Project **Financial Statement Presentation**

Topic **Sweep issues**

Purpose

1. At the March 11 joint meeting, the staff would like the FASB and the IASB (the boards) to address two sweep issues prior to the staff finalizing the financial statement presentation (FSP) preballot draft.

   (a) The first issue relates to presenting comparative information in the financial statements. This issue was raised by IFRIC staff and will be addressed at the March 4-5, 2010 IFRIC meeting.

   (b) The second issue relates to how an entity should disaggregate information about other comprehensive income (OCI) that relates to a discontinued operation in the statement of comprehensive income (SCI). This issue arose as part of the IASB's Annual Improvements project.

2. The staff is still processing board member comments on the FSP staff draft. We have yet to identify any other sweep issues, but expect some to arise as we finalize the preballot draft and/or during the external (fatal flaw) review of the preballot draft. We have asked for joint board meeting time in early April to address those possible sweep issues.

IFRIC issues related to the requirements for comparative information

Introduction

3. In January 2010, the IFRIC staff became aware of issues in IAS 1 *Presentation of Financial Statements* related to the requirements for comparative information.

Specifically, a diversity of views exists as to the requirements for comparative information when an entity provides individual financial statements beyond the minimum comparative information requirements. These issues are a result, at least in part, of guidance added as part of the 2007 revision of IAS 1.

4. At their March 4-5, 2010 meeting, IFRIC will address the following two issues related to presenting comparative information in the financial statements:

   (a) **Issue 1a** – the requirements for compliance with IFRSs and '**comparative information**, and their interaction with the concept of equal prominence introduced as part of the 2007 revision of IAS 1.

   (b) **Issue 1b** – The resulting answer to Issue 1a and its interaction with the new requirement for an **opening statement of financial position** in specific circumstances that was introduced as part of the 2007 revision of IAS 1.

5. Given the potential diversity of views in practice, the potential diversity between the current wording within IAS 1 and the underlying intent and the interlinked relationship between Issues 1a and 1b, at their March 2010 meeting, the IFRIC staff will propose that the IFRIC recommend that the IASB add these issues to its *Annual Improvements* project.

6. The FSP staff think that the exposure draft on financial statement presentation should address those two 'known' issues. The following paragraphs (which are from the IFRC agenda paper) explain the issues and describe alternatives. Those paragraphs are written solely from the perspective of the IASB. However, because most of the paragraphs referenced will be in the FSP exposure draft, the issues relate to the FASB as well. The FSP staff's preferred alternative is included at the end of each issue.

7. The FSP staff will update the boards on the results of the IFRIC meeting prior to the March 11 sweep meeting.

Issue 1a: Comparative information

General background

8. For many years, IAS 1 has included the concepts of 'compliance with IFRSs' and 'comparative information', that are described in paragraphs 16 and 38-39 of IAS 1 (those paragraphs are included in the FSP staff draft):

> **16 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.**
>
> **Comparative information**
>
> **38 Except when IFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**
>
> 39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:
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> (a) the end of the current period,
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> (b) the end of the previous period (which is the same as the beginning of the current period), and
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> (c) the beginning of the earliest comparative period.

9. The concept of equal prominence was added to IAS 1 in 2007. This concept is described in paragraphs 11 and BC22 of IAS 1 (paragraph 11 is included in the FSP staff draft):

> **11 An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.**
>
> **Equal prominence**
>
> BC22 The Board noted that the financial performance of an entity is not assessed by reference to a single financial statement or a single measure within a financial statement. The Board believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are

> taken into account and understood in their entirety. Accordingly, the Board decided that in order to help users of the financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.

10. The issue raised relates to instances where an entity provides selected financial statements in addition to those required as a minimum within a complete set of financial statements prepared in accordance with IFRSs. For example, a calendar year end entity provides the following financial statements for its year ended 31 December 2009:
    - (a) 2 statements of financial position as at 31 December 2009 and 2008
    - (b) 3 statements of each of the following for the year 2009, 2008 and 2007 (1 more than the minimum required by IAS 1):
        - (i) Statement of comprehensive income
        - (ii) Statement of changes in equity
        - (iii) Statement of cash flows.

11. The IFRIC staff is aware of regulatory requirements in multiple jurisdictions that require selected additional financial statements beyond the minimum explicitly stated within IAS 1 (that is, as described in the above example).

Are all financial statements necessary in an additional comparative period?

12. The question raised by constituents is: If one or more of the financial statements is presented for a comparative period that is in excess of the minimum comparative information required by paragraphs 38-39 of IAS 1, is it necessary to provide all of the financial statements for that comparative period? Specifically in respect to the example in paragraph 10 above, given that the entity has provided statements of comprehensive income, changes in equity and cash flows for the three years ended 31 December 2009, 2008 and 2007, is the entity required to present a third statement of financial position as at 31 December 2007 (in addition to those already being presented as at 31 December 2009 and 2008)?

