Project	**Financial Statement Presentation**
Topic	**Transitional provisions**

Introduction

1. At the Working Group (WG) meeting, we would like to discuss some possible approaches for transitioning to the proposed financial statement presentation model. Based on WG input, the staff will develop alternatives and a recommendation for transition provisions to be included in the exposure draft. The staff expect to discuss transition with the boards in March 2010.

2. This paper does not discuss a proposed effective date because the boards have decided that an exposure draft should not include that information. The staff expect that a mandatory effective date would be no earlier than 1 January 2013, provided that the final standard is completed by June 2011.

Transitional provisions

3. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires any change in an accounting policy that is required by a new IFRS to be treated retrospectively unless that new IFRS provides specific transitional provisions. Accounting Standards Codification (ASC) Topic 250 *Accounting Changes and Error Corrections* has similar requirements for a change in accounting principle.

4. Retrospective application requires the adjustment of the opening balances of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy or principle had always been applied. Adjustments to previous amounts reported are usually recognized in the opening balance of

retained earnings (or other component of equity as appropriate) for the earliest period presented. IAS 8 and Topic 250 contain further guidance when retrospective application is impracticable.

5. Retrospective application ensures the comparability of financial statements with those of previous periods. It also allows users of financial statements to compare the financial statements of an entity over time to identify trends in its financial position, performance and cash flows for predictive purposes.

6. Nevertheless, retrospective application has some disadvantages. The main disadvantage is the considerable effort and cost to apply the requirements to prior year financial statements. In addition, information may not be available to restate financial statements of prior periods, requiring the use of possibly numerous assumptions.

7. Retrospective application would require an entity to apply the financial statement presentation requirements to previously issued financial statements. We understand that it would be impossible or at least cost prohibitive to require an entity to prepare a direct method statement of cash flows for prior years. There might be some other instances where the application of the proposed model to prior years could be impracticable.

Discussion questions—transitional provisions
1. Are there other aspects of the presentation model that would be difficult or impracticable to apply to prior year financial statements? If so, please describe. 2. We certainly think of the financial statement presentation model as a package of decisions. Would it be best to adopt the model comprehensively (that is, all at once), or could it be adopted on a piecemeal basis? For example, require classification into the new proposed sections and categories prior to requiring disaggregation of income and expenses by both nature and function? We would like to address this question from both the perspective of a preparer of financial statements as well as the perspective of a user of financial statements.

8. Another question the boards need to address is how many years of comparable data should be required. IAS 1 would require three statements of financial position (because this is a restatement of prior periods), two statements of comprehensive income, cash flows, and changes in equity. If the FASB agrees

to the comparative period requirements in IAS 1 (consistent with their Phase A decisions in 2005), then the US GAAP requirement would be the same. The staff recognize that the SEC currently requires three statements of comprehensive income (income statements), cash flows, and changes in stockholders' equity and two statements of financial position.

9. The staff think that users of financial statements will want as much comparable information as they can get. In our discussions with preparers of financial statements, some presume they will need to present three years of comparable data in the year of adoption (the current period and two comparable periods). The staff acknowledge that it may have been only US companies that have shared this view as they currently present three years of financial statements.

Discussion questions—transitional provisions

3. How many periods should an entity be required to be present on a comparable basis in the year of adoption? Is two years enough (current plus prior period), what about the current year and two prior periods in the year of adoption (three years)? If not, how many years should be presented for comparative purposes?

4. Another possible approach would be to allow the new format without comparatives to be presented alongside the old format with old comparatives for a single transition year. Is that an approach the boards should consider?

5. Some standards encourage earlier application. Should all entities be required to adopt the financial statement presentation standard in the same calendar year or should an entity be permitted to adopt the new standard early? In other words, is it okay if in the same calendar year some entities present their financial statements using the current presentation standards and others use the new presentation standard?

6. Are there other things that the boards should consider when addressing transitional provisions?