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Francesco Bellandi

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Interpretation, Implementation and Application to Grey Areas

By

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To the memory of
Maestro Nazario Carlo Bellandi, my father,
whose works represent a milestone in classical music composition

CONTENTS

PREFACE

The Handbook to IFRS Transition and to IFRS U.S. GAAP Dual Reporting explains the accounting for the first-time adoption of IFRSs and the structuring of IFRS financial statements, from the perspective of companies that want to reuse, or must continue to use their U.S. GAAP (Generally Accepted Accounting Principles in the United States of America) and SEC practices. The handbook capitalizes on the experience gained during the EU migration wave, goes into the implications for U.S. GAAP companies, as well as the Implementation Guidance that U.S. GAAP and the SEC have been developing over time for foreign entities reporting under IFRSs in the U.S.

This Book first addresses the requirements for adopting IFRSs for the first time. The treatment of these requirements is accompanied by corporate examples, illustrations, and enforcement decisions by regulators, as well as considerations arising from U.S. GAAP and SEC guidance that have been developing in the context of the use of IFRSs by foreign private issuers.

An explanation of how to structure the statement of financial position, the statements of income, the statement of cash flows, the statement of changes in equity, and interim reporting under IFRSs then follows. A detailed comparison is made of each item with U.S. GAAP and SEC rules and regulations, including examples, comments, and planning points. Ready-made dual reporting tools are provided to assist financial statement preparers in designing the structures of the financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations, as well as to reconcile respective captions and line items.

The requirements for SEC domestic issuers and for foreign private issuers are then explained. Readers are warned of the subtleties and interpretations relating to the IASB-IFRSs, certain jurisdictional versions of IFRSs, and implications in SEC filings. It expands on any topic with comments and directions arising from several committees within the AICPA, SEC, and other regulators and accounting bodies.

In each chapter, there are commentary sections that highlight the similarities, differences, and grey areas of the subject matter between IFRSs, U.S. GAAP, SEC rules and regulations, as well as other accounting jurisdictions. These sections also provide criticism of the related literature. The planning point sections within each chapter provide recommendations and propose several resolutions to issues that practitioners, including corporate staff, may face. The Book follows a meticulous and rigorous methodical approach. It gives full references to accounting pronouncements for further analysis by interested readers.

This Book does not limit itself to industrial, commercial, and service companies. It also covers certain specialized industries, such as banks and financial institutions, investment companies, brokers and dealers, insurance enterprises, pension and post-retirement plans, real estate, and other sectors.

It addresses the informational needs of practitioners, CPAs, Chief Financial Officers, Financial Directors, controllers, financial analysts, policymakers, students, and academics by examining how to adopt IFRSs. It also draws practical implications for IFRSs/U.S. GAAP dual reporting. The Book uses an operating approach, which is useful to companies especially for implementation and application guidance. It also explains how to design, restate, and reconcile financial statements, especially for entities reporting under U.S. GAAP.

This Book treats the experience gathered first hand in an international context and becomes an indispensable tool for management decision-making as well as for academic study.

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1 INTRODUCTION AND SCOPE OF BOOK

1.1 NATURE OF ACCOUNTING LITERATURE AND PERTINENT PRONOUNCEMENTS

International Financial Reporting Standards (IFRSs) contain an all-inclusive general standard, i.e., IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, concerning a company's migration to IFRSs as a comprehensive basis of accounting. Although regulated by a single standard, transition to IFRSs is a pervasive event that involves all accounting pronouncements, with implications in virtually all strategic, managerial, and operating areas of an organization.

This Book refers to the principal IFRSs, U.S. GAAP, and SEC pronouncements that are applicable to the structuring of the IFRS financial statements, including U.S. GAAP and SEC rules and regulations that have been developing over time for foreign entities reporting in the U.S.

The International Financial Reporting Interpretations Committee (IFRIC) recently changed its name to IFRS Interpretations Committee. Starting from July 1, 2010, the International Accounting Standards Committee Foundation (IASCF) became the IFRS Foundation. The IASB recently renamed its website as IFRS.org. The Accounting Standards Executive Committee (AcSEC) recently became the Financial Reporting Executive Committee (FinREC). This Book maintains the above original names, including for all reference dating before these changes.

1.2 SIGNIFICANCE OF THE IFRS TRANSITION

The significance of transition to IFRSs is a function of the type of previous GAAP that an entity adopted before such a move. The impact depends on the degree of prudence of the sets of standards previously used, the differences with IFRSs, and the specific facts and circumstances applicable to each reporting entity. To mention some, the following surveys illustrate the impacts of first-time adoption of IFRSs in certain countries and sectors.

According to a 2007 survey of European publicly listed and unlisted companies, 40% of preparers reported no change in profits, 23% stated that profits slightly increased, and 8% registered a high boost. 16% indicated a slight decrease in profits and 4% a much lower level. The remaining companies did not provide an analytic answer.[1]

A 2005 survey of 45 IFRS first-time adopters illustrated that on average, profit or loss increased by approximately 43% and equity by 13%. The most significant areas that impacted profit or loss were goodwill for 63% of companies, financial instruments for 35%, employee benefits

[1] *The Institute of Chartered Accountants in England and Wales (ICAEW), 2007*. EU Implementation of IFRS and the Fair Value Directive, a Report for the European Commission, *¶ Figure 4.15. [Online] London: ICAEW. Available at: www.icaew.com/ecifrsstudy [last accessed: July 31, 2010] (hereinafter ICAEW 2007 Survey).*

for 33%, share-based payment for 28%, tax for 26%, and intangible assets for 26%. The most significant areas that impacted equity were employee benefits for approximately 65% of companies, goodwill for 43%, tax for 43%, dividends for 35%, financial instruments for 33%.[2]

According to another survey concerning 2005 financial statements, approximately 70% of French survey companies improved profit or loss by adopting IFRSs (34% with an effect lower than 10% in comparison to the previous year, 19% with an impact higher than 30%, and 17% placed somewhere in between). The remaining 30% of surveyed companies registered a decrease in results (by less than 10% for 23% of the cases, a negative effect in excess of 30% for 2% of the occurrences, whereas the remaining 5% ranked somewhere in between). 69% of the survey companies increased shareholders' equity (42% with an effect lower than 10%, 6% with an impact higher than 30%, and 21% in between). The remaining 31% registered a decrease (less than 10% for 22% of the cases, a negative effect greater than 30% for 3% of the occurrences, and the remaining 6% located in between).[3]

A survey on the adoption of IFRSs in 2005 by Italian listed companies showed that the change in stockholders' equity relative to previous GAAP exceeded a +/−10% range for 29% of consolidated financial statements as of the beginning of 2004 (32% as of the end of 2004). These figures become 35% (25% as of the end of 2004) for entity's financial statements. 2004 consolidated net income improved in 73% of occurrences (52% in case of parent's separate financial statements), turning loss to profit in 5% of the cases (2% for parent's separate financial statements).[4]

The percentage change in stockholders' equity due to the 2005 first-time adoption of IFRSs for the 24 largest European banks was positive in France up to over 20% in one case, and in Belgium from over 5% up to 15%. It was generally decreasing in the United Kingdom down to less than −10% in one occurrence, and with mixed results in other countries with a range from +10% to less than −15%.[5]

An analysis of the impact of the adoption of IFRSs in 2005 by six European companies in the building materials sector showed a prevailing downward change, ranging from −4% to −10%, in total equity (only one player presenting a positive increase). Income before taxes increased from approximately 2% to 16%.[6]

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[2] *KPMG, December 2005.* International Financial Reporting Standards (IFRS) Survey of First-time Adoption. *[Online] KPMG. Available at: www.kpmgifrg.com [last accessed: February 5, 2007] (hereinafter KPMG 2005 Survey).*

[3] *Mouvement des Entreprises de France (MEDEF), October 2006. Survey,* Chief Financial Officers of Listed Groups and the IFRS: What Lessons, What Objectives for after 2005?, *¶¶ Chapter 2, Appendix 1 (hereinafter MEDEF 2006 Survey).*

[4] *Osservatorio Bilanci Sezione di Ragioneria – Dipartimento di Economia Aziendale Università degli Studi di Torino, October 16, 2006.* Summit 2005, Rapporto sui bilanci 2005 delle società quotate. *[Online] Summa. Available at: www.m2a.unito.it [last accessed August 5, 2007].*

[5] *Ernst & Young, October 2006.* The Impact or IFRS on European Banks – 2005 Reporting. *[Online] Ernst & Young. Available at: www.ey.com/ifrs [last accessed October 2006] (hereinafter EY, 2005 Banking).*

[6] *Ernst & Young, December 2005. IFRS,* The Implications for the Building Materials Sector. *[Online] Ernst & Young, Available at: www.ey.com/ifrs [last accessed December 2005].*

According to the analysis of 35 listed companies that were part of the S&P/MIB index in Italy, the first-time adoption of IFRSs in 2005 increased stockholders' equity by +2.7% on average. The breakdown by sector was +15.8% for insurance, +5.5% for industrial companies, +4.5% for media and telecom, −4.9% for energy and utilities, −3.5% for banking, and +51.9% for other trades and services. The impact on net income was +10.3% on average, and +12.2% for insurance, −0.9% for industrial companies, +62.4% for media and telecom, +8.5% for energy and utilities, +1.4% for banking, and +68.6% for other trades and services.[7]

1.3 IFRS TRANSITION SCENARIO

Massive first-time adoption of IFRSs occurred in 2005 and 2006 in the European Union in connection with EC Regulation 1606/2002.[8] In 2007 the CESR reported that from 2005 the IFRS adopters in the countries of the CESR Members numbered 7365, of which approximately 23% from the UK, 13% in Germany, 12% in France, 6% in Bulgaria, 5% in Greece, 5% in Italy, 5% in Sweden, 4% in Spain, and the remainder from other countries.[9] EC Regulation 1606/2002 permitted EU Member States to defer the first-time adoption of IFRSs to a financial year starting on or after January 2007 for companies, inter alia, that are listed in a non-member State and report under U.S. GAAP.[10]

As is well known, the IASB and the FASB are committed to a joint work program as described in their Memorandum of Understanding. The Memorandum of Understanding establishes a roadmap of convergence between IFRSs and U.S. GAAP 2006–2008. The MoU called for issuance of one or more due process documents by 2008. In 2008, the FASB and the IASB updated the Memorandum of Understanding. On September 24–25, 2009 in Pittsburgh, the G20 Leaders endorsed a timeline for convergence of IFRSs and U.S. GAAP by 2011 outlined in the update of the Memorandum of Understanding. In November 2009, the FASB and the IASB reaffirmed their commitment to their Memorandum of Understanding. They issued a joint statement indicating a pathway for completion of the major projects by 2011. In June 2010, they revised their convergence work plan to prioritize the major projects.

To give preparers a relatively stable period to implement the IFRS platform, the IASB announced that it would not require the application of new standards before January 1, 2009,[11] although in the meantime it has developed new standards. In October 2010, the IASB and the FASB published a Discussion Paper soliciting feedback on the best effective times and

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7 *Protiviti, December 2005*. Insight No. 6 2005. *Available at:* www.protiviti.it *[last accessed January 2006].*

8 *Regulation (EC) No. 1606/2002 of The European Parliament and of The Council of 19 July 2002 on the application of international accounting standards (hereinafter EC Regulation 1606/2002).*

9 *Committee of European Securities Regulators, CESR, Press Statement, CESR/07-121b, April 2007; Committee of European Securities Regulators, CESR, November 2007. 07-352,* CESR's Review of the Implementation and Enforcement of IFRS in the EU, *¶ Appendix 1. [Online] CESR, France. Available at:* www.cesr.eu *[last accessed May 25, 2009]; Commission of The European Communities,* Report from the Commission to The Council and The European Parliament on The Operation of Regulation (EC) No 1606/2002 of 19 July 2002 on The Application of International Accounting Standards *(April 24, 2008), ¶ 2.3.*

10 *EC Regulation 1606/2002, article 9(b).*

11 *IASB Press Release, December 2006*. No new major standards to be effective before 2009. *[Online] IASB. Available at:* www.iasb.org *[last accessed February 2007].*

transition methods of standards that they are jointly developing.[12] In general, the effective date of major projects planned for completion by 2011 is the beginning of 2013.[13]

In the United States, the Securities and Exchange Commission permitted foreign registrants to file IFRS financial statements with reconciliation to U.S. GAAP, with some accommodations for first-time adoption of IFRSs. In 2006, the SEC staff reviewed the annual reports of more than 100 foreign private issuers.[14] Approximately 110 foreign private issuers filed IASB-compliant IFRS financial statements with the SEC, and approximately 70 companies with a jurisdictional variation of IFRSs. IFRS filings with the Commission have been principally from European and Australian issuers.[15]

Effective for financial years ending after November 15, 2007 and interim periods within those years contained in filings made after March 4, 2008, the SEC amended Form 20-F and Regulation S-X, and other regulations, forms, and rules under the Securities Act of 1933 and the Exchange Act of 1934, to accept IFRS financial statements without reconciliation to U.S. GAAP from foreign private issuers. This is limited to English language financial statements prepared under the IASB (International Accounting Standards Board) version of IFRSs. Regulation S-X continues to apply to filings from such foreign private issuers with the exception of their financial statement form and content.[16]

The SEC also published a Concept Release on allowing U.S. issuers, including investment companies subject to the Investment Company Act of 1940, to prepare financial statements in accordance with IFRSs as published by the IASB for purposes of complying with the rules and regulations of the Commission.[17]

On August 27, 2008, the SEC proposed a "roadmap" to IFRS that would require all U.S. public companies to file their financial statements in IFRSs by 2016 and allow some U.S. companies, based on certain criteria, to use IFRSs for their filings for fiscal years ending on or after December 15, 2009. In 2011, the SEC is to evaluate the steps made in the roadmap and decide whether to require large accelerated filers (issuers with common equity of at least $700 million) to report under IFRSs starting from fiscal years ending on or after December 15, 2014. Accelerated filers would report under IFRSs starting for fiscal years ending on or after December 15, 2015, and all other public companies for fiscal years ending on or after December 15, 2016.

However, on February 24, 2010, the SEC issued a statement calling for more study of IFRSs and setting 2015 as the earliest possible date for the required use of IFRSs by U.S. public

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[12] *FASB, October 2010. Discussion Paper, Effective Dates and Transition Methods; IASB, October 2010*. Request for Views on Effective Dates and Transition Methods.

[13] *IASB Update, December 2009*.

[14] *SEC, July 2, 2007*. Observations in the Review of IFRS Financial Statements. *[Online] SEC. Available at: http://www.sec.gov/divisions/corpfin/ifrs_staffobservations.htm [last accessed September 2007]*.

[15] *Security and Exchange Commission, July 2, 2007, Proposed Rule (Release No. 33-8818),* Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP, *page 29 (hereinafter Release No. 33-8818)*.

[16] *Release No. 33-8818*.

[17] *Securities and Exchange Commission, August 2007. Release No. 33-8831, Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards (hereinafter Release No. 33-8831)*.

companies. It confirmed the year 2011 as the threshold for a decision on whether to move ahead. The SEC withdrew the proposed rules for limited early use of IFRSs by certain U.S. issuers, although it did not exclude the possibility of early use or adoption. The statement does not rule out the possibility in the future that issuers may be permitted to choose between the use of IFRSs or U.S. GAAP. The work plan addresses six specific areas of concern: 1) whether IFRS is sufficiently developed and consistent in application for use in the U.S. reporting system; 2) the independence of standard setting; 3) investor understanding and education regarding the new standards and comparison with U.S. GAAP; 4) impact on U.S. laws or regulations; 5) impact on both large and small companies; and 6) preparation of auditors. The successful completion of the FASB-IASB convergence project is perceived as a critical milestone.

On May 26, 2011, the SEC published an update concerning the work plan to IFRSs.[18] After analyzing the difference between enforcement and convergence, the SEC's paper addresses the so-called "condorsement" approach. This approach intends to lead to IFRS compliance by U.S. issuers that are compliant with U.S. GAAP. At the end of a transitional period, U.S. GAAP would incorporate IFRSs. In this respect, this is similar to an enforcement approach. During a transitional period of five to seven years, differences between IFRS and U.S. GAAP would be addressed. In this respect, this is similar to a convergence approach. The transition period could permit a staged or phased implementation. Finally, the FASB would also have a role to issue supplementary or interpretative guidance, adding disclosure requirements, or setting requirements on issues not addressed by IFRSs.

As of May 18, 2008, the Council of the AICPA designated the IASB as the body to establish international financial reporting standards for both private and public entities pursuant to Rule 202 and Rule 203 of the AICPA Code of Professional Conduct. In three to five years, the Council will reassess this decision.[19] In particular, the AICPA's recognition of the IASB as a designated standard setter has opened the route for the use of IFRSs by nonpublic entities in the U.S., especially IFRS for small and medium-sized entities. An analysis on IFRSs in 175 jurisdictions found out that for domestic listed companies 30 countries do not permit IFRSs, 24 permit them, six require IFRSs for some companies, 94 require IFRSs or full IFRS equivalent or substantially converged standards for all companies, and 21 have no stock exchange. Of 136 jurisdictions for which information concerning unlisted companies is available, 37 jurisdictions do not permit IFRSs, 44 permit IFRSs for all or some companies, 30 require them for some companies, and 25 for general purpose financial statements of all companies.[20]

All over the world, several patterns of adoptions, or combinations of approaches, have arisen depending on the country involved. Some countries have required the use of IFRSs for consolidated financial statements of listed companies. Others have required or permitted this for listed companies, or extended to unlisted companies with an option to use local accounting principles. Certain jurisdictions, for example Ukraine, have permitted IFRSs for all companies with no reconciliation to local GAAP; others (e.g., Bangladesh) have required them for all companies, still others have prohibited IFRSs completely (for example, Iran). The U.S.

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[18] *SEC, 2011*. Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers. *[Online] Available at* www.sec.gov *[last accessed May 29, 2011]*.

[19] *AICPA. Amendment to Code of Professional Conduct, Appendix A* – Council Resolution Designating Bodies to Promulgate Professional Standards.

[20] *Adapted from: Deloitte,* Use of IFRSs for Reporting by Jurisdiction. *[Online] Deloitte. Available at:* www.iasplus.com/country/useias.htm *[last accessed August 25, 2011]*.

traditional approach was a limited permission with reconciliation to local GAAP. The EU has chosen a clearance process resulting in a jurisdictional version of IFRSs. Amendment of local GAAP to conform partly or entirely to IFRSs is another pattern (for example, in Australia). Other countries, such as the U.S., Canada, Japan, India, have plans in progress to adopt IFRSs.

Most importantly, some major economies, e.g., Canada, which has announced IFRS convergence by 2011, are migrating to IFRSs by 2010–2012 and beyond. In 2006, China promulgated a new set of accounting standards substantially in line with IFRSs.

On July 24, 2007, the Council of the Institute of Chartered Accountants of India announced its IFRS convergence plan for listed entities, other public interest entities such as banks, insurance companies, and large-sized entities from the accounting periods commencing on or after April 1, 2011.

On January 28, 2010, the Brazilian Federal Council of Accounting and the Brazilian Accounting Pronouncements Committee signed an MoU with the IASB to converge fully to IFRS by end 2010.

On August 1, 2008, the Financial Reporting Foundation (FRF) and Malaysian Accounting Standards Board (MASB) announced their plan to bring Malaysia to full convergence with IFRSs by January 1, 2012. For the time being, private entities will continue to apply Private Entity Reporting Standards (PERS).

In November 2008, the National Banking and Securities Commission of Mexico together with the Mexican Board for Research and Development of Financial Reporting Standards communicated a plan to adopt IFRS for listed entities starting for periods ending on 31 December 31, 2012.

Public companies in Argentina will be required to adopt IFRSs starting in 2012, with an option to file financial statements in accordance with IFRS starting in January 2011.

The South Korean government has approved mandatory adoption of IFRSs by 2011 for all listed companies and unlisted financial institutions in certain sectors. All companies except financial institutions could voluntarily adopt IFRSs from January 1, 2009.

On December 11, 2009, the Japan Financial Services Agency (FSA) announced regulatory changes to allow certain qualifying domestic listed companies to apply IFRSs in consolidated financial statements, starting from the fiscal year ending on or after March 31, 2010. A final decision on mandatory requirement of IFRSs from 2015 or 2016 will be taken around 2012.

1.4 SCOPE OF THE BOOK

1.4.1 The Dual Reporting Perspective

This Book uses the expression “dual reporting” to mean the use of systems, processes, and procedures to report under at least two comprehensive bases of accounting in a complete set of general purpose primary financial statements. This Book follows a multi-standard comparison approach, and includes implications for managers. It also includes some practical tools to help face changing accounting systems to reporting in (at least) two comprehensive bases of accounting, as opposed to just a one-off exercise for reconciliation to U.S. GAAP.

The circumstances discussed in Paragraph 1.3 previously show that companies migrating to IFRSs may have the need to embed the capabilities mentioned above in their systems. The Concept Release also acknowledges this phenomenon for certain U.S. issuers, due to competition for capital globally, a broad subsidiaries base in IFRS jurisdictions, or the requirement to file under IFRSs for regulatory or statutory purposes.[21] The pathway foreseen in the SEC statement might be read in the sense that dual reporting would be the most likely route. For example, if the SEC requires IFRSs for the years ending on or after December 31, 2015, the transition date for a calendar-year company would be January 1, 2013. This means that from 2013 to 2015 and very likely beyond, some dual reporting systems will be necessary. If the condorsement approach is followed, there will be a transitional period of at least five to seven years plus the transition year and probably two comparative years, during which IFRSs/U.S. GAAP dual reporting will be a typical situation. U.S. multinationals that are present in IFRS jurisdictions may share some of the reasons for adopting IFRSs with other non-U.S. enterprises. These standards may provide them some of the general benefits that are normally associated with the concept of a single set of high quality globally accepted accounting standards. Benefits comprise raising foreign finance, including non-U.S. based finance, reducing costs of global investment and of restating financial statements,[22] improving corporate image, competitiveness, financial transparency, and international visibility with customers, investors, and financial markets, enhancing the decision usefulness for users of financial statements, and providing a common accounting language to enhance internal management. IFRS for small and medium-sized entities has opened to a much more extended audience.

Dual reporting tools are what, in the initial transition phase, really matter to U.S. companies that operate both in the United States and in foreign jurisdictions or multinational companies that are present in countries where IFRSs are effective. Transition processes may result in expensive professional charges to clients, unless better time and result for money are achieved through a multi-chartered accounting environment that capitalizes on a dual reporting practice, as opposed to the traditional and costly approach of mobilizing staff from the U.S. and European practices of a professional firm. Solutions proposed would not need the involvement of foreign branches and affiliates and therefore would be cost competitive. It is a tremendous opportunity to shift the business processes from report production to streamlined and cost-effective data capture and generation. This is an opportunity for business process re-engineering, to build a comprehensive data warehousing which comprises data for financial reporting as well, and to extend internal controls to the issues of the new standards. Exhibit 1-1 illustrates the types of companies that may need dual reporting under IFRSs and U.S. GAAP.

Although the Book occasionally refers to not-for-profit organizations, the accounting for these entities, as well as for governmental organizations, is outside of the scope of the Book.

1.4.2 IFRS Migration, Transition, or First-Time Adoption

This Book is relevant irrespective of the IFRS approach that a jurisdiction might adopt. Firstly, the analysis of differences between IFRSs and U.S. GAAP is the core of the Book. This is of current interest irrespective of any model of convergence or incorporation of IFRSs in the

[21] *Release No. 33-8831, page 7.*
[22] *Similarly, the Concept Release, page 13 regarding the lowering of costs in preparing consolidated financial statements as a possible driving force in a situation where a U.S. issuer has a large number of subsidiaries reporting under IFRSs, as long as an increase in cost of capital does not offset such benefit.*

Exhibit 1-1 Companies that May Need Dual Reporting under IFRSs and U.S. GAAP

	U.S. Company		*Company of an IFRS Jurisdiction*	
	Parent Company	*Subsidiary/Entity*	*Parent Company*	*Subsidiary/Entity*
For use in the U.S.	• A U.S. public parent would prepare IFRS consolidated financial statements, to the extent allowed by the SEC • A U.S. public parent consolidates under U.S. GAAP an IFRS subsidiary	• A U.S. public company, would prepare IFRS financial statements, to the extent allowed by the SEC. • A U.S. subsidiary that files under U.S. GAAP or a foreign issuer not meeting the definition of an FPI prepares IFRS financial statements for consolidation by an FPI	• An IFRS parent consolidates under U.S. GAAP a foreign nonpublic company or an FPI subsidiary, that uses a jurisdictional version of IFRSs • An FPI consolidates under IASB-IFRS a U.S. subsidiary or a foreign issuer not meeting the definition of an FPI	• A foreign nonpublic company or a FPI that uses a jurisdictional version of IFRSs restates under U.S. GAAP for Form 20-F • An IFRS subsidiary prepares U.S. GAAP statements for the U.S. parent
For use in foreign jurisdictions	• A U.S. parent prepares IFRS consolidation of foreign entities for use outside the U.S.	• U.S. company reports under IFRS to a foreign parent • U.S. nonpublic company present, listed or going public abroad • U.S. campany prepares IFRS statements for use abroad	• Foreign parent consolidates under IFRS a U.S. subsidiary that is nonpublic or going private • Foreign parent consolidates under IFRS a subsidiary that is a U.S. public company not yet allowed to report under IFRS in the U.S.	• An IFRS foreign company reports under U.S. GAAP to a parent for use abroad

FPI = Foreign Private Issuer.

U.S. systems. Whether the SEC goes for an endorsement, a convergence, or a condorsement approach, the real topic that companies want to understand is how IFRSs compare to U.S. GAAP. They want this at operational level. Secondly, even under a condorsement approach, companies would implement IFRSs, although formally as part of U.S. GAAP. Irrespective of whether the terms “migration”, “transition”, or “adoption” are used, or whether a convergence, enforcement, or condorsement approach is followed, a company would have to study IFRSs as issued by the IASB, understand and manage any differences with U.S. GAAP.

Chapter 2 focuses on IFRS 1. Of course, this is relevant for any jurisdiction that adopts IFRSs. However, knowing IFRS 1 is also critical in the U.S. This is obvious in the case the SEC goes for a model of first-time adoption. However, this is also important under other scenarios. While a pure convergence approach does not claim compliance with IFRSs, condorsement would do so. After the transitional period, an entity would be required to state explicit and unreserved compliance with IFRSs, which calls for the procedures in IFRS 1. Furthermore, even if some form of waiver of IFRS 1 is developed, the basic accommodations in IFRS 1 would likely be available to U.S. companies, because they are already thought of as facilitations as opposed to retrospective application of IFRSs. In addition, the financial community must know the ramifications of IFRS 1 and its effects. Even on the unrealistic assumption that a U.S. blend of IFRS 1 is developed, financial analysts will have to compare foreign private issuers and foreign companies that have applied native IFRS 1 to domestic companies. In addition, financial analysts would quantify the gap resulting from any waiver of IFRS 1. Finally, many U.S. companies must apply IFRSs and IFRS 1 abroad. New foreign private issuer must apply IFRS 1.

1.4.3 Why this Book Includes Guidance to Foreign Private Issuers

This Book does not limit itself to guidance arising in an IFRS context. It extends to the Implementation Guidance that U.S. GAAP and the SEC have been developing over time for foreign entities reporting under IFRSs in the U.S. This is relevant to foreign private issuers reporting under IFRSs in the U.S. However, this is also critical for companies that move from U.S. GAAP to IFRSs, because they cannot ignore the SEC guidance on IFRSs, even if provided in a context of foreign businesses. The Book warns readers of the subtleties and interpretations relating to the IASB-IFRSs, certain jurisdictional versions of IFRSs, and the implications in SEC filings. It expands on any topic with comments and directions arising from several committees within the AICPA, SEC, and other regulators and accounting bodies. The SEC guidance to foreign private issuers provides incredible value for companies reporting under IFRSs. Actually, the use of guidance to foreign private issuers is one of the elements that differentiate this Book from others. Authors of books on IFRSs do not generally analyze U.S. GAAP and SEC guidance on IFRSs. Authors of U.S. GAAP and SEC guidance do not analyze native IFRSs. Consequently, as these are two disconnected worlds, CFOs have to employ Big 4 and external consultants. These consultants involve their foreign branches and so the cost of the IFRS project becomes unaffordable. This is another reason why this type of Book should appeal CFOs, corporate staff, and practitioners.

1.4.4 Other Unique Features of this Book

This book has certain innovative features.

It goes into IFRS implementation and application issues well beyond simply commenting on the accounting requirements. This arises out of the analysis of real-world post-transition topics based on relevant sources, such as enforcement decisions.

It compares IFRSs to U.S. GAAP at peer-to-peer, item-by-item levels, in order to identify solutions under one set of standards to issues arising under the other set of standards and vice versa. This helps find possible answers to grey areas. This is rarely found, because the main difficulty that comparative studies usually encounter is making an inventory of whether authoritative literature treats the same, similar, partially overlapping, or very different issues. The reason for this is mostly because different bodies of standards often move from different angles, scope, or starting points.

Its level is deeply technical: companies, practitioners, academics, and students want analysis, discussion, and possible solutions to real technical matters that can help them solve their pressing accounting problems. In each chapter, there are commentary sections that highlight the similarities, differences, and grey areas on the subject matter in IFRSs, US GAAP, SEC rules and regulations, as well as other accounting jurisdictions. These sections also provide a review of the related literature. The planning point sections within each chapter provide recommendations and propose several resolutions to issues that may be faced by practitioners and other corporate staff. Unlike other books, it gives full references to accounting pronouncements for further reading and analysis by interested readers.

The EU has gained experience from the first-time adoption of IFRSs in so many countries that companies have faced virtually every kind of different technical question. The SEC also acknowledges that the U.S. public capital market has never experienced the magnitude of an event that requires either a massive change in the comprehensive basis of accounting, or the use of a different basis of accounting for purposes of preparing primary financial statements.[23] The Book capitalizes on this experience, in addition to the study of Basis for Conclusions, proposed Exposure Drafts, and convergence projects, in order to analyze the rationales, the practical implications of different accounting requirements and prospective developments.

This Book is not limited to industrial, commercial, and service companies. It also covers certain specialized industries, such as banks and financial institutions, investment companies, brokers and dealers, insurance enterprises, pension and post-retirement plans, real estate, as well as other sectors.

1.4.5 Use of this Book in Jurisdictions Other than the U.S.

The focus of this Book is an operating comparison between IFRSs and U.S. GAAP. However, the Book also addresses IFRSs and IFRS migration irrespective of specific jurisdictions. This Book is more detailed and operating in IFRSs than most books on IFRSs. Therefore, it constitutes a valid guide to IFRS interpretation, application, and implementation in any jurisdiction, especially in relation to grey areas.

1.4.6 The Benefits of Reading this Book

Readers may consult this Book on specific topics or issues. Firstly, the Book analyzes a topic from numerous angles, interspersing comments and planning points on ramifications and implications. In this way, readers may have a deep understanding of a subject at a glance, saving months and months of accounting research.

Secondly, it refers to most of the documents that exist in accounting literature on the specific issues treated. Therefore, readers can know where to find additional materials as appropriate, without initiating a time-consuming research.

Finally, the Book gives a wide, cross cutting and comprehensive picture of the subjects treated. Not all readers have gained years of study and experience in IFRSs to make them adept in all standards and interpretations and their interactions to the level that is necessary to treat a topic more in detail than the high-level analysis that is usually available. Therefore, this feature makes readers aware of aspects that they may otherwise ignore or consider unrelated to the topic studied, without spending years in studying IFRSs.

Alternatively, each chapter or the entire Book may be read sequentially. The subject matter is discussed within a consistent framework. This facilitates reading for studying, whether as part of University curricula, executive courses, or personal learning.

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[23] *Release No. 33-8831, page 40.*

2 IFRS FIRST-TIME ADOPTION REQUIREMENTS AND INTERACTION WITH U.S. GAAP AND SEC RULES AND REGULATIONS

2.1 CHAPTER PREVIEW

This chapter provides an invaluable guide on how U.S. companies, foreign private issuers, and multinational companies that need to keep updated on U.S. requirements must apply IFRS 1, *First-time Adoption of International Financial Reporting Standards*. It includes an analysis of peculiar aspects of reporting standards that are not easily investigated in accounting literature.

IFRS 1 is a complex standard. This chapter first provides graphic illustrations of its requirements for easier visualization and understanding. It then focuses on grey areas, researching topics that have arisen in different jurisdictions and how the SEC and other regulators have tackled the issues. It goes on to research how a careful reading of all IFRSs can lead to resolutions of problems that are still open. It contrasts those results with solutions to similar issues offered by U.S. GAAP. It explains in depth the SEC guidance on the subject.

In parallel to the introduction of other IFRSs, with special reference to IFRS 9, the IASB amended IFRS 1 several times. Most textbooks take the view of the adoption of all the latest amendments to IFRS 1 available at the beginning of a specific year. However, this is not the perspective that companies face, as many alternative treatments are possible at a certain point in time. This chapter explains how the changes from the previous versions of IFRS 1 to the current release and the alternatives still available may affect the migration to IFRSs. This is important for both simulation of financial results and planning for transition.

This chapter uses an analysis working method of investigative granularity, especially in discussing each IFRS 1 accommodation. In particular, it spells out many tacit interactions among the individual exceptions and exemptions in IFRS 1, potentially resulting in unintentional or dangerous implications.

Finally, its Exhibits provide ready-made dual reporting tools, such as accounting entries, comparisons of implications of alternative treatments, recasting from or to U.S. GAAP, and many others.

2.2 IFRS 1 AMENDMENTS AND EFFECTIVE DATES

2.2.1 History of IFRS 1

Entities that want to migrate to IFRSs as a comprehensive basis of accounting must follow IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Over time, IFRS 1 has had several amendments and interpretations. Exhibit 2-1 lists those together with the respective effective dates and the enforcement dates in the European Union.

2.2.2 Restructured IFRS 1

The current revision of IFRS 1, effective for financial years beginning on or after July 1, 2009, with earlier application permitted, is the so-called "restructured IFRS 1". In essence, this is a restyled version intended to make the standard more readable and comprehensible, in consideration of the fact that the standard is open to frequent amendments.[1]

2.3 RATIONALE OF IFRS 1

2.3.1 First-Time Adoption of a Comprehensive Basis of Accounting

Essentially, IFRS 1 treats the first-time adoption of a comprehensive basis of accounting with reference to IFRSs. It is a change in accounting basis rather than an accounting change.[2]

> **Comment:** U.S. GAAP has no similar guidance on its first-time adoption. Under FIN 40, an entity that describes its financial statements as prepared in conformity with U.S. generally accepted accounting principles must apply all relevant authoritative accounting pronouncements.[3] This concept is similar to the explicit and unreserved statement of compliance to IFRSs (see Paragraph 2.7 following).

2.3.2 Derogation from the Basic Principle of Retrospective Application

Retrospective accounting for an involuntary change in accounting principles (i.e., mandated by authoritative pronouncements) is a general rule under both U.S. GAAP and IFRSs.

> **Comment:** Under U.S. GAAP, this tenet is compelling except for certain FASB Staff Positions and, in general, for EITF Abstracts, unless the transitional provisions of a specific pronouncement state otherwise.[4] For companies already applying IFRSs, IAS 8 requires retrospective application of involuntary changes in accounting policies for which a Standard or an Interpretation does not provide any transitional provision. This is subject to an impracticability exception that, contrary to the previous version of the standard, also holds when the retrospective application required in a transitional provision is not practicable (not only when that Standard or Interpretation has no transitional provision and the results of retrospective application would be impracticable).[5]

However, unlike U.S. GAAP, IFRS 1 provides new entrants with certain accommodations as opposed to a rigid application of a one-off full retrospective approach that would be called for

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[1] *IFRS 1, First-time Adoption of International Financial Reporting Standards, ¶¶ IN2, 34, BC3B.*

[2] *AICPA, 2008.* Center for Audit Quality, International Practices Task Force Highlights, November 25, 2008, *¶ Discussion Document A. [Online] AICPA. Available at: www.aicpa.org [last accessed July 9, 2010] (hereinafter IPTF, November 25, 2008).*

[3] *FASB Interpretation No. 40,* Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises, *¶¶ Summary, 2, 16.*

[4] *FASB ASC 250-10-45-3 (FASB Statement No. 154, ¶ 6); EITF Topic D-1,* Implications and Implementation of an EITF Consensus*; IAS 8, ¶ 19.*

[5] *IAS 8, ¶¶ 22, BC29.*

Exhibit 2-1 History of IFRS 1, First-Time Adoption of International Financial Reporting Standards

Standard	*Amended by*	*Interpreted by*	*Issue/Revision Date*	*Effective Date*	*EC Regulation No. and Date*	*Applicable in the EU from*
IFRS 1, *First-time Adoption of International Financial Reporting Standards*			June 2003	January 1, 2004	No 707/2004 of April 6, 2004	Entered into force on April 26, 2004
	IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*		Revised in December 2003	Annual periods beginning on or after January 1, 2005. Earlier application is encouraged	No 2238/2004 of December 29, 2004	January 1, 2005
	IAS 16, *Property, Plant and Equipment*		Revised in December 2003	Annual periods beginning on or after January 1, 2005. Earlier application is encouraged	No 2238/2004 of December 29, 2004	January 1, 2005
	IAS 17, *Leases*		Revised in December 2003	Annual periods beginning on or after January 1, 2005. Earlier application is encouraged	No 2238/2004 of December 29, 2004	January 1, 2005
	IAS 21, *The Effects of Changes in Foreign Exchange Rates*		Revised in December 2003	Annual periods beginning on or after January 1, 2005. Earlier application is encouraged	No 2238/2004 of December 29, 2004	January 1, 2005
	IAS 39, *Financial Instruments: Recognition and Measurement*		Revised in December 2003	For annual periods beginning on or after January 1, 2005	No 2086/2004 of November 19, 2004	From January 1, 2005 at the latest
	IFRS 2, *Share-based Payment*		February 2004	Annual periods beginning on or after January 1, 2005. Earlier application is encouraged	No 211/2005 of February 4, 2005	February 7, 2005
	IFRS 3, *Business Combinations*		March 2004	Business combinations for which the agreement date is on or after March 31, 2004. Specific earlier application provisions exist	No 2236/2004 of December 29, 2004	From January 1, 2005 at the latest

(continued)

Exhibit 2-1 History of IFRS 1, First-Time Adoption of International Financial Reporting Standards (*Continued*)

Standard	*Amended by*	*Interpreted by*	*Issue/Revision Date*	*Effective Date*	*EC Regulation No. and Date*	*Applicable in the EU from*
	IFRS 4, *Insurance Contracts*		March 2004	Annual periods beginning on or after January 1, 2005. If an entity adopts IFRS 4 for an earlier period, these amendments shall be applied for that earlier period	No 2236/2004 of December 29, 2004	From January 1, 2005 at the latest
	IFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*		March 2004	Annual periods beginning on or after January 1, 2005. If an entity adopts IFRS 5 for an earlier period, these amendments shall be applied for that earlier period	No 2236/2004 of December 29, 2004	From January 1, 2005 at the latest
	IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*		May 2004	For annual periods beginning on or after September 1, 2004. If an entity applies IFRIC 1 for an earlier period, these amendments shall be applied for that earlier period	No 2237/2004 of December 29, 2004	January 1, 2005 at latest
	IFRIC 4, *Determining whether an Arrangement contains a Lease*		December 2004	For annual periods beginning on or after January 1, 2006. If an entity applies IFRIC 4 for an earlier period, these amendments shall be applied for that earlier period	No 1910/2005 of November 8, 2005	As from the commencement date of an entity's 2006 financial year, at the latest
	IFRS 6, *Exploration for and Evaluation of Mineral Resources*		December 2004	For annual periods beginning on or after January 1, 2006. If an entity applies IFRS 6 for an earlier period, these amendments shall be applied for that earlier period	No 1910/2005 of November 8, 2005	As from the commencement date of an entity's 2006 financial year, at the latest
	Amendment to IAS 19, *Actuarial Gains and Losses, Group Plans and Disclosures*		December 2004	For annual periods beginning on or after January 1, 2006. If an entity applies the amendments to IAS 19 for an earlier period, these amendments shall be applied for that earlier period	No 1910/2005 of November 8, 2005	As from the commencement date of an entity's 2006 financial year, at the latest

Amendments to IAS 39, *Transition and Initial Recognition of Financial Assets and Financial Liabilities*		December 2004	For annual periods beginning on or after January 1, 2005. If an entity applies IFRS 1 for an earlier period, these amendments shall be applied for that earlier period	No 1751/2005 of October 25, 2005	To each financial year of a company starting on or after January 1, 2005
Amendments to IAS 39, *The Fair Value Option*		June 2005	For annual periods beginning on or after January 1, 2006. If an entity applies the amendments to IAS 39 for an earlier period, the amendments in this appendix shall be applied for that earlier period	No 1864/2005 of November 15, 2005 (with IAS 39 temporary carve-out)	January 1, 2005. Entered into force on November 19, 2005
Amendments to IFRS 1 and the Basis for Conclusions of IFRS 6		June 2005	January 1, 2006	No 108/2006 of January 11, 2006	As from the commencement date of its 2006 financial year at the latest
IFRS 7, *Financial Instruments: Disclosures*		August 2005	For annual periods beginning on or after January 1, 2007. If an entity applies IFRS 7 for an earlier period, these amendments shall be applied for that earlier period	No 108/2006 of January 11, 2006	As from the commencement date of its 2007 financial year at the latest
	IFRIC 9, *Reassessment of Embedded Derivatives (Basis for Conclusions)*	March 2006	For annual periods beginning on or after June 1, 2006. Earlier application is encouraged	No 1329/2006 of September 8, 2006	As from the commencement date of its 2006 financial year at the latest, except for companies with a January, February, March, April or May commencement date which shall apply IFRIC 9 as from the commencement date of the 2007 financial year at the latest
IFRIC 12, *Service Concession Arrangements*		November 2006	For annual periods beginning on or after January 1, 2008. If an entity applies IFRIC 12 for an earlier period, these amendments shall be applied for that earlier period	No 254/2009 of March 25, 2009	At the latest, as from the commencement date of the first financial year starting after the date of entry into force of this Regulation (March 29, 2009)

(continued)

Exhibit 2-1 History of IFRS 1, First-Time Adoption of International Financial Reporting Standards (*Continued*)

Standard	*Amended by*	*Interpreted by*	*Issue/Revision Date*	*Effective Date*	*EC Regulation No. and Date*	*Applicable in the EU from*
	IFRS 8, *Operating Segments (amended IFRS 1 Basis for Conclusions)*		November 2006	For periods beginning on or after January 1, 2009. Earlier application is permitted	No 1358/2007 of November 21, 2007	As from the commencement date of its 2009 financial year at the latest
	IAS 23, *Borrowing Costs*		Revised in March 2007	For annual periods beginning on or after January 1, 2009. If an entity applies IAS 23 R for an earlier period, these amendments shall be applied for that earlier period	No 1260/2008 of December 10, 2008	At the latest, as from the commencement date of its first financial year starting after December 31, 2008
	IAS 1, *Presentation of Financial Statements*		Revised in September 2007	For annual periods beginning on or after January 1, 2009. If an entity applies IAS 1R for an earlier period, these amendments shall be applied for that earlier period	No 1274/2008 of December 17, 2008	At the latest, as from the commencement date of its first financial year starting after December 31, 2008
	IAS 27, *Consolidated and Separate Financial Statements*		Revised in January 2008	For annual periods beginning on or after July 1, 2009. If an entity applies the amendments to IAS 27 for an earlier period, these amendments shall be applied for that earlier period	No 494/2009 of June 3, 2009	At the latest, as from the commencement date of its first financial year starting after June 30, 2009
	IFRS 3, *Business Combinations*		Revised in January 2008	For annual reporting periods beginning on or after July 1, 2009. If an entity applies IFRS3R for an earlier period, these amendments shall be applied for that earlier period	No 495/2009 of June 3, 2009	At the latest, as from the commencement date of its first financial year starting after June 30, 2009
	Amendments to IFRS 1 and IAS 27, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*		May 2008	For annual periods beginning on or after January 1, 2009. Earlier application is permitted	No 69/2009 of January 23, 2009	At the latest, as from the commencement date of its first financial year starting after December 31, 2008

	Improvements to IFRSs	May 2008	For annual periods beginning on or after July 1, 2009. Earlier application is permitted under certain conditions	No 70/2009 of January 23, 2009	At the latest, as from the commencement date of its first financial year starting after June 30, 2009
IFRS 1, *First-time Adoption of International Financial Reporting Standards*		Revised in November 2008	If the first IFRS financial statements are for a period beginning on or after July 1, 2009. Earlier application is permitted	1136/2009 of November 25, 2009	At the latest, as from the commencement date of first financial year starting after December 31, 2009
		December 2008	Deferred to July 1, 2009		
	IFRIC 18, *Transfers of Assets from Customers*	January 2009	Transfers of assets from customers received on or after July 1, 2009. Earlier application is permitted under certain conditions	No 1164/2009 of November 27, 2009	At the latest, as from the commencement date of its first financial year starting after October 31, 2009
	Amendments to IFRS 1, *Additional Exemptions for First-time Adopters*	July 2009	For annual periods beginning on or after January 1, 2010. Earlier application is permitted	–	Expected Q1 2010
	IFRIC 19. *Extinguishing Financial Liabilities with Equity Instruments*	November 2009	For annual periods beginning on or after July 1, 2010. If an entity applies IFRIC 19 for an earlier period, these amendments shall be applied for that earlier period	–	Expected Q2 2010
	IFRS 9, *Financial Instruments*	November 2009	January 1, 2013 (or when the entity applies IFRS 9)	–	Postponed
	Amendments to IFRS 1, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	January 2010	For annual periods beginning on or after July 1, 2010. Earlier application is permitted		

with the transition to IFRSs, as Paragraph 2.3.3 below illustrates. Paragraph 2.9.9 following goes into detail about the IAS 8 impracticability exception.

2.3.3 IFRS 1 versus SIC-8

IFRS 1 replaced SIC-8, *First-time Application of IASs as the Primary Basis of Accounting*. SIC-8 was in force from 1998 to the date when IFRS 1 came into existence.[6] This Interpretation required a strict full retrospective method, unless impracticable. Unlike IFRS 1, it did not allow for exemptions or exceptions. SIC-8 followed a substantially different basic approach in selecting accounting policies. At that time, comparability among IAS entities, not simply among first-time adopters, was its main objective. SIC-8 was considered too rigid in retrospectively applying all IASs in a context of first adoption, without conceding to practical reasons, avoidance of hindsight, and cost/benefit justifications whether in the form of exceptions or exemptions. At the same time it was not so clear in spelling out transition rules. Paragraph 2.14.5 following explains the rationales under each of the specific derogations contained in IFRS 1. Furthermore, SIC-8 opened some room for misinterpretation or diverse application with regard to its impracticability exception from retrospective application that, nevertheless, could be invoked in rare cases.[7] Conversely, IFRS 1 includes a cost-benefit balance into its objectives.[8]

2.3.4 Main Rationales of IFRS 1

The objective of IFRS 1 clearly includes the creation of first IFRS annual statements, and if it is the case, also interim financial statements as the foundation for continuing reporting under IFRSs. In this ways, the Standard takes into consideration the balance between cost and benefits.[9]

> **Comment:** IFRS 1 moved in the direction of making transition to IFRSs more appealing to the IFRSs' large potential audience than was the case under SIC-8, by reducing possible undue costs of managing the change. SIC-8 did not stipulate so clearly which version of the standards should be used, whether use should be made of hindsight in estimates, or interaction with standard-specific transitional provisions. This had caused doubts and debate. IFRS 1, instead, reframed all this by seeking comparability among companies over time, initially among first-time adopters, and between those and companies that already applied IFRSs as a next step.[10]

2.4 ACCOUNTING STEPS IN MIGRATING TO IFRSs

Migration to IFRSs involves many considerations beyond accounting, ranging from strategy, to competitive considerations, investor relations, process and operations management, organization, communication, human resources management, training, legal and taxation, and so on. From a purely accounting perspective, an entity should consider certain main steps, as Exhibit 2-2 illustrates.

