Staff Paper	IASB/FASB Meeting 1st-2nd March 2011	IASB Agenda reference	**1 App D**
		FASB Agenda reference	**87 App D**

Project	**Financial Statement Presentation**
Topic	**Appendix D – Disclosure of Remeasurements**

INTRODUCTION

1. This appendix details what the staff learned in its outreach concerning the disclosure of remeasurements and it presents suggestions to improve the guidance included in the Staff Draft.

STAFF DRAFT PROPOSAL

2. The Staff Draft proposes that an entity disclose its remeasurements within a single note for each period presented. The remeasurements are to be presented by the section, category, and subcategory headings and line item descriptions that are consistent with those used in the statement of comprehensive income. A remeasurement is defined in the Staff Draft as an amount recognized in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of:

   (a) A change in (or realization of) a current price or value

   (b) A change in an estimate of a current price or value

   (c) A change in any estimate or method used to measure the carrying amount of an asset or a liability.

WHAT WE HEARD DURING OUTREACH ACTIVITIES

Field Visit Input

3. During our outreach, companies did not indicate any significant cost concerns with respect to preparing the remeasurement note. Most companies indicated that they currently compile, or can compile, remeasurement information using existing systems and processes and, therefore, the incremental cost would be minimal. The following issues were raised during the field visits:

   (a) The most common matter raised was that despite the number of examples included in the Staff Draft, many companies are confused about what is and is not a remeasurement. Companies we spoke with appear to be most confused over differentiating between charges recorded upon initial measurement at the time of recognition (for example, estimated warranty expense recorded at the time revenue is recognized) compared to adjustments recorded for subsequent measurement (for example, additional warranty expense recorded for an unexpected specific product recall).

(b) Some companies noted that credit memos issued for price adjustments and error corrections, which frequently occur in certain industries such as consumer products, would meet the definition of a remeasurement. These companies questioned the value of disclosing that type of remeasurement.

(c) Most companies expressed concern that the requirement to disclose remeasurements within the analyses of changes is redundant with the remeasurement note. The staff clarified that this would not always be the case because not all asset and liability line items are required to be included in the analyses of changes. Additionally, some remeasurements such as foreign currency translation would be reported in total in the remeasurement note, but would be reported at the account level in the analyses of changes.

Views of Financial Statement Users

4. Financial statement users expressed support for the disclosure of remeasurements because that information is useful in assessing trends and evaluating the quality of earnings and earnings sustainability. Most users indicated that having all remeasurements reported within a single note as required by the Staff Draft would be very useful.

5. Some analysts felt this was one of the most important aspects of the proposal. They appreciated the information in a single note and suggested analysts would immediately turn to this information to see what happened during the period that may or may not require an explanation or adjustments. Currently, items appear net within revenue or other income and users often are not certain what those items are. The remeasurement note would highlight many of those figures. One analyst noted that these items sometimes are commented on during a conference call but do not appear in the financial statements.

6. There was some concern that the remeasurement note would be used to highlight items as nonrecurring (such as change in bad debt reserve estimates) that are actually viewed by most analysts as recurring.

7. Some analysts noted the redundancies between the remeasurements note and other disclosure requirements. They thought the note was not essential if it mostly repeated information (for example, impairment losses, gains on sale) that appeared elsewhere in the financial statements and is already being factored into their analyses.

8. One analyst felt there were some numbers in the note that would represent new information, or at least consistent reporting of information, (for example, losses on inventory impairment), which sometimes get buried in 'Other' income or expenses. The same analyst thinks the separation of realized and unrealized remeasurements would be an important distinction to make.

9. Some analysts cautioned about the way remeasurements are being defined and the potential of giving too much weight to "remeasurements". In other words, if an item is a remeasurement, but it is recurring and persistent, they did not feel it should appear in the note. Whereas others felt that the definition of remeasurement should be any item that affects the income statement that does not result from a transaction. Therefore, the gain/loss on disposal of PP&E would not be included because it resulted from a transaction (the sale), while total bad debt expense would be included, not just the amount that results from a change in the estimates used in arriving at the bad debt expense for the period.

