
Project	Financial Statement Presentation
Topic	Outreach update and project plan

Introduction and background

1. In June 2010, the boards decided to engage in additional outreach activities before finalizing and publishing an exposure draft on financial statement presentation (FSP). The boards indicated to the staff that the outreach activities should focus primarily on two areas: (a) the perceived benefits and costs of the proposals and (b) the implications of the proposals for financial reporting by financial services entities.
2. The boards indicated to the staff that, after carefully considering the results of the outreach activities, they may make modifications to one or more of their tentative decisions as reflected in the staff draft. However, the boards do not intend to comprehensively deliberate all aspects of the staff draft. Our outreach activities have focused on the following aspects of the staff draft:
 - (a) Presentation of cash flow information
 - (b) Disaggregation of income and expenses by both function and nature
 - (c) New note disclosures (analyses of changes in asset and liability line items and remeasurements)

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

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 IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

IASB/FASB Staff paper

- (d) Application of the cohesiveness principle, particularly whether the statement of financial position should include the sections, categories, and subcategory.
- 3. This paper summarizes the FSP outreach activities (completed and in process) as of October 6, 2010 and describes our plans for discussing issues with the boards prior to finalizing an exposure draft. At the October 2010 joint meeting, the FSP team will update the boards on their outreach activities.

Field visits

- 4. We have field visits planned with 10 companies; 6 in the United States and 4 in Europe. We will have held five visits by the time of the joint meeting. The field visit meetings have been very informative. The three main issues discussed are: direct method cash flow information, disaggregation of expenses by nature, and the analyses of changes (also referred to as rollforwards and information about movements).
- 5. We are gaining a better understanding of some of the financial reporting complexities companies face and of their reporting systems and processes. Companies are providing us with estimates of the cost and time that would be involved in implementing the proposals and with their views on possible alternatives to the staff draft proposals.
- 6. The companies we have met with are also gaining a better understanding of the proposals in the staff draft. Some common misunderstandings include the following:
 - (a) That an entity has to track actual operating cash inflows and outflows in preparing a direct method statement of cash flows. *The staff notes that an entity would be permitted to derive information about operating cash flows; that is, use an indirect-direct approach.*

IASB/FASB Staff paper

- (b) The components that are to be included in the analyses of changes (especially for inventory and property, plant and equipment) and that the components can vary for each line item.
 - (c) That there is no management judgment involved in classifying items in the predefined sections and categories. *The staff notes that there is judgment involved in some classification decisions.*
7. We have been meeting with companies and representative groups (at their request) to discuss their views on the staff draft. Like the field visits, these meetings focus on cash flow information, by-nature disaggregation, and the disclosures of analyses of changes and remeasurements. Some companies provided us with cost estimates and others provided us with their views on ways to modify the proposals to be less costly to implement.

Field testing

8. We are conducting three separate field tests, as described below:
- (a) About 12 nonpublic U.S. entities are recasting their financial statements, answering a questionnaire, and providing feedback regarding operationality of the proposed model. We plan to have a group of bank lending specialists perform credit risk analyses on the non-recast and recast statements of the nonpublic companies and provide written comments on how the presentation formats affected their assessment and eventual grading of each company that they reviewed.
 - (b) About 15 financial services entities (banks and credit unions) are recasting two years of financial statements using the staff draft. Those financial services entities also will answer a questionnaire and provide feedback regarding operationality of the proposed model. (Insurance companies were the only financial services entities that participated in the

IASB/FASB Staff paper

field test on the proposals in the October 2008 discussion paper, *Preliminary Views on Financial Statement Presentation* [DP field test]).

- (c) All 30 entities that participated in the DP field test have been asked to implement the draft proposals that differ from the October 2008 discussion paper (primarily the analyses of changes note disclosure and the by-nature segment information [U.S. GAAP only]) and complete a questionnaire that will supplement the questionnaire they completed as part of the DP field test. The questions will focus on differences between the proposals in the staff draft and the discussion paper.
- 9. The nonpublic company recast financial statements were due at the end of September; thus far, we have received recast financials from three companies. We expect the review and assessment of the recast financial statements by the bank lending specialists to be complete and available to the staff during the latter half of October. The staff will meet with the participating bank lending specialists during early November to discuss the results and issues related to the assessment of the private companies.
- 10. The recast financial statements from the financial services entities are due in the first half of October. We expect to receive completed questionnaires from the bank participants and the DP follow-up group throughout the month of October. However, a few companies will not be able to submit their questionnaire until the first week of November.

Financial services entities

- 11. We are currently receiving feedback from representatives from banks and insurance companies on the application of the staff draft proposals. We are also meeting analysts that cover financial services entities and asking about the benefits (or detriments) that they see with the proposals for those entities.

IASB/FASB Staff paper

12. Once we review the results of the recasting efforts by banks and credit unions, we plan to meet with a few banks to discuss application of the draft proposals to the financial statements of financial services entities.