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6 *SIC Interpretation No. 8,* First-time Application of IASs as the Primary Basis of Accounting.
7 *IFRS 1, ¶¶ BC2A, BC2B.*
8 *IFRS 1, ¶ 1.*
9 *IFRS 1, ¶ 1.*
10 *IFRS 1 (Revision as of June 30, 2005), ¶¶ IN1, IN7, BC10.*

Exhibit 2-2 Accounting Steps in Migrating to IFRSs

Mission and Strategic Focus

Get top management commitment and buy-in
Set up a clear strategy and timeframe to transition
Appoint a project manager, a project team, and a steering committee and establish project discipline. Define project tollgates and milestones
Quantify expected cost of adoption
Address main issues concerning the audit committee, including systems and processes of internal control over financial reporting
Define a strategy for communication and investor relations
Set up a committee to revise taxation effects
Cascade strategy setting targets and implementation plans to each area of the organization
Set the tone to the organization

Identification Phase

Scope of First IFRS Financial Statements

- Based on local laws, determine whether migration to IFRSs and use of IFRS 1 are required
- Understand the impact of adopting IASB-IFRSs versus jurisdictional IFRSs on regulatory requirements
- Identify the targeted IFRS reporting date
- Define the number of comparative periods and, consequently, identify the transition date
- Define local legal requirements for, or voluntary election of interim reporting
- Identify previous GAAP used by the consolidated group, parent company, subsidiaries, associates, and joint ventures of the group
- List IFRSs applicable at the first IFRS reporting date, including any pronouncement that permits earlier adoption
- Identify mandatory and elective accommodations under IFRS 1

Definition of the Reporting Entity

- Determine whether to migrate at consolidated, separate, or entity's financial statements levels and the jurisdictions
- Inventory which entities are publicly listed and where
- Inventory regulatory or statutory accounting principles used
- Identify consolidation scope
- Identify related parties
- Decide whether the entity must produce segment reporting and identify company's segment

Diagnostic Phase

Gap Analysis

- Identify ordinary accounting, infrequent, unusual events, extraordinary items, and foreign operations
- Identify specialized industry accounting issues
- Map applicable differences in accounting policies that affect the company, including:
  - differences between IFRSs and previous GAAP
  - specific options available under previous GAAP
  - specific options available under IFRSs
  - application of accounting policies based on specific circumstances under previous GAAP and under IFRSs
  - earlier adoptions that are available
  - IFRS 1 elective exemptions
  - IFRS 1 mandatory exceptions

High-level Impact Simulation

- Make an initial selection of accounting policies
- Identify missing data
- Determine correction of errors
- Determine the scope of review of estimates
- Simulate a high-level impact of transition on the opening IFRS statement of financial position, comparative period(s) and reporting period
- Refine and validate the selection of accounting policies

(continued)

Exhibit 2-2 Accounting Steps in Migrating to IFRSs (*Continued*)

- Validate the cost of transition
- Get approvals and sign-offs from appropriate levels and in accordance with jurisdictional and company's governance

Implementation Phase

Define the migration level desired (e.g., chart of account, adjustments, reconciliation, restatement, etc.)
Identify accounting information systems impact and set up specific projects
Customize financial statements formats
Apply recognition requirements in the opening IFRS statement of financial position
Apply derecognition requirements in the opening IFRS statement of financial position
Apply presentation and classification requirements in the opening IFRS statement of financial position
Apply measurement requirements in the opening IFRS statement of financial position
Review estimates when required
Identify subsequent events
Compute current and deferred income tax in the opening IFRS statement of financial position
Compute noncontrolling interests in the opening IFRS statement of financial position
Restate comparative information
Apply IFRS to the IFRS current reporting period
Prepare IFRS 1 reconciliations and disclosures
Prepare ordinary IFRSs disclosures

Project Management and Documentation

Establish project documentation and archiving procedures
Implement project management discipline (project Gantt, tracking Gantts, project meetings, progress reports, etc)
Document all steps and justifications for policies selected
Validate adjusting entries

Accounting Support Documentation

Define the data gathering process supporting disclosures
Revise group and/or entity's accounting manual under IFRSs
Revise group accounting procedures
Revise group closing calendar and closing entries
Cascade specific projects to each area of the organization

2.5 FIRST IFRS FINANCIAL STATEMENTS

2.5.1 Terminology

First-time adoption of IFRSs, as opposed to *first-time application*, is the expression that the IASB elected to mean the presentation of the first set of IFRS financial statements.[11] First IFRS financial statements, whether annual or interim, are those that use IFRSs in their entirety and include a statement where the reporting entity unambiguously represents such an adoption without any reservation.[12] Paragraph 2.6 following and Paragraph 2.7 following explain the intricacies of this point.

The SEC uses the expression *transition year* to mean what, in IFRS 1 terms, is the first IFRS reporting period.[13]

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[11] *IFRS 1, ¶ Appendix A; IASB Update, March 2003.*

[12] *IFRS 1, ¶¶ 3, Appendix A.*

[13] *SEC, Release No. 33-8567,* First-Time Application of International Financial Reporting Standards*, ¶ Footnote 16. [Online] SEC* www.sec.gov *[last accessed April 13, 2005] (hereinafter SEC, Release 33-8567).*

2.5.2 First versus Subsequent IFRS Financial Statements

The first IFRS financial statements are those in which an entity states an explicit and unreserved compliance with IFRSs for the first time.[14] Paragraph 2.7 following goes into this in detail.

Discontinuation in respect of the past is of the essence. Before the first IFRS financial statements, an entity should not have used IFRSs by an explicit and unreserved statement of compliance, or presented any financial statements, or been in one of the circumstances that do not lead to a situation of first-time adoption. Alternatively, the context in which the company uses IFRSs should be such as to create the conditions for first-time adoption.[15] An entity that did not present prior financial statements must disclose this fact.[16]

IFRS financial statements following the first IFRS financial statements are subsequent IFRS financial statements.

> **Planning Point:** In the early years of preparation of IFRS financial statements a company may use a parallel mode, i.e., it may present both local GAAP and IFRS financial statements for some periods. In this case, it will be in a situation of first adoption only in the period in which it first prepares IFRS financial statements with the required assertion for the first time. When it stops reporting on a dual basis, its IFRS financial statements will be subsequent IFRS financial statements.[17]

2.5.3 What First IFRS Financial Statements are and What They are Not

IFRS 1 contains examples of what do and what do not constitute first IFRS financial statements.

> **Planning Point:** This listing is useful to figure out what first IFRS financial statements are and what they are not. Moreover, it reflects most of the situations that entities may face before adopting IFRSs.

Exhibit 2-3 describes the process to ascertain whether certain past and present circumstances permit reference to financial statements as the first IFRS financial statements. In addition to this, financial statements that do not have the features discussed in the following paragraphs cannot be first IFRS financial statements.

2.5.4 External Use

First IFRS financial statements must be for external use, i.e., addressed to shareholders or other external parties. Financial statements limited to internal use do not qualify as such.[18]

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[14] *IFRS 1, ¶¶ IN3, 3.*
[15] *IFRS 1, ¶¶ 3(a)(i), 3(d).*
[16] *IFRS 1, ¶ 28.*
[17] *IFRS 1, ¶ 4(a).*
[18] *IFRS 1, ¶ 3(b).*

Exhibit 2-3 Identification of the First IFRS Financial Statements

The Exhibit shows some of the circumstances that permit an entity to adopt IFRSs for the first time.

Financial Statements under Previous GAAP	*Type of Use of IFRSs in Prior Financial Statements*	*Explicit and Unreserved Statement of Compliance in Prior Financial Statements*	*Can Current Financial Statements Meeting All Other Requirements Be First IFRS Financial Statements?*
Not presented			Yes
Presented	+ Not as a complete set of statements + As supplemental statements + Reconciliation to + In reconciliation package only + For internal use only		Yes
Presented	+ No use of IFRSs + Partial use of IFRSs + Full compliance	+ Yes/No	No/Yes

2.5.5 Complete Set

First IFRS financial statements must include a complete set of financial statements, including all related aspects. IFRS 1 refers to a complete set under IAS 1. Paragraph 2.13.1 following and 2.13.3 following discuss this topic.

> **Planning Point:** Typically, before arriving at a full adoption, companies may try to convert only part of their accounting records and system to prepare only some aspects of financial reporting on a selected basis, or a trial mode. This is not yet a first-time adoption.[19]

2.5.6 Primary Financial Statements

SIC-8 explicitly referred to the use of IASs as the primary basis of accounting for the first time.[20] IFRS 1 does not mention primary financial statements.

> **Planning Point:** In general, IFRSs apply to general purpose financial statements (i.e., usually primary financial statements).[21] However, an entity may well report under two or more comprehensive bases of accounting and use all of these as primary financial statements. Furthermore, many companies use reconciliations or adjusting entries to produce IFRS financial statements starting from local GAAP. An entity that adjusts all, not simply some, accounts starting from local GAAP, and states its full and unreserved compliance with IFRSs in a complete set of financial statements for external use would qualify as presenting first IFRS financial statements, even if it has not yet converted its chart of accounts. However, IFRS 1 clarifies that reconciling only some amounts is not a first-time adoption.[22]

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[19] *IFRS 1, ¶ 3(a)(iv).*
[20] *SIC Interpretation No. 8 (superseded), ¶¶ 1, 3.*
[21] *IAS 1, ¶ 2.*
[22] *IFRS 1, ¶¶ 3(a)(v).*

2.5.7 Location and Context of the First IFRS Financial Statements

When a company presents IFRS financial statements for different purposes, such as in the annual report to shareholders, in a prospectus for a public offering, in filings to securities regulators, or in other public documents, an issue may arise as to which statements are the first IFRS financial statements. In other situations, different sets of general purpose financial statements may follow different bases of accounting. In other cases, some external authority may compel compliance of one set of general purpose financial statements with IFRSs on a qualified basis.

IFRS 1 does not re-propose the distinction between financial statements and financial reporting and between general purpose and special purpose financial statements. Nonetheless, IAS 1 specifies that IFRSs only apply to financial statements and not to other information contained in other financial reports or documents. In addition, IFRSs apply to general purpose financial statements.[23] Indeed, both financial statements to shareholders and those included in filings for the protection of investors are general purpose financial statements.

Planning Point: If IFRS financial statements are part of a nonpublic document, they are not general purpose financial statements and therefore cannot qualify as first IFRS financial statements. Before the common conceptual framework, the IASB Framework stated that it did not apply to prospectuses. It characterized a prospectus as a special purpose financial report.[24] The Basis for Conclusions of IAS 1 implies some leaning towards considering financial statements in public documents as general purpose financial statements, although this standard does not go so far as to state this explicitly.[25] The Basis for Conclusions of IFRS 1 explicitly refers to first IFRS financial statements filed to regulators.[26] The new Conceptual Framework does not differentiate general purpose financial statements for publicly and closely held companies. However, it distinguishes financial statements included in reports directed to investors, lenders, and other creditors from those that are part of reports restricted to regulators and other parties. Only the former are general purpose financial statements.[27] Indeed, the financial statements included in those documents are for the protection of investors, whether actual or potential. An entity that according to national laws reports to shareholders under local GAAP might be required to use full IFRSs for listing purposes. Arguably, both sets of financial statements will be general purpose primary financial statements and the first use of IFRSs in financial statements (with all the required criteria) included in such documents to investors on the stock exchange will qualify as first-time adoption.

If a securities regulator or other authority amends or does not permit the use of all IFRSs, those financial statements will not be full IFRSs and the entity would not be able to assert an unconditional statement of compliance with IFRSs as issued by the IASB. Depending on the legal framework, such variants might constitute statutory or regulatory accounting principles or IFRSs according to a jurisdictional version. Paragraph 2.7.8 following develops this concept in the context of jurisdictional IFRSs and explains a limited exception applicable to EU-GAAP. If a securities regulator or other authority provides additional guidance that is compatible

[23] *IAS 1, ¶¶ 1, 2, 7, 14, 50.*
[24] *IASB Framework, ¶ 6 (superseded).*
[25] *IAS 1, ¶¶ BC11-BC13.*
[26] *IAS 1, ¶ BC87.*
[27] The Conceptual Framework for Financial Reporting 2010, *¶¶ OB10, BC1.29, BC1.30.*

with IFRSs, those financial statements might comply with IFRSs as issued by the IASB or a jurisdictional version, depending on the language of the statement of compliance.

> **Comment:** A company might have migrated to IFRSs in the past in its home market. The fact that subsequently it reports under IFRSs in a public filing does not mean that it is a first-time adopter twice, as Paragraphs 2.16.11 following and 2.7.14 following illustrate.

2.5.8 Financial Statements of Entities Incorporated in the First IFRS Consolidated Financial Statements

Incorporating other companies in the first IFRS consolidated financial statements does not constitute a first-time adoption for these companies. This is because they do not present their complete set of entity's financial statements on an IFRS basis, but simply provide a consolidation package or raw data to their parent company.[28]

> **Planning Point:** However, as a simplification when they later migrate to IFRSs, the standard permits subsidiaries, associates, and joint ventures to use the recognition and measurement applicable to those consolidated statements (Paragraph 2.19.10 following).[29]

> **Planning Point:** Submission of financial statements to the parent for consolidation generally starts before financial statements are formally issued. Even if the parent received an approved complete set of complying first IFRS financial statements, this submission would be for a specific purpose, i.e., consolidation, and not as information to the public. Furthermore, submission for consolidation of a partially owned company generally does not involve noncontrolling owners.

> **Planning Point:** In theory, outside the context of consolidation, the presentation of a complete set of first IFRS financial statements by a fully owned company to its parent company with the required statement of compliance will qualify, because the parent is the shareholder, i.e., acting in its capacity as an external user. In practice, however, such a presentation is usually made to the parent in its quality of member of the company's Board of Directors for the approval of draft financial statements, or in the context of the shareholders' meeting for approval of the financial statements. At that stage, financial statements are not yet available to other external users. Paragraph 2.10.7 following explains the impact of "other entities" on the U.S. GAAP reconciliation requirements in Form 20-F.

2.5.9 IFRS Financial Statements of Other Entities Included in a Registrant's Report

Subsidiaries or associates of a publicly listed company that do not present IFRS financial statements may have to provide such statements to their parent for inclusion in the registrant's (i.e., the parent's filings with a securities regulator). Therefore, such entities may find themselves in the situation of having IFRS financial statements included in the parent's filing, while incorporating local GAAP financial statements in annual report to shareholders.

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[28] *IFRS 1, ¶¶ 3(c), BC59, BC61(a).*
[29] *IFRS 1, ¶ D16.*

In the context of proxy solicitations, SEC guidance distinguishes between annual reports on SEC filings and annual reports to shareholders. Annual reports to shareholders do not require the inclusion of financial statements of unconsolidated subsidiaries and equity method investees (unlike Rule 3-09 of Regulation S-X), pro forma data, certain Regulation S-X schedules, or predecessor audit reports.

In its filing, the registrant will be able to enclose IFRS financial statements of other entities that are foreign businesses.[30] Furthermore, if it uses IFRSs, it will have to use IFRS amounts of such entities for significance testing (see Paragraph 2.10.8 following). The Basis for Conclusions of IAS 1 faces a similar issue in general terms, but does not give a solution by avoiding specific and dangerous definitions of what comprise general purpose financial statements.[31]

Planning Point: As Paragraph 2.10.7 following explains, Form 20-F facilitations for IFRS first-time adopters also extend to financial statements of foreign business affiliates that under Regulation S-X are otherwise required to include their financial statements in their domestic or foreign parent's registration statement or Exchange Act reports.[32] Therefore, this situation will be very rare, unless mandated by other local legal requirements. Those investees should migrate to IFRS for the purpose of their own financial statements to benefit from both Form 20-F accommodations to IFRS first-time adopters and the IFRS 1 exception for affiliates (Paragraph 2.19.10 following).

Planning Point: Different IFRS implications may arise depending on whether a registrant's filings include disclosures or full financial statements of equity method entities. Firstly, summarized IFRS financial information of investees does not qualify as first IFRS financial statements of those companies from an IFRS 1 perspective. In fact, this is not a complete set of financial statements. Secondly, as Paragraph 2.5.8 previously explains, the simple inclusion in consolidation does not qualify as first-time adoption. Thirdly, some may argue that IFRS financial statements enclosed in a registrant's document would qualify as first-time adoption for the associates to the extent that per se they are general purpose financial statements and meet all the other requirements in IFRS 1 (see Paragraph 2.5.7 previously). However, if the associate presents its financial statements under local GAAP, and prepares an IFRS version only for inclusion in its parent's filings, it would be very unlikely that the latter would be considered its primary financial statements as intended under IFRSs (Paragraph 2.5.6 previously).

2.5.10 Previous GAAP

2.5.10.1 Timing of Use of Previous GAAP Under IFRS 1, a previous GAAP is that which the entity used immediately before IFRS first-time adoption.[33]

2.5.10.2 Previous versus Home-Country GAAP Different terms exist in accounting literature and in practice with reference to the basis of accounting that an entity used prior to migrating to IFRSs.

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30 *SEC Regulation 14A, Rule 240.14a-3(b)(1); SEC,* Financial Reporting Manual, *¶¶ 1410.1, 6350.1.*
31 *IAS 1, ¶¶ BC11-BC13.*
32 *SEC,* Financial Reporting Manual, *¶ 6340.2.*
33 *IFRS 1, ¶ Appendix A.*

Comment: The SEC adopted the term *previous GAAP* with the same meaning as IFRS 1.[34] Form 20-F also uses this term.[35] With reference to foreign private issuers reporting under IFRS, the SEC Financial Reporting Manual uses the expression *home-country GAAP* to indicate a non-IFRS basis of accounting (or, in general, a basis of reporting) that a foreign private issuer employs in its jurisdiction.[36] Although the two terms are often interchangeable, *home-country GAAP*, as well as *local GAAP*, arguably comprises all contexts where for any reason an entity used, or may continue to use, its national GAAP outside the U.S. This is irrespective of whether it reports under IFRSs in the U.S. or in any other jurisdictions at the same time, or as a foreign private issuer in the U.S. it utilizes home-country GAAP with reconciliation to U.S. GAAP (i.e., it is not migrating to IFRSs). Local and national[37] GAAP are often synonyms. Finally, in a context of dual reporting, *previous GAAP* denotes the *home-country GAAP* that the entity designates under IFRS 1, as Paragraph 2.5.10.3 following illustrates.

2.5.10.3 Use of Different Sets of Local GAAP Several implications arise for an entity that uses different local GAAP in different jurisdictions immediately before its IFRS first-time adoption.

Planning Point: Generally speaking, an entity has only one set of first IFRS financial statements. The type of previous GAAP does not affect the IFRS amounts, provided the entity maintains the same accounting policies, and IFRS 1 exemptions and exceptions in its first IFRS financial statements irrespective of what previous GAAP it starts from. However, the IFRS 1 reconciliations will change depending on which GAAP the company used to follow. As Paragraph 2.16.7 following explains, placement of the IFRS 1 reconciliations in a separate document might seem a possible solution to some, but IFRS 1 regards them as integral to the financial statements. Arguably, such an entity will have to designate "previous GAAP" for the purpose of its first IFRS financial statements. Any other IFRS 1 reconciliations from other GAAP will be supplemental or for information only.

Subsequent IFRS financial statements will always be the same, irrespective of what previous GAAP the entity used to follow.

A foreign private issuer that before migrating to IFRSs used to report under home-country GAAP in its local market and, at the same time, file with the SEC under U.S. GAAP must designate which of the two is its previous GAAP for the purpose of IFRS 1. Paragraph 2.16.10 following explains the impact of IFRS 1 reconciliations depending on whether it chooses U.S. GAAP or home-country GAAP as its previous GAAP.

2.5.10.4 The Impact of Presentation Currency Use of a different GAAP generally goes together with the use of different presentation currencies.

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34 *SEC, Release No. 33-8567, ¶ Footnote 6 (page 3).*

35 *Form 20-F, General Instruction G(d).*

36 *SEC,* Financial Reporting Manual*, ¶¶ 3210.2, 4210.5, 6310.3, 6340.3, 6350.2, 6360, 6410.2.c, 6410.4.c, 6410.8, 6410.12, 6420.1, 6510, 6520.2, 6530, 6540.4, 6710.2, 8140.2, 9410.3.*

37 *SEC, December 21, 2007. Release No. 33-8879,* Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP, *¶¶ II.A.C, III.C.5 (pages 23 and 55). [Online] SEC. Available at: www.sec.gov [last accessed January 9, 2008] (hereinafter SEC, Release No. 33-8879).*

> **Planning Point:** Currency is not a distinguishing factor in the first IFRS financial statements as well as subsequent IFRS financial statements. In fact, IAS 21 permits a company to have several sets of IFRS financial statements with different presentation currencies that are different from its functional currency.[38]

2.5.10.5 RAP/SAP or OCBOA An issue is whether Regulatory Accounting Standards (RAP) or Statutory Accounting Standards (SAP), or special purpose frameworks other than GAAP (commonly referred to as OCBOA (other comprehensive basis of accounting))[39] would be previous GAAP for the purpose of IFRS 1.

> **Planning Point:** The notion of previous GAAP financial statements generally assumes that they are a complete set of primary financial statements for external use and that they adhere to some GAAP, i.e., a comprehensive basis of accounting. RAP/SAP, or special purpose frameworks other than GAAP (OCBOA) are generally not regarded as GAAP although, depending on the jurisdiction and the circumstances, they may constitute a permitted basis of reporting. On the other hand, IFRS 1 refers to previous GAAP as a basis of accounting.[40] It does not refer to a comprehensive basis of accounting or to generally accepted accounting principles. In any event, it states that the first IFRS financial statements qualify as such even when the company used to report under national requirements.[41]

2.5.11 Reissued Financial Statements

Another issue is which are the first IFRS financial statements of a company that did not adopt IFRSs in the prior financial year as prescribed by local laws and in the subsequent year intends to conform the previous year. Jurisdictional requirements guide the options available to the company from a legal perspective. Whether noncompliance has legal liabilities and whether the company has to reissue the financial statements depends on local laws, as well as auditing standards. In the U.S., guidance on reissuance of financial statements exists in the context of subsequent events and of restatement to reflect corrections of errors or of a material misstatement, although this does not refer to the specific situation of IFRSs as in this paragraph.

> **Planning Point:** In the prior year, the company did not use an unreserved and explicit statement of compliance with IFRSs. Therefore, from a purely IFRS perspective, the previous year financial statements are not IFRS statements. If the company adopts IFRSs in the current period, it cannot restate the prior period's financial statements, because there was no error or change in accounting policy from an IFRS perspective. The company has violated a legal requirement (not IFRSs) because it did not state an explicit and unreserved compliance with IFRSs (see Paragraph 2.7 following). If it produces a set of IFRS financial statements covering the previous period on a pro forma or a supplementary basis, these do not qualify as its first IFRS financial statements. It may include an additional comparative year in the financial statements prepared in the current period (which are the first IFRS financial statements), thus to move transition date back one year and restate prior periods.

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[38] *IAS 21, ¶ 38.*

[39] *Clarified Statements on Auditing Standards,* Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks.

[40] *IFRS 1, ¶ Appendix A.*

[41] *IFRS 1, ¶ 3(a)(i).*

Local rules may require the company to republish the previous year's financial statements under IFRSs, as a complete set of primary, general purpose financial statements, and make them public. In such a case, local regulators might consider the republished financial statements as the first IFRS financial statements, although IFRS 1 provides no guidance on this topic.

2.5.12 Differences with Pro Forma Financial Statements

Pro forma financial statements consist in a recasting of historical financial statements as if a specific transaction had occurred at the beginning of the reporting period. The objective is to show what the impact would have been as a result of that transaction. Regulation S-X requires them under specific circumstances.[42]

Comment: Unlike pro forma financial statements, the first IFRS financial statements are primary financial statements. Furthermore, they do not intend to portray the continuing impact of a particular isolated transaction, but the effect of a change in the entire basis of accounting. The comparative period is not hypothetical: the first IFRS financial statements re-start from the transition date. A feature that first IFRS financial statements have in common with pro forma financial statements is that both exclude the use of hindsight, hence they do not reformulate estimates based on new information and do not incorporate any hypothetical course of action that management might have taken. Of course, all the above do not present any impediment to the preparation of pro forma financial statements under IFRSs, as the SEC requires that foreign private issuers use IFRS in their primary financial statements.[43]

2.6 ENTITIES AFFECTED BY IFRS 1

2.6.1 Which Companies Must and Which May Not Use IFRS 1

An IFRS first-time adopter, i.e., presenting first IFRS financial statements, must use IFRS 1 in its first IFRS annual financial statements.[44]

Comment: If a company does not use IFRS 1, it cannot denote its statements as the first IFRS financial statements. Consequently, statements in subsequent years will not formally be IFRS financial statements.

IFRS 1 is a one-time standard. Entities that already report under IFRSs cannot invoke special treatment under this standard.[45] Paragraph 2.16.11 following illustrates the situation of a company that had already migrated to IFRS in a foreign market and then later decides to file under IFRS with the SEC. This company is no longer an IFRS first-time adopter.

2.6.2 Consolidated versus Separate versus Entity's Financial Statements

IFRS 1 applies to both consolidated and entity's own financial statements. It also applies to separate financial statements of a parent, investor, or joint venturer, if presented.

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42 *Regulation S-X, ¶ 210.11-02.*
43 *SEC,* Financial Reporting Manual, *¶¶ 3210.2, 6360.*
44 *IFRS 1, ¶ 2.*
45 *IFRS 1, ¶ 5.*

Planning Point: The use of the IFRS 1 exceptions at these three levels is independent of each other. However, Paragraph 2.19.10.9 following explains that using the IFRS 1 exemptions for parent and affiliates that migrate to IFRSs at different dates results in implicitly using the same exemptions. Paragraph 2.19.10.10 following explains the implications of using different combinations of these exemptions. Paragraph 2.18.16 following illustrates the interactions among different levels of consolidated financial statements.

Paragraph 2.10.7 following explains the impact of "other entities" on the U.S. GAAP reconciliation requirements in Form 20-F.

2.6.3 Interim Financial Statements

Paragraph 2.15.2 following explains when IFRS 1 applies to interim financial statements.

2.7 COMPLIANCE WITH IFRSs

2.7.1 The Statement of Compliance with IFRSs

Upon IFRS first-time adoption, IFRS 1 requires that an explicit and unreserved statement of compliance with IFRSs, including all required disclosures, is made in primary financial statements for the first time.[46] Such a declaration cannot have qualifications or departures.[47] Of course, financial statements that represent compliance with local GAAP do not qualify, even though they may selectively follow some IFRSs.[48] Furthermore, as the SEC Staff confirmed, a statement that there are no significant differences between primary GAAP used in the financial statements and IFRSs does not qualify.[49]

The very fact of declaring this conformity explicitly and unreservedly for the first time defines the first IFRS financial statements and triggers the first-time adoption event.[50] This has several implications, as the following paragraphs explain.

2.7.2 Statement of Compliance with the IFRS for SMEs

IFRS for small and medium-sized entities requires an explicit and unreserved statement of compliance. Migration from full IFRSs to IFRS for SMEs is also possible, although the standard does make a distinction between previous GAAP and full IFRSs.[51]

2.7.3 First Time

As Paragraph 2.7.1 above explains, first-time adoption means the contemporaneous presence in the same financial statements for the first time of use of IFRSs and an explicit and unreserved statement of compliance with IFRSs.

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[46] *IFRS 1, ¶¶ IN3, 3, 4(a), BC5.*
[47] *IFRS 1, ¶¶ 3(a)(iii), BC4, BC5.*
[48] *IFRS 1, ¶¶ 3(a)(iii), 3(a)(iv).*
[49] *AICPA, 2008*. Center for Audit Quality, International Practices Task Force Highlights, March 4, 2008, *¶ Q3. [Online] AICPA. Available at: www.aicpa.org [last accessed July 9, 2010] (hereinafter IPTF, March 4, 2008).*
[50] *IFRS 1, ¶¶ 3, Appendix A.*
[51] IFRS for Small and Medium-sized Entities (SMEs), *¶¶ 35.1, 35.4 (hereinafter IFRS for SMEs).*

> **Comment:** On one hand, the expression "first time" eliminates any doubt with reference to the statement of compliance. An entity that used to report under IFRSs but never provided such a statement may become an IFRS first-time adopter. One that in the previous year provided such a statement, irrespective of the GAAP used, cannot be an IFRS first-time adopter.[52] On the other hand, the fact that IFRS 1 gives examples referring to whether these conditions existed in the most recent previous financial statements has been an object of debate. However, IFRS 1 states that these are examples. Therefore, an entity that, in the most recent previous financial year or in any earlier financial years, had published financial statements prepared in accordance with IFRSs without an explicit and unreserved statement of compliance with IFRSs can be an IFRS first-time adopter in the subsequent financial statements.

The SEC Final Rule on Reconciliation clarifies that General Instruction G in Form 20-F applies only once and only to issuers that have not previously claimed compliance with IFRS 1.[53] Paragraph 2.7.14 following discusses the meaning and possible interpretations of this rule and of the expression "first time" under both IFRS 1 and Form 20-F.

2.7.4 Adherence to IFRSs

A first issue is whether adherence to IFRSs alone matters in order to claim first adoption status. The answer is negative. Unstated but in-substance adherence to IFRSs does not constitute first-time adoption.[54]

Under IAS 1, this also holds true for subsequent IFRS financial statements. Even though they may in effect follow IFRSs, they are not formally IFRS-compliant without the required statement.[55]

2.7.5 Statement Accuracy

The other side of the coin is whether making such a statement is sufficient, or whether the statement must also be true in substance. IAS 1 requires full compliance with IFRSs, and prohibits its false representation.[56]

> **Comment:** IFRS 1 is not so clear on this point. On one hand, IFRS 1 infers that inaccuracy of this statement does not negate first-time adoption but will eventually determine errors in the first IFRS financial statements. Also, not complying with some or all applicable IFRSs or receiving an audit qualification, yet making such declaration, does not prevent financial statements from being qualified as first IFRS financial statements.[57] On the other hand, it states that the first IFRS financial statements are those in which an entity adopts IFRSs accompanied by a compliance declaration, although it is not obvious that the adoption per se is one necessary condition.[58] By contrast, when read literally, in this regard Form 20-F has two eligibility requirements for first-time application of IFRSs: the declaration of compliance and the fact that financial statements are prepared in accordance with

[52] *IFRS 1, ¶¶ 3(a)(ii), 4(b).*
[53] *SEC, Release No. 33-8879, ¶ III.C.5 (page 55).*
[54] *IFRS 1, ¶¶ 3(a)(ii), BC59.*
[55] *IAS 1, ¶¶ 16, 114(a).*
[56] *IAS 1, ¶¶ 15, 16.*
[57] *IFRS 1, ¶¶ 4(c), BC5, BC6*
[58] *IFRS 1, ¶ 3.*

IFRSs.[59] The eligibility requirements to avoid U.S. GAAP reconciliation state such a condition incidentally and not so explicitly.[60]

The SEC Staff made it clear that it would require amendment of the financial statements or elimination of the assertion of compliance, in case an entity makes a simple declaration of compliance or consistency with IFRSs that it cannot substantiate in fact.[61]

Paragraphs 2.10.2.1 following and 2.13.9.3 below explain the special regime under Form 20-F for foreign private issuers that are IASB-IFRS first-time adopters. Paragraph 2.7.13 following expands on the other requirement under Form 20-F affecting the auditor's opinion on the statement of compliance with IFRSs.

2.7.6 The Meaning of IASB-IFRSs

Form 20-F refers to IFRS as issued by the IASB.[62] The SEC explains that IASB-IFRSs mean IFRSs in their approved English language version as issued by the IASB and published by the IASC Foundation (now IFRS Interpretations Committee). The SEC previously referred to IASB-IFRSs as IFRS as published by the IASB.[63] According to the SEC Staff, a statement of compliance with IFRSs without mentioning the IASB version does not qualify for the waiver of the U.S. GAAP reconciliation in Form 20-F.[64]

2.7.7 Compliance with IFRS as Adopted by the EU

EC Regulation No. 2086/2004 states that references to IFRSs in IFRS 1 means references to "IAS/IFRS as adopted by the Commission on the basis of Regulation (EC) No. 1606/2002".[65] For companies that adopt the IAS 39 carve-out, the EC instructed adopters to state that they use "IFRS as adopted by the EU".[66] However, the EC leaves an entity free to state compliance with native IFRSs when the EC endorsed IFRSs that the entity applies do not differ from their IASB's version.[67] Before the IAS 39 carve-out, the EC had requested state compliance with "IFRS adopted for use in the EU".[68]

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[59] *Form 20-F, General Instruction G(b)(1), General Instruction G(b)(2).*

[60] *Form 20-F, Item 17(c).*

[61] *U.S. Securities and Exchange Commission, November 1, 2004.* International Reporting and Disclosure Issues in the Division of Corporate Finance, *¶ Appendix B,* Representation as to Compliance with IAS. *[Online] SEC. Available at: http://www.sec.gov/divisions/corpfin/internatl/cfirdissues1104_app.htm [last accessed April 26, 2006] (hereinafter SEC, International, November 1, 2004).*

[62] *Form 20-F, General Instruction G(a).*

[63] *SEC, release No. 33-8879, ¶ III.A.2 (pages 33, 53).*

[64] *IPTF, March 4, 2008, ¶ Q4.*

[65] *EC Regulation No. 2086/2004, November 19, 2004, Art. 1.*

[66] *European Commission, November 19, 2004. Memo/04/265,* IAS 39 Financial Instruments: Recognition and Measurement – Frequently Asked Questions (FAQ). *Brussels. [Online] EC. Available at: http://europa.eu.int [last accessed January 5, 2011] (hereinafter EC, Memo/04/265).*

[67] *OIC – Organismo Italiano di Contabilità, April 2007.* Guida Operativa sulla Informativa di Bilancio prevista per i Soggetti che adottano i Principi Contabili Internazionali (IAS/IFRS)*, ¶ Allegato 5: 2.1.4. [Online] OIC Available at: www.fondazioneoic.it [last accessed June 9, 2008] (hereinafter OIC 2007).*

[68] *EC, November 2003.* Comments concerning Certain Articles of the IAS Regulation and Fourth and Seventh Directive. *[Online] EC. Available at: http://europa.eu.int [last accessed January 5, 2011].*

Example: The SEC Staff has enforced such a requirement by the EC to state compliance with IFRSs as adopted by the European Union. It has also requested a declaration of the reporting date on which those IFRSs are effective, as in the case of a British foreign private issuer.[69]

Comment: The SEC refers to IFRSs as adopted by the EU as EU-GAAP. However, based on its requirements, the SEC does not mandate EU foreign private issuers to use a specific wording in stating compliance with EU-GAAP and leaves entities free to use any appropriate language.[70]

2.7.8 Whether the Use of an Endorsed Version of IFRSs is a Qualified Compliance

From a purely IFRS perspective, the statement of compliance with IFRSs cannot contain any qualifications.

Comment: In case of adherence to a jurisdictional version of IFRSs, an entity would not be an IASB-IFRS first-time adopter, although it may be a jurisdictional IFRS first-time adopter. The FEE reports that such an interpretation would be reinforced by the fact that IFRS 1 does not regard financial statements asserting compliance with some, but not all, IFRSs as first IFRS financial statements.[71]

Within its jurisdiction, the EC clarified that use of the IAS 39 carve-out does not exclude use of IFRS 1.[72]

2.7.9 Dual Statement of Compliance with IASB-IFRSs and Jurisdictional IFRSs

Adhering to a jurisdictional version of IFRSs, including EU-GAAP, may have serious consequences. For example, under Form 20-F, in normal circumstances a foreign private issuer reporting under jurisdictional IFRSs cannot rely on the exemption from the U.S. GAAP reconciliation (Paragraph 2.10.2.4 following), on the two-year accommodation (Paragraph 2.13.9.3 following), and other disclosure relaxations (Paragraph 2.10.2.5 following) available to IASB-IFRS first-time adopters.

However, if the company that adopts EU-GAAP believes that no applicable differences between EU-GAAP and IASB-IFRS exist, it must include a declaration to this effect in the statement of compliance in order to be able to use the accommodations for IASB-IFRS first-time adopters in SEC filings. In this case, the SEC Staff did not insist on the previously required EU-GAAP to IASB-IFRS reconciliation (see Paragraph 2.13.9.4 following), but required an unqualified opinion by auditors of whether the financial statements comply with IASB-IFRSs,

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[69] *Letter by the SEC, September 25, 2006. File No. 001-14978, Comment 15. [Online] SEC. Available at: www.sec.gov/divisions/corpfin/ifrs_reviews [last accessed January 7, 2008] (hereinafter SEC IFRS Reviews).*

[70] *SEC, Release No. 33-8567, ¶ II.G (pages 11–12).*

[71] *IFRS 1, ¶ 3(a)(iii); Fédération des Experts Comptables Européens, April 2005. FEE Discussion Paper,* Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report, *¶ 2. [Online] FEE. Available at: www.fee.be [last accessed: February 5, 2007] (hereinafter FEE, Audit Report).*

[72] *EC, Memo/04/265.*

i.e., certification of financial statements including a specific opinion to this effect, ordinarily with no disclaimer or qualification. The opinion must concern IASB-IFRSs. It need not be a dual opinion.[73]

> **Example:** In order for a British foreign private issuer to qualify for the accommodation to present only two years of financial statements in Form 20-F, the SEC Staff required the issuer to state in the notes that financial statements complied with EU-GAAP and IFRSs as published by the IASB. The SEC Staff also requested an audited reconciliation from EU-GAAP to IASB-IFRSs. As the company contended that there were no differences between the two sets of applicable standards, the SEC Staff requested that an audited declaration to this effect is included in the statement of compliance to EU-GAAP.
>
> In a similar situation involving a foreign private issuer from The Netherlands and one from Italy, the SEC Staff requested auditor's confirmation of this fact and the inclusion of such a statement in Form 20-F.
>
> The SEC Staff requested a German foreign private issuer to affirm in the statement of compliance with EU-GAAP that there would be no difference between EU-GAAP and the corresponding IASB-IFRS.[74]

2.7.10 Single Statement of Compliance with IASB-IFRSs by Jurisdictional IFRS Adopters

It is not clear whether a single statement of compliance with IFRSs, without mentioning IFRS as adopted by the EU, would be acceptable, from the EC perspective, to EU companies reporting under EU-GAAP (this would be possible for EU companies reporting under IASB-IFRSs). In fact, this coincidence of standards would be contingent on several points: the specific policies applicable to the type of events and transactions of a company in a given period, the specific IFRS issued by the IASB, the timing of any endorsement lag (see Paragraph 2.9.6 following), and any early application by the company of unendorsed IFRSs.[75]

> **Example:** The SEC Staff requested a statement of compliance with IFRSs in Form 20-F from a British foreign private issuer. The company replied that compliance with EU-GAAP was the mandatory language required by the EC.[76]

2.7.11 Reliance upon Home Standard Setter's Compliance with IFRSs

Certain national standard setters have adopted IASB-IFRSs as their local GAAP. Others have incorporated them into their home-country GAAP (see Paragraph 1.3 previously). The SEC

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[73] *Form 20-F, Item 8.A.3, Instruction to Item 8.A.3; SEC, Release No. 33-8567, ¶ II.A, II.G (pages 11–12); SEC,* Financial Reporting Manual, *¶ 6310.2; IPTF, March 4, 2008, ¶ Q5.*

[74] *SEC IFRS Reviews. Letters by the SEC, December 22, 2005 and February 5, 2007. File No. 000-30126, Comment 9. Reply by the Company, January 12, 2006; Letter by the SEC, September 25, 2006. File No. 001-10882, Comment 4. Replies by the company, October 19, 2006 and January 18, 2007; Letter by the SEC, February 1, 2007. File No. 1-15050, Comment 1; Letter by the SEC, December 22, 2006. File No. 001-10230, Comment 14.*

[75] *SEC, Release No. 33-8567, ¶ II.G; FEE, Audit Report, ¶ 2.*

[76] *SEC IFRS Reviews. Letter by the SEC, January 18, 2007. File No. 1-32349, Comment 1. Reply by the company, February 6, 2007.*

clarified that a statement of compliance with local GAAP would not suffice even in the absence of jurisdictional modifications to IASB-IFRSs. Entities would also be required to declare their observance of IASB-IFRSs, conceivably through a double statement of compliance.[77]

Planning Point: In other terms, although an entity may rely on a national standard setter's opinion on compliance with IASB-IFRS, management itself has to directly declare and take responsibility for the compliance of financial statements with IASB-IFRS.

2.7.12 Location of the Statement of Compliance with IFRSs

IAS 1 locates the statement of compliance with IFRSs as the first section of the notes to the financial statements that precedes the summary of significant accounting policies.[78] IFRS 1 does not specify the location of the explicit and unreserved statement of compliance in case of first-time adoption of IFRSs,[79] although arguably the indication of IAS 1 is pertinent.

Comment: SEC Release No. 33-8567 also mentions this as "note one".[80] This note is often confused with the accounting policy footnote.[81] This is probably because Subtopic 235-10 (APB 22) does not explicitly require a statement of compliance with U.S. GAAP, as compliance is ordinarily taken for granted. Subtopic 235-10 (Under APB 22), the summary of accounting policies must be an integral part of the financial statements. Although Subtopic 235-10 (APB 22) does not mandate an exact placement, it encourages a separate section before the notes or as a first note.[82]

For a foreign private issuer that does not report under IASB-IFRSs and therefore reconciles to U.S. GAAP, Form 20-F requires the indication of the basis used either prominently in the financial statements or in the accountant's report (also see Paragraph 2.10 following). For an IASB-IFRSs first-time adopter, Form 20-F requires the statement of compliance with IFRSs in the notes.[83]

2.7.13 Auditor's Opinion on Compliance with IFRSs

Unlike IFRS 1, the auditor's opinion of compliance with IASB-IFRSs is a further prerequisite for omission of reconciliation to U.S. GAAP in SEC filings. Such an opinion assumes that the company has made its declaration explicitly and unreservedly, there is no evidence of deviations, and the auditor's report is unqualified and with no disclaimer for all periods reported under IASB-IFRSs. The issuer must fully reproduce and justify any auditor's refusal to provide a report or the presence of qualifications or disclaimers. Under these circumstances, the SEC would not give exemption from reconciliation, except in extremely limited circumstances.[84]

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[77] *SEC, Release No. 33-8567, ¶ II.A (pages 11–12).*
[78] *IAS 1, ¶¶ 10(e), 16, 114(a), 114(b).*
[79] *IFRS 1, ¶ 3.*
[80] *SEC, Release No. 33-8567, ¶ Footnote 46 (page 28).*
[81] *SEC,* Financial Reporting Manual, *¶ 6310.2.*
[82] *FASB ASC 235-10-05-3, 235-10-50-1, 235-10-50-6 (APB 22,* Disclosure of Accounting Policies, *¶¶ 6, 8, 15); FASB Interpretation No. 40, ¶ 5.*
[83] *Form 20-F, Item 17(c), Item 17(c)(1).*
[84] *Form 20-F, Item 8.A.3, Instruction to Item 8.A.3; SEC,* Financial Reporting Manual, *¶ 6310; SEC, release No. 33-8879, ¶¶ I.C, III.A.2 (pages 12, 31); SEC, Release No. 33-8567, ¶ Footnote 21.*

By contrast, according to IFRS 1, a qualified report is of no consequence to IFRS first-time adoption.[85]

> **Comment:** Form 20-F, as opposed to IFRS 1, refers to audited financial statements.[86] IFRS 1 does not consider the auditor's report, as this is a matter of auditing standards.

Paragraph 2.7.9 previously explains the situation of a dual explicit and unreserved statement of compliance with IASB-IFRSs and another jurisdictional version of IFRSs.

> **Planning Point:** This has implications on the audit report. The SEC Financial Reporting Manual explains that the auditor's report may give an opinion on compliance with both IASB-IFRSs and a jurisdictional version if the foreign private issuer states that there is no difference. Both the Fourth Directive and International Standards of Auditing require the audit report to express an opinion on the comprehensive basis of accounting used (e.g., IASB-IFRSs and EU-GAAP) as well as further regulatory requirements.[87]

2.7.14 Return to IFRSs

As Paragraph 2.7.3 previously explains, an entity must present the explicit and unreserved statement of compliance for the first time. A specific situation may concern a company that adopted IFRSs for the first time, then reverted to local GAAP (because, for example, it delisted from a stock exchange where it had to report under IFRSs), and subsequently returns to IFRSs (e.g., due to the local jurisdiction imposing IFRSs to the category of entities to which that company belongs). The issue is whether such a company would be an IFRS first-time adopter again, and thus apply IFRS 1 twice.

> **Planning Point:** General Instruction G of Form 20-F applies to foreign private issuers filing under IFRSs with the SEC in the transition year[88] (i.e., in IFRS 1 terms, in the first IFRS reporting year).[89] The SEC faced a similar issue with reference to an issuer that might have claimed compliance with IASs in years prior to transition to IFRSs. On that occasion, the reading of IFRS 1 was that an entity that had not included an explicit and unreserved statement of compliance with IFRSs in its most recently published annual financial statements but does so in the current period would qualify as an IFRS first-time adopter. The SEC revised the formulation of an IFRS first-time adopter in Form 20-F to be consistent with this interpretation of IFRS 1.[90] Instead, an explicit and unreserved statement of compliance with IFRSs, not IASs, in the most recent financial year would disqualify such an issuer.[91] A doubt may arise as to the meaning of IFRSs, as including the former IASs.[92] However, before IFRS 1 was issued, IFRSs did not exist and SIC-8 was in place. On the other hand, with regard to IFRSs (as opposed to IASs), the Final Rule on Reconciliation clarifies that General Instruction G

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[85] *IFRS 1, ¶ 4(c).*
[86] *Form 20-F, General Instruction G(b)(1)(B), G(b)(2)(B).*
[87] *SEC,* Financial Reporting Manual, *¶ 6310.2; Fourth Council Directive 78/660/EEC (July 25, 1978), Art. 51.a.1; ISA 700 (Revised), cited in: FEE, Audit Report, ¶ 3.*
[88] *SEC, Release No. 33-8567, ¶ Footnote 16.*
[89] *Form 20-F, General Instruction G(a) and (b).*
[90] *SEC, Release No. 33-8567, ¶ II.A (page 10).*
[91] *Form 20-F, General Instruction G(b)(2)(A) and (B).*
[92] *IFRS 1, ¶ Appendix A; IAS 8, ¶ 5.*

only applies once and only to issuers that have not previously claimed compliance with IFRS 1.[93] In effect, IFRS 1 defines a first-time adopter with reference to first IFRS financial statements, which in turn exists to the extent that it adopts IFRSs by an explicit and unreserved statement of compliance with IFRSs for the first time.[94] The standard also confirms this in an introductory paragraph.[95] Form 20-F is more direct in affirming the same concept: that such a statement must be made for the first time.[96] Therefore, if an IFRS entity subsequently fails to report under IFRSs, it will not be able to claim adoption of IFRS 1 for a second time. However, the IFRIC, once invested with the issue,[97] recommended the IASB to amend IFRS 1 to clarify that a first-time adopter qualifying for a second time would fall within the scope of IFRS 1 if it met all other requirements. In 2011, the Exposure Draft of *Improvements to IFRSs* proposes such an amendment for annual periods beginning on or after January 1, 2013.[98]

2.7.15 Return to IFRS for SMEs

IFRS for small and medium-sized entities clearly states that the first-time adoption of such standard is available only once.[99]

2.7.16 Date from Which Compliance can be Asserted

An entity would ordinarily prepare a series of simulations or draft opening IFRS statements of financial position, at a high-level diagnostic or during the migration phases. In addition, local accounting bodies and regulators may require certain information about the migration project of a company and an assessment of preliminary impact. For example, the CESR gave instructions to this effect in connection with the 2004/2005 migrations in Europe.[100] Companies may also publicly release voluntary information in this respect.