Alternative A – Yes, All financial statements are required for any period any financial statement is presented

13. Alternative A is supported by paragraph 11 of IAS 1 (added in 2007) that requires **all** financial statements to be presented in a complete set of financial statements. The rationale for the IASB's inclusion of this requirement is stated in paragraph BC22, which states 'the Board believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are taken into account and understood in their entirety.' Further, '…in order to help users of financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.'

14. Supporters of Alternative A disagree with the notion that paragraphs 10, 38 and 39 of IAS 1 provide an exhaustive list of the financial statements that may be presented. Rather, those supporters note that paragraph 39 of IAS 1 explicitly states 'as a minimum'. So, in instances where an entity provides financial statements beyond the 'minimum' the entity must continue to comply with all other requirements of IFRSs including paragraph 11 of IAS 1.

15. Therefore, supporters of Alternative A think that if an entity decides to present one (or more) financial statement for a comparative period (in excess of the minimum requirements) the entity **must** present **all** financial statements within that period. If the entity does not present all financial statements for that additional comparative period, users of the entity's financial statements will not be able to comprehensively understand the financial performance of the entity.

Alternative B – No, Only the minimum comparative periods are required for a complete set of financial statements

16. Supporters of Alternative B also think that paragraphs 10, 11, 38 and 39 of IAS 1 support their position. However, supporters of Alternative B note that paragraph 39 of IAS 1 explicitly states 'as a minimum'. IFRSs generally state the minimum requirements and IFRSs generally permit an entity to present any and all additional information the entity deems appropriate (as long as it is in accordance with the current *Framework* and consistent with current other IFRSs).

17. Supporters of Alternative B think that the focus of paragraph 11 is on the words 'equal prominence' consistent with the subtitle of paragraph BC22. Similarly, the focus is not on the words 'all of the financial statements'. This focus on 'equal prominence' means that all 'primary' financial statements listed in paragraph 10 of IAS 1should be prominently presented and distinguished from other information in the same published document. This concept is consistent with the *Identification of financial statements* paragraphs 49–53 of IAS 1.

18. Further, Alternative B supporters think that IFRSs provide guidance and requirements to enable an entity to prepare its financial statements for the **current period**. Thus the requirements for 'comparative information' should always be read in the context of analysing the current period. As the IASB acknowledges in paragraph BC32 of IAS 1, 'that financial statements from prior years are readily available for financial analysis, except when the financial statements have been affected by retrospective application or retrospective restatement…or when a reclassification has been made.' (Issue 1b addresses the presentation of financial statements that have been affected by retrospective application, retrospective restatement, or when a reclassification has been made.)

19. Therefore, Alternative B supporters think that if an entity decides to present one (or more) financial statement for a comparative period (in excess of the minimum requirements), the only requirement in IFRSs is that the additional financial statement presented must be in compliance with the requirements specified for that individual statement. This includes presentation of that additional financial statement comparative period with equal prominence as the other (minimum required) financial statement periods.

FSP staff preference and recommendation

20. Despite the current wording in IAS 1, the IFRIC staff's opinion (and that of the FSP team) is that the **underlying principle** and IASB's supporting rationale is that only the minimum comparative requirements must be provided to permit a user of financial statements to properly analyse an entity (Alternative B). To the extent an entity decides to present additional limited comparative information (for example, an additional statement of comprehensive income), the entity is

permitted to do so as long as the comparative information for that one statement complies with all current IFRSs for that statement. In the IFRIC staff's opinion, an additional financial statement that is created in accordance with current IFRSs and presented with equal prominence as the other periods does not cause the information presented in accordance within minimum financial statement requirements to be misleading.

21. The FSP staff recommend that the FSP exposure draft clarify this issue consistent with Alternative B.

Question on comparative information
1. The FSP staff recommends that the FSP exposure draft clarify that only the minimum comparative periods are required for a complete set of financial statements. Presenting selected additional comparative information is acceptable, provided it is not misleading. That is, the additional financial statement must be prepared in accordance with current IFRSs/US GAAP and presented with equal prominence as the other periods. **Do the boards agree?**

Issue 1b – Opening statement of financial position

General background

22. The concept of a statement of financial position as at the beginning of the earliest comparative period (opening balance sheet) was also added as a result of the revisions to IAS 1. This concept is included in paragraphs 10(f), 39 and BC31–BC32 of IAS 1 (paragraphs 10 and 39 are in the FSP staff draft) :

Complete set of financial statements

10 A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its

financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in this Standard.

39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

(a) the end of the current period,

(b) the end of the previous period (which is the same as the beginning of the current period), and

(c) the beginning of the earliest comparative period.

