



FINANCIAL ACCOUNTING STANDARDS BOARD



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Project Updates

Financial Statement Presentation—Joint Project of the IASB and FASB

Last Updated: March 17, 2010 (Updated sections are indicated with an asterisk *)

This project update summarizes the project activities and decisions of the IASB and FASB (the boards). It was prepared by the staff and is for the information and convenience of the boards' constituents. All decisions of the boards are tentative, may change at future board meetings, and do not change current accounting and reporting requirements. Decisions of the boards become final only after extensive due process.

Project Objective

The purpose of this joint project is to establish a standard that will guide the organization and presentation of information in the financial statements. The results of this project will directly affect how the management of an entity communicates financial statement information to users of financial statements, such as present and potential equity investors, lenders, and other creditors. The boards' goal is to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers.

In their Phase B discussions, the Boards developed two core principles for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed principles state that information should be presented in the financial statements in a manner that:

- a. **Portrays a cohesive financial picture of an entity's activities.** A cohesive financial picture means that the relationship between items across financial statements is clear and

that an entity's financial statements complement each other as much as possible.

- b. **Disaggregates information so that it is useful in predicting an entity's future cash flows.** Financial statement analysis aimed at objectives such as assessing the amount, timing, and uncertainty of future cash flows requires financial information that is disaggregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows.

Due Process Documents

Phase B

On October 16, 2008, both boards published for public comment a discussion paper, *Preliminary Views on Financial Statement Presentation*. The FASB discussion paper and the IASB discussion paper are the same except for differences in style/format. The comment period ended on April 14, 2009.

A larger version of the illustrative statement of financial position reconciliations (found on pages 105 and 106 of FASB discussion paper and on pages 156–162 of the IASB discussion paper) that will print on two pages of legal size (8.5" × 14") paper is available at www.fasb.org/draft/appb_p105-106.pdf

The discussion paper is the result of more than two years of discussion by the boards and consultation with the project's advisory groups, the Joint International Group and the Financial Institutions Advisory Group, and other interested parties on the fundamental issues related to financial statement presentation.

The FASB held a webcast, *Proposed Improvements to Financial Statement Presentation*, on January 27, 2009 to discuss the October 2008 discussion paper. The webcast was moderated by FASB member Marc Siegel; panelists were Peter Bridgman, Senior Vice President and Controller of PepsiCo, Inc; Greg Jonas, Managing Director of Moody's Investors Service; Joe Joseph, Managing Director at Putnam Investments; and Kim Petrone, Senior Project Manager at the FASB. Access the archived event

Access the IASB Web presentation introducing the discussion paper

A "snapshot" of the boards' preliminary views also was published on October 16, 2008.

Phase A

The boards completed their deliberations on Phase A in December 2005. On March 16, 2006, the IASB published its Phase A exposure draft, *Proposed Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation*. The FASB decided to consider phases A and B issues together and, therefore, did not publish an exposure draft on phase A. After considering the responses to its exposure draft, the IASB issued a revised version of IAS 1 in September 2007. The revisions to IAS 1 affected the presentation of changes in equity and the presentation

of comprehensive income, bringing IAS 1 largely into line with FASB Statement No. 130, *Reporting Comprehensive Income* (Statement 130).

***Decisions Reached at Last Meetings**

March 10, 2010 FASB Board Meeting

The FASB and the IASB are conducting this joint project in phases. The IASB finalized certain changes to its presentation standard (IAS 1, *Presentation of Financial Statements*) in 2007. Those changes include requiring that:

1. A complete set of financial statements comprise:
 - 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
 - f. A statement of financial position as at the beginning of the earliest comparative period when a reporting 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.
2. An entity present with equal prominence all of the financial statements in a complete set of financial statements.
3. An entity present comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

The Board had previously agreed with all those requirements except (f). In their prior discussions, both Boards had agreed that a statement of financial position as at the beginning of the period should *always* be presented as part of a complete set of financial statements. In finalizing the changes to IAS 1 in 2007, the IASB decided that a statement of financial position as at the beginning of the earliest comparative period should only be presented in certain circumstances (as described in (f) above). The Board agreed to make a similar change. With that modification, the Board affirmed the inclusion of the above requirements in its Exposure Draft on financial statement presentation planned for issuance in April 2010. Those requirements would not override the SEC's requirements for presenting comparative information as set forth in Regulation S-X.

The Board also affirmed its prior tentative decision that an entity should not present the effects of extraordinary, unusual, and infrequently occurring events and transactions as a functional category in the statement of comprehensive income as currently required under *FASB Accounting Standards Codification*TM Subtopic 225-20, Income Statement—Extraordinary and Unusual Items (originally issued as APB Opinion No. 30).

The Board decided that only the following paragraphs from IAS 1 should be included in the FASB's forthcoming Exposure Draft (modified as necessary to be consistent with U.S. GAAP and to be consistent with decisions made in this project):

1. Frequency of reporting (paragraphs 36 and 37, except the first sentence in paragraph 36)
2. Comparative information (paragraphs 40–44)
3. Materiality (paragraphs 29–31)
4. Consistency of presentation (paragraphs 45 and 46)
5. Information about share capital (paragraphs 79 and 80)
6. Disclosure of the measurement basis or bases used in preparing the financial statements in the summary of significant accounting policies (paragraphs 117(a) and 118).