Planning Point: Until the first IFRS reporting date, a company cannot know what IFRSs will be in effect at that date.[101] Therefore, until then, it will not be able to use the title "opening IFRS statement of financial position" in presentations to management, banks, financial analysts, etc. Nor could it state that such balance sheet is unreservedly compliant with IFRSs. Even after that date, as the opening IFRS statement of financial position alone does not constitute a complete set of financial statements, it cannot represent it as first IFRS financial statements.

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93 *SEC, Release No. 33-8879, ¶ III.C.5 (page 55).*

94 *IFRS 1, ¶ Appendix A.*

95 *IFRS 1, ¶ IN3.*

96 *Form 20-F, General Instruction G(b)(2)(A) and (B).*

97 *IFRIC Update, May 2010.*

98 *Exposure Draft, Improvements to IFRSs, Proposed Amendments to IFRS 1, ¶¶ 2A, 39M (June 2011).*

99 IFRS for SMEs*, ¶ 35.2.*

100 *CESR, 2003. CESR 03/323e,* European Regulation of the Application of IFRS in 2005. Recommendation for Additional Guidance regarding the Transition to IFRS *(hereinafter CESR 03/323e); CESR, 2003. CESR/03-490b,* CESR Consultation on a Draft Recommendation for Additional Guidance regarding the Transition to IFRS, Feedback Statement *(hereinafter CESR/03-490b). [Online] CESR. Available at: www.cesr.eu [last accessed: August 29, 2007].*

101 *AICPA, 2004.* AICPA International Practices Task Force Meeting Highlights, November 23, 2004, *Washington, DC, AICPA, ¶ 4(a). [Online] Available at: www.aicpa.org [last accessed December 24, 2006].*

2.8 TRANSITION DATE

2.8.1 Determination of the Transition Date

IFRS 1 defines the transition date as the beginning of the earliest full comparative period presented under IFRSs in the first IFRS financial statements. This date is particularly important because it is the date of the opening IFRS statement of financial position (Paragraph 2.12 following), which is the starting point of reporting under IFRSs. Furthermore, the entity must provide specific reconciliations at that date.[102]

> **Comment:** The reason why the transition date is the beginning of the comparative period is to permit the comparison of at least two years under IFRSs (i.e., the current and the comparative period).

2.8.2 Transition Date when an Entity Presents More Than One Year of IFRS Comparative Financial Statements

Paragraph 2.13.7 following explains that an entity that presents more than one year of comparative information, whether on an elective or a regulatory requirement basis, does not need to recast those additional periods under IFRSs. However, this has an effect on the transition date.

2.9 ACCOUNTING POLICIES

2.9.1 Basic Rule

As a basic principle in IFRS 1, an entity must check which IFRSs are in force at the end of its first IFRS reporting period (i.e., the reporting date) and use these, not earlier versions, in its opening IFRS statement of financial position and in the first IFRS financial statements including comparative information.[103]

> **Comment:** IFRS 1 contains relaxations to the application to comparative periods. Furthermore, Paragraph 2.19.10.13 following explains that a transition to IFRSs by a subsidiary, associate, or joint venture later than its parent, investor, or joint venturer, respectively, may affect the set of IFRSs adopted.

2.9.2 Effective Date Threshold

IFRS 1 states that an IFRS first-time adopter applies IFRSs in effect at its first IFRS reporting date, not at the date of issuance or authorization for issuance of the first IFRS financial statements.[104] This topic has particular implications in case of earlier adoption of an IFRS (Paragraph 2.9.4 that follows), or EU-GAAP (Paragraph 2.9.6 following). Interim financial information under IFRSs in SEC filings (Paragraph 2.15.6 that follows) is another specific application.

> **Planning Point:** For the purpose of IFRS annual or interim financial information in SEC filings in the transition year, a foreign private issuer may use "IFRS as issued" or "IFRS as published". Under these concepts, the company uses IFRSs that are issued or published by the issuance of the financial

[102] *IFRS 1 ¶¶ 6, 24, Appendix A, BC91(a).*
[103] *IFRS 1, ¶¶ 7, 8, Appendix A.*
[104] *IFRS 1, ¶ 7.*

information. Conversely, "expected IFRS" is not acceptable as it does not represent a comprehensive basis of accounting.[105] These interpretations, if applied to financial statements, are contrary to IFRS 1. However, interim financial information may also include "more current" interim information that is not necessarily made up of financial statements.[106]

2.9.3 Transitional Provisions

IFRS 1 overrides the transitional provisions of other IFRSs. Consequently, any transitional provisions of specific Standards or Interpretations only apply to entities that already report under IFRSs, not to first-time adopters. However, sometimes IFRS 1 itself extends or permits the transitional provisions of certain IFRSs to IFRS first-time adopters.[107] In those cases, however, if an entity does not opt for the elective exception, the transitional provisions of a specific Standard or Interpretation still do not apply.

Comment: Therefore, in theory, the IASB's determination of whether a newly issued standard warrants prospective or a limited retrospective application to avoid undue costs or the use of hindsight may differ depending on whether the pronouncement concerns entities already reporting under IFRSs or first-time adopters. In fact, IFRS 1 has its own determination of whether prospective application or prohibition of a retrospective approach should cover specific cases.[108]

Planning Point: This may result in first-time adopters having accounting treatments or options that are different from those available when ongoing IFRS entities apply newly issued pronouncements.[109] Financial analysts should keep this in mind when comparing companies.

2.9.4 Earlier Adoption of Newly Issued IFRSs

An entity may adopt a Standard or Interpretation early. This is possible when a pronouncement that is already issued at the first IFRS reporting date is not already in effect at that date, but permits earlier application.[110]

Planning Point: IFRS 1 and the unstated rules governing the effective dates of IFRSs appear to be in contrast. IAS 8 has no rule that defines a deadline for issuing an IFRS pronouncement that must be considered in financial statements. Generally, each IFRS states its effective date. Usually, accounting pronouncements leave a convenient period of time to plan ahead for their implementation. In extremely rare cases, some may permit backdating. Earlier adoption of a standard often requires adjusting the book-keeping of transactions already accounted for. Of course, an entity could not effect early adoption of a pronouncement that is published after issuance or authorization for issuance of its financial report. As a matter of fact, it will be able to adopt an IFRS that comes out after the reporting

105 *AICPA, 2005.* AICPA International Practices Task Force Meeting Highlights, May 17, 2005, *Washington, DC, AICPA, ¶ Appendix B, Q5. Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, May 17, 2005).*

106 *Form 20-F, Item 8.A.5.*

107 *IFRS 1, ¶¶ 5, 9;* Preface to International Financial Reporting Standards. *¶ 20.*

108 *IFRS 1, ¶¶ BC12, BC14.*

109 *IFRS 1, ¶ BC13(b).*

110 *IFRS 1, ¶ 8.*

date but before authorization for issuance if earlier adoption for that financial period is permitted. On the contrary, IFRS 1 states that an IFRS first-time adopter applies IFRSs in effect at its first IFRS reporting date, not at the date of issuance or authorization for issuance of the first IFRS financial statements.[111]

Planning Point: IFRS 1 does not state how an IFRS first-time adopter should adopt an IFRS early. The general rule of nonapplication of transitional provisions should also be valid here. Therefore, this would result in retrospective application, unless IFRS 1 states otherwise.

Planning Point: Adopting an IFRS early eliminates a later involuntary change in accounting policy based on the transitional provisions of that specific pronouncement.

In the EU, the CESR required specific disclosure of earlier adoptions. It also decided that IAS 8 disclosure of newly issued,[112] not yet effective IFRSs also apply to IFRS first-time adopters.[113]

2.9.5 Earlier Adoption of IFRS 9

Both the November 2009 and October 2010 versions of IFRS 9 are effective for years beginning on or after January 1, 2013, with earlier adoption permitted. A recent Exposure Draft proposes to move the effective date of IFRS 9 from January 1, 2013 to January 1, 2015. This is intended to have the same effective date for all steps of the project concerning financial instruments, including the phases still to be completed. Earlier adoption of IFRS 9 would be permitted.[114]

Planning Point: An IFRS first-time adopter applies either the IFRS 9 (October 2010) or the IFRS 9 (November 2009) amendments to IFRS 1 depending on when and which version of IFRS 9 it applies. If it does not adopt IFRS 9 early, it would use the version of IFRS 1 with no earlier adoption. This generally refers to IAS 39. If it subsequently decides to adopt IFRS 9 early, it can apply either version by following its transitional provisions, because at that point it will be an ongoing IFRS entity. In fact, IFRS 9 (October 2010) superseded IFRS 9 (November 2009), but left the latter available for earlier adoption. If the entity adopts IFRS 9 (November 2009) early, it need not apply IFRS 9 (October 2010). However, if it subsequently adopts IFRS 9 (October 2010) early without having applied IFRS 9 (November 2009), it must apply the October 2010 version only, which also includes the provisions of the November 2009 version. An IFRS first-time adopter must apply the IFRS 9 amendments to IFRS 1 if it adopts IFRS 9 early at its first IFRS reporting date. If it became an IFRS first-time adopter before the issuance of the October 2010 version of IFRS 9 the entity was able to adopt IFRS 9 (November 2009) early. Subsequently, it can decide to adopt IFRS 9 (October 2010) early based on the transitional provisions of the standard because at that moment the company will

111 *IFRS 1, ¶ 7.*
112 *IAS 8, ¶ 30.*
113 *Committee of European Securities Regulators (CESR), 2006. CESR/05-758, CESR Reminds Issuers and Investors about the Importance of Clear and Transparent Disclosure on the Use of Any Options made Available by Applicable Financial Reporting Standards, Paris: CESR. [Online] CESR. Available at: www.cesr.eu [last accessed December 22, 2006] (hereinafter CESR/05-758).*
114 *Exposure Draft, Amendments to IFRS 9 Financial Instruments (November 2009) and IFRS 9 Financial Instruments (October 2010): Mandatory Effective Date (August 2011).*

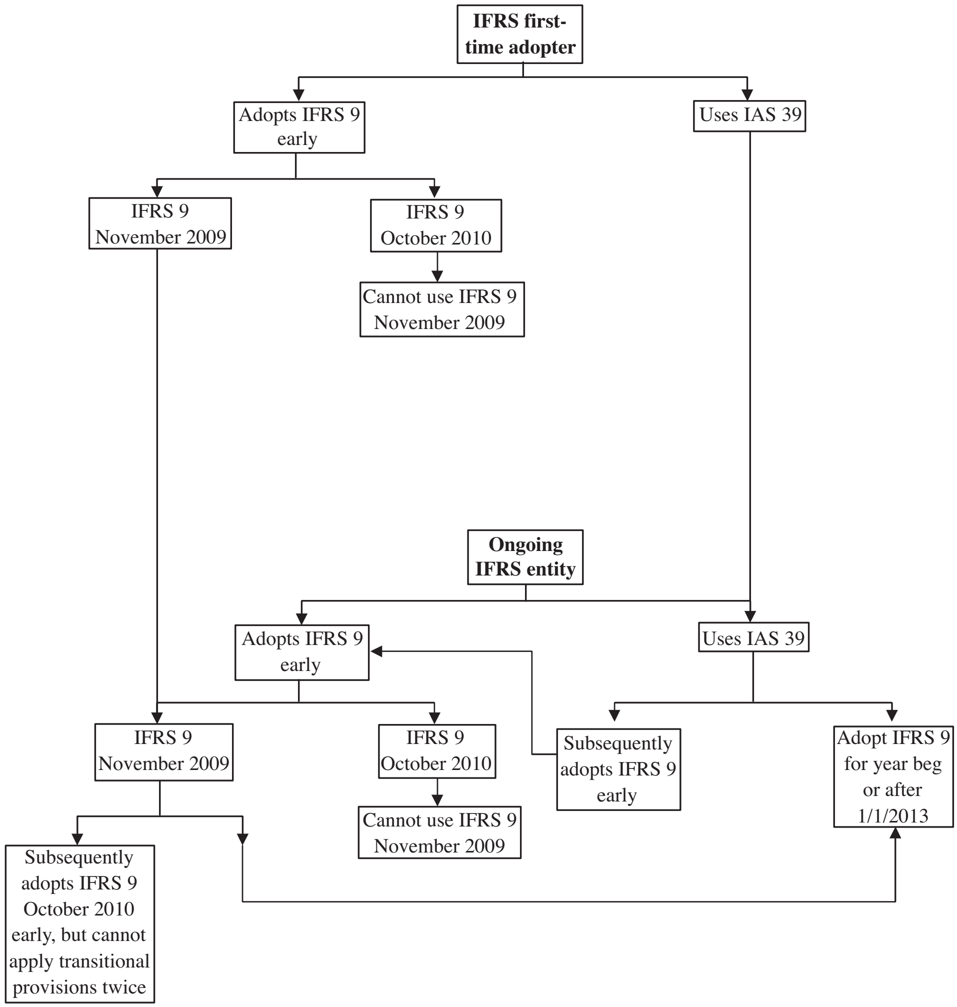

Exhibit 2-4 Earlier Adoption of IFRS 9

be an ongoing IFRS entity. If it becomes an IFRS first-time adopter after the issuance of the October 2010 version of IFRS 9, it can adopt only the October 2010 version of IFRS 9 early. In any event, an ongoing IFRS entity cannot apply the transitional provisions of IFRS 9 more than once.[115] In addition, an IFRS first-time adopter that adopts IFRS 9 early for annual periods beginning before January 1, 2012 can benefit from the short-term exemption from comparative information under IFRS 9 and from comparative disclosures under IFRS 7 for the items that are within the scope of IFRS 9 (Paragraph 2.20.1 following). Exhibit 2-4 illustrates these alternatives.

[115] *IFRS 1 (December 2009), ¶ 39B; IFRS 1 (December 2010), ¶ 39G; IFRS 9 (October 2010), ¶¶ 7.1.1, 7.2.16, 7.3.2, BC7.8, BC7.9; IFRS 9 (November 2009), ¶ 8.1.1 (superseded).*

2.9.6 Endorsement Lag

A jurisdiction, such as the EU, that has introduced a process of endorsement of IFRSs, faces a time lag due to the period necessary for the authority to endorse IFRS plus, in certain cases, the period needed for the translation into the language of each country within that specific jurisdiction.

The European Commission specified that an entity may apply a new IFRS that permits earlier application even when an EC Regulation has enforced it after the first IFRS reporting date but before the signature date of the financial statements and the EC Regulation also allows earlier adoption.[116]

> **Comment:** In effect, this is derogation to the IFRS 1 principle that an IFRS first-time adopter applies IFRSs in effect at the first IFRS reporting date, not the date of signature of the financial statement, the date of issuance, or the date of authorization to issue.

EU companies may apply IFRSs that have not been endorsed or have even been rejected by the EC, provided they do not contrast with endorsed IFRSs and they pass the tests in IAS 1[117] for non-conflict with the objective of financial statements.[118]

Exhibit 2-1 illustrates the EU enforcement lag relating to the amendments of IFRS 1.

2.9.7 Override of IAS 8

IFRS 1 was very clear in stating that the disclosures for a change in accounting policy under IAS 8 do not apply to an entity's first IFRS financial statements.[119] A recent amendment to IFRS 1 deleted this limitation to disclosure to make clearer that IAS 8 does not apply to the entire changes in accounting policies in an entity's first IFRS financial statements and not only to disclosures. This conclusion is valid for any change at transition date, any subsequent change from transition date to the end of the first IFRS financial statements (Paragraph 2.15.7 following), and any change in IFRS 1 exceptions that an entity may decide to make in this period on an annual or interim basis.[120]

> **Comment:** This is valid not only for involuntary but also for voluntary changes in accounting policies in the first IFRS financial statements. Involuntary changes may be those affecting the opening IFRS statement of financial position, comparative periods, the first IFRS reporting period, or IFRS 1 exceptions and exemptions. In relation to voluntary changes, the IASB had decided (but *Improvements to IFRSs* does not re-propose this conclusion) that IAS 8 does not even apply to the

[116] *CESR/05-758.*
[117] *IAS 1, ¶ 24.*
[118] *OIC 2007, ¶ Allegato 5: 2.1.3.*
[119] *IFRIS 1, ¶ 27, before amendments by* Improvements to IFRSs *(May 2010).*
[120] *Improvements to IFRSs (May 2010), ¶¶ 27, 32(c); Exposure Draft, Improvements to IFRSs, Proposed Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, ¶¶ 27, BC1 (August 2009).*

selection of accounting policies at the date of transition to IFRSs.[121] In spite of this, IFRS 1 applies such IAS 8 guidance to adjustments to financial assets and liabilities at transition date.[122]

Paragraph 2.9.9.1 below faces the issue of involuntary changes in accounting policies in the first IFRS reporting period. Paragraph 2.9.9.2 following deals with voluntary changes in accounting policies in the first IFRS reporting period.

2.9.8 Correction of Errors

IFRS 1 overrides IAS 8 with regard to changes in accounting policies and not to correction of errors,[123] although it does not say anything about the validity of correction of errors under IAS 8. In particular, it invokes the treatment of correction of errors under IAS 8 in the context of accounting estimates (Paragraph 2.11 following) and of reconciliations and disclosures (Paragraph 2.16 following).[124]

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that an issuer did not comply with IAS 8 by not disclosing retrospective correction of errors of comparative information in the statement of cash flows. The previous year the enforcer had decided that a statement of cash flows affected by errors was not compliant with IAS 7. The enforcer explained that the fact that the issuer had made a public statement to the effect that errors had been made did not exempt it from disclosing relevant information of the corrections made and the nature of the errors.[125]

2.9.9 Whether the IAS 8 Impracticability Exception Applies to the First IFRS Financial Statements

Paragraph 2.9.7 previously explains that IFRS 1 scopes out IAS 8 during the process of adopting IFRSs for the first time. Another issue, originally raised by the IFRIC, is whether the IAS 8 impracticability exception from retrospective application of a change in accounting principle and retrospective restatement of a correction of error applies to the first IFRS financial statements.[126]

2.9.9.1 Involuntary Changes in Accounting Policies The impracticability exception under IAS 8 also applies to involuntary changes (i.e., required by a new Standard or Interpretation) even if specific transitional provisions are included.[127] Then, a first question concerns whether the use of this exception is valid upon migration to IFRSs.

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121 *IASB Update, June 2009.*
122 *IFRS 1, ¶¶ 27, IG58B; IAS 8, ¶ 35.*
123 *IFRS 1, ¶ 27.*
124 *IFRS 1, ¶¶ 14, 15, 26.*
125 *Committee of European Securities Regulators (CESR), 2009. CESR/09-1134,* 7th Extract from EECS's Database of Enforcement, *Paris: CESR, ¶ Decision ref. EECS/1209-09. [Online] CESR. Available at: www.cesr.eu [last accessed July 20, 2010] (hereinafter CESR/09-1134).*
126 *IFRIC Update, October 2004.*
127 *IAS 8, ¶ BC29.*

Comment: IFRS 1 already sets out what accounting policies would be impracticable to an IFRS first-time adopter and provide exemptions in those cases. The IFRS 1 exceptions to the retrospective application of other IFRSs are mandatory. They cannot be extended by analogy.[128] They generally do not require an entity to demonstrate undue cost or effort, because they stem from the standard setter's arguments for balancing costs and benefits.[129] This may be intended as an implementation of the IASB Framework pervasive constraint related to the trade-off between the benefits and the costs of information.[130] Unlike IFRS 1, SIC-8 had no specific relaxations, but a general impracticability exception from retrospective application, as well as from comparative information, when an entity could not reasonably determine prior period adjustments. Contrary to IAS 8, it did not elucidate the meaning of impracticability.[131]

Finally, IFRS 1 permits an entity to invoke the IAS 8 impracticability exception from the retrospective application of the interest method or impairment to financial instruments.[132]

Planning Point: In addition, IFRS 1 has been offering IFRS first-time adopters the election to apply specific transitional provisions relating to certain Standards or Interpretations, to give some relief to retrospective application. The principal occurrences are the exceptions relating to IFRS 4 (Paragraph 2.19.2 following), IFRIC 4 (Paragraph 2.19.6 following), IFRIC 12 (Paragraph 2.19.16 following), IAS 23 (Paragraph 2.19.17 following), IFRIC 18 (Paragraph 2.19.18 following), IFRIC 19 (Paragraph 2.19.19 following), and IFRS 5 (Paragraph 2.17.7.1 following).[133]

In all other cases in which a Standard or Interpretation permits alternative accounting policies, of course the entity will not use the one that proves to be impracticable.

2.9.9.2 Voluntary Changes in Accounting Policies A second question is whether the IAS 8 impracticability exception may apply to voluntary changes upon migration to IFRSs.

Comment: The Basis for Conclusions of IFRIC 1 states that the impracticability exception under IAS 8 does not apply to IFRS 1.[134] Although IFRIC 1 does not clarify whether this applies only to a change in accounting policy or also to a correction of error, this statement is in the context of a change in accounting policy.

2.9.9.3 Implications for IFRS First-Time Adopters There are three reasons why the implications of such scope limitation are not so vital.

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128 *IFRS 1, ¶ 13.*
129 *IFRS 1, ¶¶ BC42, BC55.*
130 *IFRS 1, ¶ BC26; IASB Framework, ¶ 44.*
131 *SIC Interpretation No. 8, (superseded), ¶¶ 7(b), 10, 13; IFRS 1, ¶¶ BC2A, BC26.*
132 *IFRS 1, ¶ D19C.*
133 *IFRS 1, ¶¶ D4, D9, D22, D23, D24; IFRIC Interpretation No. 19,* Extinguishing Financial Liabilities with Equity Instruments *(November 2009), ¶ D25; IFRS 1 (version including amendments issued up to June 30, 2005), ¶ 34B.*
134 *IFRIC 1, ¶ BC33.*

Firstly, the impracticability exception argument under IAS 8 is quite limited. An entity cannot use it when reasonably significant estimation is feasible under circumstances that existed in a prior period and that would have been available by the date of authorization for issue of the respective financial statements. Of course, this must be possible without applying the benefit of hindsight or assumptions about what management's intent would have been in that prior period. Similarly, the entity cannot claim impracticability because of management's assessment of undue cost or effort. Finally, a difficult retrospective treatment becomes practicable if it is feasible after making every reasonable effort.[135]

Secondly, IFRSs have developed a varied response to situations that may lead to impracticability, before invoking IAS 8.

Comment: As a first reaction, IFRSs have codified alternative methods or options, as in the case of the retail method of accounting for inventories,[136] the grouping of similar or related items of inventories,[137] or the impracticability of identifying the tax cash flows relating to an individual transaction.[138] Other examples concern the unrecognized deferred tax liability on undistributed profits and foreign exchange translation differences of certain subsidiaries,[139] the determination of the interest rate implicit in a lease,[140] and the amortization schedule for past service cost for defined benefit obligations (prior to the 2011 revision of IAS 19).[141] Occurrences also comprise the imputation of interest to an asset acquired under a deferred payment arrangement,[142] the allocation of an impairment loss between the assets of a cash-generating unit,[143] and the determination of the carrying amount of the replaced part of an intangible asset or of an investment property.[144] Another case is the impracticability of using amortization at a recalculated effective interest rate in a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities.[145]

As a second category, specific IFRSs may already provide mandatory exemptions, such as not requiring or permitting discounting of deferred tax assets and liabilities.[146]

Thirdly, avoiding impracticability is one of the goals of transitional provisions. However, they do not apply in IFRS first-time adoption (Paragraph 2.9.3 previously).[147]

In all other cases in which a retrospective approach is impracticable, IAS 8 allows exemption from retrospective application or restatement. In conditions of impracticability, IAS 1 provides exemption from the reclassification of comparative information, the systematic ordering of note disclosure, and from the disclosure of the effects of an assumption or any other source of estimation uncertainty.[148] Situations that may present impracticability may comprise an estimate of fair value that is not based

[135] *IFRS 1, ¶¶ BC28, BC73; IAS 1, ¶¶ 7, BC36; IAS 8, ¶¶ 5, 52, 53, BC23, BC24, BC27.*
[136] *IAS 2, ¶ 22.*
[137] *IAS 2, ¶ 29.*
[138] *IAS 7, ¶ 36.*
[139] *IAS 12, ¶¶ 40, 87.*
[140] *IAS 17, ¶ 20.*
[141] *IAS 19 (2007), ¶ 99.*
[142] *IAS 29, ¶ 22.*
[143] *IAS 36, ¶ 106.*
[144] *IAS 38, ¶ 115; IAS 40, ¶ 68.*
[145] *IAS 39, ¶ 92.*
[146] *IAS 12, ¶ 54.*
[147] *IFRS 1, ¶ 9.*
[148] *IAS 1, ¶¶ 41, 113, 131, BC34; IAS 8, ¶¶ 24–26, 44–45.*

on an observable price, an observable input,[149] or caused by missing data and information that are impossible to reconstruct on prior periods.[150] Other examples include the separate assessment of the land and buildings elements in a lease of land and buildings,[151] as well as the impracticability of preparing additional financial statements of a subsidiary as of the same date as the financial statements of the parent or a subsidiary.[152]

Finally, as the IFRS 1 exemptions (unlike exceptions) are voluntary, an IFRS first-time adopter may or may not choose to use them. It does not have to demonstrate undue cost and effort. IFRIC Update also acknowledges this possible facilitation.[153]

Planning Point: For example, it might decide to use one exemption simply because of undue cost or effort or a retrospective application without further research into whether or not impracticability really exists. The SEC Staff interpretation is that it does not have to prepare corresponding U.S. GAAP information even if this is available.[154] However, these accommodations are limited to those expressly specified in IFRS 1.

2.9.9.4 Impracticability Exception for Correction of Errors IAS 8 has an impracticability exception from retrospective restatement of a correction of error.[155]

Comment: IFRS 1 does not say anything about the validity of the impracticability exception under IAS 8 for IFRS first-time adopters. Arguably, the guidance under IAS 8 applies based on the considerations expressed in Paragraph 2.9.8 previously.

2.9.9.5 Impracticability Exception under IFRS for SMEs IFRS for SMEs permits first-time adopters to delay the restatement of amounts from transition date to the earliest period in which this is practicable. It also gives exemption from the disclosure of such amounts when their quantification is impracticable.[156]

2.9.10 Changes in Accounting Policies versus Corrections of Errors

Paragraph 2.9.1 previously identifies the IFRSs that an entity that migrates to IFRSs must follow. Paragraph 2.12.1.3 following explains that at transition date changes versus previous GAAP generally affect opening retained earnings.

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149 *IAS 8, ¶ 52.*
150 *IAS 1, ¶ 43; IAS 8, ¶¶ 50, Example 3.2.*
151 *IAS 17, ¶ BC15.*
152 *IAS 27 (2010), ¶ 22.*
153 *IFRIC Update, October 2004.*
154 *AICPA, 2003.* AICPA International Practices Task Force Meeting Highlights, July 15, 2003, *Washington, DC, AICPA, ¶ 6. [Online] Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, July 15, 2003).*
155 *IAS 8, ¶ 43.*
156 IFRS for SMEs, *¶ 35.11.*

Comment: IFRS 1 is not specific on whether those adjustments are conceptually changes in accounting policies or correction or errors. In theory, a change in accounting policy has a domain within the same comprehensive basis of accounting. Instead, the wrong application of an accounting policy within that set is a case for correction of error. In fact, the Basis for Conclusions of IFRS 1 clarifies that in the financial statements subsequent to the first IFRS financial statements any wrong application or misapplication of any IFRS requirement is an error subject to correction under IAS 8.[157] This is consistent with IAS 8, which regards a mistake in applying an accounting policy as an error.[158] The situation considered here is different: migration from previous GAAP is neither a change nor a wrong application of an accounting policy under a single set of GAAP (i.e., previous GAAP or IFRSs). On the contrary, it is a change from one accounting policy within a body of standards to another policy in a different set of standards (i.e., from previous GAAP to IFRSs). In any case, the Implementation Guidance of IFRS 1 illustrates this as a change in accounting policies in the IFRS statement of financial position.[159]

IFRS 1 contains further references of what is an error in the context of IFRS 1 reconciliations. It requires separate indication of errors made under previous GAAP. In the consolidated financial statements errors also include material errors made under previous GAAP by subsidiaries that have not yet migrated to IFRSs. However, they exclude central adjustments made by the parent to the reporting package sent by its subsidiaries.[160]

Paragraph 2.11.7 discusses the difference between a change in accounting policy and a correction of errors in the context of reformulation of accounting estimates.

2.10 THE IMPACT OF ALTERNATIVE BASES OF REPORTING

2.10.1 Accepted Bases of Accounting for Foreign Private Issuers

Form 20-F includes consolidated financial statements and related notes, under the appropriate comprehensive basis of accounting.[161] It also permits cross-referencing to the financial statements for information that is required by a comprehensive basis of accounting.[162] In general, foreign private issuers have an option to include financial statements, both on an annual and (when required) on an interim basis, in documents filed with the SEC under different bases of accounting. If foreign private issuers do not use U.S. GAAP, they may include financial statements under IFRSs as issued by the IASB and in accordance with its English version (also referred to as “IASB-IFRSs”). They may also use IFRSs as adopted by the European Commission for use in the European Union (the so-called “EU-GAAP” or EU-IFRSs”), IFRSs as adopted by another jurisdictional version, or another comprehensive basis of accounting (i.e., local or national GAAP). Of course, as Paragraph 7.4.1 following explains, IFRS for small and medium-sized entities is not an option for publicly traded companies, such as SEC registrants or foreign private issuers.

[157] *IFRS 1, ¶ BC6.*
[158] *IAS 8, ¶ 5.*
[159] *IFRS 1, ¶ IG3 Case 2.*
[160] *IFRS 1, ¶¶ 26, IG31, IG63.*
[161] *Form 20-F, Item 8.A.1.*
[162] *Form 20-F, General Instruction C(d).*

> **Comment:** Form 20-F mentions comprehensive bases of accounting.[163] Available options under Form 20-F are IFRSs as issued by the IASB, as well as potentially GAAP other than IFRSs or U.S. GAAP, to the extent they are a comprehensive basis of accounting. The SEC determined that IASB-IFRSs and IFRS as adopted by the EU (the so-called "EU-GAAP") are comprehensive bases of accounting.[164]

2.10.2 Impact of Basis of Accounting on U.S. GAAP Reconciliation

2.10.2.1 IASB-IFRS Foreign Private Issuers An IASB-IFRSs foreign private issuer meeting the eligibility requirements in the General Instruction G to Form 20-F can omit the U.S. GAAP reconciliations in Item 17 and Item 18 of Form 20-F. Compliance with IASB-IFRSs, an explicit and unreserved statement of compliance with IASB-IFRSs (Paragraph 2.7 following), certified by an auditor's opinion without qualifications or disclaimers are prerequisites. If any of these requirements is not present, U.S. GAAP reconciliation will be necessary. In addition, this accommodation is not available to foreign issuers that are not foreign private issuers or to domestic subsidiary issuers of foreign companies.[165]

> **Comment:** Although the two-year accommodation (Paragraph 2.13.9.3 following) does not mention an auditor's opinion about the statement of compliance, the first IFRS financial statements, which include the statement of compliance, must be audited (Paragraph 2.7.12 previously).

Release 33-8879 extended such an exemption in SEC filings to annual financial statements concerning financial years ending after November 15, 2007, and related interim periods.[166]

The elimination of the U.S. GAAP reconciliation requirements does not apply to foreign private issuers reporting under IASB-IFRSs that file on SEC forms used by domestic registrants (e.g., Form 10-K) instead of F Forms. For example, U.S. subsidiaries of foreign private issuers are excluded even if consolidated financial statements are presented under IFRSs. It also does not apply to foreign issuers that do not meet the definition of a foreign private issuer under Rule 3b-a of the Exchange Act of 1934.[167]

2.10.2.2 EU-GAAP Foreign Private Issuers that Were First-Time Adopters by 2007 In 2007, following EC Regulation 1606,[168] European issuers using IFRSs as adopted by the EU (so-called "EU-GAAP") in their transition year had to produce certain special reconciliations and disclosures in order to benefit from the two-year accommodation of General Instruction G to Form 20-F for IASB-IFRSs issuers. This special regime was limited to financial years that began prior to or on December 31, 2007 and is now superseded because it was thought of in

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[163] *Form 20-F, Item 8.A.1(e), Item 17(c), Item 18.*
[164] *SEC, Release No. 33-8879, ¶¶ II.A.C, III.C.3, III.D.1.b (pages 47, 51, 60); SEC, Release No. 33-8567, ¶ II.G (page 28).*
[165] *Regulation S-X, 210.401(a)(2); Form 20-F, General Instruction G(a), G(h), Item 17(c); SEC,* Financial Reporting Manual, *¶ 6310.3.*
[166] *SEC, release No. 33-8879, ¶¶ I.C, III.A.3 (pages 11, 35).*
[167] *SEC, release No. 33-8879, ¶ III.A.1 (page 29); IPTF, March 4, 2008, ¶ Q13.*
[168] *EC Regulation No. 1606/2002.*

relation to the companies for which the EC had imposed adoption of IFRSs by 2007. Firstly, they had to show an audited reconciliation of EU-GAAP to IASB-IFRSs at the same level of detail as IASB-IFRSs. The SEC gave the example of a reconciliation showing the effects of the IAS 39 carve-out according to appropriate disclosure fully compliant with IAS 32. The reconciliation had to be appropriately cross-referenced in the selected financial data section of Form 20-F. Either EU-GAAP or IASB-IFRSs was then the starting point for an audited reconciliation to U.S. GAAP under Item 17 or 18 of Form 20-F, as appropriate. Finally, the Operating and Financial Review and Prospects section of Form 20-F had to refer to both reconciliations and analyze any differences not already or not appropriately discussed.[169] SEC Release No. 33-8879 deleted this norm.

Comment: The EC does not call for an explanation of the differences between the endorsed IFRSs and IASB-IFRSs.

2.10.2.3 Pre-2007 Foreign Private Issuers that Used the IAS 39 Carve-out Release No. 33-8879 tried not to be unfair to those registrants incorporated in the EU which before 2007 had filed financial statements that included the IAS 39 carve-out with the Commission. Based on the then existing SEC rules, they had prepared both a reconciliation from EU-GAAP to IASB-IFRS and a U.S. GAAP reconciliation (see Paragraph 2.13.9.4 following). At that time, they could not have known that the SEC would eliminate the U.S. GAAP reconciliation for IASB-IFRS foreign private issuers. With the benefit of hindsight, their choice to use the IAS 39 carve-out might have been different, because there was no other difference between EU-GAAP and IASB-IFRSs. Therefore, the SEC reserved a transition period of the first two financial years ending after November 15, 2007 only to those issuers. It consisted of a relief from the U.S. GAAP reconciliation, provided the financial statements complied with IASB-IFRSs in all other respects and included an audited EU-GAAP to IASB-IFRSs reconciliation. The content of the EU-GAAP reconciliation had fully to comply with IASB-IFRSs and the preparation and disclosure of the reconciliation had to follow the instructions applicable to the U.S. GAAP reconciliation. For the subsequent financial statements, those issuers have the same options as other foreign private issuers, i.e., filing under IASB-IFRSs (with no use of the IAS 39 carve-out) with no U.S. GAAP reconciliation, or alternatively providing the U.S. GAAP reconciliation.[170]

2.10.2.4 Other Non-IASB-IFRS Foreign Private Issuers Foreign private issuers not reporting under IASB-IFRSs, including EU-GAAP issuers other than the ones mentioned in Paragraph 2.10.2.3 above, are subject to reconciliation to U.S. GAAP and Regulation S-X.[171]

2.10.2.5 Further Effects for Item 18 Filers Reporting under IASB-IFRSs exempts an Item 18 filer from complying with all U.S. GAAP and Regulation S-X disclosures other than those already required by Item 17 of Form 20-F. However, a non-IASB-IFRS Item 18

[169] *Form 20-F, General Instruction G(i), deleted by Release No. 33-8879; SEC, Release No. 33-8879, ¶ III.C.5 (page 56); SEC, Release No. 33-8567, ¶¶ I.D, II.G; IPTF, May 17, 2005, ¶¶ Appendix B, Q17.*

[170] *Form 20-F, Special Instruction to Certain European Issuers in Item 17 and Item 18; SEC, Release No. 33-8879, ¶ III.A.3.*

[171] *Regulation S-X, 210.4-01(a)(2); Form 20-F, Item 17(c).*

filer need not observe those additional disclosures for the periods in which, based on other exemptions, it does not reconcile net income to U.S. GAAP.[172] A foreign private issuer must make the disclosures in Subtopic 932-235 (FASB Statement No. 69) available, whatever basis of accounting it elects (including IFRSs according to any version).[173]

2.10.2.6 Pro Forma Financial Statements Under Article 11 of Regulation S-X, pro forma financial statements must be prepared according to the basis of accounting adopted by the domestic issuer or foreign private issuer, irrespective of whether or not a reconciliation obligation exists at the level of the acquiree or investee. When a foreign private issuer uses home-country GAAP accompanied by reconciliation, the same treatment or direct use of U.S. GAAP is possible in pro forma financial statements.[174]

2.10.2.7 Other Impacts Paragraph 2.13.10 following explains reconciliation requirements on selected financial data.

Paragraph 2.10.7 following illustrates the impact of basis of accounting on reconciliation requirements of other entities.

Paragraph 2.16.8 following analyzes specific disclosures related to the statement of cash flows that depend on the body of standards used.

In situations where differences between home-country GAAP and U.S. GAAP are so pervasive that the reconciliation to U.S. GAAP does not suffice, additional reconciling disclosures or even a complete set of U.S. GAAP financial statements may be necessary.[175]

Form 20-F postulates that business overview information in Item 4 also utilizes the principles used to determine business segments under the adopted GAAP.[176] Therefore, consistency with IFRS 8 or Subtopic 280-10 (FASB Statement No. 131) would be required depending on whether the issuer reports under IFRSs or U.S. GAAP. Qualitative and quantitative disclosures about market risk provided on the basis of IASB-IFRSs must satisfy the objective of the Item 11 disclosure requirements.[177]

Exhibit 2-5 summarizes the impact of the basis of accounting on reconciliation to U.S. GAAP.

2.10.3 Reconciliation to U.S. GAAP

Paragraph 2.10.2 above explains the circumstances in which a foreign private issuer must reconcile to U.S. GAAP in SEC filings. In such situations, the following requirements apply.

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[172] *Form 20-F, Item 18(b).*
[173] *FASB ASC 932-235 (FASB Statement No. 69,* Disclosures about Oil and Gas Producing Activities*); Form 20-F, Instruction 2 to Item 18.*
[174] *SEC,* Financial Reporting Manual, *¶¶ 3210.2, 6300, 6510.9.*
[175] *SEC,* Financial Reporting Manual, *¶ 6520.2; SEC, International, November 1, 2004, ¶ VI.B.*
[176] *Form 20-F, Item 4.B, Instruction 1 to Item 4.B.*
[177] *Form 20-F, Instruction to Item 11.*

Exhibit 2-5 Impact of the Choice of Reporting Basis on U.S. GAAP Reconciliation of a Foreign Private Issuer

	U.S. GAAP	*IASB-IFRSs*	*EU-GAAP*	*Jurisdictional IFRSs*	*Other Local GAAP*
Reconciliation to U.S. GAAP	Not applicable	May be omitted	Special reconciliations were required to first-time adopters by 2007 and only in the transition year U.S. GAAP reconciliation applies in case of differences between EU-GAAP and IASB-IFRSs	Required	Required

The auditor's report or the financial statements must prominently indicate the basis of accounting used. The issuer must also discuss any material difference between accounting policies under that basis and U.S. GAAP and Regulation S-X.

The entity must provide reconciliation of net income in a tabular format for each annual and interim period presented and identify each material variation as a reconciling item on the face of the income statement or in a note, or more variations combined with explanation in a note.

An entity cannot combine adjustments that affect several captions in the balance sheet. It must separate different items that influence a single caption. It must separately quantify impact on taxes, as well as any effects on noncontrolling interests, currency translation adjustments and taxes concerning different subsidiaries. Long-lived assets must distinguish gross amounts from accumulated depreciation or amortization. Reconciliation of the statement of financial position may follow several formats: parenthetical explanation, columns, or numerical descriptions. Restated balance sheets, supplemental statements of changes in equity, or a detailed reconciliation of equity are available options.[178]

Paragraph 5.2.4 following explains the requirements concerning the statement of cash flows. Paragraph 2.19.20.4 following explains certain accommodations relating to accounting for hyperinflation.

U.S. GAAP reconciliations may omit the classification or display differences concerning a proportionate consolidation of an investment in a joint venture (before IFRS 11) that would be accounted for at equity method under U.S. GAAP. The note disclosures, which must enable the restating under U.S. GAAP, must include a summarized statement of financial position, income statement, and statement of cash flows separately showing the amounts proportionately consolidated of current and noncurrent assets and liabilities, net sales, gross profit, net income, and the cash flows from operating, investing, and financing activities. The joint venture must be a company (i.e., a jointly controlled entity, not simply jointly controlled operations or assets), the company must be operating, and all parties having ownership interests jointly control its significant financial operating policies by contractual agreement.[179]

[178] *Form 20-F, Item 17(c); SEC,* Financial Reporting Manual, *¶ 6510*.
[179] *Form 20-F, Item 17(c)(2)(vii); SEC,* Financial Reporting Manual, *¶ 6540.4*.

Comment: These prerequisites are somewhat consistent with IAS 31.[180] IAS 31 does not mention that the company must be operating, but adds that joint control requires the unanimous consent of the parties. However, the issue is to a certain extent subsumed in the requirement that an asset or a group of assets must be a business to fall within the scope of business combinations under IFRS 3 and therefore the application of consolidation accounting.[181]

An IASB-IFRS foreign private issuer that voluntarily elects to provide U.S. GAAP information must comply with the U.S. GAAP reconciliations, including for selected financial data, unless it provides U.S. GAAP information outside the financial statements.[182]

2.10.4 Form and Content of Financial Statements

Notwithstanding the fact that Form 20-F refers to U.S. GAAP and Regulation S-X for the presentation of financial information in a registration statement or report,[183] the SEC clarified that an IASB-IFRS foreign private issuer will follow IFRSs rather than Regulation S-X regarding the form and content of financial statements, whether annual or interim. The intention is to offer a certain degree of flexibility to acclimatize the wide number of countries of origin of foreign private issuers.[184]

Comment: Of course, a foreign private issuer has to comply with any other requirements in Form 20-F, even if there is no corresponding treatment in IFRSs, as for example the disclosure of significant export sales,[185] etc.

Where the issuer must reconcile to U.S. GAAP, it will need to follow U.S. GAAP and Form 20-F requirements on form and content of financial statements, and Regulation S-X as referred to by Form 20-F.[186]

Example: The SEC Staff used this justification to require two foreign private issuers, a Norwegian and an Italian, to provide certain information in the income statement in Form 20-F as required by Regulation S-X.[187]

Comment: Paragraph 4.6.1.6 following explains the SEC view on the level of detail necessary to present in an income statement by function that is substantially equivalent to information requested under U.S. GAAP and Regulation S-X.

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180 *IAS 31, ¶ 3.*
181 *IFRS 3, ¶¶ IN6, 2.*
182 *IPTF, March 4, 2008, ¶¶ Q14, Q15.*
183 *Form 20-F, General Instruction B(d), Item 17(b), Item 18(b).*
184 *SEC, Release No. 33-8879, ¶ III.D.*
185 *Form 20-F, Item 8.A.6.*
186 *Form 20-F, Item 17(b), Item 18(b); Regulation S-X, ¶ 210.4-01(a).*
187 *SEC IFRS Reviews. Letter by the SEC, March 22, 2007. File No. 000-31054, Comment 4; Letter by the SEC, December 21, 2006. File No. 1-13882, Comment 6.*

2.10.5 Response to U.S. GAAP Issues

A foreign private issuer is not required to apply Staff Accounting Bulletins or other SEC rules and regulations that specifically address U.S. GAAP issues, except to the extent permitted under the process of GAAP hierarchy search and selection of accounting policies as defined in IAS 8.[188] However, the issuer must follow those provisions in SABs and other Commission guidance that concern filing requirements and auditing.[189]

Furthermore, IFRS foreign private issuers must respond to items in the Operating and Financial Review and Prospects section of Form 20-F that refer to U.S. GAAP accounting literature. However, this must be done by means of the IFRS Standards or Interpretations that address the objective of the specific disclosure. They may cross-reference note disclosures already provided in audited financial statements.[190] Similar guidelines apply to Form 20-F quantitative and qualitative disclosures about market risk.[191]

Finally, IASB-IFRS foreign private issuers must provide the disclosures required by the Industry Guides, but on the grounds of information determined in accordance with IASB-IFRSs for the two years in which they provide first IFRS primary financial statements and based on U.S. GAAP or previous GAAP for the earlier years required by the Industry Guides.[192]

Paragraph 2.10.2.5 above explains certain differences in reporting by an Item 18 versus an Item 17 filer.

2.10.6 Issues Not Related to Financial Statements

A foreign private issuer reporting under IFRSs must in any event adhere to Regulation S-X and the appropriate SEC filing forms for those provisions that do not relate to U.S. GAAP, including the requirements for auditor qualifications and reports.[193]

2.10.7 Financial Statements of "Other Entities"

A registrant's document may need to include the financial statements of "other entities". Under Regulation S-X 210.3-05 and 210.8-04, these entities may comprise businesses acquired or to be acquired. Regulation S-X 210.3-09 refers to subsidiaries not consolidated and 50% or less owned persons. This expression means equity method investees.[194] Regulation S-X 3-16 refers to affiliates whose securities collateralize an already registered issue or one that is being registered. Regulation S-X 3-10 concerns guarantors and issuers. Paragraph 7.4.4 following lists certain of those circumstances. Paragraph 2.10.8 following discusses the bases of accounting used in computing significance testing.

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[188] *IAS 8, ¶ 12.*
[189] *SEC, Release No. 33-8879, ¶ III.C.4; SEC,* Financial Reporting Manual, *¶ 6320.5.*
[190] *Form 20-F, Instruction 5 to Item 5; SEC, Release No. 33-8879, ¶ III.C.2.a (page 44).*
[191] *Form 20-F, General Instruction G(g), Instruction to Item 11.*
[192] *SEC, Release No. 33-8567, ¶ II.E.2 (page 18); IPTF, March 4, 2008, ¶ Q18.*
[193] *SEC, Release No. 33-8879, ¶ III.D.*
[194] *SEC,* Financial Reporting Manual, *¶ 2400.1.*

As a rule, other entities may have a choice of a comprehensive basis of accounting that is different from U.S. GAAP, depending on whether they meet the definition of foreign business.[195] General Instruction G to Form 20-F and related facilitations for IASB-IFRS first-time adopters also hold for financial statements of other entities that are foreign businesses which, under Regulation S-X, are required to be included in their domestic or foreign parent's registration statement or Exchange Act reports (see Paragraph 7.4.4 following). The comparative year accommodation of Form 20-F in the year of adoption of IFRSs (Paragraph 2.13.9.3 following) also applies to the filing of other entities' financial statements irrespective of significance.[196] The norms for first-time entrants to the U.S. reporting system also apply to other entities.

