



Staff Paper

Project **Financial Statement Presentation**

Topic **Outreach Summary and Project Direction**

INTRODUCTION AND BACKGROUND

1. In June 2010, the boards decided to engage in additional outreach activities before finalizing and publishing an Exposure Draft (ED) 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. This paper will provide the following information:
 - (a) Summary of the Outreach Activities
 - (b) Possible Modifications to the Staff Draft
 - (c) Scope Expansion
 - (d) Timing
3. The staff has provided more in depth details of the outreach performed and organized those details by topic in the Appendix to this memorandum. Those topics are:
 - (a) Disaggregation of Income and Expense Items (Appendix A)
 - (b) Statement of Cash Flows (SCF) (Appendix B)
 - (c) Analyses of Changes in Asset and Liability Line Items (Appendix C)

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- (d) Disclosure of Remeasurements (Appendix D)
- (e) Presentation of the Statement of Financial Position (SFP) and Categorization (Appendix E)
- (f) Financial Services Entity Issues (Appendix F)
- (g) Field Test Results (Appendix G)

SUMMARY OF OUTREACH ACTIVITIES

4. The staff's outreach on the proposals contained within the Staff Draft consisted of the following:
 - (a) Preparer field visits
 - (b) Financial statement user meetings
 - (c) Field testing
 - (d) Other outreach with preparers, auditors, the FSP working group, national standard setters and regulators, representative groups and users.
5. The staff has concluded that it has learned what is necessary regarding the costs and benefits of the Staff Draft to propose modifications and move the project forward. The staff thinks that the modifications it may ask the boards to consider will address the cost concerns raised during the extended outreach period while still retaining much of the benefit delivered by the requirements contained in the Staff Draft.

Preparer Field Visits

6. The staff concluded field visits with 10 companies; 6 in the United States and 4 in Europe. The main issues discussed were: direct-method cash flow information, disaggregation of expenses by nature, and the analyses of changes in statement of financial position (SFP) line items.

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7. The staff has gained an in-depth understanding of some of the financial reporting complexities companies face and of their reporting systems and processes.
Companies have provided us with estimates of the cost that would be incurred due to implementing the proposals, the time the implementation would take and views on possible alternatives to the Staff Draft proposals.

Financial Statement User Meetings

8. The staff has received feedback from more than 42 investors and other users of financial statements on numerous aspects of the FSP project through face-to-face meetings with individual investors and groups of investors. Face-to-face meetings were arranged with a broad range of analysts, including accounting, credit ratings, and equity (buy and sell side) analysts. The investors who spoke directly with the staff as part of this outreach effort are employed by various organizations and cover a number of industries, including aerospace and defense, automotive, banking, consumer durables and non-durables, capital goods and equipment, healthcare, industrials, insurance, media and entertainment, paper and forest products, retail, technology, transportation, and utilities. The analysts who participated in consultations with the FASB represented their own views and not the views of the organizations by which they are employed.
9. The investor meetings focused on the proposed structure and cohesiveness of the financial statements, cash flow information, by-function and by-nature disaggregation, and the analyses of changes and remeasurements disclosure. The staff explained the proposals and then asked a series of questions related to the proposals designed to understand the benefits (or lack of benefit) of the proposals to users.
10. The staff prepared a case study file that includes specific examples of how FSP can make a difference in resource allocation decisions. The staff used examples in

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our meetings with users to help explain the possible benefits of the new information/proposed model.

11. On the investor page of each board's website the staff posted the following:
 - (a) A PowerPoint package (without voice over) explaining the main aspects of the Staff Draft
 - (b) A questionnaire directed at users asking for their input on the potential benefits (to them) of the Staff Draft proposals.

Field Tests

Discussion Paper Follow Up

12. All 30 entities that participated in the October 2008 discussion paper (DP) field test were asked to implement the Staff Draft proposals that differ from the October 2008 DP, Preliminary Views on Financial Statement Presentation. They primarily focused on the SCF, the definitions of the sections and categories, the analyses of changes note disclosure and the by-function and by-nature segment information [U.S. GAAP only] and completed a questionnaire that will supplement the questionnaire they completed as part of the DP field test. The questions focus on differences between the proposals in the Staff Draft and the DP.
13. We received responses from 14 of the 30 companies that actively participated in the DP field test.