10. All analysts agreed with the inclusion of items measured at fair value each period in the remeasurements note. However, there was significant concern over the operationality of excluding initial reserves from the definition of remeasurements but including subsequent changes in those reserve estimates.

Other Input Received During Outreach Activities

Auditors

11. During our meetings held with the Big 4 public accounting firms, the firms raised similar points as the preparers regarding the remeasurement note. While some of the firms questioned the usefulness of this note disclosure, they did not perceive this requirement as being onerous in terms of preparation efforts and related costs.

Field Test Results and/or Feedback

12. Field test findings were consistent with the observations from the field visits described above.

Financial Services Entity Issues

13. Some financial services entity analysts felt that remeasurements could be the most significant aspect of the project for financial services companies because almost every line on a financial services entity's Statement of Financial Position (SFP) is remeasured.

14. One analyst was most interested in the impact of changes in measurements that management has control over. This analyst did not think it was particularly helpful to see changes attributable to interest rates each period in the remeasurement note since management does not have control over rate changes, the changes can be volatile, and it does not have relevance for assets that are held for collection of cash flows.

15. Some financial services entity analysts felt that presenting remeasurements would be difficult to operationalize for banks given the difficulty of separating initial and subsequent loan loss measurements in open loan portfolios. Thus, the definition of remeasurements in the Staff Draft likely would lead to the presentation of confusing information. They suggested that the remeasurement information be split so that an entity would disclose the provision on a new loan separate from a change in the provision on existing loans so that the total provision could be observed.

16. There was some confusion over the purpose of the disclosure if the remeasurements are possibly recurring, which they believed would be the case with the build up of a loan loss reserve.

17. One financial services entity analyst said that he can see potential harm in disclosing all remeasurement information in a single note. He said that a single note might signal to investors that the amounts (and lines) shown in the remeasurement note are related to one another.

18. One analyst felt that fair value remeasurements should be separated into Level 1, 2, and 3 and tied back to the SFP so that remeasurements can be understood in context of the face of the financial statements.

19. An insurance analyst said the remeasurements of the insurance liability could be very important depending on the outcome of the boards' insurance project.

20. Several analysts commented that knowing the source of the remeasurements (change in assumptions, change in mix, interest rates, etc.) would be essential in understanding the remeasurements note.

STAFF ANALYSIS AND POSSIBLE MODIFICATIONS

21. Based on our outreach activities, it appears that there are mixed views on whether all remeasurements should be presented in a single note or only within the analyses of changes.

22. In addition, the staff received feedback that it should consider modifying or clarifying the definition of a remeasurement, and the objective of disclosing remeasurement information. For example, the staff was told that it would be helpful to clarify that an amount recorded as part of an initial measurement at the time of recognition is not a remeasurement, while a subsequent measurement adjustment is a remeasurement. An example that illustrates this modification would be that when an entity records an estimate of bad debt expense at the time of revenue recognition based upon historical collection experience that expense would not qualify as a remeasurement. If that entity then records additional bad debt expense in a subsequent period due to an unexpected specific customer bankruptcy, that expense would qualify as a remeasurement.

23. The staff also received feedback that the separation of realized and unrealized remeasurements included in the note would be an important distinction to make.

24. The staff may ask the boards to consider modifications to the definition of a remeasurement and the objective of the disclosure requirement in the Exposure Draft. The staff believe that this will improve preparers' and users' understanding of this new disclosure requirement and will assist preparers and practitioners during the implementation process.

25. The staff also may consider the concerns raised about the remeasurments note such as disclosing both realized and unrealized remeasurements and whether

there are alternate ways in which this information should be communicated. The staff may ask the boards to consider changes based on that work as well.

26. The staff thinks that considering the issues above will address the operationality concerns of the remeasuremnt note while providing information that our outreach has identified as useful.