The Rule 3-05 or Rule 3-09 financial statements of a foreign business not presented under IASB-IFRSs have to reconcile to U.S. GAAP even if the registrant reports under IASB-IFRSs without reconciling to U.S. GAAP and even if the foreign business presents to the registrant IASB-IFRS financial statements for the purpose of consolidation, equity method accounting or pro forma information.[197]

The IASB-IFRS financial statements of foreign businesses that are included in the registrant's document under Rules 3-05, 3-09, 3-10, and 3-16 of Regulation S-X need not reconcile to U.S. GAAP. This determination entails no consideration of significance.[198] On the contrary, under Regulation S-X Rules 3-05 and 3-09, if the foreign business adopts a basis other than U.S. GAAP or IASB-IFRSs and its significance exceeds 30%,[199] its financial statements that are included in the document must reconcile to U.S. GAAP.

Under Rules 3-10 and 3-16 of Regulation S-X, the financial statements of guarantor issuers or affiliates generally reflect the same basis that would be required if they were registrants. Thus, they must include U.S. GAAP reconciliation where the entity uses a non-IASB version of IFRSs. Furthermore, when a parent issuer or guarantor preparing IASB-IFRS consolidated financial statements under Subtopic 470-10 (Regulation S-X 3-10) produces condensed consolidating information, it uses that same basis with no reconciliation to U.S. GAAP for such modified information. If the issuer uses another basis of accounting, reconciliation is warranted, with the specific intent of permitting evaluation of adequacy of the guarantees.[200]

As a specific case, predecessor financial statements and selected financial data, when required, must use the same basis of accounting as the registrant.

Non-reporting foreign target companies are not subject to the above threshold in Forms S-4, Forms F-4, and proxy statements.[201] Form F-4 does not make direct reference to U.S. GAAP

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[195] *SEC,* Financial Reporting Manual*, ¶ 6350.3.*
[196] *SEC,* Financial Reporting Manual*, ¶ 6340.2; SEC, Release No. 33-8879, ¶ III.D.1 (page 58).*
[197] *IPTF, March 4, 2008, ¶ Q6.*
[198] *Form 20-F, Item 17(c)(2)(v) and Item 17(c)(2)(vi); SEC,* Financial Reporting Manual*, ¶ 6350.1.*
[199] *Form 20-F, Item 17(c)(2)(v) and Item 17(c)(2)(vi); SEC,* Financial Reporting Manual*, ¶ 6350.3; SEC, Release No. 33-8879, ¶ III.D.1(b) (page 60).*
[200] *SEC,* Financial Reporting Manual*, ¶ 6410.12; SEC, Release No. 33-8879, ¶ III.D.3 (page 62).*
[201] *SEC,* Financial Reporting Manual*, ¶ 6410.6.*

reconciliation to IASB-IFRS foreign private issuers. Similarly, while a domestic issuer that includes the financial statements of an acquired foreign business in Form S-4 must provide U.S. GAAP reconciliation, if available without unreasonable burden, this is not required of an issuer that uses IASB-IFRSs.[202]

2.10.8 Significance Testing

Significance testing refers to certain tests to determine whether the financial statements of other entities meet certain thresholds for inclusion in the registrant's document or other obligations. The choice of a basis of accounting influences the calculation of significance testing in SEC filings. The basis of accounting used for Rules 3-05, 3-09, or 3-16 of Regulation S-X in determining figures of the acquired business in significance testing coincides with that of the issuer, irrespective of the basis used by the investee or acquiree. Thus, if the issuer reports under U.S. GAAP, IFRSs, or home-country GAAP reconciled to U.S. GAAP, the amounts of the other entities will be determined under U.S. GAAP. If the issuer uses IASB-IFRSs with no reconciliation to U.S. GAAP, the computation will be under IASB-IFRSs.[203]

Paragraph 7.4.4 following mentions the use of significance testing for inclusion of other entities' interim financial statements in the registrant's document.

2.11 ACCOUNTING ESTIMATES

2.11.1 Basic Rule

Entities must change amounts they estimated under previous GAAP at the transition date or at the end of the comparative period under three circumstances only. Firstly, they must correct any error that existed in those estimates. Secondly, they must operate any adjustment that is necessary to comply with IFRSs as opposed to previous GAAP. Thirdly, they must consider any additional element that IFRSs may require to formulate estimates at the transition date or at the end of comparative period(s) and that was not necessary under previous GAAP. Apart from the above situations, the entity must keep the estimates made at transition date and at the end of the comparative periods under previous GAAP.[204]

2.11.2 The IAS 10 Override

For first-time adopters, IFRS 1 partially overrides IAS 10, with reference to new information that an entity obtains after the transition date on the basis of which it will reformulate estimates it made under previous GAAP. The entity must always treat subsequent events as nonadjusting events, whereas IAS 10 would ordinarily qualify those situations as adjusting events when they provide evidence of conditions that exist at the reporting date. Therefore, those events affect the period in which the entity revises the estimates and not the opening statement of financial

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[202] *Form F-4, Item 10(c)(2), Item 10(c)(3), Item 12(b)(2)(iii), Item 12(b)(2)(iv), Instruction to Item 17(b)(5) and (b)(6); Form S-4, Instruction 2 to Item 17; SEC, Release No. 33-8879, ¶¶ III.E.1 (page 65), IV.B.4 (page 79), VII (page 92).*

[203] *Regulation S-X, ¶ Note to 210.1-02(w); SEC,* Financial Reporting Manual*, ¶¶ 2015.3, 6350.2; SEC, Release No. 33-8879, ¶ III.D.1(a) (page 59).*

[204] *IFRS 1, ¶¶ 14, 16, 17.*

position. The same principle applies to events subsequent to the end of the comparative period regarding conditions that existed at the end of the comparative period. Such new information does not adjust the comparative period but only the period of change in estimate. A precondition is that those estimates which the entity had made under previous GAAP must be consistent with IFRSs: otherwise, the entity will have to record either a correction of error or a change of accounting policy, depending on the situation.[205]

> **Comment:** Applying adjusting-event treatment under IAS 10 would mean adjusting assets and liabilities as the result of information obtained after a long period, even if the information refers to events already existing at that date. Of course, adjusting-event treatment under IAS 10 fully applies to events subsequent to the first IFRS reporting date that provide evidence of conditions existing at the end of the first IFRS reporting date.

2.11.3 The Meaning of Consistency with Previous GAAP

2.11.3.1 The Distinction between the IAS 8 and IAS 10 Domains IFRS 1 warns first-time adopters not to change estimates they made under previous GAAP at the transition date or at the end of the comparative period, except under specific circumstances.

> **Comment:** IFRS 1 mentions IAS 8 and IAS 10 but does not clearly separate the respective rationales.[206] These become evident from two examples. A first circumstance concerns a company that reformulates estimates. Looking forward, the first IFRS financial statements are simply subsequent to the ones the entity issued under previous GAAP. In this view, the tenet in IFRS 1 is simply a logical consequence of IAS 8. IAS 8 always accounts for a change in estimates prospectively. The accent is not on previous GAAP. Sticking to previously made estimates does not give any supremacy to previous GAAP. It simply follows from the notion in IAS 8 that a change in estimate does not affect prior periods.
>
> A second situation concerns a company that wants to incorporate additional elements in previous estimates because time has passed and it has gained more information about the underlying facts. This would call for a determination of whether subsequent events reflect conditions existing at transition or the comparative date. This perspective looks backwards. It takes the view that the first IFRS financial statements are a sort of reissuance or restatement of prior financial statements under a new basis of accounting. On the contrary, as Paragraph 2.11.2 previously, explains, IFRS 1 overrides IAS 10. This is because the opening IFRS statement of financial position and the comparative periods in the first IFRS financial statements recast financial reports that referred to at least two years and one year before, respectively, a fact that risks interfering with a possible benefit of hindsight.

2.11.3.2 The Notion of Subsequent Events in IFRS 1 versus IAS 10 IFRS 1 overrides certain provisions of IAS 10 (Paragraph 2.11.2 previously). Under IAS 10, events after the reporting period (so-called subsequent events) are those that occur between the reporting date and the date of authorization for issuance of the financial statements.[207]

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[205] *IFRS 1, ¶¶ 15, 17, BC84.*
[206] *IFRS 1, ¶ BC84.*
[207] *IAS 10, ¶ 3.*

Comment: IFRS 1 refers to IAS 10 improperly through an extended notion of subsequent events. Of course, some events may occur after the end of the first IFRS reporting date and before authorization for issuance. If these refer to the current period in the first IFRS financial statements, IAS 10 fully applies. If they refer to the comparative period(s) or the transition date, the IFRS 1 override comes into effect. Technically, events referring to the comparative period(s) or the transition date are not events subsequent to the first IFRS financial statements according to the meaning in IAS 10. If they occurred after reporting date and before the authorization of issuance of previous GAAP financial statements, they are events subsequent to the previous GAAP financial statements. Events occurring between the authorization to issuance of previous GAAP financial statements and the end of the first IFRS reporting period are outside the scope of IAS 10. IFRS 1 refers to any event occurring in this timeline.

2.11.3.3 Pre-Event Financial Statements An additional notion of subsequent events exists under SEC rules and regulations. They comprise a discontinued operation, a change in reportable segments, or a change in accounting principle to be retrospectively applied that occurs after the end of a financial year whose financial statements are reissued after the subsequent financial statements have already been filed. The topic of pre-event financial statements focuses on whether and when an entity must reissue them.[208]

Comment: This situation has some analogies with IFRS first-time adoption. The timeframe involved is analogous. These events may require reissue of pre-event financial statements in connection with SEC filings. Somewhat similarly, the first IFRS financial statements are a sort of republication. However, these events are different from subsequent events under IFRS 1. Apart from the more limited scope, these events reflect retroactive changes in accounting policies or reclassifications, not new information that would adjust previous estimates. Paragraph 2.17.7.2 following addresses the reclassification of comparative periods after changes in discontinued operations.

2.11.4 Time Effect of Different Definitions of Subsequent Events

IFRS 1 does not explicitly state the period of occurrence of such new information.

Planning Point: Such events may occur from the transition date to the date the first IFRS financial statements are authorized for use.

Planning Point: An entity maintains amounts that it had already adjusted because of adjusting-events treatment under previous GAAP. In fact, those changes are already part of previous GAAP estimates. Again, revision is necessary if they are not consistent with IFRSs. Therefore, the different threshold (explained later) to identify subsequent events under U.S. GAAP and IFRSs will not affect the opening IFRS statement of financial position and comparative information.

Different thresholds to identify subsequent events under U.S. GAAP and IFRSs may affect the first IFRS financial statements.

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[208] *SEC, Financial Reporting Manual, ¶ 13100.*

> **Planning Point:** Under U.S. GAAP the threshold for availability of information for purposes of defining subsequent events is the date of issuance of the financial statements, while under IFRSs it is the date of authorization for issue.[209] However, now Topic 855 (FASB Statement No. 165, as amended by ASU 2010-9), for evaluating subsequent events, requires the use of the issuance date for an SEC filer and a conduit bond obligor for conduit debt securities that are traded in a public market, and the date on which financial statements are available to be issued for all other entities. The standard requires the disclosure of whether subsequent events have been evaluated at the date of issuance of financial statements or at the date the financial statements are available to be issued and what this date is.[210] ASU 2010-9 eliminates such a disclosure for an entity that is an SEC filer, thus removing conflicts with SEC guidance.[211] Under Subtopic 855-10 (FASB Statement No. 165), effective prospectively for interim and annual periods ending after June 15, 2009, the issuance date is the date of wide distribution of GAAP-compliant financial statements to all shareholders for general use and reliance. The date of availability for issue is when financial statements are completed in the form and format that is compliant with GAAP and all relevant authorizations, including shareholders' meeting when required, have been obtained.[212] For SEC registrants, the issuance date is the earlier of the dates above (in addition, annual financial statements must have been audited) or the date of filing with the SEC.[213] Conversely, under IAS 10, the date of authorization for issue is the date on which the Board of Directors authorizes the issuance of the financial statements to the shareholders' meeting for their approval. In case management issues financial statements to a supervisory board comprising only non-executive directors for approval (apart from representatives of other external parties), this becomes the date on which management authorizes issuance to that supervisory board. All the above is irrespective of any public announcement of profit or loss or other selected financial information.[214]

2.11.5 New Estimation Inputs

IAS 10 must be followed for all other aspects regarding subsequent events. Any additional elements that IFRSs may require to formulate estimates at the transition date or the end of the comparative period(s) and that were not necessary under previous GAAP must reflect conditions existing at the dates to which the estimates refer. IFRS 1 states market conditions as an example. They must be those that were present on the transition date: IAS 10 would treat any market data subsequent to that date as a nonadjusting event.[215]

2.11.6 When Consideration of Subsequent Events is Part of an IFRS Accounting Policy

The Implementation Guidance of IFRS 1 gives an example of a provision under previous GAAP that is inconsistent with IAS 37.[216] The entity must adjust to conform to IAS 37.

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[209] *IAS 10, ¶ 18.*

[210] *FASB ASC 855-10-20, 855-10-50-1 (FASB Statement No. 165,* Subsequent Events*, ¶¶ 6, 12).*

[211] *FASB ASC 855-10-25-1A, 855-10-50-1, 855-10-50-4 (FASB Accounting Standards Update No. 2010-9,* Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*, ¶¶ 4–6, 8.*

[212] *FASB Statement No. 165, ¶¶ 5-6, A13.*

[213] *EITF Topic No. D-86,* Issuance of Financial Statements *(FASB ASC 855-10-S99-2), as amended by FASB Accounting Standards Update No. 2010-04,* Accounting for Various Topics, Technical Corrections to SEC Paragraphs*, ¶ 6 (January 2010).*

[214] *IAS 10, ¶¶ 5–7.*

[215] *IFRS 1, ¶ 16.*

[216] *IFRS 1, ¶ IG3 Example 1.*

However, IAS 37 requires considering subsequent events to confirm whether an entity had a present obligation at the reporting date. In such a case, consideration of subsequent events is a step in the recognition and estimation procedures concerning provisions.[217] Here, subsequent events become adjusting in nature.

> **Comment:** This is because the consideration of subsequent events is an integral part of an IFRS accounting policy that proves to be different from previous GAAP. The entity revises its prior estimate, not because of the existence of subsequent events, but because such an adjustment is necessary to comply with a different accounting policy under IFRSs.

2.11.7 Mistakes in Applying Accounting Policies in the Context of IFRS First-Time Adoption

Under IAS 8, a mistake in applying an IFRS accounting policy is an error.[218] An issue arises about what an error is in the context of the IFRS 1 guidance of estimates. Paragraph 2.9.10 previously discusses the difference between a change in accounting policy and a correction of errors.

> **Planning Point:** An error under previous GAAP occurs if an entity wrongly applied a previous GAAP accounting policy. In the context of the IFRS 1 guidance of estimates, if a policy would not otherwise be different from one under IFRSs, the entity must retroactively correct the error. If the entity correctly applied a previous GAAP accounting policy that is inconsistent with one under IFRSs, the entity must retrospectively apply a change in accounting policy.

2.11.8 Distinguishing Changes in Accounting Policies, Errors, and Changes in Estimates

A tricky issue is whether a new method constitutes a new policy, a change in estimate made under previous GAAP, or a correction of error.

> **Example:** A Spanish foreign private issuer bank, in its reply to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that at transition date it applied a new methodology required by the Bank of Spain to compute loan losses provisions under IFRSs. Although the new procedure was different from the one used under previous GAAP, it regarded the old and the new methods as permissible under both previous GAAP and IFRSs, respectively, thus scoping out any error in applying accounting policies. It used estimates that were consistent with those made under previous GAAP and therefore there was no error in estimates.[219]

IAS 8 requires accounting for changes in estimates when a change in accounting policy is undistinguishable from a change in accounting estimate.[220]

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[217] *IAS 37, ¶¶ 16, 38.*
[218] *IAS 8, ¶ 5.*
[219] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 17. Reply by the company, February 26, 2007.*
[220] *IAS 8, ¶ 35.*

> **Comment:** Although IAS 8 does not apply to changes in accounting policies of IFRS first-time adopters (Paragraph 2.9.7 previously), IFRS 1 makes reference to the rule in IAS 8 for indistinguishable changes in policies and estimates with reference to financial assets and liabilities.[221]

2.11.9 Lease Classification

IFRS 1 explains that the IAS 10 override does not prevail over recognition and measurements in other IFRSs that depend on circumstances existing at specific dates.[222] IAS 17 states that an entity determines whether a lease is finance or operating at the inception of the agreement. Certain changes in the lease terms that affect the classification of the lease may give rise to a new agreement. These exclude a renewal of a lease or changes in estimates or new circumstances such as a default by the lessee.[223]

> **Comment:** Therefore, an IFRS first-time adopter applies IAS 17 at transition date based on circumstances existing at the inception of the lease. If a change in classification of a lease occurs before the transition date, the entity classifies it at transition date based on the latest terms that reflect this change. If this happens after the transition date but before the end of the comparative period, the entity will need to adjust the comparative period to conform to IFRSs.

2.11.10 Equity versus Financial Liability Classification

IFRS 1 explains that the IAS 10 override does not prevail over recognition and measurements in other IFRSs that depend on circumstances existing at specific dates.[224] An entity determines whether equity or financial liability classification under IAS 32 applies to a financial instrument upon its initial recognition. Subsequent changes other than in the terms of the instruments do not change the classification. Paragraph 2.19.11 following explains this in relation to compound financial instruments. Furthermore, an entity re-determines the classification of puttable instruments or certain other instruments that embody an obligation to deliver a pro rata share of net assets only on liquidation from the date in which changes in features arise.[225]

> **Comment:** Therefore, at transition date the entity classifies the instruments based on the initial recognition of the instrument. Subsequent events that do not change the terms of the instrument are irrelevant to the classification. However, a change in conditions affecting classification that occurs after the transition date but before the end of the comparative period will force the entity to adjust the estimate in the comparative period to conform to IFRSs.

2.11.11 Internally Developed Intangible Assets

IFRS 1 states that its rules for estimates do not override the prohibition in IAS 38 to capitalize internally developed intangible assets that do not meet recognition criteria.[226] Paragraph

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[221] *IFRS 1, ¶ IG58B.*
[222] *IFRS 1, ¶ IG4.*
[223] *IFRS 1, ¶ IG14; IAS 17, ¶ 13.*
[224] *IFRS 1, ¶ IG4.*
[225] *IFRS 1, ¶ IG35; IAS 32, ¶¶ 15, 16E.*
[226] *IFRS 1, ¶ IG4(b).*

2.19.3.3 illustrates some tricky issues concerning the interaction of the IFRS 1 rules for estimates with the rules in IAS 38.

2.11.12 Financial Assets and Financial Liabilities

The IFRS 1 rules for estimates plainly apply to mistake-free estimates of impairment of financial assets (e.g., loans) made under previous GAAP that were IFRS-compliant in this regard.[227]

When an IFRS first-time adopter is not able to discern the portion of a transition date adjustment to the previous GAAP carrying amount of a financial asset or a financial liability that derives from changes in accounting policies and that part that is due to changes in estimates, the company must account for the entire amount as a change in accounting estimates.[228] Paragraph 2.11.8 previously provides an example regarding this.

2.11.13 Employee Benefits

At transition date, an IFRS first-time adopter must maintain actuarial assumptions and any other estimates for employee benefits that it had used under previous GAAP, after any adjustment for changes in accounting policies and corrections of errors. Any additional input that is necessary to formulate estimates under IAS 19 at transition date must reflect conditions existing at that date.[229]

2.11.14 Share-Based Payment Transactions

Paragraph 2.19.1 following explains the IFRS 1 exemption from share-based payments. In restating comparative information, an entity must follow the guidelines in IFRS 1 for accounting estimates. This means that if the entity made estimates under previous GAAP that are compatible with IFRS 2 it must maintain those estimates. If it did not do so, its new estimates under IFRS 2 must reflect conditions existing at the end of the comparative date(s). If it needs additional inputs to formulate estimates under IFRS 2, it must use this additional information based on conditions available at the end of the comparative date(s).

2.11.15 Impairment of Nonfinancial Assets

Paragraph 2.12.5.1 frames impairment in the context of the opening IFRS statement of financial position. The IFRS 1 rules for accounting estimates apply.[230]

> **Planning Point:** This area is likely to produce adjustments to previous GAAP amounts because of differences in accounting principles (e.g., the use of undiscounted versus discounted cash flows, whether a notion of other-than-temporary impairment exists, etc.). This triggers a redetermination of whether impairment existed or not at transition date. A possible different use of impairment indicators determines the use of new information, which previous GAAP did not require, a fact that requires a revision of estimates under the conditions existing at transition date.

[227] *IFRS 1, ¶ IG58.*
[228] *IFRS 1, ¶ IG58B.*
[229] *IFRS 1, ¶¶ IG19, IG20.*
[230] *IFRS 1, ¶¶ IG40, IG41.*

2.11.16 Depreciation and Amortization

The IFRS 1 rule for estimates states that a first-time adopter must maintain previous GAAP estimates that are consistent with IFRS accounting policies (see Paragraph 2.12.5.1 following). IFRS 1 confirms this about a change in depreciation or amortization patterns or in estimated useful life of tangible and intangible assets to the extent that previous GAAP depreciation or amortization rates and methods comply with IFRSs.[231] However, IFRS 1 changes these rules when depreciation or amortization methods or rates under previous GAAP are unacceptable under IFRSs. The standard regards the use of depreciation or amortization rates defined solely for tax purposes or not determined based on a reasonable estimate of the useful life of the asset as unacceptable under IFRSs. In such cases, when the impact is material, retrospective application in the opening IFRS statement of financial position is required.

Planning Point: For tangible assets, this means an entry that adjusts accumulated depreciation against retained earnings. This redetermination also applies to intangible assets that are fully amortized at transition date. Actually, full amortization or write-off may be seen as methods not compliant with IFRSs.

Comment: An amortization rate is nothing but a way of stating the amortization period, i.e., the estimated useful life. IAS 16 and IAS 38 do not make a distinction between amortization pattern and amortization method. They state that a depreciation or amortization method must reflect the pattern of consumption of future economic benefits. A change in expected pattern leads to a change in method. IAS 8, IAS 16, and IAS 38 are all clear that changes in depreciation and amortization periods or methods are changes in accounting estimates to be accounted for prospectively. IAS 38 also affirms this with reference to a change from the assessment of indefinite to definite useful life intangible assets.[232] IFRS 1 neither waives IAS 16 nor IAS 38, neither does it follow them. Furthermore, the meaning of what is "unacceptable" under IFRSs is not clear. This approach appears to be subjective to say the least. If a different depreciation or amortization period is the result of a different estimate of useful life, IFRS 1 treats this as a change in accounting estimate. If it comes from a deliberate use of tax rates, it requires a retrospective application. Arguably, applying depreciation tax rates in financial reporting is a mistake in applying an accounting policy under previous GAAP, probably irrespective of which GAAP is involved. Another interpretation is that applying IAS 16 and IAS 38 is a change in accounting policy in respect of any GAAP that accepts depreciation or amortization based on tax rates or other bases unrelated to the asset's useful life. In any event, the ambiguous language of IFRS 1 may result in accounting for estimates, changes in accounting policies, or corrections of errors depending on assessment of relevance and intent of management.

2.12 THE OPENING IFRS STATEMENT OF FINANCIAL POSITION

2.12.1 Procedures Concerning the Opening IFRS Statement of Financial Position

2.12.1.1 Focal Points Much of the focus of IFRS 1 is on the opening IFRS statement of financial position. Its objective includes creating a starting point under IFRSs. The opening IFRS statement of financial position is the inception of accounting under IFRSs.[233]

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[231] *IFRS 1, ¶¶ IG7, IG51.*
[232] *IAS 8, ¶¶ 32(d), 38; IAS 16, ¶¶ 51, 61, BC33; IAS 38, ¶¶ 97–98, 104, 109.*
[233] *IFRS 1, ¶¶ 1, 6, BC16, BC91(b).*

> **Planning Point:** The opening IFRS statement of financial position is also the starting point to compute profit or loss and comprehensive income under IFRSs. An undetected error at transition date may translate in error in the subsequent period, and beyond in the case of a noncounterbalancing error (i.e., if it does not self-correct over two periods). Once the entity detects it, it must retroactively correct and disclose it under IAS 8. As Paragraph 2.12.1.4 below explains, this correction is a different item from the restatement of the beginning balance of retained earnings due to first-time adoption.

Paragraph 2.13.5 following explains whether an entity must publish its opening IFRS statement of financial position.

2.12.1.2 Advance Planning The selection of a transition date and consequently the opening IFRS statement of financial position is a key decision.

> **Planning Point:** The general criterion for the application of the relevant IFRSs in recognizing and measuring assets and liabilities at transaction date may involve lengthy and costly calculations. The Basis for Conclusions of IFRS 1 explains that this standard tailored its provisions with reference to a model company that plans ahead for such a transition.[234]

2.12.1.3 Effect of Changes The transition date is the beginning of the earliest period for which an entity presents full comparative information under IFRSs. Therefore, the adjustments in the opening IFRS statement of financial position arising from applying IFRSs instead of previous GAAP to events and transactions before the transition date directly affect the beginning balance of retained earnings or, if appropriate, another category of equity. Other components of equity may concern items such as revaluation surplus of certain property, plant and equipment or certain intangible assets, gain or loss of available-for-sale financial assets, derivatives qualified as cash flow hedges, as well as other items accounted for in accumulated other comprehensive income.[235]

> **Planning Point:** Certain jurisdictions have mandated specific line item display of the changes in the opening balance of retained earnings. Special tracing for tax treatment may also be warranted. IFRS 1 does not require this. However, it would be appropriate to separately identify an account within retained earnings for first-time adoption adjustment. Subaccounts by type of adjustments enhance transparency and ease tracking.

2.12.1.4 Failure to Adjust Opening Retained Earnings Failure to adjust opening balance of retained earnings for a first-time adoption item results in an error. An entity must adjust this in the subsequent period.[236]

> **Planning Point:** Again, such a correction affects the opening balance of retained earnings. However, it is a separate element from the transition adjustments. Furthermore, as the error is corrected in the

[234] *IFRS 1, ¶ BC27.*
[235] *IFRS 1, ¶ 11.*
[236] *IFRS 1, ¶ BC6.*

subsequent period, it affects the opening balance of retained earnings starting from the earliest period presented, which is not the opening IFRS statement of financial position. Therefore, using a separate retained earnings subaccount from that used for the IFRS first-time adoption is preferable.

Paragraphs 2.9.8 and 2.9.10 previously, expand on the difference between changes in accounting policies and corrections of errors in a context of IFRS first-time adoption. Paragraphs 2.11.7 and 2.11.8 previously explain the interactions between errors and estimates.

2.12.1.5 Shift to the Beginning of the First IFRS Reporting Period Paragraph 2.20 following illustrates certain short-term exemptions under IFRS 1. One common feature of most of them is to waive the application of certain standards, such as IFRS 9, to comparative information. The retrospective application of those standards shifts from the transition date to the beginning of the first IFRS reporting period. The same considerations made for the transition date apply to this other date, to the extent of the standards concerned. Finally, with regard to those standards, adjustments to deferred taxes and noncontrolling interests also apply at that date.

2.12.1.6 Retrospective Adjustments involving Other Comprehensive Income Paragraph 2.12.1.3 previously mentions that in certain cases the transition adjustments may affect components of equity other than opening retained earnings. Paragraph 6.4.4 explains the classification and presentation of retrospective accounting adjustments, including those affecting other comprehensive income.

2.12.1.7 Steps Apart from specific exceptions and exemptions (treated in specific paragraphs of this chapter) IFRS 1 identifies the effect on the opening IFRS statement of financial position in four steps: recognition, derecognition, reclassification, and measurement.[237] The following paragraphs summarize those steps. They are in the context of the phases of migration to IFRSs that Paragraph 2.4 previously explains.

2.12.2 Recognition

2.12.2.1 General Rule At the transition date, an IFRS first-time adopter must recognize assets and liabilities according to IFRSs.[238] Examining possible occurrences of recognition at transition date falls outside the scope of the Book.

2.12.2.2 Whether an Entity can Capitalize Migration Costs Costs for IFRS first-time adoption are not capitalizable.

Comment: If considered to be start-up costs, e.g., costs concerning new processes or reorganization of the entity, IAS 38 would require expensing them.[239] Furthermore, they lack the compelling characteristics of identifiability and, arguably, also future economic benefits for recognition as intangible assets under IAS 38.[240]

[237] *IFRS 1, ¶ 10.*
[238] *IFRS 1, ¶ 10(a).*
[239] *IAS 38, ¶¶ 68–69.*
[240] *IAS 38, ¶¶ 12, 17.*

2.12.2.3 Whether an Entity can Set Up a Provision for Migration Costs An issue may arise as to whether a company should establish a provision at the times the laws of a specific jurisdiction impose an obligation on it to migrate to IFRSs.

> **Comment:** The law mandating IFRS adoption is an obligating past event, the cost is probable and can be reliably estimated. However, the entity can avoid the future expenditure, for example by delisting from a certain stock exchange, changing type of legal reporting company, transferring to another jurisdiction, or even winding up.[241] Therefore, under IAS 37 it cannot recognize any provision for future avoidable expenses.

2.12.2.4 Noncontrolling Interests After an entity has made all adjustments at transition date, it must re-determine noncontrolling interests at that date in the opening IFRS consolidated statement of financial position.[242] It must compare the recomputed figure under IFRSs to that under previous GAAP and record the consequential adjustments.

> **Comment:** As Paragraph 2.12.1.5 previously mentions, the same applies to the beginning of the first IFRS reporting period when an entity avails itself of certain short-term exemptions. Of course, noncontrolling interests must also be re-determined under IFRSs regarding the comparative and current period.

2.12.3 Derecognition

At transition date, a first-time adopter must derecognize previous GAAP assets and liabilities that do not meet asset and liability definition and recognition criteria according to IFRSs.[243] Examining possible occurrences of derecognition at transition date falls outside the scope of this Book. Paragraph 2.17.1 following illustrates the special situation of derecognition of financial assets and financial liabilities.

2.12.4 Reclassification

At the transition date, a first-time adopter must reclassify assets, liabilities, and equity according to IFRSs.[244]

> **Comment:** The term reclassification is hybrid in IFRSs. Some occurrences mean presentation. Others refer to recognition (e.g., equity versus financial liabilities). Reclassifications will also occur in the statements of income of comparative periods.

There may be many reclassifications. Some examples include equity versus financial liability classification under IAS 32 (Paragraph 2.11.10 previously), current versus noncurrent distinction (Paragraph 3.3.4 following), or criteria for offsetting (Paragraph 3.4.2 following). Other occurrences may comprise the classification of financial instruments according to IFRS 9 (and IAS 39, before adoption of IAS 39), the classification of held-for-sale noncurrent assets and related liabilities (Paragraphs 2.17.7.1 following and 3.4.1 following), or the presentation

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[241] *IAS 37, ¶¶ 14, 19.*
[242] *IFRS 1, ¶ C4(k).*
[243] *IFRS 1, ¶ 10(b).*
[244] *IFRS 1, ¶ 10(c).*

of discontinued operations (Paragraphs 2.17.7.2 following, 2.17.7.3 following and 4.5.10 following). Further elements include the presentation of noncontrolling interest (Paragraphs 2.17.5 following, 4.5.17 following), investment property versus owner-occupied property, the classification of cash flows (Paragraph 5.6 following), and others.

Examining possible occurrences of reclassification at transition date falls outside the scope of this Book.

2.12.5 Measurement

2.12.5.1 Basic Rule At transition date, a first-time adopter must measure recognized assets and liabilities according to IFRSs.[245] Examining possible occurrences of measurement at transition date falls outside the scope of this Book.

2.12.5.2 Impairment Impairment is an important point in this regards The opening IFRS statement of financial position must reflect an impairment loss existing at transition date and reverse a previously recognized one that no longer exists at that date. Therefore, an entity must test impairment under IAS 36 at transition date.[246] To ensure adequate attention and transparency in the case of an impairment loss or its reversal, the company must give the disclosures that would have been applicable under IAS 36 if this had occurred in the earliest comparative period presented in the first IFRS financial statements.[247]

As Paragraph 2.11.15 previously argues, this area is likely to produce both differences in accounting principles versus previous GAAP and different impairment indicators (new inputs).

Paragraph 2.18 following illustrates special rules concerning impairment of goodwill.

IFRS 11 introduces a requirement to test a newly classified investment in a joint venture or in a joint operation under the standard for impairment, under IAS 36 and not IAS 28, irrespective of the existence of impairment indicators, and charge any resulting adjustment to beginning retained earnings of the earliest period presented.[248]

2.12.6 Income Tax Impact

2.12.6.1 Retrospective Application of IAS 12 An entity applies IAS 12 to recognize, measure, present, and disclose the current and deferred tax effects of the different adjustments that affect its opening IFRS statement of financial position. For example, Paragraph 2.18.12 following illustrates the case of an acquirer in a past business combination that failed to recognize deferred taxes under previous GAAP.

> **Planning Point:** IFRS 1 has no exemption concerning IAS 12, which applies retrospectively. Therefore, income tax adjustments at transition date arise from both the tax impact of all other transition adjustments and any difference in accounting for income taxes in respect of previous GAAP, for

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[245] *IFRS 1, ¶ 10(d).*
[246] *IFRS 1, ¶ IG39.*
[247] *IFRS 1, ¶¶ 24(c), BC94.*
[248] *IFRS 1, as amended by IFRS 11,* Joint Arrangements*, ¶¶ 39I, D31.*

example, the elimination of a previous discounting of deferred taxes. As Paragraph 2.12.1.5 previously explains, when an entity elects certain short-term exemptions, income tax transition adjustments may take place at the beginning of the comparative period.

2.12.6.2 Interaction with IFRS 1 Exceptions and Exemptions An IFRS 1 exception or exemption may allow an entity not to recognize an item at transition date. Examples are past actuarial gains and losses reset to zero at transition date (see Paragraph 2.19.7 following), or the exemptions related to share-based payment transactions (see Paragraph 2.19.1.4 following). An issue arises as to the meaning of retrospective application of IAS 12 in such cases.

Comment: The financial reporting carrying amount of an unrecognized item at transition date is nil. Hence, if it has a non-zero tax basis, a temporary difference arises under IAS 12.

2.12.6.3 Tax Rates and Tax Laws Applicable at Transition Date Consistently with IAS 12 and the general rule in IFRS 1 for accounting policies (Paragraph 2.9.1 previously), the first IFRS financial statements make use of the tax rates and laws that are enacted or substantively enacted by the end of the first IFRS reporting period. Therefore, computation of deferred taxes takes up already enacted or substantively enacted tax rates expected to be in force at reversal of the temporary differences.[249]

2.12.6.4 Counter-Accounts Depending on whether an IFRS 1 adjustment affects the opening balance of retained earnings or other component of equity at transition date, deferred taxes also affect the same item. Paragraph 2.19.3.18 following deals with this aspect with reference to the election of fair value as deemed cost.

2.12.6.5 Subsequent Changes in Tax Rates and Tax Laws A change in tax rates or tax laws that are enacted or substantively enacted subsequent to the end of the first IFRS reporting period affects deferred income taxes that resulted from IFRS 1 transition adjustments.[250] An issue arises as to whether such an effect should be accounted for inside or outside profit or loss in the period of change.

Comment: IAS 12, not IFRS 1, applies to subsequent financial statements. IFRS 1 does not operate any override of IAS 12 or IAS 1. Under IAS 12, a change in deferred taxes arising from changes in tax rates or tax laws affects profit or loss unless the entity recognized the underlying item outside profit or loss (i.e., the so-called backwards tracing). Outside profit or loss means other comprehensive income or a direct adjustment to equity items, including opening retained earnings.[251] When upon transition date an IFRS 1 adjustment affected accumulated other comprehensive income, a change in deferred taxes arising from a subsequent change in tax rates or tax laws affects other comprehensive income, on the grounds of the ordinary IAS 12 rule.[252] IAS 12 does not say whether it adjusts accumulated other comprehensive income or other comprehensive income. However, after the 2007 Revision of IAS 1, other comprehensive income is outside profit or loss but no longer a direct component of equity.

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[249] *IFRS 1, ¶¶ IG5, IG6; IAS 12, ¶¶ 46, 47.*
[250] *IFRS 1, ¶ IG6.*
[251] *IAS 12, ¶ 60.*
[252] *IAS 12, ¶¶ 61A, 62A.*

The treatment of transition adjustments that affected opening retained earnings is more complex. On one hand, adjustments to opening retained earnings measure a retrospective application of accounting policy or a correction of errors that under IFRSs would have affected profit or loss in periods prior to the transition date. By analogy, in consolidation procedures, adjustments to opening retained earnings concern items that affected profit or loss of prior periods. On the other hand, from a balance sheet perspective, retained earnings are a component of equity.[253] Furthermore, IAS 12 classifies a retrospective adjustment to the opening balance of retained earnings as outside profit or loss and as a direct debit or credit in equity. IAS 1 classifies retrospective adjustments and retrospective restatements as reconciling items and not as changes in equity in the period, either from transactions with owners, or from profit or loss or other comprehensive income (see Paragraph 6.4.4 following).[254] All this would exclude that such deferred taxes refer to items that are classified within profit or loss. A basic principle in IFRSs, rigidly applied in IAS 10, is that recognition and classification (for example, current versus noncurrent distinction) reflect the situation and status at the date of reporting, with no forward looking to situations that do not exist at the reporting date or that may arise or be reversed depending on future decisions of management. Backwards tracing looks to the past, not to the future. Therefore, the subsequent measurement model of an item under IFRSs should not affect the counter-account of changes in deferred taxes. On the contrary, according to certain jurisdictional interpretations, the income tax effects of a subsequent change in tax rate would be recorded in profit or loss or outside profit or loss depending on where the item would ordinarily be accounted for under IFRSs in a context of non-first-time adoption of IFRSs. A change in deferred taxes on a deemed cost of fixed assets (Paragraph 2.19.3) due to a subsequent change in tax rates would affect profit or loss, because this is a one-off effect that does not correspond to an existing subsequent measurement model under IFRSs. According to a second jurisdictional view concerning the banking sector, it would be accounted for in retained earnings.[255]

2.12.6.6 Deferred Income Taxes for First-Time Adopters of IFRS for SMEs IFRS for SMEs exempt a first-time adopter from recognizing deferred taxes at transition date when this would entail undue cost or effort.[256]

2.13 COMPARATIVE INFORMATION

2.13.1 Complete Set of Financial Statements

IFRS 1 reaffirms the composition of a complete set of financial statements required by IAS 1.[257] IAS 1 specifically identifies each statement within a complete set of financial statements. They include the statement of financial position, the statement of comprehensive income, i.e., under the 2011 Amendments to IAS 1, the statement of profit or loss and other comprehensive income (or an income statement and a statement of comprehensive income – see Paragraph 4.2.2), the statement of changes in equity, the statement of cash flows, and the notes.[258]

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253 *IAS 1, ¶ 108.*
254 *IAS 1, ¶¶ 110, BC74.*
255 *Assirevi, February 21, 2008. OPI 10,* Valutazione successiva delle imposte differite sulle differenze temporanee sorte in sede di transizione agli IFRS*; Tavolo di coordinamento tra Banca d'Italia, Consob ed Isvap in materia di applicazione degli IAS/IFRS, February 21, 2008. Documento No. 1,* Trattamento contabile delle variazioni della fiscalità differita derivanti dalla Legge Finanziaria 2008*; ABI, February 28, 2008. Soluzioni IAS No. 48.*
256 IFRS for SMEs, *¶ 35.10(h).*
257 *IFRS 1, ¶ 21.*
258 *IAS 1, ¶ 10.*

The U.S. Concepts follow the approach of defining the content that a full set of financial statements must represent rather than prescribing specific statements.

Comment: Within the variety of alternatives used in practice, the U.S. Concepts draw no conclusions on the identity, number, or form of those components and, whilst indicating individual statements, do not preclude the possibility of combining statements differently, although aggregation may unduly complicate the information.[259] For example, among other elements, the U.S. Concepts prescribe net income or earnings as items that must be represented as part of the financial statements.[260] This gives rise to the basic statement of earnings and comprehensive income. This statement may be disaggregated into an income or earning statement, a statement of retained earnings,[261] and a statement of comprehensive income. On the other hand, it may be aggregated into a statement of income and retained earnings, a statement of income and comprehensive income, or a statement of changes in equity. Accordingly, under U.S. GAAP, a full set of financial statements may contain different alternative or additional components with more possible options than IFRSs as well as substitute terminology. However, ASU 2011-05 recently amends the definition of the full set of financial statements by mentioning the types of statements of income.[262]

U.S. Statement of Auditing Standard SAS 29, withdrawn by SAS No. 52,[263] identified the basic set of financial statements under U.S. GAAP. It mentioned a statement of financial position, a statement of income, a statement of retained earnings or a statement of changes in stockholders' equity, a statement of cash flows, a description of accounting policies, notes to financial statements and schedules, and explanatory material that are identified as being part of the basic financial statements. For the purpose of financial statements prepared in conformity with a comprehensive basis of accounting other than GAAP (OCBOA), U.S. auditing standards consider different forms of financial presentations, in addition to the basic financial statements as financial statements for reporting purposes by a U.S. independent auditor. They include a statement of operations, or summary of operations, the statement of retained earnings, a statement of assets and liabilities that does not include equity, a statement of operations by product lines, and the statement of cash receipts and disbursements.[264]

Paragraph 3.2 following compares the type of statements of financial positions under IFRSs, U.S. GAAP, and SEC rules and regulations. Paragraphs 4.3, 5.2, and 6.2 do the same for the statement of income, statement of cash flows, and statement of changes in equity, respectively.

Exhibit 2-6 illustrates the relationships mentioned above and compares them with SEC rules and IFRSs.

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[259] *CON 5, ¶ 14.*

[260] *CON 5, ¶ 13.*

[261] *CON 1 (superseded), ¶ 6.*

[262] *FASB ASC 205-10-45-1A, as amended by ASU 2011-05.*

[263] *Statement of Auditing Standards No. 29,* Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents *(withdrawn by SAS No. 52).*

[264] *Clarified Statements on Auditing Standards, Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks; AU Section 623, Special Reports.*

Exhibit 2-6 Disaggregation and Aggregation of Statements

Content (CON 5)	Basic Financial Statements	Disaggregation	Aggregation	SEC S-X	SEC 20-F	IAS 1 (2005)	IAS 1
Net income or earnings	Statement of earnings and comprehensive income	Income statement (IS) or earnings statement	Statement of income and retained earnings	SICI	IS	IS	.Single SCI or .IS and SCI(**)
		Statement of retained earnings	Statement of income and comprehensive income (SICI), if chosen for reporting OCI	.Analysis of the changes in each caption of stockholders' equity (separate statement or notes) .For OCI: SCI, or SICI, or SOCIE (*)	.Statement of changes in equity other than capital transactions, or .Statement of all changes in equity, or .Note of changes in each caption of equity	.SOCIE or .SORIE (statement of recognized income and expenses) + notes	
		Statement of comprehensive income (SCI), if chosen for reporting OCI)(*)					SOCIE
Investment by, and distributi ons to, owners	Statement of investment by and distributions to owners (statement of other changes in owners' or stockholders' equity)	As a statement, or part of other statements, or notes. As a statement if chosen for reporting OCI(*)	Statement of changes in equity (SOCIE)				
Financial position	Statement of financial position (SFP) or balance sheet (BS)	SFP or BS	-	BS	BS	BS	SFP
Cash flows	Statement of cash flows (cash flow statement or statement of changes in financial position, or statement of sources and applications of funds)	-	-	Cash flow statement	Cash flow statement	Cash flow statement	Statement of cash flows
Notes	Notes	-	-	Notes and any required schedules	Notes and any required schedules	Notes	Notes

(*) Under ASU 2011-05, SOCIE is no longer an option to present comprehensive income. It introduces the titles continuous statement of comprehensive income, or statement of net income and statement of other comprehensive income.

(**) The 2011 Amendments to IAS 1 rename the statements of income as statement of profit or loss and other comprehensive income, or separate statement of profit or loss and statement presenting comprehensive income.

2.13.2 General Rules for Comparative Information

The presentation of comparative information for at least one prior period on the face of each of the financial statements is a general rule for entities that already apply IFRSs.[265] The Exposure Draft *Improvements to IFRSs* (June 2011) proposes to identify this as the required comparative period.[266] As an exception, in case an entity operates a retrospective change in accounting policy, a retrospective correction of error, or a reclassification, IAS 1 requires a third statement of financial position at the beginning of the earliest comparative period. The Exposure Draft clarifies that this refers to the beginning of the required comparative period, irrespective of whether the entity voluntarily provides further comparative periods. Of course, IAS 8 would be pertinent for a retrospective change in accounting policy or a retrospective correction of error. The rationale is that this third statement of financial position would not otherwise be available on a reclassified basis for users and financial analysts.[267]

ARB 43 also welcomes comparative information in annual and interim financial statements, although this is not a mandatory requirement.[268] APB 9 confirms that this approach is preferable.[269]

> **Comment:** Comparative information is ordinary U.S. practice. ARB 43 refers to the statement of financial position, the income statement, and a surplus statement (i.e., the statement of retained earnings, the statement of income and retained earnings, or the statement of changes in equity). Arguably, its guidance can be extended to all statements. Although ARB 43 does not require this additional statement, it moves along a similar concept in requiring explanation of changes attributable to reclassifications or other matters that may impair comparability, for which it refers to retrospective application under Subtopic 250-10 (FASB Statement No. 154).[270] In addition, situations that determine a change in reporting entity would make comparative financial statements misleading and therefore retrospective application to all periods presented is required.[271]

Paragraph 2.13.9 explains the number of comparative periods that SEC registrants must show on annual financial statements. Paragraph 7.7.2 focuses on comparative period in interim financial statements.

2.13.3 Comparative Information under IFRS 1

The 2007 Revision of IAS 1 amended IFRS 1 to require the presentation of at least three statements of financial position, and two of the other statements that constitute a complete set of financial statements (Paragraph 2.13.1 previously).[272]

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265 *IAS 1, ¶ 38.*
266 *Exposure Draft,* Improvements to IFRSs *(June 2011).*
267 *IAS 1, ¶¶ 39, 44, BC32.*
268 *ARB 43, Ch2A, ¶¶ 1–2.*
269 *APB 9, ¶ 26.*
270 *ARB 43, Ch. 2A, ¶¶ 2–3.*
271 *FASB ASC 250-10-45-21, 250-10-50-6 (FASB Statement No. 154, ¶¶ 2f, 23–24); Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships*, ¶ 14.*
272 *IFRS 1, ¶ 21.*

Comment: The previous version mandated one year of comparative information. The current version does not state this explicitly. Actually, one year remains the minimum comparative period. This comes from the fact, as Paragraph 2.13.5 explains, that the third statement of financial position is in effect the opening IFRS statement of financial position and does not add a comparative period.

Comment: IAS 1 requires a third statement of financial position at the beginning of the earliest comparative period only in the case of retrospective change in accounting policy, a retrospective correction of error, or a reclassification. In effect, this amendment to IFRS 1 is consistent with the fact that the transition to IFRSs is all about a change in a comprehensive basis of accounting.

IFRS 1 concedes certain exemptions from comparative information, as this chapter explains (for example see Paragraph 2.20 following).