As a result of those decisions, the FASB's Exposure Draft will not include the following IAS 1 paragraphs:

1. Fair presentation (paragraphs 15–24)
2. Going concern (paragraphs 25 and 26)
3. Accrual basis of accounting (paragraphs 27 and 28)
4. Structure of the notes to financial statements (paragraphs 112–116)
5. Disclosure of estimation uncertainty (paragraphs 126–133)
6. Capital disclosures (paragraphs 134–136)
7. Other disclosures (paragraphs 136A, 137, and 138).

March 11, 2010 FASB/IASB Joint Videoconference Board Meeting

The Boards discussed several points in their forthcoming Exposure Draft on financial statement presentation for possible clarification.

Both Boards had previously decided that a complete set of financial statements includes statements of financial position, comprehensive income, cash flows, and changes in equity, as well as the accompanying notes. An entity is required to present a complete set of financial statements for the current period and for one comparative period. In addition, 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 is required to present a statement of financial position as at the beginning of the *earliest comparative period* (an opening statement of financial position).

The Boards decided that the Exposure Draft should clarify these requirements as follows:

1. Only one comparative period is required for a complete set of financial statements. Presenting one or more financial statements for additional comparative periods is acceptable, provided it is not misleading. That is, any additional financial statement presented must be prepared in accordance with current IFRSs/U.S. GAAP and must be presented with the same prominence as the required financial statements.

2. An opening statement of financial position for that one comparative period is the only additional statement that an entity is required to present to be in compliance with IFRSs/U.S. GAAP when there is a change in accounting policy, restatement, or reclassification.

On a separate issue, the Boards decided that the Exposure Draft should clarify that if an item of other comprehensive income relates to, or will relate to, a discontinued operation, it should be identified and presented as such on the statement of comprehensive income.

***Summary of Decisions Reached to Date (as of March 11, 2010)**

Phase B:

See a summary of tentative decisions during deliberation of the discussion paper.

Phase A: Summary of Decisions as of September 30, 2007

***Next Steps**

At the February joint meeting, the boards directed the staff to draft an Exposure Draft for vote by written ballot based on the package of tentative decisions outlined in that meeting. The plan is to publish that exposure draft in May 2010.

***Board/Other Public Meeting Information**

- Meeting Materials and Minutes

Field Tests and Research Study

During the 6-month comment period on the discussion paper, 30 entities participated in a field test. As part of the field test, participant companies recast two years of financial statements using the principles and application guidance in the discussion paper and completed a survey about that recasting exercise. A summary of the survey responses is provided as part of the July 2009 joint meeting papers.

At board meetings in September 2009, the boards discussed the analyst portion of the field test at Board meetings and the results of an experimental study on the proposed presentation model that was conducted by the Financial Accounting Standards Research Initiative (FASRI).

Information on both the analyst field test and the FASRI study are available in September 2009 meeting materials.

Working Groups

To further their research, the boards and staff have been seeking input informally from the following groups on a regular basis:

The Joint International Group (JIG) on financial statement presentation was formed in 2005 to help the boards and staffs identify issues to be considered in this project and develop proposed solutions. The JIG consists of senior professionals with extensive experience in and responsibility for the preparation, analysis, audit, and regulation of financial statements. The JIG does not include members from the financial institution preparer or user community. JIG Members

The boards formed a Financial Institution Advisory Group (FIAG) in September 2006 to help them address presentation issues from the perspective of those who analyze and prepare financial institution financial statements. FIAG Members

The boards met with members of the JIG in January and June, 2005 and September 2006. [Meeting Materials]

Board members and staff met with members of both the JIG and the FIAG in September 2007. View a summary of that meeting and meeting materials.

Board members and staff met with members of both the JIG and the FIAG on July 27, 2009, in London. View agenda and materials from that meeting, as well as links to audio files.

Board members and staff met with members of both the JIG and the FIAG on February 12, 2010 in Norwalk. View agenda and materials from that meeting. View meeting minutes.

Background Information

In 2001, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) added to their respective agendas a project on reporting financial performance and conducted those projects independently of one another. In 2004, the boards agreed that they should conduct a project of this nature jointly to promote the convergence of accounting standards used internationally. The FASB and IASB are sharing staff resources and research for this joint project. The joint project team consists of staff from the FASB, the IASB, and the ASBJ (Accounting Standards Board of Japan).

In agreeing to pursue their similar projects jointly, the boards agreed to take a fresh look at the presentation of information in financial statements. The joint project has an expanded scope beyond presentation and display of items of income and expense; it addresses presentation and display on the face of the financial statements that constitute a complete set of financial statements. In April 2004, the boards decided to approach the project in three phases:

- a. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented.
- b. Phase B would address more fundamental issues relating to presentation and display of information in the financial statements, including aggregating and disaggregating information in each primary financial statement, defining totals and subtotals, and

reconsidering the use of a direct or an indirect method of presenting operating cash flows.

- c. Phase C would address the presentation and display of interim financial information in U.S. generally accepted accounting principles (GAAP). The IASB also may reconsider the requirements in IAS 34, Interim Financial Reporting.

Paper explaining the history of the project (an agenda paper from January 2005 JIG meeting)

Summary of User Interviews, FASB Staff Paper, February 2002

FASB Proposal for a Project on Reporting Financial Performance (August 17, 2001)

Background Information related to the August 2001 FASB Proposal

Comment Letters on the August 2001 FASB Proposal