Comparative information

A statement of financial position as at the beginning of the earliest comparative period (paragraph 39)

BC31 The exposure draft of 2006 proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.

BC32 By adding a statement of financial position as at the beginning of the earliest comparative period, the exposure draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the Board decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when a reclassification has been made. In those circumstances three statements of financial position are required.

What is the appropriate date for the opening statement of financial position?

23. The question asked by constituents is as follows: if additional selected comparative financial statements are presented for the comparative periods

(consistent with Issue 1a of this paper) and a statement of financial position for the beginning of the earliest comparative period presented (an opening SFP) is required by IFRSs, what is the appropriate date for that statement? In other words, what is the appropriate date for the opening SFP? Specifically in respect to the example in Issue 1a (paragraph 10), given that the entity has presented three statements of comprehensive income, changes in equity and cash flows for the three years ended 31 December 2009, 2008 and 2007, and the entity has presented two statements of financial position as at 31 December 2009 and 2008, should the 'statement of financial position for the beginning of the earliest comparative period' be as of:

(a) **Alternative C** – the beginning of the earliest comparative period for any financial statement that is presented (**1 January 2007** in the example),

(b) **Alternative D** – the 'closing' statement of financial position for one period preceding the statements of financial position already presented by the entity (**31 December 2007** in the example), or

(c) **Alternative E** – the beginning of the minimum comparative period statement of financial position (**1 January 2008** in the example)?

[Alternatives A and B are used to analyse Issue 1a. To avoid confusion, they are not re-used in Issue 1b.]

24. The following table details the above Alternatives for ease of consideration:

	Alternative C	Alternative D	Alternative E	
2009	As at 31 Dec 2009 2009 Year	As at 31 Dec 2009 2009 Year	As at 31 Dec 2009 2009 Year	Min. requirements
2008	As at 31 Dec 2008 2008 Year	As at 31 Dec 2008 2008 Year	As at 31 Dec 2008 2008 Year	
	-	-	***As at 1 Jan 2008***	**Issue in question**
2007	- **2007 Year** ***As at 1 Jan 2007***	***As at 31 Dec 2007*** **2007 Year** -	- **2007 Year** -	

Alternative C – 1 January 2007

25. Alternative C supports the idea that the 'earliest comparative period' means the earliest comparative period for which the entity presents **any** financial statement. This ensures that all financial statements consistently present the effects of the retrospective application of a change in accounting policy or restatement of items that an entity reclassifies in its financial statements. Therefore, in the example, the beginning of the earliest comparative period should be presented as at 1 January 2007.

26. The application of Alternative C results in an additional issue for consideration. In the example provided in Issue 1a and assuming the entity is required to present a statement of financial position at the beginning of the earliest period presented of 1 January 2007, is the entity permitted to **not** present a statement of financial position as at 31 December 2007?

Alternative D – 31 December 2007

27. Supporters of Alternative D think that paragraph 39(b) of IAS 1 supports the view that for any period presented 'the beginning of…(the) period' is equivalent to 'the end of the previous period'. Paragraph 39 of IAS 1 states, in part:

> …An entity presents statements of financial position as at:
>
> (a) the end of the current period,
>
> (b) the end of the previous period (which is the same as the beginning of the current period), and
>
> (c) the beginning of the earliest comparative period.

28. Additionally, for entities presenting a different number of comparative periods in the various financial statements (i.e. Issue 1a), those supporting Alternative D believe that both Issues 1a and 1b are addressed by this interpretation of the 'beginning of the earliest comparative period presented'. Therefore, in the example, the beginning of the earliest comparative period should be presented as at 31 December 2007.

29. Paragraph 106(b) IAS 1 requires an entity to present in the statement of changes in equity 'the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8'. Paragraph 33 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to 'adjust the opening balance 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 had always been applied.'

30. Alternative D acknowledges that there will not be a statement of financial position with equity balances that correspond to the beginning balances in the statement of changes in equity (or statement of cash flows).

Alternative E – 1 January 2008

31. Supporters of Alternative E think that the 'beginning of the earliest comparative period' must be read in the context of the minimum requirements within IFRSs. Additionally, paragraph 39 of IAS 1 (revised 2007) lists the three required statements of financial position. Therefore, in the example, the beginning of the earliest comparative period should be presented as at 1 January 2008.

32. Alternative E acknowledges that there will not be a statement of financial position as at the end of 2007. There also will not be a statement of financial position that includes the beginning balances that will be presented in the statement of changes in equity or in the statement of cash flows.