2.13.4 Restating under IFRS at the Beginning of the Current Period

Paragraph 2.12 previously explains the application of IFRS 1 in the opening IFRS statement of financial position for transactions and events that occurred before the transition date. An entity applies the same IFRS 1 rules to transactions and events that originated in the comparative period.

Comment: Recasting the comparative year to IFRSs will affect the financial statements of that year and, when appropriate, the opening balance of retained earnings of the current period.

Example: An IFRS first-time adopter restated negative goodwill presented as a short-term liability under previous GAAP to an excess gain under IFRS 3. The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that the company should have recognized such effect in the comparative period because the business combination had occurred in that period.[273]

2.13.5 Whether an Entity Must Present the Opening IFRS Statement of Financial Position

IFRS 1 (2003) did not require the publication of the opening IFRS statement of financial position. Restructured IFRS 1 calls for its presentation.[274]

Comment: In reality, the opening IFRS statement of financial position is part of equity reconciliation. Therefore, even under IAS 1 (2003), it was published, although in the notes.[275]

[273] *Committee of European Securities Regulators (CESR), 2007. CESR/07-630,* 2nd Extract from EECS's Database of Enforcement Decisions, *Paris: CESR, ¶ Decision ref. EECS/1207-03. [Online] CESR. Available at: www.cesr.eu [last accessed July 20, 2010].*

[274] *IFRS 1, ¶ 6; IFRS 1 (December 2005), ¶¶ 6, 36.*

[275] *IFRS 1, ¶ IG63.*

Comment: The current requirement is in line with the inclusion of a third statement of financial position in a complete set of financial statements. Actually, this coincides with the opening IFRS statement of financial position. In this way, the IAS 1 amendments to IFRS 1 did not affect the minimum number of comparative periods and the opening IFRS statement of financial position.

2.13.6 Single-Period Financial Statements

As Paragraph 2.13.2 previously explains, unlike U.S. GAAP, IFRSs and IFRS 1 do not permit single-period financial statements.

Planning Point: A U.S. GAAP company that presents single-period financial statements would need to include comparative information when migrating to IFRSs. If it presents the first IFRS financial statements only for the current period by means of an explicit and unreserved statement of compliance with IFRSs, it will maintain its status as first-time adopter, but its statements will be in error subject to correction under IAS 8. The transition date will remain the beginning of the comparative period, even if the financial statements do not include the comparative period.

2.13.7 Additional Periods of Comparative Information

IFRS 1 explains that an entity may decide to display more periods of comparative information than IFRS 1 requires. However, it does not mandate IFRS compliance of those additional periods. An entity is free to restate or present them under previous GAAP, provided it prominently identifies those data with information on the nature of the adjustments that would be necessary to recast to IFRSs.[276]

Planning Point: On the contrary, under IAS 1, if an entity wishes to include more than one year of comparative information, the additional period(s) must comply with IFRSs.[277] An Exposure Draft would require IFRS compliance for any period that an entity voluntarily chooses to add to the required comparative period. However, an entity would be free to include comparative periods for some, not all, individual financial statements, in such a case only as part of the notes. Note disclosures concerning the additional periods would not be required, unless mandated by IAS 8.[278]

2.13.8 When a Regulator Requires More than One Year of Comparative Information

An issue arises about what happens when a regulator demands additional comparative periods from registrants filing under IFRSs. Depending on jurisdictions, regulators may require additional comparative information on the face of the financial statements, through note disclosure, pro forma disclosure, or other means. Note that explanation about comparative periods on selected aspects is generally a common local requirement. Paragraph 2.13.9 explains that, consistently with IFRS 1, Form 20-F gives IASB-IFRS first-time adopters the accommodation to file only two, as opposed to three, years of IFRS financial statements. However, jurisdiction IFRS first-time adopters must present three statements of financial position.

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[276] *IFRS 1, ¶¶ 22, BC88.*
[277] *IASB Update, March 11, 2010.*
[278] *Exposure Draft,* Improvements to IFRSs *(June 2011).*

Planning Point: A SEC registrant that has published three years of audited IFRS financial statements must file them all. Full compliance with IFRSs and related auditing requirements also apply to those financial statements.[279] Paragraph 2.13.9.5 following explains the SEC guidance for inclusion, incorporation by reference, or reference to the financial statements prepared under previous GAAP. By contrast, the CESR considered it acceptable not to require the restatement of additional periods and permit presentation under previous GAAP (the so-called "bridge approach"). In situations where the comparability between formats was possible and not misleading, previous GAAP financial statements could even be presented on the face of the financial statements or, otherwise, in separate pages.[280]

Planning Point: Paragraph 2.13.7 previously deals with the concessions in IFRS 1 to an entity that wishes to present additional comparative periods. However, IFRS 1 is not explicit on the position to take when additional comparatives come from regulatory requirements and not from the entity.[281] It is up to the regulator to decide whether to set stricter rules.

Planning Point: The date of the opening IFRS statement of financial position date is the transition date, that is, the beginning of the earliest period of full comparative information under IFRSs.[282] Expanding the number of comparative periods presented on the face of the financial statements has an effect on the date of the opening IFRS statement of financial position. This would not happen if only note disclosure were required.

2.13.9 Comparative Annual Periods under SEC Rules and Regulations

2.13.9.1 General Rules Audited financial statements of SEC registrants in registration, annual reports to shareholders, and proxy statements must contain the statement of financial position for the two most recent fiscal years, and statements of income and the statement of cash flows for each of the three most recent fiscal years. Paragraph 6.2.4 following explains how they may present stockholders' equity and comprehensive income.[283]

Generally, a foreign private issuer is subject to the ordinary requirement for three years of audited financial information (including balance sheet, income statement, one of two formats of a statement of changes in equity or a note disclosure, a statement of cash flows, and notes).[284] It may be exempted from the balance sheet of the earliest of the three years in cases where its foreign jurisdiction would not require it.[285]

The following paragraphs explain certain exceptions. Exhibit 2-7 illustrates the implications of using different bases of accounting on the number of annual financial statements of a foreign private issuer.

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279 *Form 20-F, Instruction 4 to General Instruction G; IPTF, May 17, 2005, ¶ Appendix B, Q2.*
280 *CESR 03/323e, ¶¶ 38–41. CESR/03-490b, ¶ 6b.*
281 *IFRS 1, ¶¶ 22, BC87, BC88.*
282 *IFRS 1, ¶¶ 6, Appendix A.*
283 *Regulation S-X, 210.3-01(a), 210.3-02(a); SEC, Financial Reporting Manual, ¶ 1110.1; SEC Regulation 14A, Rule 240.14a-3(b)(1).*
284 *Form 20-F, Item 8.A.1, Item 8.A.2.*
285 *Form 20-F, Instruction 1 to Item 8.A.2.*

Exhibit 2-7 Impact of the Choice of Reporting Basis on the Number of Annual Financial Statements of a Foreign Private Issuer

Basis of Accounting	*U.S. GAAP*	*IASB-IFRSs*	*EU-GAAP*	*Jurisdictional IFRSs or Local GAAP*
Number of financial years	Two years under U.S. GAAP for a U.S. GAAP first-time registrant (may omit statements of income and of cash flows for the earliest of the three years)	Two years under IASB-IFRSs. Three years must be filed if already published	The previously existing two-year accommodation, subject to including EU-GAAP to IASB-IFRS to U.S. GAAP reconciliations, is no longer available	Two balance sheets and three years of comparative statements of income, of changes in shareholders' equity and of cash flows

2.13.9.2 U.S. GAAP First-Time Registrants A foreign private issuer that is a U.S. GAAP first-time registrant (i.e., that decides to file its initial registration statement under U.S. GAAP) may omit income statements and statements of cash flows for the earliest of those three years.[286]

2.13.9.3 The Two-Year Accommodation Under the so-called "two-year accommodation", a foreign private issuer that is an IASB-IFRS first-time adopter that meets the other criteria in the General Instruction G to Form 20-F in the transition year has simplified comparative period requirements in registration statements or annual reports. This issuer can present only two years of statements of income, statements of changes in shareholders' equity, and statements of cash flows under IFRSs and may omit the first of the preceding three years.[287] General Instruction G of Form 20-F applies to foreign private issuers filing with the SEC under IFRSs as issued by the IASB in their transition year[288] (i.e., in IFRS 1 terms, in the first IFRS reporting period). The first-time adoption of IFRSs with an explicit and unreserved statement of compliance with IASB-IFRSs is a precondition. IFRS financial statements must be audited.[289]

The scope of this facilitation, also referred to as one-time accommodation,[290] was initially narrowed on a one-time basis to financial years that began prior to or on December 31, 2007.[291] SEC Release No. 33-8879 then extended it indefinitely to IASB-IFRS first-time adopters.[292]

Comment: This initially considered that, while most European first-time adopters in 2005 had one year of comparative information, the IFRS "stable platform" applicable at January 1, 2005 was not fully defined at the beginning of 2003, as it would have applied to foreign private issuers. In addition, those entities were in time to benefit from the compliance extended by the EC Regulation 1606/2002 to U.S. listed entities to financial years starting on or after January 2007.[293]

[286] *Form 20-F, Instruction 3 to Item 8.A.2; SEC,* Financial Reporting Manual*, ¶ 6410.2(c).*
[287] *Form 20-F, General Instruction G(a), G(h), Item 17(a); IPTF, March 4, 2008, ¶ Q19.*
[288] *SEC, Release No. 33-8567, ¶ Footnote 16.*
[289] *Form 20-F, General Instruction G(a) and (b).*
[290] *SEC,* Financial Reporting Manual*, ¶ 6340.1.*
[291] *IPTF, May 17, 2005, ¶ Appendix B, Q1.*
[292] *Form 20-F, General Instruction G(h)(1); SEC, Release No. 33-8879, ¶ I.C (page11).*
[293] *SEC, Release No. 33-8567, ¶¶ I.b, II.A (pages 4, 10); IASB,* Stable Platform *(March 31, 2004); EC Regulation 1606/2002, Art. 9.*

A first-time adopter that has published three years of audited IFRS financial statements must file them. In such a case, full compliance with IFRSs and related auditing requirements also applies to those financial statements. Before the elimination of the U.S. GAAP reconciliations, such reconciliations were also required. It is prohibited to include financial statements of periods prior to transition in Form 20-F.[294]

Under Regulation S-X 3-05, 3-09, 3-10, 3-14, and 3-16, the same rule applies to other entities of an issuer when they meet the definition of a foreign business.[295]

2.13.9.4 EU-GAAP First-Time Adopters by 2007 As explained in Paragraph 2.10.2.2 previously, European issuers using EU-GAAP by 2007 had special reconciliation requirements, limited to the year of first adoption of EU-GAAP, in order to benefit from the two-year accommodation of General Instruction G to Form 20-F. Such additional reconciliations were previously limited to the transition year.[296]

2.13.9.5 Previous GAAP Comparative Financial Statements In Form 20-F, IFRS foreign private issuers may elect to include, incorporate by reference, or refer to the financial statements prepared under previous GAAP for the two financial years prior to the most recent. Through this choice, they also include, incorporate by reference, or refer to Operating and Financial Review and Prospects information under previous GAAP for the same period and to selected financial data under previous GAAP, as Paragraph 2.13.10.3 explains.[297] Paragraph 2.13.10.4 explains the formality and language to be used.

2.13.10 Selected Financial Data

2.13.10.1 IFRS Requirements IFRSs permit but do not require historical summaries of financial data (also known as summary table or selected financial data). In case of IFRS first-time adoption, IFRS 1 does not require the recasting of any selected financial data prior to the comparative years shown in the first IFRS financial statements.[298]

Paragraph 2.13.10.4 explains precautions that an entity must take when it presents selected financial data under IFRSs.

2.13.10.2 Selected Financial Data in SEC Filings Audited financial statements of SEC registrants must contain a summary of selected financial data for the last five years.[299]

As a rule, under Form 20-F, a foreign private issuer must present five years of U.S. GAAP selected financial data, unless it is exempted from displaying data up to the first two years by representing that this involves undue cost and effort. The issuer must state the omission and give reasons. It must however provide the U.S. GAAP data that are available for the exemption

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[294] *Form 20-F, Instruction 4 to General Instruction G; IPTF, May 17, 2005, ¶¶ Appendix B, Q2, Q3, Q4.*
[295] *SEC,* Financial Reporting Manual, *¶ 6340.2; SEC, Release No. 33-8567, ¶ II.A (page 12).*
[296] *IPTF, May 17, 2005, ¶ Appendix B, Q17.*
[297] *Form 20-F, Instruction 3 to General Instruction G.*
[298] *IFRS 1, ¶ 22.*
[299] *Regulation S-K, 229.301(a); SEC Regulation 14A, Rule 240.14a-3(b)(5).*

period under previous GAAP. The SEC generally rejects waivers based on concerns over the reliability of corporate overhead allocations.[300]

Foreign issuers that elect to use U.S. GAAP in their initial registration statement (so-called "first-time registrants") are permitted to omit a balance sheet for the earliest year of the three-year period if this is not required by a foreign jurisdiction. In any case, they must show five years of selected data, although they may use home-country GAAP if the first three years under U.S. GAAP are not available.[301] Selected financial historical data of a predecessor of a U.S. GAAP first-time registrant must be prepared under the same basis of accounting as the registrant's.[302]

An IASB-IFRSs first-time adopter must use this basis for the latest two years of selected financial historical data. It need not reconcile the data to U.S. GAAP. Form 20-F literally requires the presentation of the other years of a five-year series in accordance with U.S. GAAP, unless the issuer can use a waiver. However, the requirements in Form 20-F have been interpreted in the sense that, both in the transition year and subsequently, an issuer that reports under IASB-IFRSs need not present U.S. GAAP financial data or U.S. GAAP reconciliations for any of the five years. The above is valid even if the company changes basis of accounting to IASB-IFRSs for filing with the SEC without being an IFRS first-time adopter according to IFRS 1. By reporting those summaries under the same basis that it uses in audited annual financial statements, it will ultimately accomplish the entire five-year series under IASB-IFRSs. However, if it derives selected financial data from a basis other than IASB-IFRSs or it has voluntarily presented U.S. GAAP reconciliation in primary financial statements, it must provide U.S. GAAP reconciliation or U.S. GAAP data for the first three years of the series.[303] An IASB-IFRS foreign private issuer that voluntarily elects to provide annual U.S. GAAP information within the financial statements (see Paragraph 2.10.3 previously) must provide additional selected financial data in accordance with U.S. GAAP.[304]

An issuer reporting under EU-GAAP or other jurisdictional IFRSs may report selected financial data according to the basis used in primary financial statements. However, it must reconcile to U.S. GAAP and Regulation S-X for a number of annual periods at least as required for primary financial statements, plus related interim periods. In addition, it must complete the other years of U.S. GAAP data. On occasion however, non-IASB-IFRS foreign private issuers may have relief from reconciling the first two years of the five-year series on grounds of impracticability. Therefore, by avoiding presenting the other years to complete the five years of U.S. GAAP data it will be able to build up the entire five-year series under U.S. GAAP

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[300] *Form 20-F, Item 3.A.1, Instruction to Item 3.A; AICPA, 2000. AICPA International Practices Task Force Meeting Highlights, May 11, 2000, Washington, DC, AICPA, ¶ VII.G; AICPA, 2003. IPTF Summary, Issues Addressed by the AICPA International Practices Task Force Inception Through March 2003, ¶ XXI.G. Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF Summary 2003).*

[301] *Form 20-F, Instruction 1 to Item 8.A.2; SEC,* Financial Reporting Manual*, ¶ 6410.2(c).*

[302] *SEC,* Financial Reporting Manual*, ¶ 6410.2(d).*

[303] *Form 20-F, General Instruction G(c), Instruction 2 to Item 3.A; SEC,* Financial Reporting Manual*, ¶ 6410.2.d; IPTF, March 4, 2008, ¶¶ Q11, Q15, Q17; AICPA, 2009.* Center for Audit Quality, International Practices Task Force Highlights, November 24, 2009*, ¶ H. [Online] Available at: www.aicpa.org [last accessed July 9, 2010].*

[304] *IPTF, March 4, 2008, ¶ Q15.*

Exhibit 2-8 Selected Financial Historical Data by Foreign Private Issuers

Primary Financial Statements Are under:	*U.S. GAAP*	*IASB-IFRSs*	*EU-GAAP*	*Jurisdictional IFRSs*	*Home-Country GAAP*
Basis for the latest two years of selected financial data	U.S. GAAP	Must use IASB-IFRSs	– May use EU-GAAP – Must reconcile to U.S. GAAP and Regulation S-X	– May use jurisdictional IFRSs – Must reconcile to U.S. GAAP and Regulation S-X	– May use home-country GAAP – Must reconcile to U.S. GAAP and Regulation S-X
Basis for the earliest three years	– U.S. GAAP – First-time registrants may use home-country GAAP if the first three years under U.S. GAAP are unavailable	– IASB-IFRSs unless data are derived from other than IASB-IFRSs or reconciled to U.S. GAAP	– May use EU-GAAP – Must reconcile to U.S. GAAP and Regulation S-X, unless exempted	– May use jurisdictional IFRSs – Must reconcile to U.S. GAAP and Regulation S-X, unless exempted	– May use home-country GAAP – Must reconcile to U.S. GAAP and Regulation S-X, unless exempted

in the years immediately after its initial SEC registration.[305] Up to 2007, EU issuers using EU-GAAP had to include information based on the reconciliation between EU-GAAP and IASB-IFRSs in selected financial historical data.[306]

Exhibit 2-8 summarizes the impact of the basis of accounting on selected financial historical data.

2.13.10.3 Previous GAAP Selected Financial Data Similarly to IFRS 1, under Form 20-F an IASB-IFRS first-time adopter may also include, refer to, or incorporate by reference selected financial historical data under previous GAAP, provided that certain display precautions are adopted, as Paragraph 2.13.10.4 explains.[307]

Comment: Form 20-F refers to presentation or incorporation by reference of selected financial data under previous GAAP for the four years prior to the most recent financial year. IFRS 1 permits the inclusion of previous GAAP prior to the first comparative period.

Comment: Under Form 20-F, the option to provide selected financial data under previous GAAP is also permitted after the transition year, until a five-year series of selected financial data under IFRSs becomes available.[308] By contrast, IFRS 1 only concerns the year of migration. IFRSs do not explicitly deal with this point for a company that at its first IFRS financial statements has no

[305] *Form 20-F, Item 3.A.1, Instruction 2 to Item 3.A; Release No. 33-8879, ¶ III.C.1 (page 43); SEC, April 12, 2005. Release No. 33-8567, ¶ Footnote 30, page 16.*
[306] *Form 20-F, General Instruction G(i)(3) (superseded).*
[307] *Form 20-F, Instruction 1, 2, and 3 to General Instruction G.*
[308] *IPTF, May 17, 2005, ¶ Appendix B, Q16.*

IFRS selected data quantifications available for years prior to comparative periods. As this exemption exists only under IFRS 1, in theory in subsequent years an entity should recast historical summaries if presented as part of the financial statements. On the other hand, it may be argued that the company will not have the missing years available in subsequent IFRS financial statements.

Foreign private issuers that reconcile to U.S. GAAP but avail themselves of the Form 20-F exemption from reconciling proportionate consolidation of certain joint ventures (before IFRS 11) that would be accounted at equity method under U.S. GAAP must footnote selected financial data to warn that in this respect those amounts are not U.S. GAAP.[309]

2.13.10.4 Location of Previous GAAP Summaries and Cautionary Language The location of selected financial historical data under IFRSs is important.

Planning Point: IFRS 1 requires certain disclosures as for additional comparative periods under previous GAAP (Paragraph 2.13.7).[310] They include prominently labeling previous GAAP data as well as disclosure of the nature of adjustments that would be required for compliance to IFRSs. Literally read, these disclosures apply to previous GAAP summaries only if selected financial data are contained in the financial statements. When placed outside the financial statements, they are outside the scope of IFRS 1.[311] Generally, selected financial data are part of management commentary, which also makes them subject to limited auditing procedures. However, labeling and the above disclosures are considered best practices. Form 20-F places them outside the financial statements.[312] Furthermore, the SEC decided not to impose any specific format and placement for such information. In any event, the presentation precautions and cautionary language associated with including or incorporating previous GAAP data by reference is required.[313]

Under Form 20-F, a company that includes, refers to, or incorporates by reference selected financial historical data under previous GAAP, cannot display them alongside IFRSs, although it can use the same page or table with appropriate footnotes or similar clarifications. Finally, it must prominently disclose this use of previous GAAP together with cautionary language on the noncomparability to IFRSs.[314]

2.13.10.5 Content of Selected Financial Data Unlike IFRSs, Form 20-F identifies the content of selected financial data, with the caveat that it must be consistent with the line items of the primary financial statements. They must include net sales or operating revenues, aggregate and per share amounts of income or loss from operations, income or loss from continuing operations (the latter even when not presented under primary GAAP), and aggregated and diluted per share amounts of net income or loss. They also comprise total assets, net assets, nonredeemable capital stock, adjusted number of shares and formula used for adjustment, dividend per share in the reporting and the host country currencies. The computation of earnings per share must adhere to the basis of accounting used in the financial statements.

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309 *Form 20-F, Item 17(c)(2)(vii); IPTF, July 15, 2003, ¶ 12.*
310 *IFRS 1, ¶ 22.*
311 *IFRS 1, ¶ BC90.*
312 *Form 20-F, Item 3.A.*
313 *SEC, Release No. 33-8567, ¶ II.B.3, page 15.*
314 *Form 20-F, Instruction 1, 2, and 3 to General Instruction G; SEC, Release No. 33-8567, ¶ II.B.3, page 15.*

Reconciliation to U.S. GAAP, when applicable, is due for every item that is different from primary GAAP. The issuer need not present per share data not required by Subtopic 260-10 (FASB Statement No. 128) that it has not presented in primary financial statements.[315]

2.13.10.6 Recasting of Selected Financial Data IAS 8 requires, whereas Subtopic 250-10 (APB 9) recommends, restatement of historical summaries of financial data for changes in accounting policies and corrections of errors.[316] Therefore, subsequent to first-time adoption, IFRSs entities must recast historical summaries when IFRSs require retrospective application of an IFRS or a voluntary change in accounting principle.

IFRS foreign private issuers must also adjust selected financial data, including per share amounts, when they retrospectively adjust primary financial statements. They may invoke an undue cost and effort justification for not restating selected financial data falling into the earliest two years of the series.[317]

2.13.11 Whether Comparative Information Extends to Narrative Disclosure

IAS 1 clarifies that narratives and qualitative disclosures are subject to the rules of comparative information. However, this extension is qualified to situations where this is appropriate to understand the current period. The standard gives an example that elaborating on an unresolved uncertainty (e.g., a legal dispute) existing at the end of the comparative period is relevant.[318]

Similarly, ARB 43 links the repetition of prior period narrative disclosures to their significance for the current period.[319]

> **Comment:** Unlike IAS 1, ARB 43 also mentions repeating prior period footnotes and auditor's qualifications.

2.13.12 Whether Comparative Information Shall Include Roll-Forward Disclosures

A similar issue concerns what type of descriptive information an entity must include in comparative information, i.e., whether it must follow the same format as those to be furnished for the current period. IAS 1 confirms that an entity must disclose those narrative explanations of prior year(s) that are relevant to comprehend the current period.[320] Roll-forward-type disclosures illustrate this concept.

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[315] *Form 20-F, Item 3.A.2; AICPA, 2001.* AICPA International Practices Task Force Meeting Highlights, May 3, 2001, *¶¶ VII, X.4. [Online] Washington, DC, AICPA. Available at: www.aicpa.org [last accessed: March 12, 2008] (hereinafter IPTF, May 3, 2001); IPTF Summary 2003, ¶ G.*

[316] *FASB ASC 250-10-45-28 (APB 9, ¶ 27); IAS 8, ¶¶ 26, 46.*

[317] *AICPA, 2005.* AICPA International Practices Task Force Meeting Highlights, March 22, 2005, *Washington, DC, AICPA, ¶ 6(c). Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, March 22, 2005).*

[318] *IAS 1, ¶¶ 38, 40.*

[319] *ARB 43, Ch. 2A, ¶ 2.*

[320] *IAS 1, ¶¶ 38, 40.*

Example: The SEC Staff in its review of Form 20-F of a French foreign private issuer for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time based on IFRSs requested rolling forward comparative period balances any time that IFRSs require such disclosures for the current period. The reconciliation of the beginning and ending balances of property, plant and equipment, and intangible assets is an example. On that occasion, the company argued against producing certain disclosures, on the basis of undue cost and effort and not sufficient materiality as they were not available under previous GAAP. The company maintained that IFRSs do not require such information and Form 20-F refers to IFRS disclosures without adding an obligation of additional disclosure. The SEC Staff was not persuaded by the response.[321]

2.14 EXCEPTIONS AND EXEMPTIONS IN THE CONTEXT OF COMPARABILITY

2.14.1 Categories of Exceptions and Exemptions

IFRS 1 requires retrospective application of accounting policies in the opening first IFRS statement of financial position. However, mainly on the grounds of cost/benefit or impracticability, it introduces certain derogations.

IFRS 1 identifies two groupings: 1) exceptions to the retrospective application of certain IFRSs, and 2) exemptions from some requirements of certain IFRSs.[322] It then subdivides the exceptions into two main classes: estimates, and other exceptions.[323] It also splits the second category, exemptions, into the exemption for past business combinations,[324] other exemptions,[325] and short-term exemptions.[326] The classification has been evolving over time. Paragraph 2.14.5 following explains the rationales under such derogations in IFRS 1.

Comment: IFRS 1 is somewhat incongruent in the terminology it uses. On one hand, it generically uses the term "exceptions",[327] on the other hand it then separates them into exceptions and exemptions. Exceptions refer to departures from retrospective application of accounting policies or from certain comparative information. They are generally mandatory, although occasionally an entity may choose some optional variations.[328] Exemptions indicate specific treatment, that is different from the ordinary norm, which is available to companies already applying IFRSs. They are optional.[329] By contrast, Form 20-F and related literature generally denote all these IFRS 1 situations as "exceptions", distinguishing those that are mandatory from those that are voluntary.[330]

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321 *SEC IFRS Reviews. Letter by the SEC, September 25, 2006. File No. 1-15248, Comment 14. February 14, 2007, Comment 12. June 4, 2007, Comment 2. Reply by the company, December 19, 2006 and April 2, 2007.*
322 *IFRS 1, ¶ 12.*
323 *IFRS 1, ¶¶ 13, 14.*
324 *IFRS 1, ¶ Appendix C.*
325 *IFRS 1, ¶ Appendix D.*
326 *IFRS 1, ¶ Appendix E.*
327 *IFRS 1, ¶ 12.*
328 *IFRS 1, ¶¶ B3, B5,*
329 *IFRS 1, ¶ D1.*
330 *Form 20-F, Instruction 4 to Item 5, Instruction 3b to Item 8.*

Restructured IFRS 1 recently introduced the category of short-term exemptions. The idea is that they have a short life due to the application of certain IFRSs for a limited period.[331] Currently, only a few short-term exemptions exist, i.e., one related to the application of IFRS 9, two on IFRS 7, and one on defined benefit plans. The others have been deleted as they are out of date. They consisted of the exemption from comparative information under IAS 32, IAS 39, and IFRS 4, as well as from comparative information under IFRS 7 and IFRS 6 for companies that applied these Standards before January 1, 2006. Finally, IFRS 1 required the application of the transitional provisions of IFRS 5 to companies that had a transition date before January 1, 2005.[332]

2.14.2 SEC Guidance Concerning the IFRS 1 Exceptions and Exemptions

Under Form 20-F, foreign private issuers that are IFRS first-time adopters must spell out any IFRS 1 exceptions in the notes to the consolidated financial statements, with an indication of items or class of items to which they apply, the accounting principle used, and their application.[333]

The Operating and Financial Review and Prospects section of Form 20-F must include the same disclosures as above. In addition, that section must also give a qualitative indication of any material effect of the use of the IFRS 1 elective accommodations on every financial statement. This impact analysis is not required for the mandatory accommodations. Release No. 33-8567 specifies that the foreign private issuer must explain the mandatory accommodations and declare that it complied with them. Although Form 20-F does not contain this point, the SEC Staff confirmed that this is expected. Information over and above elective or mandatory IFRS 1 accommodations provided in Item 5 of Form 20-F need not be presented in the note, although this is possible.[334] Some have suggested that if the notes include such information, the Operating and Financial Review and Prospects can cross-reference them.[335]

Example: A British foreign private issuer explained to the SEC Staff that in Form 20-F it cross-referenced the note from the Operating and Financial Review and Prospects regarding this.[336]

Comment: Strangely enough, IFRS 1 does not require information on which exceptions the entity has used. The SEC requirement appears quite appropriate. Other jurisdictions have moved in this sense. For example, the association of Italian auditors requires footnotes to the IFRS 1 reconciliations to

[331] *IFRS 1, ¶ BC3B.*
[332] *IFRS 1 (2005), ¶¶ 34B, 36A, 36B, 36C.*
[333] *SEC Form 20-F, ¶ Instruction 3 to Item 8.*
[334] *Form 20-F, Instruction 4 to Item 5; SEC, April 12, 2005. Release No. 33-8567, ¶ III.A; IPTF, May 17, 2005, ¶¶ Appendix B, Q11, Q12.*
[335] *Ernst & Young, 2005.* Summary of SEC Final Rule First Time Application of International Financial Reporting Standards (IFRS)*, page 5. [Online] EY. Available at: www.ey.com [last accessed: December 26, 2005].*
[336] *SEC IFRS Reviews. Reply by the Company to the SEC, Bovember 9, 2006. File No. 001-14978, Comment 4.*

include an explanation of the accounting policies followed under IFRS 1.[337] Short-term exemptions (Paragraph 2.20 following) are the only cases in which IFRS 1 requires disclosure of the use of specific IFRS 1 policies.

Planning Point: Although Form 20-F mentions that those disclosures in Operating and Financial Review and Prospects must be qualitative, the example in Release No. 33-8567 for a past business combination (see Paragraph 2.18.6) is quantitative to a certain extent. The Release also explains that similar disclosures are required for other exceptions. By contrast, in the case of the use of short-term exemptions from comparative information, IFRS 1 requires qualitative disclosures of the use of the exemption. It has only a quantitative disclosure of the adjustments to comparative period on a pro forma basis.[338]

Example: The SEC Staff explicitly requested these disclosures from a Spanish bank and some French foreign private issuers that were IFRS first-time adopters.[339]

Paragraph 2.16.9 below goes in more detail about the SEC guidance concerning the IFRS 1 reconciliations.

2.14.3 Pre- versus Post-Implementation Comparability

IFRS 1 generally requires retrospective application, apart from certain mandatory exceptions, the option to apply transitional provisions of certain standards, and certain voluntary exemptions that sometimes imply derogation from or modification of a full retrospective approach. An issue is whether all these sets of rules may undermine comparability among financial statements.

Comment: This issue has several dimensions. Pre-implementation comparability refers to the correspondence between the first IFRS financial statements and previous financial statements of the same entity and other companies. Post-implementation comparability compares an entity's first IFRS financial statements with its subsequent financial statements, with those of other IFRS first-time adopters and also, with financial statements of ongoing IFRS entities.

IFRS 1 gives a predominant role to comparability within an entity over time and to post-implementation comparability with other first-time adopters.[340] Comparability of an entity's first IFRS financial statements over all periods presented is part of the objective of IFRS 1 itself.[341] Unlike IFRS 1, SIC-8 required applying the transitional provisions of other Standards and Interpretations to the balances of items existing at transition date, but only for the periods

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[337] *Assirevi No. 91, ¶ 3.b.*
[338] *IFRS 1, ¶ E2(c); IAS 8, ¶ 28(f)(i).*
[339] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 19; Letter by the SEC, September 25, 2006. File No. 1-15248, Comment 2.*
[340] *IFRS 1, ¶¶ BC9, BC10; IASB Update, November 2001.*
[341] *IFRS 1, ¶ 1(a).*

ending on their effective dates.[342] Here the focal point was comparability with entities that already report under IFRSs.[343]

Example: An illustrative example of the dilemma is the case of the application of IFRS 1 to intangible assets for Australian entities.[344] IFRS 1 requires the retrospective application of IAS 38, apart from the deemed cost exemption (Paragraph 2.19.3).[345] The case in point shows the magnitude of the impact of IFRS first-time adoption when previous GAAP are remarkably different on a specific subject. Pre-IFRSs Australian accounting standards allowed recognition of internally generated intangible assets measured either at cost or at a fair-value-based revaluation model. Retrospective application of IAS 38 translated into the derecognition of those intangible assets that did not meet the recognition criteria under IFRSs at the transition date, as well as the remeasurement of assets carried at valuation that did not pass the revaluation model tests under IAS 38. From the perspective of comparability of financial statements, transition to IFRSs was a discontinuity that reduced comparability with pre-IFRSs financial statements, although retrospective application and the IFRS 1 reconciliations permit the reconstruction of the changes that occurred. However, as is evident from the response of the IASB on that occasion, lack of full comparability is already implicit in previous GAAP when options (such as cost or revaluation model) exist. Then again, if retrospective application increases post-adoption comparability, exemptions reduce it.

2.14.4 Effects of Transitional Methods

Exhibit 2-9 translates this topic in a matrix diagram showing the impact of different transitional methods.

Comment: Retrospective application does not provide comparability with entities that already use IFRSs if in prior periods they used versions of pronouncements that are different from the current version that is retrospectively applied. Some IFRS 1 exemptions may have a counter effect in this respect. For example, the financial statements of a subsidiary that migrates later than its parent and uses the carrying amounts that were incorporated in consolidated financial statements are not fully comparable with those of an unconsolidated first-time adopter with equal first IFRS reporting date.[346] Controversially, there are some accommodations in IFRS 1 that try to achieve an equal treatment with companies that already report under IFRSs, such as in the case of share-based payment transactions, changes in decommissioning and similar liabilities, and determination of whether an agreement contains a lease.[347] There are other exemptions that the IASB accepted for practical reasons, even though they are contrary to the primary goal of equal treatment among first-time adopters, as in the case of the derecognition exemption.[348]

Comment: Prospective application would put all IFRS first-time adopters on the same platform from the first reporting period which starts after the first IFRS financial statements. In fact, the current year income statement would be affected by the cumulative-type adjustments. IFRIC 12 notes that

342 *SIC Interpretation No. 8, ¶¶ 6, 9, 12.*
343 *IFRS 1, ¶¶ BC10, BC13(b); SIC Interpretation No. 8, ¶ 12.*
344 *IASB Update, December 2003.*
345 *IFRS 1, ¶¶ D5-D8.*
346 *IFRS 1, ¶ BC61(b).*
347 *IFRS 1, ¶¶ BC63B, BC63CA, BC63D.*
348 *IFRS 1, ¶ Bc21(c).*

Exhibit 2-9 Focus of Transitional Methods and Impact on Comparability

		Post-Implementation Comparability		
	Pre-Implementation Comparability	*With Subsequent Financial Statements*	*With Other IFRS First-Time Adopters*	*With Entities that Already Report under IFRSs*
IFRS 1 considers this objective as:	Primary (but only comparability within the entity)	Primary	Primary	Secondary
Retrospective application	Main focus	Main focus	Main focus	No, if they used different versions of IFRSs
Use of the transitional provisions of each Standard and Interpretation	No	Yes	Yes	Main focus
Prospective application	No	Yes	From the first period after the first IFRS financial statements	No
Modified retrospective application	Yes, for the look-back period	Yes, if comparative periods presented or restated fall into the look-back period	Yes	No

prospective application may lead to applying different accounting to similar transactions, depending on whether they occurred before or after the change of accounting policy.[349] SIC-8 did not permit prospective application method on the grounds that, as it impacts the income statement at the time of the changes in policies, it does not result in faithful representation of an entity performance.[350]

Comment: Modified retrospective provisions are sometimes required or allowed by some IFRSs and, more often, by certain U.S. GAAP standards. There is no universal pattern, but rules may change depending on the specific items they regulate. In general, the modified retrospective approach tends to limit retrospective application to transactions occurring after a certain point in time in the past or to the extent practicable. It intends to limit or avoid the use of hindsight, or to find a compromise with the cost/benefit argument. This is not a general policy of the IASB.[351] Furthermore, IFRS 1 rejects this approach because of the risk of not reporting material items.[352]

2.14.5 Rationales for Mandatory Exceptions and Voluntary Exemptions

Most of the specific requirements in IFRS 1 arose out of a trade-off between comparability and other constraints. Undue cost and effort not justified by benefits, impracticability of the retrospective approach, and the use of hindsight are some rationales. Exhibit 2-10 illustrates

[349] *IFRIC 12, ¶ BC74.*
[350] *SIC Interpretation No. 8, ¶ 11.*
[351] *IFRS 1, ¶ BC49;* Preface to International Financial Reporting Standards, *¶ 20.*
[352] *IFRS 1, ¶ BC18.*

Exhibit 2-10 Trade-off between Comparability and Other Rationales

Rationale 1: The otherwise required treatment would be difficult, impracticable or impossible because data were not captured at transaction date or would be based on unobservable inputs.

Rationale 2: Retrospective application would require subjective estimates about conditions that existed at transaction date and the use of hindsight.

Rationale 3: Cost-benefit reasons or the specific requirements would be burdensome.

Rationale 4: The specific provisions use more relevant current fair value data.

Rationale 5: The otherwise required treatments would not be beneficial to users.

Rationale 6: The specific provisions extend to IFRS first-time adopters the same treatments as entities that already apply IFRSs.

Rationale 7: The specific provisions avoids a treatment different from a current version of an IFRS.

	# 1	*# 2*	*# 3*	*# 4*	*# 5*	*# 6*	*# 7*
Mandatory exceptions							
Derecognition of financial assets and financial liabilities[1]		x	x				x
Hedge accounting[2]	x	x					
Classification and measurement of financial assets[3]	x						
Embedded derivatives[4]						x	
Noncontrolling interests[5]	x		x				
Sale plan involving loss of control of a subsidiary[6]	x		x				
Assets classified as held for sale and discontinued operations[7]	x	x	x				
Nonfinancial liabilities (proposed exception)[8]	x						
Recognition of income tax in comprehensive income and equity (proposed exception)[9]	x	x					
Elective exemptions							
Business combinations[10]	x	x	x				
Share-based payment transactions[11]						x	
Insurance contracts[12]						x	x
Fair value or revaluation as deemed cost[13]	x		x	x			
Deemed cost for oil and gas assets[14]	x		x				
Leases[15]	x	x				x	
Determination of whether the arrangement contained a lease made in accordance with previous GAAP[16]			x		x		

[1] *IFRS 1, ¶¶ BC20, BC22, BC22A, BC22B.*
[2] *IFRS 1, ¶ BC75.*
[3] *IFRS 9, ¶ BC104.*
[4] *IFRS 9 (October 2010), ¶ 7.3.1*
[5] *IAS 27 (2010), ¶¶ BC72, BC73.*
[6] *IFRS 5, ¶ BC79A.*
[7] *IFRS 5, ¶¶ BC78, BC79.*
[8] *Exposure Draft of* Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits *(June 2005), ¶¶ BC92, BC94.*
[9] *Exposure Draft,* Income Tax *(March 2009), ¶¶ BC111, BC112.*
[10] *IFRS 1, ¶¶ BC32, BC34.*
[11] *IFRS 1, ¶ BC63B.*
[12] *IFRS 4, ¶ BC146.*
[13] *IFRS 1, ¶¶ BC41, BC42, BC46.*
[14] *IFRS 1, ¶¶ BC47A, BC47B.*
[15] *IFRS 1, ¶ BC63D.*
[16] *IFRS 1, ¶ BC63DA.*

(continued)

Exhibit 2-10 Trade-off between Comparability and Other Rationales (*Continued*)

	# 1	# 2	# 3	# 4	# 5	# 6	# 7
Employee benefits[17]			x		x		
Cumulative translation differences[18]	x						
Investments in subsidiaries, jointly controlled entities, and associates[19]	x		x				
Assets and liabilities of subsidiaries, associates, and joint ventures[20]			x		x		
Compound financial instruments[21]			x				
Designation of previously recognized financial instruments[22]						x	
Fair value measurement of financial assets or financial liabilities at initial recognition[23]		x	x				
Decommissioning, restoration, and similar liabilities[24]	x						
Decommissioning liabilities related to oil and gas assets[25]	x						
Financial assets or intangible assets accounted for in accordance with IFRIC 12[26]	x						
Borrowing costs[27]			x			x	
Transfers of assets from customers[28]	x						
Extinguishing financial liabilities with equity instruments[29]					x		
Severe hyperinflation[30]	x						
Joint arrangements[31]						x	
Short-term exemptions							
Comparative information for IFRS 9[32]							x
Comparative information in IAS 32, IAS 39, IFRS 7, IFRS 4, IFRS 6 (IFRS 1 2005)[33]							x
Enhanced disclosures about fair value measurements and liquidity risk[34]		x				x	
Disclosures about financial instruments[35]		x				x	
Defined benefit plans[36]						x	
Deferred tax (proposed exemption)[37]	x	x					
Regulatory assets (proposed exemption)[38]		x					

[17] *IFRS 1, ¶ BC48.*
[18] *IFRS 1, ¶ BC54(a).*
[19] *IFRS 1, ¶¶ BC58C, BC58J.*
[20] *IFRS 1, ¶ BC60.*
[21] *IFRS 1, ¶ BC57.*
[22] *IFRS 1, ¶ BC63A.*
[23] *IFRS 1, ¶ BC83A; IAS 39, ¶ BC222(v).*
[24] *IFRS 1, ¶ BC63C.*
[25] *IFRS 1, ¶ BC63CA.*
[26] *IFRC 12, ¶ BC73.*
[27] *IFRS 1, ¶ BC63E.*
[28] *IFRIC 18, ¶ BC25.*
[29] *IFRIC 19, ¶ BC33.*
[30] *IFRS 1, ¶ BC63J.*
[31] *IFRS 11, ¶ BC63K.*
[32] *IFRS 1 (2005), ¶ BC89A.*
[33] *IFRS 1 (2005), ¶ BC89A.*
[34] *IFRS 1, ¶ Footnote to E3.*
[35] *IFRS 1, ¶ E4.*
[36] *IAS 19 (2011), ¶ BC270.*
[37] *Exposure Draft,* Income Tax *(March 2009), ¶¶ BC111, BC112.*
[38] *Exposure Draft,* Rate-regulated Activities *(July 2009), ¶ BC62.*

their interaction and the arguments expressed by the IASB to justify IFRS 1 mandatory exceptions, voluntary exemptions, and selected use of the transitional provisions of certain Standards and Interpretations.

Comment: The balance between comparability and other considerations has a direct relationship with the qualitative characteristics of financial statements under the IASB Framework.[353] Under the IASB Framework, comparability is one of the four principal qualitative characteristics of financial statements,[354] at the same level as understandability, relevance, materiality, and reliability. However, the IASB Framework clarifies that comparability cannot exist to the detriment of relevance and reliability. Thus, accounting policies require a change when alternative policies may better serve the characteristics of relevance and reliability.[355] Conversely, under the U.S. Concepts, comparability is a secondary and interactive quality, counterbalancing relevance and reliability.[356] Under both conceptual frameworks, a balance between benefit and cost is a pervasive constraint, not a qualitative characteristic.[357]

2.15 INTERIM REPORTING

2.15.1 Introductory Remark

This Part of the chapter deals with first IFRS interim financial statements. Chapter 7 later treats interim financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations.

2.15.2 When IFRS 1 Applies to Interim Financial Statements

IFRS 1 applies to interim financial statements that fall within the annual period of its first IFRS financial statements, but only to the extent that the entity presents interim information and does it according to IAS 34.[358] Paragraph 7.2.3.1 explains that an entity that reports under IFRSs and that publishes interim financial statements has no obligation to follow IAS 34. However, if interim financial statements included in the period of the first IFRS financial statements assert their compliance with IAS 34, they must apply IFRS 1.[359]

Planning Point: An entity that does not report under IFRSs is free to use IAS 34 if it wishes. Conversely, it is doubtful whether a first-time adopter may elect to apply IAS 34 but not all other IFRSs. This is obviously not stating compliance with IFRSs. By a literal reading of IFRS 1, simple adherence to IAS 34 would make IFRS 1 mandatory to a first-time adopter. Here, the standard does not mention compliance with all other IFRSs. However, this appears to be necessary, as an explicit and unreserved statement of compliance with all IFRSs is the condition for applying IFRS 1.

Chapter 7 develops the topic of dual reporting in interim financial statements.

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353 *IFRS 1, ¶¶ BC8, BC26.*
354 *IASB Framework, ¶ 24.*
355 *IASB Framework, ¶ 41.*
356 *CON 2 (superseded), ¶ 33.*
357 *CON 2 (superseded), ¶ 33; IASB Framework, ¶ 44.*
358 *IFRS 1, ¶ 2(b).*
359 *IFRS 1, ¶¶ 2(b), IG 37; IAS 34, ¶¶ 3, 19.*

2.15.3 Impact on the Transition Date

Whether an IFRS first-time adopter chooses to present interim financial reports is irrelevant to the setting of the transition date.

> **Comment:** IFRS 1 defines the transition date in relationship to the first IFRS annual financial statements. The example of interim reconciliations in its Implementation Guidance also illustrates this point.[360] This outcome is completely reasonable. Firstly, not all companies must report on an interim basis. Secondly, the frequency of interim reporting would otherwise affect the transition date and this would violate the principle in IAS 34 that the frequency of interim reporting must not affect annual measurements.[361]

2.15.4 Impact on Comparative Information

If an entity uses IAS 34 on first-time adoption of IFRSs, it must restate comparative information under that standard.[362]

2.15.5 IFRSs Applicable

IFRS 1 does not say what IFRSs are applicable in first IFRS financial statements.

> **Planning Point:** Arguably, these are the IFRSs in force at the interim reporting date. The AICPA International Practices Task Force confirmed that using IFRSs expected to be valid at the end of the first IFRS annual reporting period is not acceptable.[363]

2.15.6 IFRS Developments in the Transition Year

Involuntary changes in accounting policies may arise in the first IFRS reporting period from new developments in accounting pronouncements during the year of transition to IFRSs. When an entity prepares its first IFRS interim reports, it cannot know what standards will be in force by the end of the reporting year. However, under IFRS 1, it will have to apply the standards in force starting from the transition date. This paragraph discusses this topic with reference to involuntary changes and in the next paragraph as to voluntary changes in accounting policies or IFRS 1 elections. Paragraph 2.7.16 previously introduces this subject with reference to annual financial statements.

> **Comment:** IFRS 1 does not give precise guidance on this issue, apart from reconciliations and disclosures (see Paragraph 2.15.7). IAS 34 tackles it ex post, i.e., as a change in accounting policy in the context of interim reporting.

