise regularly provided to the CODM. Existing segment guidance permits non-GAAP or non-IFRS measures and asymmetrical allocation of items presented. The staff think that some amendments to the existing segment requirements are necessary to preserve the original reason for requiring the presentation of by-nature information in the segment note.

14. Only 8 of 99 responses to Question 8 in the discussion paper regarding the changes in segment disclosures were from respondents identified as users. While some responses were more specific than others, all eight respondents suggest a need for some level of alignment between the segment note and the consolidated financial statements.

15. In January, both boards tentatively agreed:

    (a) To require that the classification of items in the segment note be consistent with the classification used in the consolidated statements and

    (b) That an entity should reconcile the operating profit of its reportable segments to its consolidated operating profit.

16. The FASB also agreed to require disclosure of a measure of operating assets, liabilities, and cash flows by reportable segment. The FASB considered this a key improvement to the segment note disclosure. The IASB did not agree with requiring a measure of operating cash flow by reportable segment (IAS 7 encourages but does not require disclosure of cash flows arising from operating, investing, and financing activities of each reportable segment). Because the

IASB did not want to make any additional amendments to IFRS 8, they were not asked about disclosure of operating assets and liabilities for each reportable segment.

17. The staff think that the decision usefulness of by-nature income and expense information for each reportable segment is not complete without information about the related operating assets, operating liabilities, and operating cash flow by segment.

18. The staffs' first preference would be for the IASB to change their tentative decision and require disclosure of a measure of operating assets, liabilities, and cash flows by reportable segment. This would result in a converged decision and achieve the goal of providing by-nature information in the most useful context.

19. If the IASB does not want to further modify IFRS 8 and the boards want to reach a converged answer on this issue, the staff suggest that by-nature income and expense information be presented in a new separate note, not in the segment note. This has the benefit of all entities presenting by-nature information in a new note. (The staff will be discussing this idea at the upcoming working group meeting.)

Question 5

5a. Does the IASB want to change its tentative decision to not require a measure of operating cash flow by segment?

5b. Does the IASB want to require the presentation of a measure of operating assets and operating liabilities by reportable segment in the segment note?

5c. If the IASB does not agree with the FASB decisions to add a measure of operating cash flow, operating assets, and operating liabilities by reportable segment, do the boards want to require all entities to present by-nature information in a separate note?