Staff view

33. The IFRIC staff's opinion is that paragraph 10(f) of IAS 1 provides guidance on Issue 1b. That is, it specifies that in the circumstances when an entity is required to present a statement of financial position as at the beginning of the earliest comparative period, 'the beginning' is the first day of the period and 'the earliest comparative period' is the earliest period that is presented for any of the financial statements. Thus, the IFRIC staff supports Alternative C as does the FSP staff.

34. The FSP staff agrees that IAS 1 (and the staff draft) already provides guidance on this issue. However, the FSP staff would like to know if the boards want the FSP exposure draft to clarify that 'the beginning' is the first day of the period and 'the earliest comparative period' is the earliest period that is presented for any of the financial statements.

35. As for the additional issue noted in paragraph 26 related to Alternative C, the staff think that it would be permissible to **not** provide the 31 Dec 2007 statement of financial position (SFP) if the 1 January 2007 SFP was presented. However, given that a 31 Dec 2007 SFP would need to be prepared internally to ensure that the 2007 and 2008 statements of comprehensive income were properly prepared, the staff think that an entity should provide the 31 Dec 2007 SFP in those situations.

Question on opening statement of financial position	
2.	Do the boards agree that IAS 1 provides guidance on this issue (consistent with Alternative C)?
3a.	If so, do the boards want the FSP exposure draft to clarify that in paragraph 10(f) of IAS 1, 'the beginning' is the first day of the period and 'the earliest comparative period' is the earliest period that is presented for any of the financial statements?
3b	If not, which alternative, if any, should the FSP exposure draft include (that is, Alternative D or E)?
4.	If Alternative C is to be included in the FSP exposure draft, should that exposure draft clarify that the end of period SFP for the earliest comparative period should be presented also?

Issue 2: Presentation of OCI item related to a discontinued operation

Background information

36. In the FSP project the boards decided that discontinued operations should be displayed as a separate section in each primary financial statement except the statement of changes in equity. During the July 2009 IASB meeting regarding Annual Improvements, the lack of guidance for the presentation of discontinued operations related to OCI in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was addressed by IASB staff. At that meeting, the IASB tentatively decided to segregate OCI items relating to discontinued operations and present this information separately in the OCI section of the SCI. However, the IASB did not consider how to display that information. The IASB requested the staff to develop some alternatives and work closely with FASB staff to ensure IFRS 5 is aligned on the issue of presentation in the OCI section with US GAAP.

37. At the December 2009 IASB meeting, the IASB decided that this clarification of IFRS 5 should be completed in conjunction with the FSP project rather than as part of Annual Improvements.

Staff analysis and recommendation

38. In October 2009, the boards tentatively decided to retain the FSP discussion paper proposal that an entity identify and indicate on the SCI whether an item of OCI relates to (or will relate to) an operating, investing, or financing activity. Paragraph 6.4.3 of the staff draft includes that requirement. Although that requirement doesn't state " . . . whether an item of OCI relates to (or will relate to a **discontinued operation** . . .," the staff think that was the boards' intent. Paragraph 3.41 of the discussion paper explained that if an OCI item relates to an asset or liability that is classified in more than one category or section, that OCI item should be presented on two lines so that the section or category in which future reclassification adjustments will be presented can be clearly identified. The FSP exposure draft will include similar guidance.

39. The staff think identifying and presenting an OCI item that relates to a discontinued operation on a separate line in the OCI section will achieve the IASB's objective of providing some guidance and clarification on the

presentation of discontinued operations related to OCI. Further, the components of OCI that are recycled will be included within profit or loss when realised, thus flowing through the discontinued operations section within profit or loss.

40. The staff recommend clarifying in the FSP exposure draft that if an OCI item relates to or will relate to a discontinued operation, it should be identified and presented as such on the SCI. In other words, the line item description in the OCI section should include a parenthetical note "(discontinued operations)". If an OCI item, for example a revaluation surplus, relates to a discontinued operation as well as an operating activity, then an entity would be required to disaggregate the OCI item and present it on two lines, if both amounts are material (see the example below). The staff will consider whether a consequential amendment to IFRS 5 (and the similar *FASB Accounting Standards Codification*™ topic) is necessary to make sure this requirement is clear.

OTHER COMPREHENSIVE INCOME (after tax)	
Unrealized gain on available for sale securities (investing)	17,193
Revaluation surplus (operating)	2,000
Revaluation surplus (discontinued operations)	1,653
Foreign currency translation adjustment-consolidated subsidiary (operating)	2,094
Foreign currency translation adjustment on equity method investee (operating)	-1,404
Unrealized gain on futures contracts (operating)	1,825
TOTAL OTHER COMPREHENSIVE INCOME	**23,361**

Question on discontinued operations

5. The staff recommend that the FSP exposure draft clarify that if an item of OCI relates to or will relate to a discontinued operation, it should be identified and presented as such on the SCI. **Do the boards agree with the staff recommendation?**