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[360] *IFRS 1, ¶¶ Appendix A, IG38.*
[361] *IAS 34, ¶ 28.*
[362] *IFRS 1, ¶ IG37.*
[363] *IPTF, May 17, 2005, ¶ Appendix B, Q5.*

The SEC provides guidance on how to face this phenomenon in its filings with reference to the topic of reconciliation to U.S. GAAP. Foreign private issuers are generally not required to file periodic interim reports under the Exchange Act of 1934, but they may be subject to interim financial information in registration statements and prospectuses under the Securities Act of 1933 and initial registration statements under the Exchange Act of 1934.[364] Although Form 20-F does not require interim financial statements in registration statements and prospectuses that bear a date that is within nine months from the end of the last financial year, a foreign private issuer must include more current financial information that it has otherwise published.[365] It may happen that after the date of issuance of an entity's first IFRS interim financial statements the IASB issues some IFRSs that are effective at the end of the first IFRS annual reporting period. Therefore, those first IFRS interim financial statements would not be fully in accordance with IASB-IFRSs. This fact would require reconciliation to U.S. GAAP in filings with the SEC. To ease the burden associated with the migration to IFRSs, the SEC gave a foreign private issuer relief by waiving U.S. GAAP reconciliation in the transition year with reference to more current interim financial information.[366] The entity must use cautionary language to the effect that the information is not in compliance with IFRSs, including a warning that standards are subject to change up to the time of the annual financial statements and that standards that will be applicable at the first IFRS annual reporting date are not yet known with certainty. The AICPA International Practices Task Force provides samples of such cautionary language.[367] Similarly, the association of Italian auditors requires cautionary language about the purpose of the IFRS 1 reconciliations and a caveat that new IFRSs might be issued before publication of the financial statements and may even have retroactive effect.[368]

2.15.7 Changes in Accounting Policies During the First IFRS Reporting Period

Paragraph 2.15.6 previously deals with involuntary changes in first IFRS interim statements. This paragraph faces the issue of whether voluntary changes in accounting policies may arise during the first IFRS reporting year.

Effective for annual periods beginning on or after January 1, 2011, the May 2010 *Improvements to IFRSs* accept the situation of an IFRS first-time adopter that, subsequently to the issuance of IAS 34-compliant interim reports, changes accounting policies or elects other IFRS 1 exemptions applicable to the period covered by the first annual IFRS financial statements. These amendments extend the IFRS 1 reconciliations and disclosures to voluntary changes in accounting policies or IFRS 1 voluntary exemptions made during the period between the first IFRS interim and the first IFRS annual financial statements.[369] They also require the disclosure of changes in accounting policies, separately from corrections of errors, in the IFRS 1 reconciliations in the interim report.[370] In addition, IAS 34, as amended in May 2010,

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[364] *SEC,* Securities Exchange Act of 1934*, ¶¶ 13(a); SEC, Division of Corporate Finance,* Financial Reporting Manual*, ¶ 6210.2.*

[365] *Form 20-F, Item 8.A.5; SEC, Release No. 33-8567, ¶ II.F.2; SEC, Release No. 33-8879, ¶ III.B.2.a.*

[366] *Form 20-G, General Instruction G(f)(2)(A).*

[367] *SEC, Release No. 33-8567, ¶ II.F.2; IPTF, May 17, 2005, ¶ Appendix B, Q6.*

[368] *Assirevi No. 91, ¶ 3.b.*

[369] *IFRS 1, ¶¶ 27A, 32(c), 39E; IASB Update, June 2009.*

[370] *IFRS 1, ¶¶ 26, 32(b), IG38.*

requires an entity's confirmation in the notes that accounting policies in annual and interim financial statements are the same, or disclosure of the nature and impact of the change.[371]

> **Planning Point:** Whether an entity can change accounting policies during this first IFRS reporting period, and how it should take care of this situation, is debatable. The issue arises from two conflicting aspects. On one hand, when an entity issues its first IFRS interim report it has not yet published its first IFRS annual report. Therefore, it has not yet claimed any compliance with IFRSs in a sense valid for its first-time adoption of IFRSs on an annual basis. Nevertheless, even if the entity has not yet migrated to IFRSs on an annual basis, it must work out the opening IFRS statement of financial position to prepare its first IFRS interim report. Whatever alternative accounting policies among those permitted by IFRSs it chooses (arguably based on IFRSs in force at the first IFRS interim reporting date), according to IFRS 1 it must apply them consistently starting from the opening IFRS statement of financial position.[372] On the other hand, in its first IFRS interim financial statements, an entity declares compliance with IAS 34 and IFRSs. IAS 34 triggers compliance with IAS 8. In addition, as Paragraph 2.15.2 explains, stating compliance with IAS 34 triggers the use of IFRS 1, which in turn triggers compliance with IFRSs, including IAS 8. To resolve the conflict, IFRS 1 overrides IAS 8 both on an annual (Paragraph 2.9.7) and on an interim basis (Paragraph 2.15.8).

This issue arises from the interplay of interim and annual financial reporting. The situation that would exist without the IFRS 1 override of IAS 8 may be studied from an interim and an annual perspective. From the interim view, IAS 34, like APB 28, postulates that interim financial statements assume the same accounting policies as those pertaining to the latest annual financial statements, but must follow consistent policies throughout a single financial year.[373] Hence, while a change in the first interim period of the current year versus the previous year would ordinarily have to be explained, a change in the first quarter from the opening IFRS statement of financial position would not be permitted. Furthermore, when the entity makes a change in accounting policy in an interim period of the transition year that is subsequent to the first quarter or interim period, IAS 34 prohibits the use of different accounting policies for the same class of transactions within the same financial year.[374] Under IAS 34, previous interim periods of the current year and comparative interim periods of prior years must be retrospectively restated under IAS 8. If it is impracticable to determine the cumulative effect, a change in accounting policy must be applied prospectively no later than from the beginning of the financial year of change. Indeed, this is a guarantee of applying one and the same principle throughout the year.[375]

From an annual perspective, it can be argued that the use of different accounting policies at the same transition date in interim and annual reports or in two different interim periods would be a mistake in applying accounting policies, i.e., an error. The first IFRS interim report must also include the IFRS 1 reconciliations at transition date (Paragraph 2.15.12 which follows). Even if accounting policies do not differ at transition date, an IFRS first-time adopter may subsequently determine that another allowed accounting policy would be preferable in its first IFRS annual financial statements. IFRS 1 responds by stating that the same accounting policies

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[371] *IAS 34, 16A(a), as amended by* Improvements to IFRSs *(May 2010).*
[372] *IFRS 1, ¶¶ 6, 7, 11.*
[373] *APB 28, ¶ 10; IAS 34, ¶¶ 28, 43, 44.*
[374] *IAS 34, ¶¶ 43–45.*
[375] *IAS 34, ¶¶ 43–44.*

in the opening IFRS statement of financial position must be used in all periods covered by the first IFRS financial statements.[376]

2.15.8 Override of IAS 8

The May 2010 *Improvements to IFRSs* extended to interim reporting the conclusion that IAS 8 does not apply to the first IFRS annual financial statements (Paragraph 2.9.7 previously).

In any case, a voluntary change in accounting policy in the subsequent periods would fall under IAS 8.

2.15.9 The Use of IAS 8 Impracticability Exception

IAS 34 consents to the IAS 8 impracticability exception in interim financial statements for an entity that already reports under IFRSs.[377] Subtopic 250-10 (FASB Statement No. 154) bans the application of its impracticability exception to previous interim periods in the same year in which an entity makes a voluntary change in accounting principle. If retrospective application is impracticable, the change can occur only as of the beginning of the subsequent year.[378] The *Improvements to IFRSs* published in May 2010 are silent on this aspect, but exclude the application of all the requirements of IAS 8 to the first IFRS interim financial statements.[379] Paragraph 2.9.9 discusses the IAS 8 impracticability exception in the first IFRS annual financial statements.

2.15.10 Corrections of Errors in the First IFRS Interim Financial Statements

If at transition date there is objective evidence of errors in the estimates made under previous GAAP, the entity must correct those errors under IAS 8.[380] The SEC Staff confirms that IAS 8 and the relevant SEC guidance apply to correct IFRS interim financial information considered to be in error.[381] Paragraph 2.9.8 expands on this topic with reference to first IFRS annual financial statements.

2.15.11 Changes in Accounting Policies When an Entity Does Not Use IAS 34

As Paragraphs 2.15.2 and 7.2.3.1 analyze, producing interim financial reports in accordance with IAS 34 is not mandatory for both an entity that already reports under IFRSs and for an IFRS first-time adopter.[382] The AICPA International Practices Task Force interpreted that an IFRS first-time adopter using IAS 34 would apply changes in accounting policies (including in the transition year) retrospectively under IAS 8 and the preferability test in IAS 8, as referenced by IAS 34. Conversely, IAS 8 would not necessarily be applicable if its interim reports were not prepared in line with IAS 34.[383]

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[376] *IFRS 1, ¶ 7.*
[377] *IAS 34, ¶ 45.*
[378] *FASB Statement No. 154, ¶¶ 15, B28.*
[379] *IFRS 1, ¶¶ 27, BC97.*
[380] *IFRS 1, ¶¶ 14, 15, 17, IG3 Case 1 and Case 2.*
[381] *IPTF, May 17, 2005, ¶Appendix B.*
[382] *IAS 34, ¶ 2; IFRS 1, ¶¶ 2(b), 32, IG37.*
[383] *IPTF, May 17, 2005, ¶¶ Appendix B, Q7 and Q8.*

Planning Point: On one hand, this interpretation appears to be contrary to the inapplicability of IAS 8 in the transition year sanctioned in IFRS 1 and the *Improvements to IFRSs* published in May 2010 (Paragraph 2.15.8 previously). On the other hand, an entity that has not yet issued its first IFRS annual financial statements but already produces interim financial statements not conforming with IAS 34 has not yet stated compliance with IFRSs and therefore would not be required to apply IAS 8.

2.15.12 IFRS 1 Reconciliations in Interim Periods

IFRS 1 imposes four types of reconciliations in interim financial reports.

Firstly, in an entity's first IFRS interim financial report under IAS 34 within the period covered by the first IFRS financial statements, IFRS 1 requires the same reconciliations as in the first IFRS annual financial statements (Paragraph 2.16 following). Hence, the company must reconcile equity at the transition date and at the end of the latest annual comparative period, total comprehensive income of the latest annual comparative period, and explanation of material adjustments to statements of cash flows. The company may cross-reference with another published document. The same considerations as for the IFRS 1 reconciliations in the first IFRS annual financial statements apply.

Secondly, for any interim report under IAS 34 that falls within the period covered by the first IFRS financial statements, it must add a reconciliation of equity at the end of the comparable interim periods of the immediately preceding financial year and a reconciliation of total comprehensive income for that comparable period on current and year-to-date bases.[384]

Planning Point: This is required only if the company presented interim financial statements under previous GAAP for the corresponding interim period of the previous financial year.

Thirdly, the above reconciliations add up to the periods to be covered in interim reporting in accordance with IAS 34 (Paragraph 7.7).

Planning Point: All the above holds only when the entity applies IAS 34. As Paragraphs 2.15.2 and 7.2.3.1 explain, producing interim financial reports in accordance with IAS 34 is not mandatory for both an entity that already reports under IFRSs and for an IFRS first-time adopter.[385]

Planning Point: The literal reading of IFRS 1 distinguishes the annual IFRS 1 reconciliations of the first IFRS interim financial report from the IFRS 1 interim reconciliations of any interim financial report that falls within the period covered by the first IFRS financial statements. The cross-reference to a document that contains the former reconciliations has the benefit of placing them in the same document that presents the annual financial statements so that they are more readable and understandable.

[384] *IFRS 1, ¶¶ 32, IG38.*
[385] *IAS 34, ¶ 2; IFRS 1, ¶¶ 2(b), 32, IG37.*

Planning Point: In substance, the ordinary periods to be reported under IAS 34 for the corresponding interim periods of the previous financial year (Paragraph 7.7) overlap with the IFRS 1 interim reconciliations. The difference is that the reconciliations also include previous GAAP amounts. In addition, the types and details of condensation under IAS 34 and previous GAAP might differ (Paragraph 7.12).

Finally, according to the May 2010 Amendments to IFRS 1, an entity is required to explain any change in accounting policies or in the selection of the IFRS 1 exemptions after the publication of the first IFRS interim financial statements and to update the IFRS 1 reconciliations of equity and comprehensive income from the latest interim report. This is effective for annual periods beginning on or after January 1, 2011.[386]

Planning Point: An IFRS first-time adopter that is a foreign private issuer which modifies the selection of the IFRS 1 voluntary exceptions must revise certain Form 20-F disclosures concerning the IFRS 1 exceptions (Paragraph 2.16.9).

2.15.13 Additional Disclosures

Interim financial report falling within the period covered by the first IFRS financial statements and compliant with IAS 34 must include the disclosures required by IAS 34. They must also explain events and transactions, even if related to the latest annual financial statements under previous GAAP, that exploit a material effect for the understanding of the current interim period when the previous GAAP financial statements did not disclose them. To avoid excessive weight of first IFRS interim reports as opposed to ordinary IFRS interim reports, an IFRS first-time adopter may cross-reference another published document that contains the information warranted.[387]

Disclosures concerning selected financial data also apply on an interim basis.[388]

2.15.14 Options Available for Unaudited Interim Financial Statements of IFRS Foreign Private Issuers

Under Form 20-F, a foreign private issuer that is an IFRS first-time adopter has several options available in choosing the basis of interim reporting in the year of transition to IFRSs for the purpose of a registration statement that is dated more than nine months from the end of the last audited financial year (see Paragraph 7.3.4). They are the so-called “previous GAAP option”, the “IFRS option”, and the “U.S. GAAP condensed information option”. There is also an informal alternative called the “case-by-case option”. All these alternatives encompass comparative financial statements for the corresponding interim periods of the prior year.

[386] *IFRS 1, ¶¶ 27A, 32(c), 39E.*
[387] *IFRS 1, ¶ 33.*
[388] *IFRS 1, ¶ BC90.*

2.15.14.1 The Previous GAAP Option The previous GAAP option has no specific relief, in the sense that the ordinary three years plus interim financial statements, if any, under previous GAAP are accepted with a reconciliation to U.S. GAAP.

2.15.14.2 The IFRS Option The IFRS option comprises the use of IASB-IFRSs for two years and any interim financial statements, with no reconciliation to U.S. GAAP. As IASB-IFRSs is the basis selected, the relief of the earliest of three financial years holds under this choice for an IFRS first-time adopter that relies on the two-year accommodation (Paragraph 2.13.9.3).

2.15.14.3 The U.S. GAAP Condensed Information Option The U.S. GAAP condensed information option combines three years under Previous GAAP (with reconciliation to U.S. GAAP), current and prior year comparable interim periods under IASB-IFRSs (with no reconciliation to U.S. GAAP), and unaudited condensed balance sheet and income statement under U.S. GAAP for the most recent prior financial year and current and comparable prior year interim periods. This also has advantages for an IASB-IFRS first-time adopter that relies on the two-year accommodation (Paragraph 2.13.9.3). The detail of the condensed statements must be in line with that in Subtopic 470-10 (Regulation S-X § 210.10-01), including related footnotes.[389] Paragraph 7.2.3.4 explains the prerequisite to use IAS 34 or IAS 1 in interim financial statements to elect this option. In 2007 a special regime was in place for European issuers using EU-GAAP (see Paragraph 2.10.2.2), now no longer applicable.[390] The U.S. GAAP condensed information option also applied to EU-GAAP under the same conditions mentioned above, plus the observance of the additional reconciliation described in the Paragraph 2.10.2.2.[391]

2.15.14.4 The Case-by-Case Option Finally, in order to provide an incentive to foreign companies not to delist from the U.S. stock exchanges, a company that is unsuccessful in all the three options mentioned above can contact the SEC to define an appropriate arrangement of Previous GAAP, IFRSs, and U.S. GAAP information that would supply equivalent information (the case-by-case option).[392]

2.15.15 Basis Used in More Current Information

When more current information is due (see Paragraph 7.3.5 following), a foreign private issuer reporting under IASB-IFRSs does not have to provide reconciliation to U.S. GAAP for more current interim financial information that is included in financial statements as part of registration statements or another document in Form 20-F different from an annual report. However, in the transition year such an issuer must have used IASB-IFRSs in its audited annual financial statements for all the periods required or otherwise to the extent that prior filings are

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[389] *Form 20-F, General Instruction G(f)(2)(B); SEC, Release No. 33-8567, ¶ II.F.3 (page 27); IPTF, May 17, 2005, ¶ Appendix B, Q9.*
[390] *Form 20-F, General Instruction G(i), deleted by Release No. 33-8879; SEC, release No. 33-8879, ¶ III.C.6 (page 56); IPTF, March 4, 2008, ¶ Q16.*
[391] *SEC, Release No. 33-8567, ¶ II.F.3 (page 30); IPTF, May 17, 2005, ¶ Appendix B, Q14.*
[392] *Form 20-F, Instruction to General Instruction G(f)(2)(B); SEC, Release No. 33-8567, ¶ II.F.3(d), page 27.*

amended to this effect.[393] General Instruction G(f)(2) to Form 20-F extends the exemption relating to U.S. GAAP reconciliation to both interim and annual financial statements that in general make reference to IFRSs. This has been interpreted as also applying to EU-GAAP financial statements when there was the special treatment for EU-GAAP described in Paragraph 2.10.2.2.[394]

SEC Release No. 33-8567 specifies two situations in which an IFRS issuer has a relief from U.S. GAAP reconciliation during the transition year, notwithstanding the provisions mentioned above that result from a literal reading of Item 8.A.5 of Form 20-F. The first, discussed in Paragraph 2.15.6 previously, is when new IFRSs are issued in the transition year. The second is when the issuer has not filed the latest audited annual IFRS financial statements in its Form 20-F Annual Report.[395]

2.16 RECONCILIATIONS AND DISCLOSURES

2.16.1 General Rule

As a rule, presentation and disclosures prescribed by all IFRSs apply to the first IFRS financial statements. In addition, IFRS 1 mandates an explanation of the effects of the transition to IFRSs, though reconciliations and specific disclosures.[396] The rationale is threefold: understanding the fresh start represented by the opening IFRS statement of financial position, restating comparative period on an IFRS mode, and permitting resetting the model for financial analysis under IFRSs.[397]

This chapter places the specific disclosures that IFRS 1 requires in the paragraphs that treat the related items.

2.16.2 IFRS 1 Reconciliations

IFRS 1 requires specific previous GAAP to IFRSs reconciliations of the statement of financial position, the statement of comprehensive income (or the income statement, if the entity did not report comprehensive income under previous GAAP), and the statement of cash flows if the entity presented it under previous GAAP. Equity reconciliation refers to the transition date and the end of latest comparative period. Comprehensive income or profit or loss reconciliation covers the latest period in the most recent financial statements, i.e., under previous GAAP.[398]

> **Planning Point:** The Basis for Conclusions of IFRS 1 explains that if previous GAAP do not contain the notion of total comprehensive income, reconciliation would start from the aggregate that under previous GAAP is equivalent to total comprehensive income, which may well be profit or loss.[399]

[393] *Form 20-F, General Instruction G(f)(2)(A), Instructions 3 Item 8.A.5; SEC,* Financial Reporting Manual, *¶ 6330.1; SEC, Release No. 33-8879, ¶ III.B.2.a, III.B.2.c (pages 40, 42).*
[394] *Form 20-F, General Instruction G(f)(2)(A); IPTF, May 17, 2005, ¶ Appendix B, Q7.*
[395] *SEC, Release No. 33-8567, ¶ II.F.2 (page 23).*
[396] *IFRS 1, ¶¶ 23.*
[397] *IFRS 1, ¶¶ 20, BC91, BC92B.*
[398] *IFRS 1, ¶¶ 24–25.*
[399] *IFRS 1, ¶ BC92C.*

2.16.3 Formats of IFRS 1 Reconciliations

Except for the statement of cash flows, IFRS 1 does not solicit a full reconciliation of the financial statements. It limits itself to the aggregates of equity and total comprehensive income. It does not even mention the format of reconciliations, whether tabular or otherwise. However, the Implementation Guidance of IFRS 1 shows reconciliations by line items formatted according to those two statements.[400]

> **Comment:** Somewhat similarly, Item 17 of Form 20-F also mentions reconciliation of net income in the context of material variations between home-country GAAP and U.S. GAAP. In any event, it specifies that reconciliation of net income must be in a tabular format. Conversely, it mentions reconciliation of equity simply as one of the possible formats of the reconciliation of the line items of the statement of financial position.[401]

A survey of interim reports of 144 listed companies in the FTSE 101-350 in 2005 converting from UK GAAP to IFRSs highlighted that 6% of them started from profit or loss or equity under UK GAAP and then listed the adjustments leading to the same aggregates under IFRSs. 94% used a tabular format that included individual account headings with one column (30% of them) or multiple columns for adjustments.[402]

2.16.4 The Meaning of a Sufficient Level of Detail of Reconciliations

IFRS 1 specifies that reconciliations must be at the level of detail necessary to explain material adjustments to the statement of financial position and the statement of comprehensive income. In addition, reconciliations must distinguish correction of errors from changes in accounting policies.[403]

> **Comment:** Form 20-F also requires a detail of reconciliations at the level of material variations.[404]

An issue is whether footnotes to the reconciliations are mandatory.

> **Comment:** IFRS 1 does not mandate a specific structure for reconciliations, although its Implementation Guidance illustrates a layout per item accompanied by footnotes by adjustment. It points out that this is simply one way of complying with the standard. The example distinguishes two forms of narratives: notes cross-referencing the reconciliations, and explanations of material adjustments. IFRS 1 appears to mean that specific lines are useful, but there is no mandatory display of them, provided material adjustments are clear. When some adjustments do not appear on the face of the

[400] *IFRS 1, ¶ IG Example 11.*
[401] *Form 20-F, Item 17(c)(2).*
[402] *BDO, 2006.* 2006 IFRS Survey, International Financial Reporting Standards and the Mid-Market*, pages 15–17. [Online] BDO. Available at: www.bdo.co.uk [last accessed: February 5, 2007] (hereinafter BDO, 2006 Survey).*
[403] *IFRS 1, ¶¶ 25, IG63.*
[404] *Form 20-F, Item 17(c)(2).*

reconciliations because they would be too voluminous, narrative explanation becomes necessary.[405] Different jurisdictional interpretations exist. For example, the SEC and Italian Securities Regulator (Consob) benchmarked the illustrative example in IFRS 1, although not as a mandatory scheme. The association of Italian auditors considers footnotes mandatory, also because of similar advice given by the Italian Securities Regulator (Consob) for half-year reports. In addition, the association indicates that a not-fully-fledged reconciliation is a practical and temporary expedient. It also requires cautionary language about the purpose of the IFRS 1 reconciliations and a caveat that new IFRSs might be issued before publication of the financial statements and that could even have retroactive effect.[406]

2.16.5 Effects of Short-Term Exemptions

Paragraph 2.20.1.7 explains the impact of certain short-term exemptions from comparative information of some IFRSs on the IFRS 1 reconciliations and disclosures.

2.16.6 Whether Reconciliations May Follow the Previous GAAP Layout

IFRS 1 does not explain whether rows in the reconciliations must be organized based on IFRSs or previous GAAP. The illustrative example in IFRS 1 follows an IFRS layout.

Planning Point: Whether and which rows must be shown is debatable (see Paragraph 2.16.4 previously). Using an IFRSs layout, although not explicitly required, would be more consistent with the purpose of the reconciliations themselves, as they are a bridge to the first IFRS financial statements. Therefore, it would seem natural that they should follow the format of their point of arrival. Furthermore, if they are part of the notes they are an integral part of the financial statements and therefore must conform to IFRSs. For example, they must show gross amounts of assets and liabilities that the entity used to offset under previous GAAP. In addition, equity reconciliation shows the opening IFRS statement of financial position, which by definition must be compliant with IFRSs. Finally, as IFRS 1 requires compliance with all IFRSs, including IAS 1 which is about the presentation of financial statements, IFRS 1 reconciliations must also comply with IAS 1. Of course, a previous GAAP material item that does not fit a format under IFRSs might warrant separate indication. The association of Italian auditors suggested reclassifying previous GAAP aggregates based on the financial statements under IFRSs.[407]

2.16.7 Location of the IFRS 1 Reconciliations

A survey of interim reports of 144 listed companies in the FTSE 101-350 in 2005 converting from UK GAAP to IFRSs highlighted that 65% placed the IFRS 1 reconciliations in a separate document incorporated by reference in their half-year report (10% of them also provided summary reconciliations in the note). 10% located them in an appendix to the report and 25% in the notes.[408]

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[405] *IFRS 1, ¶¶ 25, BC92.*
[406] *SEC, April 12, 2005. Release No. 33-8567, ¶ III.B; Assirevi No. 91, ¶ 3.b; Consob, April 14, 2005. Delibera No. 14990, Art. 84-bis.*
[407] *Assirevi No. 91, ¶ 3.b.*
[408] *BDO, 2006 Survey, pages 14, 15.*

Planning Point: IFRS 1 does not specify the location of these reconciliations. It mentions that the first IFRS financial statements must include them.[409] Therefore, they are an integral part of the financial statements (i.e., part of the basic statements or the notes). Its Implementation Guidance shows reconciliations with related footnotes, suggesting expanding on accounting policies used, analysis and explanation of variances. Its Basis for Conclusions comments that narrative is necessary to provide the required level of detail for adjustments that the reconciliations do not display as a specific line item and that are likely to contain extensive explanation.[410] However, in theory there is no prohibition to presenting them on the face of the financial statements. Interestingly enough, it is Form 20-F that refers to placing IFRS 1 reconciliations in the notes when they comply with the requirements in Item 8 of Form 20-F, although it also requires additional disclosures in the Operating and Financial Review and Prospects section (Item 5) of Form 20-F (see Paragraph 2.16.9).[411]

Comment: By contrast, Form 20-F permits the location of the U.S. GAAP reconciliation of net income either on the face of the income statement or in the notes. However, it suggests presentation of reconciliation of net income on the face of the statement in case of significant divergence. Reconciliation of the statement of financial position may take the form of an additional column on the face of that statement, parenthetical explanation, a restated statement of financial position, or note disclosure. Other formats are possible, provided they are clear.[412]

Paragraph 2.5.10.2 explains certain implications on the IFRS 1 reconciliations of an entity that previously reported under more than one set of local GAAP.

Paragraph 2.16.10 explains the location of additional reconciliations required by the SEC of an IFRS first-time adopter that prior to migrating to IFRSs used to file with the SEC under U.S. GAAP.

2.16.8 IFRS 1 Reconciliations of the Statement of Cash Flows

IFRS 1 is looser on the reconciliation of the statement of cash flows, which is required only when the entity presented such a statement under previous GAAP.

Comment: IFRS 1 does not state what period such reconciliation should cover. However, it mentions the adjustments to the statement presented under previous GAAP. IFRS 1 Illustrative Guidance shows a comment about the reclassification of cash flows occurring in the comparative period. Arguably, reconciliation concerns any comparative period presented. Some have interpreted IFRS 1 to extend the analysis to the statement of cash flows presented under previous GAAP in the comparative period and referring to the preceding year.

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[409] *IFRS 1, ¶ 24.*
[410] *IFRS 1, ¶¶ IG Example 11, BC92.*
[411] *Form 20-F, Instruction 3 to Item 8.*
[412] *Form 20-F, Item 17(c)(2), Instructions 1 to Item 17.*

The Implementation Guidance of IFRS 1 shows reconciliation in the form of narrative note disclosures.[413] Depending on the degree of complexity, quantitative reconciliations may be necessary, as the following examples illustrate.

> **Example:** The SEC Staff, in its review of Form 20-F of a foreign private issuer from The Netherlands for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, required the disclosure of material adjustments in the cash flow statement resulting from the transition from DAP to IFRSs. In response, the company provided a numerical reconciliation of the consolidated statement of cash flows for the year ended December 31, 2004, explaining major items.[414] The SEC Staff made a similar request to two French foreign private issuers.[415]

> **Example:** The SEC Staff, in its review of Form 20-F of a British foreign private issuer for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, required clarification on the disclosure of material adjustments in the statement of cash flows resulting from the transition to IFRSs. The company explained that the main adjustment referred to short-term deposits that were included in cash and cash equivalents under IAS 7 but were not part of the definition of cash under FRS1 (UK GAAP).[416]

By contrast, Form 20-F accepts a statement of cash flows under IAS 7 even from foreign private issuers that do not report under the IASB English version of IFRSs. Therefore, it does not necessarily require reconciliation to U.S. GAAP for this. However, if the company uses neither U.S. GAAP nor IAS 7 to prepare the statement of cash flows, it must explain any material difference compared to a statement of cash flows under U.S. GAAP, through note disclosure, or disclosure on the face of the statement in case of significant divergence. Reconciliation from home-country GAAP other that IFRSs to IAS 7 is not acceptable.[417] Paragraph 5.2.4 goes in detail into these requirements.

2.16.9 SEC Guidance Concerning IFRS 1 Reconciliations

In the context of financial information in Form 20-F, the SEC provides additional guidance concerning the IFRS 1 reconciliations. Paragraph 2.14.2 explains the SEC guidance about the IFRS 1 exceptions and exemptions.

Firstly, the SEC Staff confirms that foreign private issuers must provide the IFRS 1 reconciliations in the notes when these comply with the requirements in Item 8 of Form 20-F (see Paragraph 2.16.7 above). Form 20-F reinforces the notion that the detail of the IFRS 1

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[413] *IFRS 1, ¶¶ 25, IG Example 11.*
[414] *SEC IFRS Reviews. Letter by the SEC, September 25, 2006. File No. 001-10882, Comment 7. Reply by the company, October 19, 2006.*
[415] *SEC IFRS Reviews. Letter by the SEC, December 1, 2006. File No. 001-32139, Comment 23; Letter by the SEC, September 25, 2006. File No. 001-14410, Comment 6.*
[416] *SEC IFRS Reviews. Letter by the SEC, September 27, 2006. File No. 001-14868, Comment 15. Reply by the company, October 24, 2006.*
[417] *Form 20-F, Item 17(c)(2)(iii), Instructions 1 Item 17; SEC,* Financial Reporting Manual, *¶ 6540.1.*

reconciliations must be of such a form and level as to explain all material adjustments.[418] However, the SEC did not want to give prescriptive guidance to maintain the necessary flexibility suitable to individual circumstances. The SEC does not impose any format or content for IFRS 1 reconciliations. It regards the example in the Implementation Guidance of IFRS 1, even if not mandatory, as sufficient and a basis for a comparable level of information among issuers. Alternatively, the form and content of the reconciliations in Form 20-F would meet the requirements in IFRS 1 (see Paragraph 2.17 following).[419] The CESR also suggested referring to the Implementation Guidance of IFRS 1.[420]

In addition, the Operating and Financial Review and Prospects section of Form 20-F must include qualitative indication of any material effect of the use of the IFRS 1 elective exceptions and exemptions on every financial statement. The SEC clarified that the latter information need not be presented in the notes, although this is possible.[421]

Example: In its review of the Form 20-F of a Spanish foreign private issuer bank for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, the SEC Staff required sufficient information supporting the reconciliations of equity and total comprehensive income, as required by IFRS 1. In order to provide such a level of detail, the Commission instructed the company to provide explanatory footnotes for each material adjustment in those reconciliations, clearly make out sources of local GAAP versus IFRSs that determine those differences, and separately quantify the individual adjustments in each reconciliation line item.[422]

2.16.10 IFRS 1 Reconciliations of a Foreign Private Issuer that Used to File with the SEC under U.S. GAAP

A foreign private issuer which, before migrating to IFRSs, used to report under home-country GAAP in its local market and, at the same time, file with the SEC under U.S. GAAP must designate which of the two is its previous GAAP for the purpose of IFRS 1. If it chooses U.S. GAAP, it will show the IFRS 1 reconciliations as U.S. GAAP to IFRSs. If it opts for home-country GAAP (for example, because it expects that the home-country regulator will require IFRSs, including the IFRS 1 reconciliations), it prepares the IFRS 1 reconciliations as home-country GAAP to IFRSs, but must add a U.S. GAAP to IFRSs reconciliation for the purpose of the SEC filings either in the audited notes or as an audited supplemental financial statement schedule. A two-step reconciliation in the notes (U.S. GAAP to home-country GAAP plus home-country GAAP to IFRSs, the latter being the IFRS 1 reconciliation) is acceptable. The level of detail must be at least as per Item 17 of Form 20-F. The first of the two methods does not require a description of material differences related to the statement of cash flows because Form 20-F accepts a statement of cash flows under IAS 7 without reconciliation to U.S. GAAP (Paragraph 2.16.8 previously).[423]

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418 *Form 20-F, Instruction 3 to Item 8.*
419 *SEC, April 12, 2005. Release No. 33-8567, ¶ III.B.*
420 *CESR/03-490b, ¶ 4.b.*
421 *Form 20-F, Instruction 4.b to Item 5; SEC, April 12, 2005. Release No. 33-8567, ¶ III.A.*
422 *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 18. Reply by the company, February 26, 2007.*
423 *SEC,* Financial Reporting Manual, *¶ 6345.1; IPTF, November 25, 2008, ¶ Discussion Document A.*

Comment: The fact is that this nullifies the exemption from U.S. GAAP reconciliation of IASB-IFRSs issuers, but only in the transition year.

2.16.11 Reconciliations of an IFRS Foreign Private Issuers that Was a First-Time Adopter in a Foreign Market

A company that in the past adopted IASB-IFRS in a foreign market (i.e., migrated from home-country GAAP and published its first IFRS financial statements outside the U.S.) while continuing to file under U.S. GAAP with the SEC may later on decide to file under IASB-IFRSs with the SEC. In such a case, it does not use IFRS 1 and does not include any IFRS 1 reconciliations, because it is not an IFRS first-time adopter any longer. However, the SEC requires U.S. GAAP to IFRSs reconciliations in a note to the audited financial statements or in an audited schedule. The reconciliation covers equity at the end of the most recent comparative year in Form 20-F (two years if the company also presents a balance sheet as of the end of the third preceding year) and profit or loss for the two most recent comparative years, with the same detail required by Item 17 of Form 20-F.[424]

2.16.12 Whether an Entity Can Use Form 20-F Reconciliations in Lieu of IFRS 1 Reconciliations

The SEC affirmed that both the Illustrative example in IFRS 1 and the form and content of Form 20-F reconciliations would meet the requirements in IFRS 1.[425]

Planning Point: As the previous paragraphs illustrate, IFRS 1 reconciliations are less stringent than those in Form 20-F. Except for the statement of cash flows, Form 20-F reconciliation would be expected to meet the requirements of IFRS 1 reconciliations. Circumstances may exist where reconciliation of the statement of cash flows is due under IFRSs 1 and not under Form 20-F.

Planning Point: Companies using jurisdictional IFRSs that have to reconcile to U.S. GAAP might find benefit from extending the use of Form 20-F reconciliations as IFRS 1 reconciliations, if accustomed to them. Conversely, IASB-IFRSs companies do not use Form 20-F reconciliations. A private U.S. company or, when permitted by the SEC, a public company that migrates to IFRSs will not file Form 20-F either.

2.17 EXCEPTIONS TO THE RETROSPECTIVE APPLICATION OF OTHER IFRSs

2.17.1 Derecognition of Financial Assets and Financial Liabilities

2.17.1.1 Prohibition to Reinstate Derecognized Transactions IFRS first-time adopters that adopt IFRS 9 early and that migrate in annual periods beginning on or after July 1, 2011 (or before, if they adopt the December 2010 amendment to IFRS 1 early[426]) can follow a special

[424] *SEC,* Financial Reporting Manual, *¶ 6345.2; IPTF, November 25, 2008, ¶ Discussion Document A.*
[425] *SEC, April 12, 2005. Release No. 33-8567, ¶ III.B.*
[426] *Amendments to IFRS 1,* Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters *(December 2010).*

discipline concerning derecognition of nonderivative financial assets and nonderivative financial liabilities. The opening IFRS statement of financial position excludes only items whose derecognition occurred on the date of transition and that met the related requirements under IFRS 9. Conversely, they do not have to reinstate transactions that occurred before the transition date and that would not have been accounted for as derecognition under IFRS 9. IFRS 1 grandfathers them. However, an entity may elect to apply IFRS 9 from a past date, on condition that it had gathered contemporaneous information concerning relevant transactions.[427]

> **Comment:** Therefore, the first IFRS financial statements do not incorporate a past transfer of accounts receivable or a securitization that would qualify as a secured borrowing under IFRSs but as a sale under previous GAAP.[428]

> **Comment:** Similarly, for ongoing IFRS entities, IFRS 9 does not apply to items that have been derecognized at the date of its initial application.[429]

2.17.1.2 Entities Migrating before July 1, 2011 That Adopt IFRS 9 Early IFRS first-time adopters that adopt IFRS 9 early and that migrate in annual periods beginning before July 1, 2011 must apply IFRS 9 derecognition requirements retrospectively for transactions that occurred on or after January 1, 2004, or a previous date based on the conditions mentioned above.[430]

> **Comment:** January 1, 2004 was the effective date of the 2003 revision of IAS 39. In December 2010, the Amendments to IFRS 1 substituted transition date to the fixed date of January 1, 2004 effective for annual periods beginning on or after July 1, 2011.[431]

2.17.1.3 Entities that Do Not Adopt IFRS 9 Early IFRS first-time adopters that use IAS 39 must apply IAS 39 derecognition requirements retrospectively for transactions that occurred on or after January 1, 2004, or a previous date based on the conditions mentioned above.[432]

> **Comment:** There is no cherry-picking approach in adopting IFRS 9 early. To have the derecognition exemption at transition date, an entity must accept all other provisions of IFRS 9.

2.17.1.4 Special Purpose Entities First IFRS consolidated financial statements incorporate a special purpose entity (SPE) that the entity controls, even if it was unconsolidated under

[427] *IFRS 1 (December 2010 with earlier adoption), ¶¶ 39H, B2, B3, IG52.*
[428] *IFRS 1 (December 2010 with earlier adoption), ¶ IG53.*
[429] *IFRS 9 (October 2010), ¶ 7.2.1.*
[430] *IFRS 9 (October 2010), ¶ C2.*
[431] *IASB, Amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (December 2010).*
[432] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ B2, B3, IG52, IG53.*

previous GAAP. Consequently, they include derecognized financial assets or liabilities that under previous GAAP the parent transferred to the special purpose entity and derecognized before the transition date. Effectively for annual periods beginning on or after January 1, 2013, with earlier application permitted, IFRS 10 removes specific accounting guidance for special purpose entities.[433]

> **Planning Point:** The first IFRS financial statements of the SPE included these financial assets or liabilities, because it had recognized them, unless for some reason it had derecognized them under previous GAAP before its transition date. If the parent did not consolidate the SPE under previous GAAP, in its consolidated financial statements it will measure those financial assets or liabilities at the IFRS amount applicable in the SPE's financial statements. If the SPE has already migrated to IFRSs, the consolidated financial statements must take the same IFRS amount used by the SPE, after consolidation adjustments (Paragraph 2.19.10.3).[434] If the SPE migrates after the parent, it can use the same IFRS amounts as in the consolidated financial statements (Paragraph 2.19.10.1). Conversely, in the parent's separate financial statements the derecognition exemption applies to those financial assets or liabilities, irrespective of whether the parent accounts for the SPE at cost, fair value, or deemed cost (Paragraph 2.19.9 following), because under IFRSs it cannot use the equity method.

2.17.1.5 Derivatives The derecognition exemption does not apply to derivative financial assets and liabilities.[435] Therefore, the company must reinstate a nonhedging derivative that it had derecognized under previous GAAP but which still exists at the transition date, when such derecognition is not compliant with IFRSs.

> **Planning Point:** A hedging derivative may no longer exist at transition date: it may have expired, been terminated, sold, or exercised. The entity may have also revoked the hedge designation. Paragraph 2.17.2 explains that these situations lead to prospective discontinuation of the hedge at transition date. As IFRS 1 prohibits retroactive application of hedge accounting, in effect the entity does not retrospectively remeasure the hedging derivative but measures it at its fair value at transition date.

2.17.1.6 Requirement to Derecognize Comparative periods and the first IFRS reporting periods must remove only those nonderivative financial assets and financial liabilities derecognized in these periods and that meet the related requirements under IFRS 9. Symmetrically, an entity derecognizes financial assets and liabilities that do not meet the recognition criteria.[436]

2.17.1.7 Requirement to Recognize An IFRS first-time adopter must recognize nonderivative financial assets and financial liabilities that meet the recognition requirements of IFRS 9 or IAS 39 after the transition date.[437]

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[433] *IFRS 1, ¶¶ IG26, BC23, then amended by IFRS 10; IAS 27 (2010), ¶ 13; SIC Interpretation No. 12, ¶ 8, then superseded by IFRS 10.*
[434] *IFRS 1, ¶ IG27.*
[435] *IFRS 1, ¶¶ B2, BC23.*
[436] *IFRS 1, ¶¶ 10(b), IG53, IG54.*
[437] *IFRS 1, ¶¶ 10(a), IG52, IG53*

2.17.1.8 Retained Interests, Servicing, and Warranties A company must recognize retained interests and servicing assets and liabilities, even if they arose out of a transaction that was derecognized before the transition date.[438]

> **Example:** The opening IFRS statement of financial position does not report accounts receivable that were derecognized in a past transfer, but does include a liability relating to servicing those receivables or a warranty to refund related losses.

2.17.1.9 Comparative Information The derecognition exemption is compatible with the short-term exemption from comparative information on financial assets and liabilities (Paragraph 2.20.1). A company that elects the exemption applies the derecognition exemption at the beginning of the first IFRS reporting period.

> **Comment:** This means that it leaves a transaction that was derecognized before the transition date as unrecognized both in the comparative periods under previous GAAP and in the current period under IFRSs. The situation differs for a transaction that is derecognized after transition date according to previous GAAP but that does not meet the IFRS 9 criteria for derecognition. It keeps the transaction unrecognized in the previous GAAP comparative periods, while it restores it at the beginning of the first IFRS financial statements.

2.17.2 Hedge Accounting

2.17.2.1 Process and Accounting Entries Exhibit 2-11 illustrates the decision tree concerning hedge accounting at transition date. Exhibit 2-12 illustrates the accounting entries.

> **Comment:** IFRS 1 is very cryptic on hedge accounting. It is generally interpreted by a reading in conjunction with IAS 39 and the IASB intentions declared in the Basis for Conclusions of previous versions of IAS 39.

> **Comment:** Unlike for first-time adopters in 2005 that used IAS 39, the short-term exemption from comparative information of financial assets and liabilities (Paragraph 2.20.1) does not extend to hedge accounting, because the IASB has not yet migrated the hedge accounting provisions of IAS 39 to IFRS 9.

2.17.2.2 Measuring Hedging Derivatives at Fair Value Any hedge reported at transition dates must comply with IAS 39. Therefore, an entity will adjust hedging derivatives to fair value that it had measured on a different basis under previous GAAP. A company also reverses any deferred gains or losses arising from a derivative hedging instrument that do not meet the definition of assets or liabilities under the IASB Framework.[439] The counter-account of these entries depends on the type of hedge and the situations, as the following paragraphs explain.