Private Entity Field Test Including Bank Lending Analysts Reviews

14. Ten nonpublic U.S. entities recast their financial statements, answered a questionnaire, and provided feedback regarding operability of the proposed model. The non-recast and recast statements were sent to the Risk Management

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Association¹ to be evaluated by credit lenders using a standardized risk assessment process. Each participating lender assessed either the non-recast or the recast statements of a company, but not both. Eight preparer participants in this group completed the post-recasting questionnaire. Forty-two reviews were performed by members of the user group.

Financial Service Entity Field Test

15. Five financial services entities (banks and credit unions) recast two years of financial statements using the Staff Draft. Those financial services entities answered a questionnaire and provide feedback regarding operationality of the proposed model. (Insurance companies were the only financial services entities that participated in the field test on the proposals in the October 2008 Discussion Paper).

Other Outreach

National standard setters and regulatory bodies

16. The outreach activities also covered consultation with national standard-setting organizations and regulators. Especially, IASB members and staff participated in outreach meetings conducted by EFRAG and national standard setters across Europe on the FSP Staff Draft proposals². Similar meetings with constituents were held in Japan and China.

Preparers

17. We have met with dozens of preparers from companies and representative groups to discuss their views on the Staff Draft. Like the field visits, these meetings have

¹ The Risk Management Association (RMA), a U.S. member-driven professional association, helps banking and nonbanking institutions identify and manage the impacts of credit risk, operational risk, and market risk on their businesses and customers.

²The European Financial Reporting Advisory Group (EFRAG) provides a feedback summary of this outreach on their website.

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focused 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.

Auditors

18. We met with each of the Big 4 public accounting firms. Meetings with those firms addressed the ability to audit the information required in the Staff Draft as well as the impact to the cost of the audit. The firms also expressed concerns on behalf of their clients as to the costs and benefits of the Staff Draft, as well as their own observations about the Staff Draft.
19. Some of the firms shared their views on the timing of an issuance of an ED as it relates to both other priorities of the boards as well as the impact to the resources of their clients.

Other Consultation

20. A meeting was held in December with the Joint International Group and the Financial Institution Advisory Group on Financial Statement Presentation.
21. The staff 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 SCF. We have also reached out to a number of users in two industries about their views on presentation of cash flow information.
22. The staff has received and reviewed unsolicited comment letters regarding the Staff Draft.

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POSSIBLE MODIFICATIONS TO THE STAFF DRAFT

23. Generally, the groups we met with during the outreach period were supportive of aspects of the project. The elements of the proposals that were viewed as most useful were:
- (a) Common structure
 - (b) Cohesiveness
 - (c) Increased disaggregation (though not necessarily as prescribed in the Staff Draft)
 - (d) Increased information about changes in SFP line items
 - (e) Information about remeasurements.
24. There was far less support for:
- (a) The direct method SCF (though many agreed the indirect method SCF could be improved)
 - (b) “By nature” disaggregation within functional expense lines
 - (c) Cash and accrual components of the analyses of changes
 - (d) A SFP that does not present assets together and liabilities and equity together.
25. Appendix A-G will detail the feedback we received as part of our outreach as well as modifications to the Staff Draft the staff may bring to the boards to consider at a later date. Paragraphs 26-31 summarize some of the modifications the staff may ask the boards to consider.

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Disaggregation and Segment Information

26. As detailed in Appendix A, the staff may ask the boards to modify the disaggregation guidance in the Staff Draft. Various changes the staff may ask the boards to consider include:
- (a) Alternative ways to present further disaggregation (apply by-nature disaggregation differently/redefine by-nature, disclosure of key economic drivers, composition of various expenses, etc.)
 - (b) Limiting disaggregation of income and expense items to by-nature or by-function (and modify the disaggregation principle to elicit greater disaggregation than what is provided today)
 - (c) Provide its disaggregated operating results (that is either by function OR by nature) in the segment note (for a multi-segment entity)
 - (d) Disclose information about the composition of its by-function expenses by segment.