Other meetings with constituents

Investors, analysts and other users of financial statements

13. The FASB team has been meeting with small groups of analysts at a variety of firms (primarily in NYC). We hope to meet with about 40 analysts, including credit and equity (buy and sell side) analysts. In addition to explaining the proposals in the staff draft and asking for their views on the potential benefits of the proposals, we are confirming the shortcomings of today's financial statements.
14. The IASB team has met with members of CRUF from the UK, France, and Germany, and plans to meet with CRUF members from Australia/New Zealand and the United States. During the meetings, CRUF members expressed interest in seeing before and after (recast) financial statements so that they can get a better understanding of the impact of the staff draft proposals and evaluate the benefits. The IASB team is currently approaching non U.S.-listed companies to find a company that is willing to recast its financial statements and share the results (anonymously) with various user groups.
15. The IASB team has also met with analysts of Japanese manufacturing companies and an analyst from a Japanese bank. In November, the staff will meet with a variety of users across Europe during its outreach activities with the European Financial Reporting Advisory Group (EFRAG) (see paragraph 19 below).
16. We prepared a case study file that includes specific examples of when financial statement presentation may have made a difference in resource allocation decisions. We are using those examples in our meetings with users to help explain the possible benefits of the new information/proposed model.

IASB/FASB Staff paper

17. On the investor page on each board's website we posted the following:
- (a) A PowerPoint package (without voice over) explaining the main aspects of the staff draft.
 - (b) A questionnaire for users asking for their input on the potential benefits (to them) of the draft proposals. The staff plan to email a link to this questionnaire to select user groups; we hope that other users of financial statements will complete the questionnaire after visiting the boards' investor pages.

Audit firms

18. In October, we will meet with each of the Big 4 audit firms (U.S. and global representatives) to discuss the following:
- (a) Any significant auditor implications related to the disclosures and reporting requirements proposed in the staff draft (in particular, the level of audit precision required for the analyses of changes and a direct method cash flow statement)
 - (b) Common trends in the nature of concerns and questions that the firm is receiving from their clients regarding the staff draft
 - (c) Aspects of the staff draft, including the examples, that they believe require further clarification prior to issuing the exposure draft.

EFRAG and national standard-setters

19. EFRAG, the European national standard setters, and the IASB, as part of the joint outreach activities, have arranged numerous meetings with constituents (preparers, analysts and standard setters) in various locations to discuss the FSP staff draft. Most of those meetings will be held in the latter part of November.

IASB/FASB Staff paper

20. The ASBJ and the IASB team discussed the staff draft proposals during three separate video conferences with financial institutions, analysts, and preparers from manufacturing companies.

Cash flow specific meetings

21. We held informal meetings with a small group of users in London and in New York City to discuss the information content of a direct method statement of cash flows. We are in the process of planning one or more meetings with a small group of preparers and users so that each group can better understand the views of the other. That is, so that users can explain to preparers how they would use disaggregated operating cash flow information and so that preparers can explain to users how difficult it is to compile operating cash inflows and outflows, depending on the level of disaggregation.

Other activities

22. With the assistance of board members we posted the following to the board's websites:
- (a) A brief podcast that explains why the staff draft was posted, provides a high level description of the proposals and changes from the discussion paper, and discusses planned outreach activities.
 - (b) A webinar that provides a technical overview of the proposals in the staff draft.
 - (c) A webinar discussing the tentative decisions on the statement of cash flows included in the staff draft.
23. We developed a variety of PowerPoint packages for use at various meetings and conferences.

IASB/FASB Staff paper

Questions about outreach activities

Question 1. Do board members have any questions about our planned or completed outreach activities?

Question 2. Is there additional outreach that we should be doing?

Identifying possible changes to the staff draft

24. As noted in paragraph 2, the staff's understanding is that we should not be making extensive changes to the staff draft; that is, we are not going to comprehensively review all of the tentative decisions included in the staff draft. The staff will consider asking the boards to make changes in the following scenarios:
- (a) We learn in our meetings with analysts and through the field test results that there is little or no benefit in a proposed change (when in fact the boards thought there was one in reaching a tentative decision). In that case, the boards will be asked to reconsider their cost/benefit decision on a particular issue.
 - (b) We learn in our field visits/meetings with preparers and through the field test results that it is not practically feasible to get the information necessary to accommodate a proposed change. In that case, the boards will be asked to consider a less costly way to achieve the desired outcome.
 - (c) We learn in our meetings with financial services entities that one or more aspects of the staff draft will not result in decision-useful information for financial services entities.
 - (d) We learn that an aspect of the staff draft is being misinterpreted and misapplied or has an unintended consequence.

Question about approach to identifying issues

IASB/FASB Staff paper

Question 3. Is the above paragraph consistent with your understanding of the circumstances in which the staff may ask the boards to reconsider a tentative decision prior to issuing the exposure draft?

Project plan/timetable

25. We plan to hold a working group meeting in the next couple of months. We have a half-day meeting planned for November 15, 2010, but may move that meeting to early December. The purpose of that meeting is to discuss the input received during our outreach activities and ideas for modifications to the staff draft.
26. At the December 2010 joint meeting the staff plan to:
 - (a) Present our findings from our outreach activities
 - (b) Discuss the aspect(s) of the staff draft that the boards may want to modify as a result of what we learned in our outreach activities.
27. At the January 2011 joint meeting, the staff plan to ask the boards to reach decisions on any changes to be made to the staff draft.
28. After the January 2011 joint meeting, the staff would like to be in a position to modify the staff draft and provide the boards with a preballot or ballot draft of an exposure draft.
29. Our goal is to issue the exposure draft in March 2011, consistent with the boards' stated goal of issuing an exposure draft in the first quarter of 2011.

Questions about the project plan

Question 4. Do board members have any questions or concerns about the staff plans for the next few months?

Question 5. Should the staff modify their plans or approach to identifying issues? If so, how and why?