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[438] *IFRS 1, ¶ BC23.*
[439] *IFRS 1, ¶ B4.*

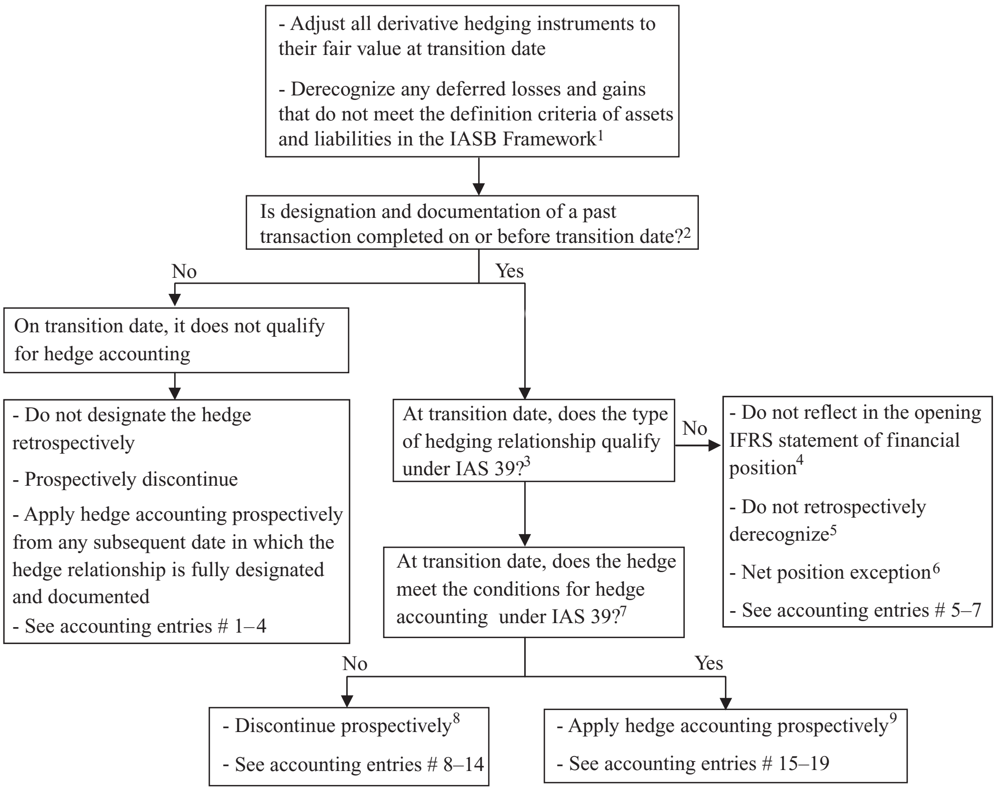

Exhibit 2-11 Treatment of Hedge Accounting at Transition Date

[1]*IFRS 1, ¶ B4.*
[2]*IFRS 1, ¶¶ B6, IG60, BC75.*
[3]*IFRS 1, ¶ B5.*
[4]*IFRS 1, ¶¶ B5, BC79.*
[5]*IFRS 1, ¶ IG60, BC75.*
[6]*IFRS 1, ¶¶ B5, BC78, BC79; IAS 39, ¶ AG101.*
[7]*IFRS 1, ¶¶ B6, BC80.*
[8]*IFRS 1, ¶ B6; IAS 39, ¶¶ 88, 91, 101.*
[9]*IFRS 1, ¶¶ IG60, IG60A, BC76.*

Exhibit 2-12 Accounting Entries for Treatment of Hedge Accounting at Transition Date

#	*Debit*	*Credit*
1	*Formal designation or documentation of a fair value hedge is missing by the transition date. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP.*	
	Liability for deferred loss on hedging instrument	Opening retained earnings
2	*Formal designation or documentation of a fair value hedge is missing by the transition date. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did no measure on this base, and adjusts the carrying amount of the hedged item.*	
	Derivative hedging instrument asset	Opening retained earnings

(continued)

Exhibit 2-12 Accounting Entries for Treatment of Hedge Accounting at Transition Date (*Continued*)

#	*Debit*	*Credit*
1a **2a**	*The entity also adjusts the carrying amount of the hedged item in a fair value hedge. The net change in opening retained earnings reflects the net adjustment of the derivative and the hedged item. See the text for an alternative interpretation.*	
	Opening retained earnings	Hedged item liability (adjustment under IFRS 1, ¶ IG60A)
3	*Designation or documentation of a cash flow value hedge is missing by the transition date. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP*	
	Liability for deferred loss on hedging instrument	Separate component of equity (AOCI)
4a	*Designation or documentation of a cash flow hedge is missing by the transition date. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did no measure on this base.*	
	Derivative hedging instrument asset	Separate component of equity (AOCI)
4b	*As # 3 or 4a. Alternative interpretation based on IFRS 1, ¶ IG58A*	
	Liability for deferred loss on hedging instrument	Opening retained earnings
5	*At transition date, the type of hedging relationship does not qualify under IAS 39. This entry adjusts a derivative hedging instrument to fair value that in a fair value hedge under previous GAAP the entity did not measure on this base.*	
	Derivative hedging instrument asset	Opening retained earnings
6	*At transition date, the type of hedging relationship does not qualify under IAS 39. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments in a fair value hedge or in a cash flow hedge under previous GAAP.*	
	Liability for deferred loss on hedging instrument	Opening retained earnings
7	*At transition date, the type of hedging relationship does not qualify under IAS 39. This entry adjusts a derivative hedging instrument to fair value that in a cash flow hedge under previous GAAP the entity did not measure on this base.*	
	Derivative hedging instrument asset	Opening retained earnings
8	*At transition date the type of hedging relationship qualifies under IAS 39.However, a fair value hedge does not meet the conditions for hedge accounting under IAS 39 (for example, the hedge was terminated and settled before the transition date). This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did not measure on this base, and adjusts the carrying amount of the hedged item. Subsequently the entity discontinues the hedge prospectively.*	
	Derivative hedging instrument asset	Opening retained earnings
	Opening retained earnings	Hedged item liability (adjustment under IFRS 1, ¶ IG60A)
	Or, as a single entry:	
	Derivative hedging instrument asset	Hedged item liability (adjustment under IFRS 1, ¶ IG60A) Opening retained earnings (net adjustment)
9	*As # 8. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP, and adjusts the carrying amount of the hedged item. Subsequently the entity discontinues the hedge prospectively.*	
	Liability for deferred loss on hedging instrument	Hedged item liability (adjustment under IFRS 1, ¶ IG60A) Opening retained earnings (net adjustment)
10	*At transition date the type of hedging relationship qualifies under IAS 39. A forecast transaction is expected to occur, but it is not highly probable. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did not measure on this base. Subsequently the entity discontinues the hedge prospectively. The same entry applies when other conditions for hedge accounting under IAS 39, different from expectation to occur, are not met.*	
	Derivative hedging instrument asset	Separate component of equity (AOCI) Opening retained earnings (to the extent at transition date the hedged transaction has affected profit or loss)

Exhibit 2-12 Accounting Entries for Treatment of Hedge Accounting at Transition Date (*Continued*)

#	*Debit*	*Credit*
11	*As # 10. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP.*	
	Liability for deferred loss on hedging instrument	Separate component of equity (AOCI) Opening retained earnings (to the extent at transition date the hedged transaction has affected profit or loss)
12	*As # 10. The entity recorded changes in the fair value of the derivative hedging instrument in other comprehensive income. No entry is necessary at transition date, except for a reversal to opening retained earnings to the extent at transition date the hedged transaction has affected profit or loss. Subsequently the entity discontinues the hedge prospectively.*	
13	*At transition date the type of hedging relationship qualifies under IAS 39. At transition date, a forecast transaction is not expected to occur. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did not measure on this base. This entry may be divided in two entries: one as # 10 before, and the reversal of AOCI to opening retained earnings as a reclassification adjustment under IAS 39, ¶ 101(c) occurring at the transition date.*	
	Derivative hedging instrument asset	Opening retained earnings
14	*As # 13. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP.*	
	Liability for deferred loss on hedging instrument	Opening retained earnings
14a	*As # 13. Under previous GAAP, the entity reported cumulative gain or loss on the derivative hedging instrument in other comprehensive income.*	
	Component of the accumulated other comprehensive income	Opening retained earnings
15	*At transition date, the type of hedging relationship qualifies under IAS 39. A fair value hedge meets the conditions for hedge accounting under IAS 39. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did not measure on this base, and adjusts the carrying amount of the hedged item. Subsequently the entity prospectively applies hedge accounting.*	
	Derivative hedging instrument asset	Hedged item liability (adjustment under IFRS 1, ¶ IG60A) Opening retained earnings (net adjustment)
16	*As # 15. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP, and adjusts the carrying amount of the hedged item. Subsequently the entity prospectively applies hedge accounting.*	
	Liability for deferred loss on hedging instrument	Hedged item liability (adjustment under IFRS 1, ¶ IG60A) Opening retained earnings (net adjustment)
17	*As # 15. The hedged item is an available-for-sale financial asset.*	
	Derivative hedging instrument asset (adjustment to its fair value)	Opening retained earnings
	Opening retained earnings (change in fair value of the available-for-sale financial asset)	Available-for-sale financial asset (adjustment under IFRS 1, ¶ IG60A) Accumulated other comprehensive income (difference from the change in fair value of the available-for-sale financial asset)
18	*At transition date, the type of hedging relationship qualifies under IAS 39. A cash flow hedge meets the conditions for hedge accounting under IAS 39. This entry adjusts a derivative hedging instrument to fair value that under previous GAAP the entity did not measure on this base. Subsequently the entity prospectively applies hedge accounting.*	
	Derivative hedging instrument asset	Separate component of equity (AOCI)
19	*As # 18. This entry eliminates an asset or liability for deferred gains and losses on hedging instruments under previous GAAP. Subsequently the entity prospectively applies hedge accounting.*	
	Liability for deferred loss on hedging instrument	Separate component of equity (AOCI)

Note: *"asset" can be read as "liability" with reversed debit/credit entries, and vice versa.*

> **Example:** A Spanish bank foreign private issuer explained to the SEC Staff that the most significant impact of migration to IFRSs in 2005 was the recognition and measurement of hedging derivatives at fair value at the transition date, whereas they had been unrecognized under previous GAAP.[440]

2.17.2.3 Adjustment of a Hedged Item in a Fair Value Hedge The following paragraphs explain in which situations at the transition date an entity adjusts a hedged item in a fair value hedge. In all those occurrences, adjusting a hedge item means changing its carrying amount by the lower of the unrecognized portion of the cumulative change in its fair value that reflects the designated risk or the unrecognized or deferred portion of the cumulative change in fair value of the hedging instrument that is attributable to the designated risk.[441]

> **Planning Point:** This is not a retrospective application of IAS 39, because such a recalculation does not necessarily give the same outcome as if IAS 39 had always been applied.[442]

2.17.2.4 Designation and Documentation Under IFRS 1, consistently with IAS 39, one of the conditions to apply hedge accounting at transition date is the existence of full formal designation of the hedge relationship and documentation on or before the transition date. Retrospective designation or de-designation is not permitted. The last useful day is the transition date.

> **Planning Point:** This may imply that the company can designate the hedge under IAS 39 on the transition date. It may also have designated a transaction as a hedge under previous GAAP before the transition date. This is intended to prevent penalizing new adopters. The fact that before the transition date a hedge designated under previous GAAP did not meet the IAS 39 designation and documentation criteria or other conditions for hedge accounting is irrelevant at this stage of the process.[443] As Exhibit 2-11 illustrates, these are subsequent steps. However, if by the transition date the hedge is not designated, hedged accounting is not applicable until from the date of a new designation. The entity will reclassify any former derivative hedging instrument as held for trading.

> **Example:** A Spanish foreign private issuer, in its reply to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, explained that at transition date certain transactions documented under previous GAAP did meet the IFRSs' requirements for hedge accounting. Conversely, the company had discontinued those fair value hedges of fixed income securities and cash flow hedges of exchange rate risk under U.S. GAAP because the documentation required under U.S. GAAP was not available at the date of designation of those hedges.[444]

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[440] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 22. Reply by the Company, February 26, 2007.*
[441] *IFRS 1, ¶ IG60A.*
[442] *IFRS 1, ¶ IG60A.*
[443] *IFRS 1, ¶¶ IG60, BC75, BC76; IAS 39, ¶ F.3.8; IASB Update, March 2002.*
[444] *SEC IFRS Reviews. Reply by the company to the SEC, February 26, 2007. File No. 001-10110, Comment 18 and Comment 27.*

IFRS 1 reserves a specific consideration to hedging designation and documentation.

Comment: Under IAS 39, designation and documentation are part of the requisites for a hedge relationship to qualify for hedge accounting.[445] IFRS 1 requires prospective discontinuation of a hedge that does not meet those requirements (see Paragraph 2.17.2.7). However, it gives special prominence to designation and documentation. In fact, it regulates the prospective application or discontinuation of hedged accounting only after testing that those hedges are fully designated and documented.[446]

IFRS 1 does not explain how to account at transition date for a previously undesignated hedge.

Planning Point: In particular, two different interpretations exist concerning a cash flow hedge that the entity has not formally designated and documented by the transition date and for which it did not measure a derivative instrument at fair value. The prevalent theory is that it must adjust the derivative at its fair value at transition date against a separate component of equity (i.e., accumulated other comprehensive income), and then prospectively discontinue the hedge. This treatment is consistent with the principle of prospective discontinuation under IFRS 1 (see Paragraph 2.17.2.7). An alternative interpretation moves from the literal wording of a provision in IFRS 1, based on which at transition date the fair value adjustment of a derivative that is not a designated and effective hedging instrument affects opening retained earnings.[447] However, this would contrast with the prohibition in IFRS 1 to derecognize a hedge retrospectively.[448]

No guidance exists on whether the entity must adjust the carrying amount of a hedged item in a fair value hedge that does not meet the designation criteria by the transition date. On one hand, the guidance of IFRS 1 for adjusting a hedged item refers to a designated hedge. However, not adjusting it would be tantamount to retrospective derecognition. On the other hand, adjusting permits prospective discontinuation, which IFRS 1 requires in this case.

2.17.2.5 Nonqualifying Types of Hedging Relationships Once a company has become satisfied that designation and documentation was fully completed no later than the transition date, it must check the type of hedging relationship (i.e., the type of hedged item, the type of hedging instrument, or the type of effects between the two). The opening IFRS statement of financial position cannot reflect a type of hedging relationship that does not qualify under IAS 39. IAS 39 explains which situations do not qualify. Examples are a written option or a cash instrument designated as a hedging instrument, a nonderivative hedging a nonforeign currency hedge, a held-to-maturity asset designated as a hedge item, or internal derivative.[449]

Planning Point: IFRS 1 does not explain how to account for this case. The IFRS 1 principle that an IFRS first-time adopter must apply hedging accounting prospectively and cannot reverse a previous designation retrospectively[450] implies that it cannot derecognize a hedge retrospectively. For example,

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[445] *IAS 39, ¶ 88.*
[446] *IFRS 1, ¶¶ B6, IG20.*
[447] *IFRS 1, ¶ IG58A.*
[448] *IFRS 1, ¶¶ IG60, BC76; IASB Update, March 2002.*
[449] *IFRS 1, ¶¶ B5, BC79; IASB Update, February 2003.*
[450] *IFRS 1, ¶ IG60, BC75.*

it cannot reverse the fair value adjustment made under previous GAAP on a held-to-maturity financial asset, because this would be tantamount to a retrospective derecognition. In any event, if the hedging instrument is a derivative, the first-time adopter must recognize and measure it at fair value. It also has to derecognize any deferred losses and gains that do not meet the definition of assets and liabilities in the IASB Framework.

An issue arises with a cash flow hedge under previous GAAP. Arguably, if it affected other comprehensive income, adjustment in opening retained earnings would be tantamount to a retrospective derecognition.

IFRS 1 does not explain the subsequent accounting. Arguably, it will account for the former hedged item or for accumulated other comprehensive income in a cash flow hedge based on the treatment that IFRSs would ordinarily apply to the specific item. Furthermore, it will reclassify any former derivative hedging instrument as held for trading.

Example: The SEC Staff reviewed the Form 20-F of a British foreign private issuer for the fiscal year ended December 31, 2005 filed under IFRSs. It required the company to disclose clearly that it had not reflected any type of hedging relationships in its IFRS opening balance sheet that qualified for fair value hedge accounting under UK GAAP but not under IFRSs.[451]

2.17.2.6 Hedges of a Net Position IFRS 1 grandfathers a hedge of a net position, to the extent that by the transition date the entity designates a single item of the group as a hedged item. In the alternative, of course, the company may choose not to reflect the hedge in the opening IFRS statement of financial position.[452]

2.17.2.7 Prospective Discontinuation of Previously Designated Nonqualifying Hedges An IFRS first-time adopter must prospectively discontinue a previously designated hedge that does not meet, or no longer meets, the criteria for hedge accounting under IAS 39. This means that, in order to continue a hedge under IFRSs, starting from the date of transition to IFRSs, all IAS 39 requisites must be up and running.[453]

Planning Point: While Paragraph 2.17.2.5 above refers to the type of hedge relationship between a hedged item and a hedging instrument, IFRS 1 here refers to the conditions for hedge accounting. The references to IAS 39 clarify that the point concerns four situations: 1) the expiration, sale, termination, or exercise of the hedging instrument; 2) the criteria for hedge accounting; 3) the revocation of the designation, and 4) a forecast transaction that is no longer expected to occur. The criteria for hedge accounting (point 2 above) comprise formal designation and documentation (see Paragraph d above), expectation of high effectiveness of the hedge, reliable measurability of the effectiveness, ongoing assessment, and actual high effectiveness. Additional criteria for cash flow hedges are high probability of a forecast transaction, and exposure to cash flow variations affecting profit or loss.[454]

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[451] *SEC IFRS Reviews. Letter by the SEC, September 28, 2006. File No. 000-25670, Comment 12.*
[452] *IFRS 1, ¶¶ B5, BC78, BC79; IAS 39, ¶ AG101.*
[453] *IFRS 1, ¶¶ B6, BC80.*
[454] *IAS 39, ¶¶ 88, 91, 101.*

> **Planning Point:** High effectiveness is one of the conditions for hedge accounting.[455] On the transition date, an entity assesses effectiveness prospectively. It does not make a retrospective assessment at transition date, irrespective of whether it existed under previous GAAP before that date.

As usual, the first step at transition date is to recognize and measure any derivative at fair value and eliminate any deferred gains and losses that do not meet the definition of assets or liabilities. In particular, in a cash flow hedge, the company checks the existence at transition date of a forecast transaction that it no longer expects to occur. In such a case, the previous entries are against opening retained earnings. Similarly, an entity that had recorded other comprehensive income will reverse its cumulative balance against opening retained earnings.[456]

> **Comment:** Although a forecast transaction that is no longer expected to occur is part of the criteria mentioned above as point 2), IFRS 1 treats this situation separately, because it is as if the component of accumulated other comprehensive income were recycled at the transition date.

In all other situations concerning a cash flow hedge, these adjustments are against the opening balance of the component of accumulated other comprehensive income, except for any portion of the hedged transaction that at transition date has already affected profit or loss, which is recorded against opening retained earnings.

> **Comment:** This is not a retrospective application, because the fair valuation occurs at transition date and there is no recalculation of deferred gains or losses as if IAS 39 had always been applied.

Again, no guidance exists on whether the entity must adjust the carrying amount of a hedged item in a fair value hedge that is prospectively discontinued.

> **Planning Point:** Failure to adjust would undermine the effects of prospective discontinuation. As Paragraph 2.17.2.3 explains. this is not a retrospective application of IAS 39. If the entity recorded an asset or a liability for deferred losses or gains, it must reverse the amount of losses or gains into the hedged item.

Then, the company follows the instructions in IAS 39 for subsequent prospective discontinuation of the hedge. It reclassifies any former derivative hedging instrument that it no longer accounts for as such to the held for trading category. Any subsequent gain or loss on the derivative contract will affect profit or loss. In the case of a fair value hedge, gains or losses attributed to the hedged risk will no longer adjust the former hedged items. The adjustment of the carrying amount made at the transition date will later affect profit or loss depending on its nature (e.g., cost of sales if inventory, depreciation if a tangible asset, effective interest method in the case of a financial asset carried at amortized cost, etc.). For example, in the

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[455] *IAS 39, ¶¶ 88(b), AG105; IASB Update, March 2002.*
[456] *IFRS 1, ¶¶ B4, IG60B.*

case of a hedge of a loan settled before the transition date, the entity amortizes the previous GAAP unamortized portion of the deferred gains or losses reversed into the loan over the remaining term of the loan. In the case of a cash flow hedge, the entity freezes the cumulative other comprehensive income as a separate component of equity until the forecast transaction occurs. When this happens, it will record a reclassification adjustment or a basis adjustment, depending on the cases, based on IAS 39 guidance. It will reclassify accumulated other comprehensive income into profit or loss if subsequently it no longer expects the transaction to occur.[457]

2.17.2.8 Prospective Application of Qualifying Hedges Paragraph 2.17.2.2 above explains that hedging derivatives must reflect fair value at transition date and that no deferred gains or losses that do not meet the definition of assets or liabilities under the IASB Framework can exist at that date. In the case of a fair value hedge, these adjustments affect opening retained earnings at the transition date. In the case of a fair value hedge, they affect accumulated other comprehensive income at the same date. After these entries, an entity accounts for a hedge that meets the IAS 39 criteria for hedge accounting prospectively.

Planning Point: In a fair value hedge, the net change in opening retained earnings is the difference between the above adjustments related to the hedging instrument and the adjustment related to the hedged item. This net change does not necessarily correspond to the excluded portion of the hedge. This would be the case if hedge accounting had been retrospectively restated. If the portion of the fair value of the derivative hedging instrument due to the designated hedged risk is less than the portion of the change in the hedged item, its adjustment would be lower than it would have been if IAS 39 had always been applied.

Planning Point: In the case of an available-for-sale financial asset under IAS 39 that is a hedged item in a fair value hedge, the entity adjusts the asset according to the rule explained in Paragraph 2.17.2.3. The difference between the above adjustment and the entire change in fair value of the available-for-sale financial asset affects accumulated other comprehensive income. The net impact in opening retained earnings is the entire change in fair value of the available-for-sale financial asset less the adjustment to the fair value of the derivative hedging instrument. Again, this differs from the retrospective application of IAS 39, which would have required the adjustment of the available-for-sale financial asset based on the entire change in its fair value and the recording in other comprehensive income of the excluded portion of the hedge.

2.17.2.9 Hedges of a Net Investment in a Foreign Operation IFRS 1 provides no guidance for net investment hedges.

Comment: The treatment should be analogous to that of cash flow hedges, because of the assimilation to cash flow hedges operated by IAS 39.[458]

In addition, IFRS 1 does not explain what happens if the entity elects the IFRS 1 exception for the cumulative translation adjustment (Paragraph 2.19.8 following).

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[457] *IFRS 1, ¶ B6; IAS 39, ¶¶ 88, 91, 101.*
[458] *IAS 39, ¶ 102.*

Planning Point: It may be argued that, by resetting the cumulative translation adjustment to zero against opening retained earnings, such an exception would have the same outcome as if it were the restatement of a reclassification adjustment at transition date (i.e., as if the foreign operation had been disposed of). In explaining the cumulative translation adjustment exception, IFRS 1 mentions the gains or losses on related hedges and does not scope them out of the exception.[459] This reversal to opening retained earnings would also include the portion of accumulated other comprehensive income that consists of gain or loss on the hedging instrument relating to the effective portion of the hedge that, through the exception, has affected profit or loss at the transition date.

Planning Point: Under IFRSs, hedge accounting applies only to foreign exchange differences involving functional currencies, not to a different presentation currency.[460] Therefore, no hedging accounting will be possible for this component if the entity does not elect to zero it out under the exception.

2.17.3 Classification and Measurement of Financial Instruments

This paragraph treats three aspects of the topic: 1) what circumstances an IFRS first-time adopter must consider in classifying financial assets and financial liabilities, 2) the measurement approach, and 3) the accounts affected, with specific analysis per type of financial instrument.

2.17.3.1 Circumstances to Consider for Classification and Designation As a general principle under IFRS 9 and IAS 39, an entity must initially recognize, classify, and measure a financial asset or a financial liability when the entity becomes a party to its contractual provisions. If permitted, the entity may give the financial instrument a specific designation.[461] However, when an entity already reporting under IFRSs first applies IFRS 9, it assesses the prerequisites for classification and designation based on facts and circumstances existing at the date of initial application of IFRS 9.[462] To give equal opportunities to IFRS first-time adopters, IFRS 1 requires an assessment of the classification of financial assets and financial liabilities under IFRS 9 based on facts and circumstances existing at transition date.[463]

Comment: The wording of this exception in IFRS 1 mentions financial assets only, not financial liabilities. However, its Implementation Guidance also cites financial liabilities. The November 2009 release of IFRS 9, which deals with financial assets only, introduced this exception. The October 2010 version of IFRS 9, which includes financial liabilities, has not amended IFRS 1 on this point.

Exhibit 2-13 summarizes the classification at transition date of previously recognized financial instruments, depending on whether or not the migrating entity adopts IFRS 9 early.

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459 *IFRS 1, ¶ D12.*
460 *IFRIC 16, ¶¶ 10, 12.*
461 *IFRS 9 (October 2010), ¶ 3.1.1; IAS 39, ¶¶ (December 2010 with no earlier application) 9, 14, 43.*
462 *IFRS 9 (October 2010), ¶¶ 7.2.4, 7.2.7, 7.2.9, B7.2.1.*
463 *IFRS 1 (December 2010 with earlier adoption), ¶¶ B8, IG56.*

Exhibit 2-13 Classification and Measurement at Transition Date of Previously Recognized Financial Instruments Under IAS 39 and IFRS 9

From (under Previous GAAP)	*To (under IAS 39)*	*Date of Classification or Designation*	*Account Used for Adjustment*
Cost or amortized cost, or fair value affecting profit or loss	Amortized cost (held-to-maturity assets)	At transition date[1]	Retrospective application affects opening retained earnings[2]
	Amortized cost for financial assets and liabilities not acquired in a business combination (loans and receivables assets and liabilities at amortized cost)	On the date the asset first satisfied initial recognition criteria in IAS 39[3]	Retrospective application from when the asset first satisfied initial recognition criteria in IAS 39 affects opening retained earnings[4]
	Cost (unquoted equity instrument and derivatives linked to, or settled by the equity instrument)	No guidance (arguably, at transition date)	No guidance (arguably, retrospective application affects opening retained earnings)[5]
	Fair value affecting profit or loss	– For nonhedging derivatives that are not financial guarantee contracts: at transition date[6] – For nonderivative assets or liabilities that are held for trading; at transition date, based on whether it was acquired or incurred principally for short-term trading and at transition date is part of a portfolio of identified financial instruments managed together with evidence of recent short-term trading[7] – For nonderivative financial asset or liability designated as at fair value through profit or loss: at transition date[8]	Opening retained earnings[9]
Cost or amortized cost, or fair value affecting profit or loss (continued)	Fair value affecting other comprehensive income (available-for-sale assets, both when designated as such or when a residual category)	At transition date[10]	Retrospective application of cumulative other comprehensive income as a separate component of equity[11]

[1] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG56(a).*
[2] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG58A.*
[3] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG56(b).*
[4] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ IG57, IG58A.*
[5] *IFRS 1, ¶ IG58A; IAS 39, (December 2010 with no earlier adoption), ¶¶ 12, IG C.11.*
[6] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ IG56(c), IG58A.*
[7] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ IG56(d)(i), IG56(d)(ii).*
[8] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG 56(d)(iii).*
[9] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG58A.*
[10] *IFRS 1 (December 2009 with no earlier application), ¶¶ IG56(e), BC81.*
[11] *IFRS 1 (December 2009 with no earlier application), ¶¶ IG63, Example 11, note 3, BC81, BC83.*

Exhibit 2-13 Classification and Measurement at Transition Date of Previously Recognized Financial Instruments Under IAS 39 and IFRS 9 (*Continued*)

From (under Previous GAAP)	*To (under IAS 39)*	*Date of Classification or Designation*	*Account Used for Adjustment*
Fair value outside profit or loss	– Amortized cost (held-to-maturity assets, loans and receivables assets, liabilities at amortized cost) – Cost (unquoted equity instrument and linked or settled by derivatives)	No guidance. Arguably, as for the cases of amortized cost or cost classifications mentioned above	
	Fair value affecting profit or loss (nonderivative assets or liabilities that are held for trading, nonderivative financial asset or liability designated as at fair value through profit or loss, or nonhedging derivatives that are not financial guarantee contracts)	At transition date	Pre-IAS 39 gain or loss is reclassified into retained earnings[12]
	Fair value affecting other comprehensive income (available-for-sale asset. both when designated as such or when a residual category)	At transition date	Pre-IAS 39 gain or loss is recognized in a separate component of equity[13]
Cost or amortized cost, or fair value affecting profit or loss	Amortized cost for financial assets and liabilities not acquired in a business combination	At transition date[a]	Retrospective application from when the asset first satisfied initial recognition criteria in IFRS 9 affects opening retained earnings[14]
	Fair value affecting profit or loss	– For nonhedging derivatives that are not financial guarantee contracts: at transition date[15] – For nonderivative financial asset or liability measured at fair value through profit or loss: at transition date[16]	Opening retained earnings[17]
	Fair value affecting other comprehensive income (nontrading equity instruments designated as at fair value through other comprehensive income)	At transition date[18]	Retrospective application of cumulative other comprehensive income as a separate component of equity[19]

[12]*IFRS 1 (December 2010 with no earlier adoption), ¶ IG59.*
[13]*IFRS 1 (December 2010 with no earlier adoption), ¶ IG59.*
[a]*IFRS 1 (December 2010 with earlier adoption), ¶ IG56.*
[14]*IFRS 1 (December 2010 with earlier adoption), ¶¶ IG 57, IG58A.*
[15]*IFRS 1 (December 2010 with earlier adoption), ¶¶ IG56, IG58A.*
[16]*IFRS 1 (December 2010 with earlier adoption), ¶¶ D19, D19A, IG46, IG58A.*
[17]*IFRS 1 (December 2010 with earlier adoption), ¶¶ IG56, IG58A, IG63, Example 11, note 3.*
[18]*IFRS 1 (December 2009 with earlier application), ¶¶ D19B, IG56.*
[19]*IFRS 1 (December 2009 with earlier application), ¶ IG56; IFRS 9 (October 2010), ¶ 7.2.7.*

(continued)

Exhibit 2-13 Classification and Measurement at Transition Date of Previously Recognized Financial Instruments Under IAS 39 and IFRS 9 (*Continued*)

From (under Previous GAAP)	*To (under IAS 39)*	*Date of Classification or Designation*	*Account Used for Adjustment*
Fair value outside profit or loss	Amortized cost for financial assets and liabilities not acquired in a business combination	At transition date[a]	Retrospective application from when the asset first satisfied initial recognition criteria in IFRS 9 affects opening retained earnings[20]
	Fair value affecting profit or loss (nonderivative assets or liabilities that are held for trading, nonderivative financial asset or liability designated as at fair value through profit or loss, or nonhedging derivatives that are not financial guarantee contracts)	At transition date[a]	Pre-IFRS 9 gain or loss is reclassified into retained earnings[21]
Fair value outside profit or loss (continued)	Fair value affecting other comprehensive income (nontrading equity instruments designated as at fair value through other comprehensive income)	At transition date[a]	Pre-IFRS 9 gain or loss is reclassified as a separate component in equity[22]

[20]*IFRS 1 (December 2010 with earlier adoption), ¶¶ IG 57, IG58A.*
[21]*IFRS 1 (December 2010 with no earlier adoption), ¶ IG59.*
[22]*IFRS 1 (December 2010 with no earlier adoption), ¶ IG59.*

Planning Point: If an entity migrates before October 2010 and adopts IFRS 9 (November 2009) early, it assesses the classification of financial instruments under IFRS 9 for financial assets and under IAS 39 for financial liabilities. If it adopts IFRS 9 (October 2010) early or migrates for annual periods beginning on or after January 1, 2013, it uses this version of the standard for financial assets and financial liabilities. If it does not adopt IFRS 9 early, it uses IAS 39 for both (also see Paragraph 2.19.13.4 previously). IFRS 1 with no earlier adoption, which refers to IAS 39, is much less clear. There are two main differences. Firstly, it spells out a complex list of different situations, as Paragraph 2.17.3.3 following explains. The classification based on facts and circumstances that exist at transition date does not apply to every category of financial assets and liabilities. On the contrary, IFRS 1 with earlier adoption extends the classification based on facts and circumstances existing at transition date to every category. Secondly, IFRS 1 with no earlier adoption gives the possibility of designating financial instruments at transition date only as available-for-sale or as at fair value through profit or loss under IAS 39.[464] This parallels the fact that IAS 39 limits new designations by ongoing IFRS entities to the available-for-sale category and to the fair value option, the latter only for entities adopting IAS 39 for annual periods beginning before January 1, 2006.[465] Conversely, consistently with IFRS 9, IFRS 1 with earlier adoption permits only the election of fair value and the designation of equity instruments through other comprehensive income. Paragraph 2.19.12.1 expands on those designations.

[464] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ D19, IG56, BC63A; IFRS 1 (December 2010 with earlier adoption), ¶¶ D19, D19A, D18B, IG56.*
[465] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ 105, 105B(a), 105D.*

> **Comment:** To classify a nonderivative financial instrument as held-for-trading at transition date, IFRS 1 with no earlier adoption of IFRS 9 mentions two conditions. The entity must have acquired or incurred it principally for short-term trading. At transition date, it must be part of a portfolio of identified financial instruments managed together with an evidence of recent short-term trading. These two situations date back to different moments. It does not say that both prerequisites must exist at transition date. However, it claims consistency with the treatment in Paragraph 50 of IAS 39, which concerns a financial asset that was initially classified as held-for-trading and is no longer managed for this purpose.[466] Therefore, arguably, both conditions must exist at transition date.

2.17.3.2 Measurement Approach Once an IFRS first-time adopter has made a classification or a designation, it must apply it (and, hence, the consequent measurement criteria) retrospectively, not prospectively, at transition date.

> **Comment:** Retrospective application is the general rule under IFRS 1. IFRS 1 states it explicitly in this case. It is valid whether the entity applies IAS 39 or adopts IFRS 9 early. In fact, IFRS 1 refers to IFRS 9 and IAS 39, which in turn require retrospective application, except in the case of specific derogations. Similarly, an entity already reporting under IFRSs must apply the designations made on initial application of IFRS 9 retrospectively.[467]

2.17.3.3 Accounts Affected Exhibit 2-13 summarizes the accounts affected in measuring at transition date previously recognized financial instruments, depending on whether or not the migrating entity adopts IFRS 9 early. The following paragraphs analyze measurement issues by types of instruments where neither IFRS 1 nor IAS 39 is sufficiently clear.

> **Planning Point:** IFRS 9 eliminated the available-for-sale, held-to-maturity, and loans and receivables categories. However, the previous guidance to IFRS 1 still applies to an IFRS first-time adopter that does not apply IFRS 9 early and instead uses the provisions of IAS 39. In fact, an entity that migrates to IFRSs before the effective date of IFRS 9 may apply IAS 39 by not adopting IFRS 9 early. In this case, it follows the version of IFRS 1 with no earlier application of IFRS 9. After migration, it will apply the IAS 39 reclassification rules to any subsequent change in classification of financial assets and liabilities, if permitted. When it has to adopt IFRS 9, any change in classification of financial assets and liabilities that is mandated by IFRS 9 will follow the transitional provisions of IFRS 9. It will apply the rules in IFRS 9 for reclassifications to any subsequent change in classification of financial assets and liabilities, if permitted. Alternatively, it can migrate to IFRSs and adopt IFRS 9 early. In this case, it follows the version of IFRS 1 with earlier application of IFRS 9. After migration, it will apply the rules in IFRS 9 for reclassifications, if permitted, to any subsequent change in classification of financial assets and liabilities.

2.17.3.4 Instruments at Fair Value Through Profit or Loss At transition date, an adjustment to the carrying amounts of a financial asset or liability due to differences between IFRS and previous GAAP affects opening retained earnings if the type of measurement basis applicable under IFRS 9 or IAS 39 would affect profit or loss.[468] In particular, a designation

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[466] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ IG56(d)(i), IG56(d)(ii).*
[467] *IFRS 1, ¶¶ 11, IG56; IFRS 9, ¶¶ 7.2.1, 7.2.4, 7.2.7, 7.2.9; IAS 39, ¶ 104.*
[468] *IFRS 1, ¶ IG58A.*

at fair value through profit or loss at transition date affects the opening retained earnings for the entire cumulative impact, as the treatment under IFRS 9 or IAS 39 would have affected profit or loss. Paragraph 2.19.12.1 explains these designations.

> **Comment:** Any amortized cost that the entity might have used under previous GAAP has already affected opening retained earnings.

2.17.3.5 Available-for-Sale Financial Assets Some issues arise with reference to available-for-sale financial assets under IAS 39.

> **Planning Point:** IFRS 1 with no earlier adoption refers to IAS 39. Retrospective application is the general rule for adoption of IAS 39 by ongoing IFRS entities. IAS 39 explicitly states that an entity already reporting under IFRSs could redesignate a previously recognized financial asset as available-for-sale. In this case, it has to restate comparative information based on the new classification of the financial asset, reclassify all cumulative changes in fair value in a separate component of equity, and disclose the fair value in comparison to the previous classification and carrying amount.[469] The Basis for Conclusions of IFRS 1 confirms that both IAS 39 and IFRS 1 apply retrospectively to available-for-sale financial assets. It also explains that an IFRS first-time adopter that uses IAS 39 recognizes the separate component of equity at transition date.[470] However, a retrospective application is different from a fresh-start fair value measurement. Neither of the two standards explains whether such a designation also entails restating the opening balance of retained earnings for any items that would have affected profit or loss before the transition date but this did not happen under previous GAAP. In fact, under IAS 39 the accounting for available-for-sale financial assets may affect profit or loss for interest income, certain foreign exchange gains and losses, and impairment losses and reversals (asymmetrically, on equity instruments). It could be argued that IFRS 1 specifies that, in general, a transition adjustment on financial assets and liabilities must affect opening retained earnings at transition date to the extent IAS 39 would produce such an outcome.[471] Similarly, under IFRS 1 with earlier adoption of IFRS 9, if the entity elects a designation as at fair value through other comprehensive income, it will have to recast cumulative other comprehensive income, as well as opening retained earnings for any items (e.g., dividends) that should have affected profit or loss before the transition date but had not under previous GAAP.

> **Planning Point:** A separate component of equity arises from the retrospective application of the designation of a financial asset as available-for-sale that was carried at cost under previous GAAP. Example 11 of the Implementation Guidance of IFRS 1 calls it revaluation surplus. This appears inappropriate because such a term applies to revaluation of fixed assets.[472]

2.17.3.6 Unquoted Equity Instruments and Related Derivatives For entities that use IAS 39, IFRS 1 provides no guidance about classification and measurement at transition date of an unquoted equity instrument and derivatives that have linkages or a settlement

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[469] *IAS 39 (December 2010 with no earlier adoption), ¶¶ 104, 105.*
[470] *IFRS 1 (December 2009 with no earlier application), ¶¶ BC81, BC83.*
[471] *IFRS 1 (December 2009 with no earlier application), ¶ IG58A.*
[472] *IFRS 1 (December 2009 with no earlier application), ¶ IG63, Example 11, note 3.*

relationship with it. Furthermore, it does not provide any instruction for the situation in which under previous GAAP the entity used to measure the instrument at fair value through profit or loss but at transition date fair value is no longer available and the instrument is measured at cost.

Planning Point: Based on the general principles mentioned above, and in consistency with the three situations that follow, the adjustments would affect opening retained earnings. Firstly, IAS 39 (unlike IFRS 9) accounts for them at cost. Secondly, when a reliable fair value measurement becomes available for such instruments, under IAS 39 the effect also extends to profit or loss. Finally, if the derivative is embedded in a combined contract that is entirely measured at fair value through profit or loss,[473] the adjustment also affects opening retained earnings.

2.17.3.7 Nonhedging Derivatives At transition date, an IFRS first-time adopter must measure any nonhedging derivatives at fair value against opening retained earnings.[474] Paragraph 2.17.1.5 explains the recognition requirements for a nonhedging derivative. Paragraph 2.17.2.2 illustrates the measurement requirements for hedging derivatives. The rule of measuring derivatives at fair value is valid irrespective of whether a financial instrument is a hedging or nonhedging derivative. An IFRS first-time adopter must also recognize and measure at fair value any hedging derivatives existing at transition date.[475]

2.17.3.8 Change from Outside to Through Profit or Loss If an IFRSs first-time adopter that uses IFRS 9 classifies a financial asset as at fair value through profit or loss, whereas under its previous GAAP it used to classify the financial asset's change in fair value outside profit or loss, at transition date it reclassifies the pre-IFRS 9 appreciation gain in opening retained earnings. If it classifies that financial asset as at fair value through other comprehensive income, it recognizes the pre-IAS IFRS 9 appreciation gain in a separate component of equity. If it opts for IAS 39 and classifies that financial asset as available-for-sale, the same thing happens to the pre-IAS 39 appreciation gain, with the difference that a subsequent derecognition will determine a reclassification adjustment (conversely, for a financial asset at fair value through other comprehensive income it may simply cause an elective transfer to a different caption in equity).[476]

Comment: The 2007 Revision of IAS 1 did not amend this "separate component of equity" to other comprehensive income. Hence, it arguably has to be displayed separately from other comprehensive income that is accumulated after the initial adoption of IAS 39. According to a different opinion, the pre-IAS 39 component would be accounted in the same equity reserve.[477] In any case, in pre-IFRS 9 accounting, subsequent reclassifications to profit or loss on derecognition or impairment apply to both the components of equity.

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[473] *IAS 39 (December 2010 with no earlier adoption), ¶¶ 12, IG C.11; IFRS 1, ¶ IG58A.*
[474] *IFRS 1, ¶ IG58A.*
[475] *IFRS 1, ¶ B4.*
[476] *IFRS 1 (December 2010 with no earlier adoption), ¶ IG59; IFRS 1 (December 2010 with earlier adoption), ¶ IG59.*
[477] *ABI – Associazione Bancaria Italiana, Soluzioni IAS No. 16 (March 10, 2006).*

Comment: The Implementation Guidance of IFRS 1 refers to revaluation as opposed to appreciation gain. In the IFRS 1 reconciliation of total comprehensive income, it shows the gains relating to the difference between fair value at transition date and the carrying amount under previous GAAP in a "revaluation reserve" ("revaluation surplus" in Restructured IFRS 1).[478] Arguably, these terms are inappropriate, as under IFRSs the term "revaluation" is used for tangible and intangible assets carried at revaluation model (not under the fair value model).

2.17.4 Embedded Derivatives

2.17.4.1 Rule for Entities that Adopt IFRS 9 (October 2010) Early IFRS 1, as amended by IFRS 9 (October 2010) permits entities migrating to IFRSs to assess whether an embedded derivative warrants separation on the grounds of the conditions existing at the later of the dates of either its initial recognition or the date of a permitted reassessment under IFRS 9, not at transition date. Once the entity determines that separation is required under IFRS 9, it must determine the initial carrying amount of the components of the hybrid contract under IFRSs retrospectively from the date on which the instrument first satisfied the recognition criteria in IFRS 9. It then reconstructs the amount of the separate derivative at transition date against an adjustment to opening retained earnings.[479]

2.17.4.2 Differences for Other Paths of Adoption Exhibit 2-14 highlights the composite differences applicable to an entity migrating to IFRSs that does not adopt IFRS 9 early, one that adopts IFRS 9 (November 2009) early, and one that adopts IFRS 9 (October 2010) early.

Planning Point: IFRS 9 (October 2010) superseded IFRIC 9 and transferred some of its provisions to IFRS 9 and IFRS 1. Companies that do not adopt IFRS 9 early use IFRS 1 with no earlier adoption, IAS 39, and IFRIC 9. IFRS 1 with no earlier adoption has no such exemption. However, it refers to IAS 39. IFRIC 9 is an Interpretation of IAS 39, and IFRIC 9 has the same exemption. Of course, it refers to recognition criteria under IAS 39, not under IFRS 9.[480]

However, in the case of a reassessment due to a substantial modification of the contract that requires a separation, the language used opens the questions of whether retrospective application starts from the initial recognition of the instrument or from the reassessment.

Planning Point: A resulting adjustment of the embedded derivative at transition date is against opening retained earnings, including when an entity measures the combined contract as at fair value through profit or loss because it cannot determine the initial carrying amount of the components (Paragraph 2.17.3.6 previously).

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[478] *IFRS 1 (June 2005, Restructured November 2008, and December 2010 with no earlier adoption), ¶ IG 63 Example 11.*

[479] *IFRS 9 (October 2010), ¶ 7.3.1*

[480] *IFRIC 9, ¶¶ 8, BC13.*

Exhibit 2-14 IFRS 1 Exception Relating to Embedded Derivatives

	Entity Migrating to IFRSs Does Not Adopt IFRS 9 Early[1]	*It Adopts IFRS 9 (November 2009) Early*[2]	*It Adopts IFRS 9 (October 2010) Early*[3]
Scope of separation guidance	Derivative financial instruments or other contracts within the scope of IAS 39 that are embedded in a financial or nonfinancial hybrid contract	– Derivatives that are embedded in a hybrid contract containing a financial or nonfinancial host contract that is not within the scope of IFRS 9 (November 2009) – Separation does not apply to hybrid contracts containing a financial host that is within the scope of IFRS 9 (November 2009)	– Derivatives that are embedded in a hybrid contract containing a financial or nonfinancial host contract that is not within the scope of IFRS 9 (October 2010) – Separation does not apply to hybrid contracts containing a financial host that is within the scope of IFRS 9 (October 2010)
Standards applicable at transition date to the assessment of whether separation is required	IAS 39 unamended by IFRS 9	IAS 39	IFRS 9 (October 2010)
Standards applicable to the embedded derivative	Accounted for as a derivative under IAS 39	– Accounted for as a derivative asset under IFRS 9 (November 2009) – Accounted for under IFRS 9 for all other derivatives	Accounted for as a derivative under IFRS 9 (October 2010)
Standards applicable to the host contract, if the embedded derivative is separated	– Accounted for under IAS 39, if a financial instrument – Otherwise, under other IFRSs	– Under other IFRSs	– Under other IFRSs
At transition date, an entity assesses whether separation is required	– Based on conditions that existed at the later of either when the entity became party to the host contract or the date of a reassessment permitted by IAS 39	As in the column on left	Based on conditions that existed at the later of either when it first became party to the host contract or the date of a reassessment permitted by IFRS 9
A reassessment is permitted only when	– For IFRS first-time adopters, when there is a change in contract terms that significantly modifies the future cash flows expected from the embedded derivative, the host contract, or both – For entities already reporting under IFRSs: as above as well as in the case of a reclassification of financial asset out of the fair value through profit or loss category	– For IFRSs first-time adopters, when there is a change in contract terms that significantly modifies the future cash flows expected from the embedded derivative, the host contract or both – For entities already reporting under IFRSs, IFRS 9 eliminated the provisions in IAS 39 of reclassification of financial asset out of the fair value and introduced other rules on reclassifications	When there is a change in contract terms that significantly modifies the future cash flows expected from the embedded derivative, the host contract, or both

(continued)

Exhibit 2-14 IFRS 1 Exception Relating to Embedded Derivatives (*Continued*)

	Entity Migrating to IFRSs Does Not Adopt IFRS 9 Early[1]	*It Adopts IFRS 9 (November 2009) Early*[2]	*It Adopts IFRS 9 (October 2010) Early*[3]
When the entity cannot determine the initial carrying amount of the embedded derivative and the host contract reliably	– It treats the combined contract as at held for trading – In case of a derivative linked to or settled by delivery of an unquoted equity instrument, this will not result in fair value measurement of the hybrid or of the host contract	– It designates the combined contract as at fair value through profit or loss – IFRS 9 (October 2009) removes reference to an unquoted equity instrument because IFRS 9 measures it at fair value	It measures the combined contract as at fair value through profit or loss
IFRIC 9 is	In force	In force	– Superseded by IFRS 9 (October 2010) – IFRIC 9 requirements incorporated in IFRS 9 (October 2010) and IFRS 1

[1]*IFRS 1 (December 2010 with no earlier adoption), ¶¶ IG55, BC65, BC66; IAS 39 (December 2010 with no earlier adoption), ¶¶ 9, 11; IFRIC 9, ¶¶ 7, 8, BC12–BC13.*
[2]*IFRS 9 (November 2009), ¶¶ 4.7, 4.8, IGA1 (Amendments to IFRS 1, ¶ IG55), BCA1 (Amendments to IFRS 1, ¶¶ BC55, BC56), BCA22 (Amendments to IFRIC 9, ¶ BC2); IFRIC 9, ¶ 7.*
[3]*IFRS 1 (December 2010 with earlier adoption), ¶¶ B9, IG55; IFRS 9 (October 2010), ¶¶ 4.3.2, 4.3.3, 7.3.1, B4.3.11.*

2.17.5 Noncontrolling Interests

2.17.5.1 Exceptions Explained The 2008 revision of IAS 27 is effective for fiscal years beginning on or after July 1, 2009. Ongoing IFRS entities may apply it early, provided they also apply the 2008 amendments to IFRS 3. IFRS 1 extends the prospective application required by the transitional provisions of the 2008 revision of IAS 27 to IFRS first-time adopters that apply those amendments in their first IFRS reporting period starting from periods beginning on or after July 1, 2009, unless they retrospectively apply IFRS 3. An IFRS first-time adopter cannot apply the 2008 revision of IAS 27 early without the 2008 amendments.[481]

IFRS 10 reproposes these exceptions to IFRS first-time adopters that apply IFRS 10 and IFRS 11. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.[482]

One of the exceptions allows changes in ownership interests in a subsidiary with no loss of control that occurred before the transition date to be excluded from being retrospectively accounted for as equity transactions. Therefore, the company does not recast controlling and noncontrolling interests and does not recognize the resulting gain or loss attributed to the owners of the parent directly in equity.

Another exception gives a relief from retrospectively calculating gain or loss and remeasuring at fair value a parent's investment in a former subsidiary over which it lost control before the transition date.

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[481] *IFRS 1, ¶¶ 34, 37, 39, B7; IAS 27 (2010), ¶ 45.*
[482] *IFRS 1, as amended by IFRS 10,* Consolidated Financial Statements*, ¶¶ 39I, B7, C1; IFRS 10, ¶ C1.*

A third exception requires the prospective attribution of total comprehensive income to controlling and noncontrolling interests (see Paragraph 4.5.17 and 6.4.5 following) from the transition date.

Comment: IFRS 1 refers to subsidiaries under IAS 27. It does not mention associates and joint ventures with reference to loss of significant influence and loss of joint control.

2.17.5.2 Recognition and Measurement versus Presentation and Disclosure Similarly, under IAS 27, the entity does not recast transactions or events that occurred before the effective date of the first two amendments mentioned above. Therefore, IAS 27 provides guidance in interpreting the exceptions.

Planning Point: The Basis for Conclusions of IAS 27 explains that these two amendments are limited to recognition and measurement. Presentation and disclosure remain untouched. Hence, the entity presents controlling and noncontrolling interests in accordance with IAS 27 and gives the relevant disclosures.[483]

Therefore, accounting under previous GAAP that did not conform to IAS 27 would not be reversed.

Example: A Spanish bank foreign private issuer migrating to IFRSs in 2005 (hence, before the 2008 Revision of IAS 27) explained to the SEC Staff that at transition date it reversed goodwill recognized on an increase in interest in previously controlled subsidiaries against minority interests and reserves for gain attributable to the parent.[484] Under the exceptions such a recasting would not have been required.

Arguably, the exception relating to the attribution of total comprehensive income also does not apply to presentation and disclosure.

Planning Point: IAS 27 places the exception relating to the attribution of total comprehensive income in the context of consolidation procedures, i.e., the computation of total comprehensive income in consolidated financial statements. This is pertinent, as many sets of GAAP do not have the concept of total comprehensive income. In fact, in the context of reconciliations of comprehensive income, IFRS 1 explains the newness of this concept for many jurisdictions.[485] However, IFRS 1 does not give exemption from the presentation criteria in IAS 1. In addition, IFRS 1 does not have exceptions to the presentation and disclosures of other IFRSs, except for certain short-term exemptions generally introduced upon issuance of a new standard, as was the case for IFRS 4, IFRS 5, IFRS 6, IFRS 7, IAS 32, and IAS 39 and currently IFRS 9. Therefore, it is not so obvious that a company that used to present noncontrolling interest as an expense may avoid recasting it in comprehensive income in the comparative period.[486]

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[483] *IAS 27 (2010), ¶¶ BC72, BC74.*

[484] *SEC IFRS Reviews. Reply by the Company to the SEC, February 26, 2007. File No. 001-10110, Comment 18.*

[485] *IFRS 1, ¶¶ BC92B, BC92C.*

[486] *IAS 27 (2010), ¶ 28.*

2.17.5.3 Directions of Changes in Ownership Interests The exception mentions a change in ownership interest with no loss of control. Therefore, it would appear that an increase in ownership interest in a controlled subsidiary is out of scope.