Statement of Cash Flows

27. As detailed in Appendix B, the staff may ask the boards to modify the Staff Draft to present a SCF that begins with operating income and reconciles that number to operating cash flow. The staff may also have the board consider additional requirements that improve the information provided in the SCF through disaggregation of items within the SCF as well as the requirement for either presentation or disclosure of select cash inflows and outflows (eg cash from customers).

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Analyses of Changes

28. As detailed in Appendix C, the staff may ask the boards to modify the Staff Draft to require a disclosure of a prescribed list of items that affect SFP line item balances during the reporting period as opposed to an analysis that includes all activity by line for the period. That list may include:
- (a) Foreign currency translation adjustments
 - (b) Effects of acquisitions and disposals
 - (c) Reclassifications,
 - (d) Remeasurements
 - (e) Other information that is important to understanding the changes within a SFP line item during the period.

Remeasurements

29. As detailed in Appendix D, the staff may ask the Boards to consider modifying the guidance around determining what a remeasurement is and what those amounts represent.

Statement of Financial Position

30. As detailed in Appendix E, the staff may ask the boards to modify the Staff Draft to illustrate a SFP that presents assets together and liabilities and equity together while maintaining the categorization of the assets, liabilities and equity. The staff may also ask the boards to consider other feedback on aspects of the Staff Draft such as the presentation of long-term and short-term assets and liabilities.

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Financial Service Entities

31. As detailed in Appendix F, the staff may ask the Boards to consider modifications to the Staff Draft that include additional examples and guidance for Financial Service Entities while requiring that they report using the same model as other business entities.

Other Conclusions

32. During the outreach period, the staff has identified other items for additional guidance or clarifications are needed. The staff has made note of these items and intends to modify the Staff Draft where appropriate.

SCOPE EXPANSION

33. At different points in the staff's outreach we have been asked whether the project should address performance reporting and the conceptual basis for other comprehensive income (OCI). Many constituents indicated that OCI and the clarification of its conceptual basis should have at least the same priority as improving the presentation of financial statements. There were mixed views whether this should be addressed within the FSP project, the conceptual framework or be a separate project.
34. The staff does not believe that addressing OCI is critical to establishing a standard for presentation of the financial statements. However, staff thinks it can incorporate the work on OCI into the work it has planned to do in considering modifications to the Staff Draft. The staff also thinks it can address OCI in a separate phase of the project or a separate project and be just as effective.

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TIMING

35. The staff believes that if the board considers the modifications summarized in paragraphs 26-31, there would be support from both users of financial statements as well as preparers to move forward with the project.
36. The staff believes that it can address the changes to the Staff Draft over the course of 9-12 months. Developing and evaluating the potential modifications that were identified during the outreach as well as preparing board papers would begin at least 3-4 months before the boards are ready to resume decision-making meetings about the project. We would anticipate 3-4 months of decision-making meetings with 3-4 months for drafting and balloting an ED as well as structuring the ED into ASU format. This timing is an estimate based on resources that have been previously devoted to the project and access to board time. Changes in those resources will affect the estimates of timing.
37. The staff thinks that this work should continue as soon as possible as it believes it has a group of constituents engaged and willing to provide feedback as we develop the modifications the boards may be asked to consider. Furthermore, the staff thinks there is momentum behind the modifications summarized herein and detailed in Appendix A-F.
38. Should the boards want to incorporate the development of a conceptual basis for OCI and performance reporting as part of the ED, the staff would need an additional amount of time to plan, perform outreach, hold meetings and draft and ballot a separate ED/add on to the FSP ED.
39. The staff presumes that the FSP project continues to move forward. However, it is mindful of the limited resources that are available to the project team at this time. Therefore, the staff will continue to work with the resources we are allocated and on a timeline that works in conjunction with the boards' availability and priority.

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