> **Planning Point:** IFRS 1 parallels the transitional provisions in IAS 27. The Basis for Conclusions of IAS 27 explains that those provisions apply for both decreases and increases in ownership interests.[487] Similarly, ASU No. 2010-02 clarifies that the guidance on changes in a parent's ownership interest in a subsidiary also applies to increases in ownership.[488]

2.17.5.4 Presentation in the Statements of Income The exception simply mentions the attribution of total comprehensive income.

> **Planning Point:** IFRS 1 does not seem to exempt a company from the attribution of profit or loss and of each component of other comprehensive income.[489]

> **Comment:** The Basis for Conclusions of IAS 27 explains the probable true intention of this exception, that is, a relief from showing negative noncontrolling interest at the transition date because of previous losses of a subsidiary in excess of noncontrolling interests.[490]

2.17.5.5 Presentation in the Statement of Financial Position IFRS 1 mentions noncontrolling interests only from the point of view of the statements of income, not as a component of equity.[491]

> **Planning Point:** The exception relating to total comprehensive income does not affect the presentation in the statement of financial position, which must reclassify noncontrolling interests as components of equity. How total comprehensive income was allocated under previous GAAP is irrelevant for the opening IFRS statement of financial position.

2.17.5.6 Interactions with the IFRS 1 Exemption for Past Business Combinations In the case where a company does not avail itself of the IFRS 1 exemption for past business combination (Paragraph 2.18 following) and applies IFRS 3 retroactively from a certain date, it must apply those amendments to IAS 27 from the same date.[492] Paragraph 2.18.5 explains the interaction with that exemption.

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[487] *IAS 27 (2010), ¶ BC74.*

[488] *FASB ASC 810-10-45-21A, added by FASB Accounting Standards Update No. 2010-02, Consolidation (Topic 810) – Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification, ¶ 5.*

[489] *IFRS 1, ¶ B7(a); IAS 27 (2010), ¶ 28.*

[490] *IAS 27 (2010), ¶ BC75.*

[491] *IAS 27 (2010), ¶ 28.*

[492] *IFRS 1, ¶ B7.*

2.17.6 Sales Plans Involving Loss of Control over a Subsidiary

The prospective application mentioned in Paragraph 2.17.5 previously concerning prospective application of loss of control extends to the held-for-sale classification of the assets and liabilities of a subsidiary further to a commitment to a sale plan, even when the parent retains a noncontrolling interest. This accommodation applies to annual periods beginning on or after July 1, 2009, with earlier application permitted.[493]

> **Comment:** This parallels a transitional provision of IFRS 5. The IFRS 5 rationale of requiring prospective application is simply the consistency with the transitional provision in IAS 27. However, unlike IFRS 5, IFRS 1 does not extend the prospective application to the statements of income when such a subsidiary meets the definition of a discontinued operation.[494]

2.17.7 Held-for-Sale Noncurrent Assets and Discontinued Operations

2.17.7.1 Initial Application of IFRS 5 The exception in Paragraph 2.17.6 previously brings to mind a no longer existing exception to the retrospective application of IFRS 5. Companies with a transition date before January 1, 2005 could apply IFRS 5 from any date before the transition date, provided contemporaneous information was available.[495] Current first-time adopter must apply IFRS 5 retrospectively.

> **Comment:** However, unlike the exception for sales plans involving loss of control over a subsidiary, this accommodation was valid for all held-for-sale noncurrent assets and disposal groups and discontinued operations. The reason was to align with the provisions of IFRS 5 upon its initial application.

> **Example:** The SEC, in its review of Form 20-F of a French foreign private issuer required the company to confirm that it had applied IFRS 5 during the year ended December 2004 and that it already had the valuations and all other information needed.[496]

2.17.7.2 Discontinued Operations IFRS 5 requires the reclassification of comparative periods relating to operations that the entity has discontinued in the current period or has ceased to classify as such in the current period.[497] IFRS 1 has no exception for this re-presentation.

> **Comment:** Similar guidance applies under U.S. GAAP.[498] Under SEC rules and regulations, a registrant must retrospectively reclassify prior periods in financial statements as of a date upon or subsequent to this event that are contained in a registration or proxy statement, or when the

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[493] *IFRS 1, ¶¶ 39, B7(c).*
[494] *IFRS 5, ¶¶ 8A, 36A, 44C, BC79A.*
[495] *IFRS 1 (June 2005), ¶¶ 34A, 34B.*
[496] *SEC IFRS Reviews. Letter by the SEC, September 7, 2006. File No. 1-15234, Comment 25. Reply by the company, November 24, 2006.*
[497] *IFRS 5, ¶¶ 34, 36.*
[498] *FASB Statement No. 144, ¶ 43.*

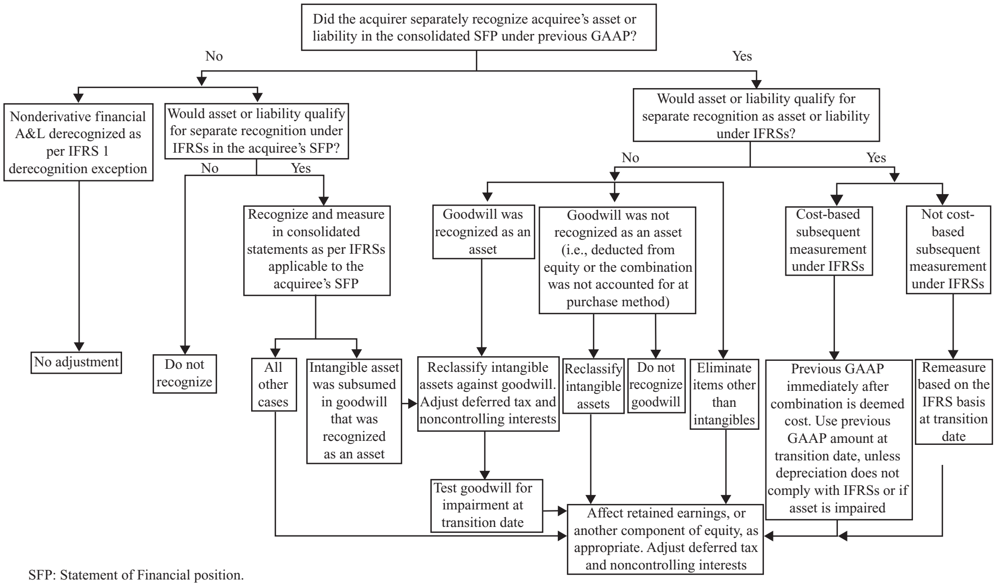

Exhibit 2-15 Exemption for Past Business Combinations

filing includes or incorporates by reference annual audited financial statements issued before such a reclassification.[499]

2.17.7.3 Discontinued Operations of SMEs Unlike full IFRSs, the IFRS for small and medium-sized entities prohibits the restatement of discontinued operations at transition date on the part of first-time adopters.[500]

2.18 EXEMPTION FOR PAST BUSINESS COMBINATIONS

2.18.1 Exemption Explained

A past business combination is one that occurred before the transition date. An IFRS first-time adopter may restate all past business combinations under the version of IFRS 3 in force at the first IFRS reporting date, do so for only all that occurred after any earlier date, or avail itself of a special exemption for all past business combination. Whenever it uses IFRS 3 it must also use IAS 27, as appropriate.[501] The rules of the last option are complex, and Exhibit 2-15 illustrates them for easier comprehension.

Planning Point: In choosing to use IFRS 3 retroactively, the company must be sure that it has all relevant data regarding past business combinations available, including contemporaneous fair value measurements and annual subsequent impairment tests of goodwill.

[499] *SEC*, Financial Reporting Manual, *¶ 13210.1.*
[500] IFRS for SMEs, *¶ 35.9(d).*
[501] *IFRS 1, ¶ C1.*

> **Comment:** The Exhibit shows that the first threshold for recognition and measurement under IFRSs of assets and liabilities that the entity had recognized under previous GAAP is less stringent than that for assets and liabilities that it had not recognized. The former must qualify for recognition as assets and liabilities under IFRSs. The latter must do so in the statement of financial position of the acquiree. In certain circumstances, the former start from the amount measured under previous GAAP as deemed cost under IFRSs (Paragraph 2.18.13), while the latter start from the amount that would be recorded in the statement of financial position of the acquiree.[502]

A survey reports that virtually all 2005 European first-time adopters availed themselves of this exemption, when permitted.[503] A survey of 22 CFOs found out that all but one of the respondents in 2007 and 2009 with past business combinations used this exemption.[504] A survey of financial statements of 52 large multinational first-time adopters part of the 2005 Financial Times Global 500 showed that 94% used this exemption.[505] In 2005, a survey of 45 IFRS first-time adopters illustrated that approximately 93% used this exemption.[506] A survey of interim reports of 144 listed companies in FTSE 101-350 in 2005 converting from UK GAAP to IFRSs showed that 85% availed themselves of this exemption.[507]

2.18.2 Acquisitions of Assets

To apply this exemption, the past transaction or event must be a business combination, as defined in IFRS 3.

> **Planning Point:** Acquisitions of an asset or of a group of assets not constituting a business, as defined in IFRS 3,[508] cannot follow the exemption, or the accounting for business combinations under IFRS 3. Thus, an entity must apply appropriate IFRSs retrospectively to such a purchase that it accounted for as a business combination under previous GAAP, including removing any goodwill recorded under previous GAAP. The most common situation to assess may concern the acquisition of a nonoperating company.

2.18.3 Operations Previously Not Consolidated

IFRS 1 does not waive IAS 27 concerning consolidation. An IFRS first-time adopter must consolidate all subsidiaries according to IAS 27.[509] Paragraph 2.19.10.15 explains that a parent that consolidates a previously unconsolidated subsidiary, including a controlled special purpose entity, must reconstruct the IFRS carrying amounts that the subsidiary would use in its IFRS financial statements, before adjusting for the process of consolidation. The same holds true for associates and joint ventures.[510]

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502 *IFRS 1, ¶¶ C4(c), C4(e), C4(f), IG49.*
503 *ICAEW 2007 Survey, ¶ 11.4.*
504 *BDO. 2010.* Attitudes to IFRS v2.0*, ¶ 6.5. [Online] BDO. Available at: www.bdo.com [last accessed August 15, 2010].*
505 *Ernst & Young, 2006.* Observations on the Implementation of IFRS*, page 8. [Online] EY. Available at: www.ey.com [last accessed February 16, 2007].*
506 *KPMG 2005 Survey.*
507 *BDO, 2006 Survey, pages 3, 7.*
508 *IFRS 3, ¶¶ 3, B7.*
509 *IFRS 1, ¶ IG26.*
510 *IFRS 1, ¶¶ IG27, BC23(b).*

Planning Point: If the company accounted for the subsidiary at equity method, it will assume the amount of the investment under previous GAAP (after any adjustment required by the IFRS 1 exemption) and break it down in several lines to reflect line-by-line consolidation.

Planning Point: U.S. GAAP, apart from certain exceptions, excludes the consolidation of a non-investment company by an investment company.[511] Under IFRSs, a venture capital organization, mutual fund, unit trust, investment-linked insurance fund, and other investment company will have to consolidate them. An Exposure Draft published by the IASB in 2011, based on a project conducted jointly with the FASB, would exempt investment entities from consolidation requirements. They would be required to account for all their investments at fair value through profit or loss.[512]

The investment company has to reverse any adjustment to fair value made previously. Under IFRSs, it does not apply the equity method of accounting to those associates or jointly controlled entities that it measures at fair value through profit or loss, either by designation or because they are instruments mandatorily measured at fair value under IFRS 9 (or IFRS 13 after the effective date of this standard).[513] IAS 28 Revised 2011 permits fair value measurement to investments in associates or joint ventures. It also extends this possibility to the portion of an investment in an associate that a company holds indirectly through those funds or organizations, irrespective of the existence of any significant influence by the fund or organization. Once it has chosen this option, the reporting entity must measure any remaining interest in that associate at fair value through profit or loss. This measurement exemption does not apply to joint ventures.[514]

If the parent created the subsidiary, it does not recognize any goodwill. If it acquired the company, the deemed amount of goodwill at transition date is the difference between the parent's interest in the subsidiary's net assets under IFRSs and the cost of the investment in the parent's separate financial statements.[515] The net balance of subsidiary's assets and liabilities recognized, goodwill, and noncontrolling interests affects opening retained earnings.

Planning Point: IFRS 1 does not specify whether the cost of the investment must be intended as cost method or as carrying amount under a suitable measurement basis. If, according to the literal wording, this is the cost method, it may equal the previous GAAP deemed cost in its separate financial statements, if the company also adopts the IFRS 1 exemption for investment in subsidiaries (Paragraph 2.19.9). In addition, this treatment might open to treatments to affect the amount of goodwill, through affecting the net assets of the subsidiary before the transition date, for example, through distribution or retention of dividends. By not declaring dividends before the transition date, the post-transition net assets of the subsidiary increase and so does goodwill. The dividends that the subsidiary subsequently declares are no longer preacquisition dividends (Paragraph 2.19.9.5) under the May 2008 amendments to IAS 18. They count as profit of the parent, which might be partially offset by goodwill impairment losses, including any arising from the mandatory impairment test of goodwill at transition date.

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511 *FASB ASB 810-10-15-10, 946-810-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.04).*
512 *Exposure Draft, August 2011*. Investment Entities.
513 *IAS 28 (2010), ¶¶ 1, BC9; IAS 31 (2010), ¶ 1.*
514 *IAS 28 (2011), ¶¶ 18, 19, BC21.*
515 *IFRS 1, ¶¶ C4(j); IG22 Example 6, IG27.*

Planning Point: This special rule for determining goodwill, in effect, overrides the prohibition to restate goodwill explained in Paragraph 2.18.14 following. If the parent's interest in the subsidiary's net assets exceeds the cost of the investment, the difference increases opening retained earnings, because IFRSs do not permit the recognition of a negative goodwill (Paragraph 2.18.23).

2.18.4 Associates and Joint Ventures

An IFRS first-time adopter may also elect this IFRS 1 exemption for past acquisition of associates and interests in joint ventures. The above-mentioned rule concerning dates applies to all past business combinations, including these.[516]

2.18.5 Interaction with a Past Loss of Control

An issue arises on how to account for a company that was consolidated under previous GAAP but that does not meet the requirements for consolidation as a subsidiary under IFRSs at transition date. As Exhibit 2-16 illustrates, there are important interactions with the IFRS 1 exception to retrospectively calculating gain or loss and remeasuring at fair value a parent's investment in a former subsidiary over which it had lost control before the transition date (Paragraph 2.17.5 previously). This situation also interacts with the IFRS 1 exception for designation of previously recognized financial instruments (Paragraph 2.19.12 following), and the requirement to apply the IFRS 1 exemption for past business combinations to subsidiaries, associates, and joint ventures from the same date (Paragraph 2.18.4).

2.18.6 A Pooling of Interests under Previous GAAP that is an Acquisition under IFRSs

Under the IFRS 1 exemption, an entity does not reconfigure the previous GAAP classification of past business combination.[517]

Comment: Thus, a past business combination that was classified as pooling of interests remains as such. However, the recognition and measurement rules of the exemption apply.

The SEC explained that in such a case a foreign private issuer migrating to IFRS must provide certain disclosures in the Operating and Financial Review and Prospects section of Form 20-F. It must indicate that had it not used the IFRS 1 exception; the business combination would have been an acquisition under IFRS 3. It must identify which company would have been the acquirer, and state the fair value of the consideration transferred that it would have recognized. It must identify the major categories of assets and liabilities that would have reflected a fair value measurement, explain the amortization of those fair values, the existence of goodwill, and the amount or percentages of the acquiree's revenues and assets at the time of the business combination. When the IFRS 3 treatment would be similar to

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[516] *IFRS 1, ¶ C5.*
[517] *IFRS 1, ¶ C4(a).*

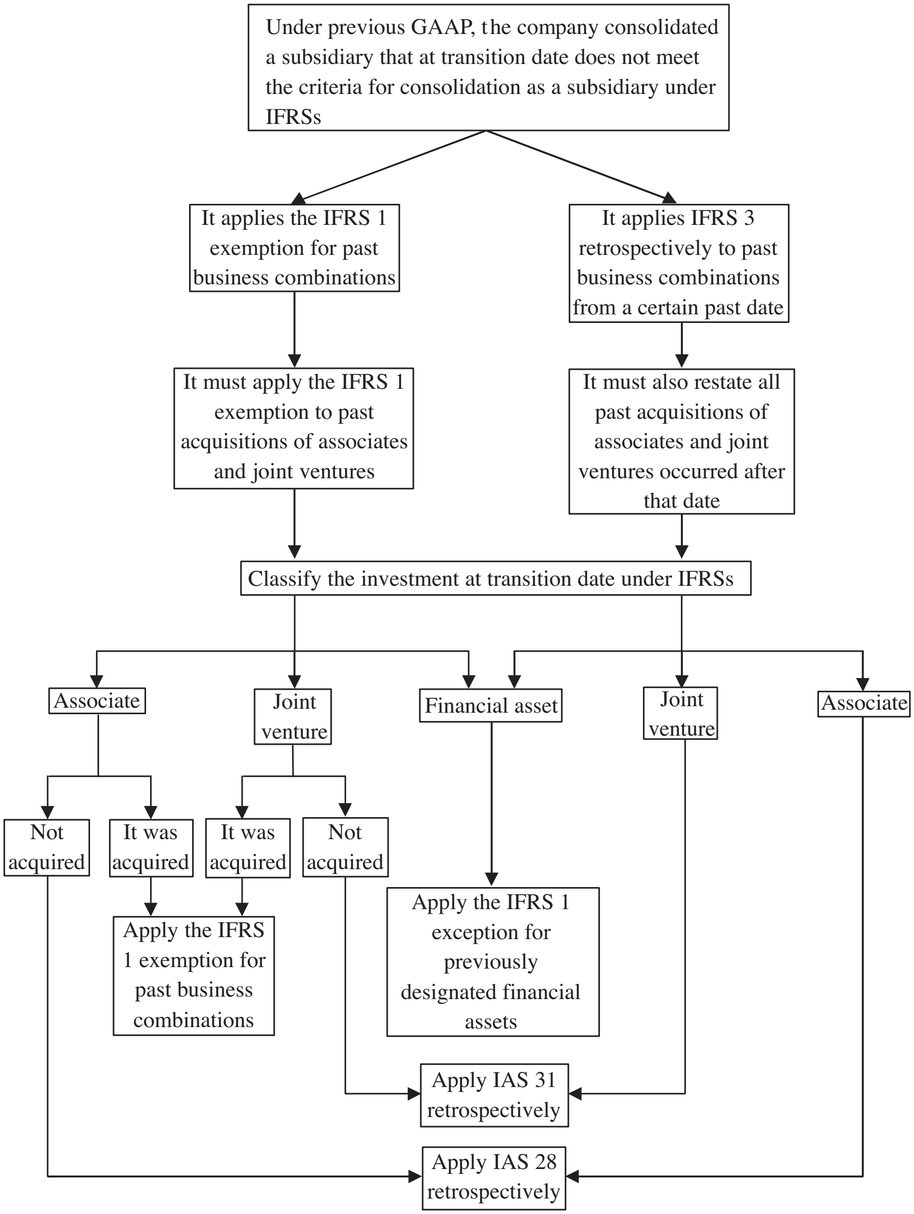

Exhibit 2-16 Interaction with a Loss of Control before Transition Date

U.S. GAAP, the above information may be satisfied through cross-referencing the U.S. GAAP reconciliations.[518]

> **Example:** The SEC Staff requested the above-mentioned disclosures from a French foreign private issuer that availed itself of the IFRS 1 exemption for a past business combination.[519]

Form 20-F used to have a provision for a foreign private issuer that used to consistently account for all business combinations under IAS 22, *Business Combinations*, then superseded by IFRS 3. This issuer could benefit from a special accommodation in Form 20-F to maintain the method of accounting used under IFRSs (i.e., the acquisition method or the pooling of interests) in filing with the SEC even though the transaction would have resulted in a different method of accounting under U.S. GAAP. This accommodation was not permitted for mergers of entities under common control, reverse acquisitions, promoter transactions, and leveraged buyouts. However, once the method of accounting was determined, reconciling to the purchase method of accounting under U.S. GAAP was required.[520]

2.18.7 When an Intangible Asset Acquired in a Past Business Combination Cannot be Recognized

The recognition thresholds of intangible assets under IFRS 3 and the IFRS 1 exemption for past business combinations are different.

> **Planning Point:** IFRS 3 and IAS 38 look to the acquirer to decide whether to recognize intangible assets in a business combination. In fact, an identifiable intangible asset may meet the recognition criteria for separate recognition by the acquirer even if the acquiree did not recognize it, for example, because it had developed the asset internally.[521] Conversely, the IFRS 1 exemption for past business combination checks to see if an identifiable intangible asset would qualify for separate recognition in the acquiree's statement of financial position to determine whether to recognize it separately from goodwill. However, this stricter criterion only applies to assets that the acquirer had not recognized in the consolidated statement of financial position under previous GAAP. When the acquirer had recognized it under previous GAAP, the asset is maintained if it meets the IAS 38 criteria for recognition of an intangible asset acquired in a business combination. These criteria only include the definition of an intangible asset and the identifiability criterion.[522]

Exhibit 2-17 illustrates the decision tree.

Under the IAS 38 criteria for recognition of an intangible asset in the separate statement of financial position of the acquiree, it must be probable that the future economic benefits that are attributable to the asset will flow to the entity and that the cost of the asset is reliably measurable. Therefore, an IFRS first-time adopter would not be in the position to recognize separately an

[518] *Form 20-F, Instruction 4 to Item 5; SEC, April 12, 2005. Release No. 33-8567, ¶ III.A.*
[519] *SEC IFRS Reviews. Letter by the SEC, September 12, 2006. File No. 1-15218, Comment 2.*
[520] *Form 20-F, Instruction 6(a) to Item 17 (superseded).*
[521] *IFRS 3, ¶¶ 13, B31, B39; IAS 38, ¶¶ 33, 34.*
[522] *IFRS 1, ¶¶ C4(c), C4(f), IG49.*

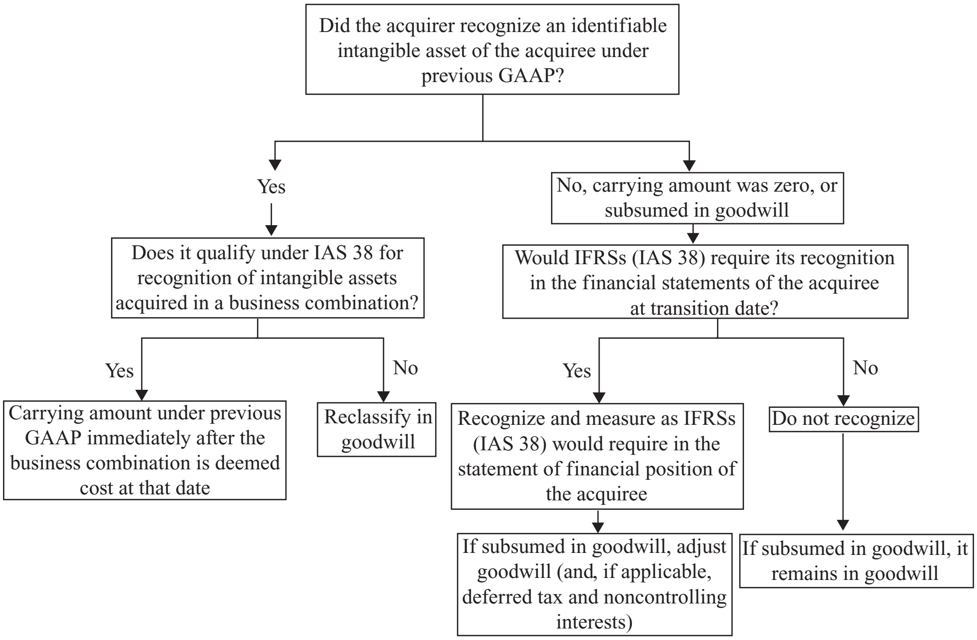

Exhibit 2-17 Recognition of an Intangible Asset in a Past Business Combination

intangible asset acquired in a business combination that the acquiree had internally developed when costs had not been accumulated by an appropriate and reliable accounting system at the time they were incurred. Similarly, a documented assessment of future economic benefits of the asset must exist at the time of the internal development.[523] IAS 38 prohibits subsequent capitalization of amounts already expensed.[524] Paragraphs 2.19.3.3 and 2.19.3.4 following expand on these concepts in the context of the IFRS 1 exception for fair value as deemed cost. IFRS 1 confirms that the IFRS 1 override of IAS 10 does not prevail over these criteria for recognition in IAS 38 (see Paragraph 2.11.11 previously).[525] Capitalization presumes a determination of probability of future economic benefits and that evidence is documented.[526] The IASB acknowledged that in most cases, intangible assets would not qualify for separate recognition under IAS 38.[527]

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that an IFRS first-time adopter using the IFRS 1 exemption for past business combinations could not separately recognize an intangible asset of an acquiree represented by rights to operate a mine. The reason was that it could not reliably determine

[523] *IASB Update, April 2003; IASB Update, December 2002.*
[524] *IAS 38, ¶¶ 65, 71.*
[525] *IFRS 1, ¶ IG4(b).*
[526] *IFRS 1, ¶ IG46.*
[527] *IASB Update, March 2003.*

the fair value in the acquiree's financial statements; the deemed cost exception for intangible assets was not an option.[528]

Planning Point: Under the IFRS 1 exemption, an acquirer must recognize an intangible asset that both the acquirer and the acquiree did not recognize under previous GAAP but that would be recognized under IFRS in the subsidiary's financial statements. Conversely, under retrospective application of IFRS 3, the acquirer must recognize an identifiable intangible asset developed internally by the acquiree that neither the acquiree nor the acquirer had recognized under previous GAAP, if the acquirer should have recognized it as a result of the acquisition.

2.18.8 In-Process Research and Development

As for any other identifiable intangible assets, in-process research and development acquired in a business combination warrants separate recognition when it qualifies for separate recognition under IAS 38. If it does not qualify, under the IFRS 1 exemption the acquirer cannot restate goodwill.[529]

Planning Point: If under previous GAAP the company did not recognize the asset, it must reinstate it against goodwill, as part of the IFRS 1 exemption. If under previous GAAP the entity had determined goodwill by considering the in-process research and development project and it has written it off soon after in the consolidated financial statement, the reinstatement of the intangible asset is against opening retained earnings and not goodwill, because goodwill already includes the correct determination of in-process research and development. From a different perspective, this write-off was made by the acquirer after the business combination and therefore it is outside the IFRS 1 exemption. However, it is reinstated based on the basic rule of IFRS 1 to recognized assets that warrant recognition under IFRSs (Paragraph 2.12.2.1 previously) and to retroactively adjust amortization methods that do not comply with IFRSs (Paragraph 2.11.16 previously).

2.18.9 Deferred Tax Liability Relating to an Intangible Asset Acquired in a Past Business Combination

Under the IFRS 1 exemption for past business combinations, the counter-account of a deferred tax unrecognized under previous GAAP on an identifiable intangible asset that would qualify for recognition under IFRSs in the financial statements of the acquiree varies depending on whether the company had recognized the intangible asset under previous GAAP.

Planning Point: If the entity had recognized the intangible asset, it recognizes the deferred tax against the beginning balance of retained earnings at transition date.[530] If previous GAAP did not allow the recognition of the intangible asset (and therefore the entity subsumed it in goodwill) and it recognized goodwill as an asset, that entity must recognize the intangible assets against a decrease in goodwill.

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[528] *Committee of European Securities Regulators (CESR), 2007. CESR/07-630,* 2nd Extract from EECS's Database of Enforcement Decisions*, Paris: CESR, ¶ Decision ref. EECS/1207-01. [Online] CESR. Available at:* www.cesr.eu *[last accessed July 20, 2010].*

[529] *IFRS 1, ¶ C4(h).*

[530] *IFRS 1, ¶ C4(b).*

It also recognizes any corresponding deferred tax liability and the impact of noncontrolling interest, if any, against goodwill.[531] This results in a different accounting of the same item (i.e., the deferred tax liability) depending on whether the asset was subsumed in goodwill. The IASB discussed this issue but did not modify this accounting treatment.[532] If the original deferred tax liability and its changes arise from the initial recognition of goodwill (i.e., goodwill not deductible for tax purposes), instead of the intangible asset, no deferred tax liability would be recognized under IAS 12.[533]

The accounting changes for an IFRS first-time adopter that does not elect the IFRS 1 exemption and applies IFRS 3 and IAS 27 retrospectively to a past business combination and all business combinations occurring thereafter.[534]

Planning Point: IFRS 3 refers to IAS 12 for income taxes relating to business combinations.[535] Under IAS 12, a deferred tax liability on an unrecognized identifiable intangible asset for which IFRSs mandate recognition separately from goodwill affects goodwill at acquisition date.[536] Then, the entity makes a historical reconstruction of all subsequent adjustments to the intangible asset not affecting goodwill under IFRS 3 up to transition date, and records the net impact into opening retained earnings at that date.[537] It also records any tax impact resulting from any adjustments to revaluation surplus.[538] Conversely, an ongoing IFRS entity first applies IFRS 3 prospectively, i.e., it does not adjust assets and liabilities arising from business combinations when their acquisition date is prior to the application date of the revised standard.[539] However, if an entity already reporting under IFRSs used to apply IFRS 3 (2004), a failure to recognize a deferred tax liability and an identifiable intangible asset on a business combination would be an error in applying IFRS 3 (2004) and IAS 12, to be retroactively corrected under IAS 8.

Exhibit 2-18 compares all these situations.

2.18.10 Deferred Tax Assets on an Acquiree's Tax Benefits

The accounting for a deferred tax unrecognized under previous GAAP varies depending on whether an IFRS first-time adopter uses the IFRS 1 exemption for past business combinations or IFRS 3.

Planning Point: Under the IFRS 1 exemption, the entity must recognize the deferred tax at transition date, only if IFRSs would require recognition in the acquiree's financial statements. It records the entry against opening retained earnings, unless this refers to an unrecognized intangible asset that was subsumed in goodwill.[540] If the entity applies IFRS 3, it must retrospectively adjust goodwill for

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531 *IFRS 1, ¶ C4(g)(i).*
532 *IASB Update, October 2005.*
533 *IAS 12, ¶¶ 15(a), 21A, 21B.*
534 *IFRS 1, ¶ C1.*
535 *IFRS 3, ¶¶ 24–25.*
536 *IAS 12, ¶ 66.*
537 *IFRS 3, ¶¶ 13, B31.*
538 *IAS 12, ¶ 61A*
539 *IFRS 3, ¶ 65.*
540 *IFRS 1, ¶¶ C4(b), C4(f).*

Exhibit 2-18 Unrecognized Deferred Taxes on Past Business Combinations

			First-Time Adoption	*IFRS Entity*
	Previous GAAP	*IFRS 1 Exemption*	*Retrospective Application of IFRS 3*	*Retrospective Correction of Error for a Failure to Recognize a Deferred Tax Liability*
Unrecognized deferred tax liability on intangible asset	Intangible asset was recognized	Adjust opening retained earnings at transition date	– Recognize deferred tax liability against an increase in goodwill at acquisition date – Adjust opening retained earnings (or other component of equity, as appropriate) at transition date for any additional adjustments between acquisition and transition date that do not affect goodwill	– Recognize deferred tax liability against an increase in goodwill at acquisition date – Adjust opening retained earnings of the first comparative period presented for additional cumulative-effect adjustment at that date – Make other adjustments and disclosures required by IAS 8
	Intangible asset was subsumed in goodwill and goodwill was recognized as an asset	Recognize intangible asset and deferred tax liability against goodwill at transition date	– Recognize intangible asset and deferred tax liability against goodwill at acquisition date – Adjust opening retained earnings (or other component of equity, as appropriate) at transition date for any additional adjustments between acquisition and transition date that do not affect goodwill	– Recognize intangible asset and deferred tax liability against goodwill at acquisition date – Adjust opening retained earnings of the first comparative period presented for additional cumulative-effect adjustment at that date – Make other adjustments and disclosures required by IAS 8

a deferred tax asset for which IAS 12 warrants recognition at acquisition date. Then, it reconstructs all subsequent adjustments affecting the beginning balance of retained earnings at transition date.[541]

Exhibit 2-19 compares the above situations.

2.18.11 Post-Acquisition Realization of Tax Benefits

If, subsequent to transition date, conditions arise for separate first-time recognition under IAS 12 of deferred assets unrecognized at transition date, or a change thereof, relating to the acquiree's tax benefits (i.e., post-acquisition realization), the entity follows the applicable IFRSs. From transition date to the end of the first IFRS reporting date, the IFRS first-time adopter uses IFRS 3 and IAS 12 in force at the end of its first IFRS reporting period. After that date, the entity is no longer an IFRS first-time adopter.

[541] *IFRS 1, ¶ 11; IAS 12, ¶ 66.*

Exhibit 2-19 Deferred Tax Assets on an Acquiree's Tax Benefit

	Previous GAAP	*IFRS 1 Exemption*	*Retrospective Application of IFRS 3*	*Retrospective Correction of Error for a Failure to Recognize a Deferred Tax Asset*
Deferred tax asset	Not recognized	Recognize deferred tax against opening retained earnings only if it would have been recognized under IAS 12 in the acquiree's financial statements	– Recognize deferred tax against goodwill if it would have been recognized under IAS 12 at acquisition date. – Reconstruct all subsequent adjustments finally affecting beginning balance of retained earnings at transition date	– Recognize deferred tax asset against goodwill at acquisition date – Adjust opening retained earnings of the first comparative period presented for additional cumulative-effect adjustment at that date – Make other adjustments and disclosures required by IAS 8

Planning Point: Under IAS 12, the entity reduces goodwill (any adjustment in excess of goodwill affects profit) only if the recognition of those realized tax benefits occurs within the measurement period after the acquisition date of a business combination (according to its meaning under IFRS 3). This must reflect facts or circumstances existing at acquisition date, although not known till afterwards. Otherwise, the entity adjusts profit or loss.[542] The IFRS 1 exemption for past business combinations is not pertinent for any transaction or event that occurs after transition date.

Comment: For an entity that already applies IFRSs, this adjustment of goodwill does not apply to business combinations for which the acquisition date preceded the date the entity applied the 2008 Revision of IFRS 3. From the date IFRS 3 Revised 2008 is applied, changes in deferred tax assets affect profit or loss prospectively (or if IAS 12 requires so, other comprehensive income or other components of equity).[543] This is a transitional provision of IFRS 3 Revised 2008 and therefore does not apply to IFRS first-time adopters. The early adoption limitation of IFRS 3R does not pertain to them.[544]

2.18.12 Other Unrecognized Deferred Taxes

An IFRS first-time adopter must recognize deferred taxes relating to a past business combination, under IAS 12, even if it had not recognized them under previous GAAP. As Paragraph 2.12.6.1 explains, IFRS 1 does not waive IAS 12. IFRS 1 gives the example of unrecognized deferred tax assets associated with a pension liability with a tax base of nil.[545] Paragraph 2.18.18 following discusses deferred tax assets on goodwill deducted from equity.

542 *IAS 12, ¶ 68, 94.*
543 *IFRS 3, ¶ 67; IAS 12, ¶¶ 93, 94.*
544 *IASB Update, May 2009.*
545 *IFRS 1, ¶ IG22 Example 2(g).*

2.18.13 Cost-Based Measurement

Under the exemption, an IFRS first-time adopter assumes that the previous GAAP amounts immediately after the date of the business combination of previously recognized assets and liabilities that qualify for separate recognition under IFRSs, and whose subsequent measurement under IFRSs is based on cost, is their deemed cost under IFRSs at the same date.

> **Comment:** IFRS 1 refers to the deemed cost as existing immediately after the business combination. The meaning of this expression is obscure. It is generally interpreted as the amount after the closing of any provisional accounting for the business combination under previous GAAP.

Then, the entity must consider the adjustments required by the specific asset or liability to take the deemed cost from the acquisition date to the transition date, such as depreciation or amortization. Here, IFRS 1 cross-references the treatment of depreciation and amortization explained in Paragraph 2.11.16 previously. Therefore, if the treatment under previous GAAP does not comply with IFRSs or there are material differences (e.g., the company fully depreciated the asset or used tax rates), the entity must re-determine accumulated depreciation or amortization under IFRSs. Finally, if indicators of impairment exist, they must be tested for impairment based on conditions existing at the transition date.[546]

2.18.14 Impact on Goodwill of IFRS First-Time Adoption versus U.S. GAAP

An IFRS first-time adopter that takes the IFRS 1 exception for past business combinations cannot adjust goodwill at transition date apart from reclassifying identifiable intangible assets (and related deferred taxes and noncontrolling interests) and testing for impairment.[547]

As Paragraph 2.16.9 explains, Form 20-F requires an explanation of the effect of using the IFRS 1 accommodations, in this case, of the exemption for past business combinations versus IFRS 3.

> **Example:** A British foreign private issuer, in its response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that applying IFRS 3 retrospectively would have led to recognition reversal of previous amortization of goodwill and reinstatement of goodwill previously offset against equity reserves.[548]

> **Planning Point:** An IFRS first time-adopter that uses the IFRS 1 exemption does not adjust goodwill for amortization occurring before the transition date. Another that applies IFRS 3 retroactively from an earlier date does not adjust goodwill for amortization occurring before that date. If the entity used a separate account for cumulated amortization, it will reverse it against the gross amount of goodwill. The net amount will be subject to impairment test at transition date and subsequently. An IFRS first-time adopter that applies IFRS 3 retroactively, accounts for impairment tests of goodwill made in previous years from the date it applies IFRS 3. The entity reverses the amortization of goodwill

[546] *IFRS 1, ¶¶ C4(e), IG22 Examples 2(c), 2(d), 2(e), BC37(b)*
[547] *IFRS 1, ¶¶ C4(c)(i), C4(f), C4(g).*
[548] *SEC IFRS Reviews. Reply to the SEC, November 9, 2006. File No. 001-14978, Comment 4.*

recorded under previous GAAP, as well as past impairment losses that differ from the amounts under IFRS 3. Conversely, an ongoing IFRS entity that adopts IFRS 3 does not restate amortization of goodwill prior to the beginning of the first annual period beginning on or after March 31, 2004. In fact, prospectively from the beginning of the first annual period beginning on or after March 31, 2004, IFRS 3 introduced impairment of goodwill acquired in a business combination for which the agreement date was before March 31, 2004. The existing carrying amount of accumulated amortization has to be offset against goodwill.[549] The approach is similar under U.S. GAAP, however with different dates. In fact, Topic 350 (FASB Statement No. 142) introduced impairment of goodwill prospectively at the start of the fiscal year beginning after December 15, 2001, with earlier application permitted at the start of the fiscal year beginning after March 31, 2001 provided the entity had not yet issued its first interim financial statements. Goodwill acquired in business combinations with acquisition date after June 30, 2001 could not be amortized any longer.[550]

Example: An Irish foreign private issuer, in response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explains that part of the reason the U.S. GAAP amount of goodwill exceeded the IFRS value was that amortization of goodwill under U.S. GAAP ceased before IFRSs.[551]

Planning Point: However, there are occurrences that under IFRS 1 result in adjustment of goodwill in addition to the cases expressly permitted. They comprise the recasting of transactions that are acquisition of assets and not business combination under IFRSs (Paragraph 2.18.2), restatement of previously unconsolidated operations (Paragraph 2.18.3 previously), and the retrospective application of IAS 21 (Paragraph 2.18.15 following).

2.18.15 The Effect of Foreign Exchange on Goodwill and Fair Value Adjustments Arising in a Past Business Combination

In a business combination involving a foreign acquiree, IAS 21 requires quantification of goodwill and fair value adjustments in the functional currency of the foreign entity and then their translation at closing rates. It does not permit treating them as nonmonetary items of the acquirer that must be translated at the historical rate.[552] However, on this topic, an IFRS first-time adopter may elect not to apply IAS 21 retrospectively to any past business combinations, to apply it to all, or to apply it only to those past business combinations that it retrospectively restates under IFRS 3.[553]

Comment: This accommodation extends the transitional provision of IAS 21 to IFRS first-time adopters. For entities that already report under IFRSs, IAS 21 allows prospective or retrospective application of this point to business combinations occurring before the beginning of the first financial year of initial application of IAS 21. IAS 21 requires prospective application to business combinations occurring after that date.[554]

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[549] *IFRS 3 (March 2004), ¶¶ 78, 79.*
[550] *FASB Statement No. 142, ¶¶ 48a, 50, B198, B220.*
[551] *SEC IFRS Reviews. Reply to the SEC, January 23, 2007. File No. 001-10284, Comment 18.*
[552] *IAS 21, ¶ 47.*
[553] *IFRS 1, ¶¶ C2, C3, IG21A.*
[554] *IAS 21, ¶ 59.*

Planning Point: In effect, this results in a restatement of goodwill in addition to those explicitly permitted by the IFRS 1 exemption for past business combinations (Paragraph 2.18.14 previously).

Example: A Spanish foreign private issuer, in response to the SEC Staff's review of its Form 20-F for the fiscal year ended December 31, 2005, clarified that it decided to restate goodwill existing at the transition date under IAS 21 from Euro to the local currency.[555]

Planning Point: The two treatments permitted affect the amount of the cumulative translation adjustment. This in turn affects the amount that could be hedged in a hedge of an investment in a foreign operation. The choice of the two treatments does not affect opening retained earnings at transition date if the company uses IFRS 1 to zero out cumulative translation adjustment (Paragraph 2.19.8 following).

Planning Point: IAS 21 and IFRS 1 mention fair value adjustments and goodwill. Although they do not say if the treatment elected for one element must also apply to the other, it could be argued that is a logical outcome. On the other hand, a different view might be sustained on the basis of the practicability rationale of the exemption.

Paragraph 2.19.8 explains the implications of this part of the exemptions to indirect holdings.

2.18.16 Indirect Holdings

The application of the IFRS 1 exemption for past business combinations has some tricky aspects in case an ultimate parent controls a subsidiary through an intermediate parent.

Planning Point: The exemption applies to a parent that is an IFRS first-time adopter, thus to both the ultimate and the intermediate parent when each of them first adopts IFRSs in their consolidated financial statements. However, the exemption only applies when there was a past business combination. Both would be able to apply it to the subsidiary only if it had been acquired. The ultimate parent would be able to apply it to the intermediate parent only if it had been acquired.

The IFRS 1 exemption refers to the treatment of assets and liabilities in the statement of financial position of the acquiree for assets and liabilities not previously recognized (Paragraph 2.18.1). If only the subsidiary was acquired, the ultimate parent will have to use the direct method of consolidation to apply the exemption to the subsidiary. Under the direct consolidation method, the ultimate parent company directly consolidates an indirectly owned foreign operation. If both the subsidiary and the intermediate parent were acquired, the previous GAAP treatment of the subsidiary's assets and liabilities that the intermediate parent made in its consolidated financial statements may be different from the previous GAAP treatment that would be applicable under IFRSs in the subsidiary's financial statements. Arguably, in this case the ultimate parent will also have to use the direct consolidation method.

555 *SEC IFRS Reviews. Reply to the SEC, February 26, 2007. File No. 001-10110, Comment 18(b).*

If the two parents migrate to IFRSs at different dates, the interactions with the IFRS 1 exemption for assets and liabilities of subsidiaries apply, as Paragraph 2.19.10.10 following explains.

If the foreign currencies of these companies differ, the use of the type of consolidation method is neutral on the overall cumulative foreign currency translation but not on the portion that is attributable to a specific foreign operation. Under the direct consolidation method, the ultimate parent company translates the foreign operation financial statements from their functional currency into the group presentation currency. Under the step-by-step method of consolidation, an intermediate parent consolidates and translates the foreign operation financial statements from their functional currency into its own functional currency, and then the ultimate parent consolidates the intermediate parent and translates the intermediate parent's financial statements from the functional currency into the group presentation currency. With the step-by-step method the ultimate parent translates the cumulative foreign currency translation as determined by the intermediate parent. Therefore, the amount attributable to the subsidiary that could be hedged would also change. In order to implement this equivalence (which, however, IAS 21 does not mandate at individual net investment level, as both methods are legitimate), an entity that uses the step-by-step method may eliminate the difference between the two methods, however it must do so as an accounting policy that is applied to all net investments, by reclassifying the amounts relating to each foreign operation that would have arisen if the direct method of consolidation had been used on disposal of the foreign operations.[556]

Finally, the ultimate parent will have a choice to treat goodwill and fair value adjustments as its own assets or as assets of the subsidiary (Paragraph 2.18.15 previously), not assets of the intermediate parent. If the intermediate parents recognized its goodwill based on its functional currency that differs from the functional currencies of the ultimate parent and the subsidiary, the ultimate parent will have to restate it.

2.18.17 Goodwill Deducted from Equity

If under previous GAAP the entity used to write off goodwill against reserves, the exception for past business combinations under IFRS 1 prescribes no restatement of that goodwill.[557] Conversely, both IFRS 3[558] and U.S. GAAP would require this reinstatement. Exhibit 2-20 illustrates the treatment under IFRSs and U.S GAAP of goodwill that under previous GAAP was deducted from equity.

Example: An Irish foreign private issuer, in response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that up to 1998 goodwill was deducted from equity under Irish GAAP. This was reversed under U.S. GAAP, but not under IFRSs based on the IFRS 1 exception for past business combinations.[559]

2.18.18 Deferred Taxes on Goodwill Deducted from Equity

The IFRS carrying amount of goodwill that an entity had deducted from equity under previous GAAP is nil.

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[556] *IFRIC 16, ¶¶ 17, AG8, BC8, BC36–BC39.*
[557] *IFRS 1, ¶ C4(i)(i).*
[558] *IFRS 1, ¶ BC38.*
[559] *SEC IFRS Reviews. Reply to the SEC, January 23, 2007. File No. 001-10284, Comment 18.*

Exhibit 2-20 Goodwill Deducted from Equity under Previous GAAP

	IFRS 1 Exemption[1]	*Exemption under IFRS 1 (2005)*	*Retrospective Application of IFRS 3*	*Retrospective Application of IFRS 3 (2004)*	*Retrospective Application of FASB Statement No. 141R*	*Retrospective Application of FASB Statement No. 141*
Goodwill deducted from equity under previous GAAP	Not restated	Not restated	Restated	Restated	Restated	Restated
Subsequent disposal of the investment for which goodwill was deducted from equity under previous GAAP	Goodwill is not reclassified to profit or loss	Goodwill is not reclassified to profit or loss	Gain or loss recognition under IAS 27R, IAS 28 as amended, or IAS 31 as amended	Gain or loss recognition under IAS 27, IAS 28 or IAS 31	Gain or loss recognition under FASB Statement No. 160	Gain or loss recognition
Subsequent impairment of the investment for which goodwill was deducted from equity under previous GAAP	Goodwill is not reclassified to profit or loss	Goodwill is not reclassified to profit or loss	Impairment loss is recognized according to appropriate guidance depending on the type of investment	Impairment loss is recognized according to appropriate guidance depending on the type of investment	Impairment loss is recognized according to appropriate guidance depending on the type of investment	Impairment loss is recognized according to appropriate guidance depending on the type of investment

[1]*IFRS 1, ¶¶ C4(g), C4(i).*

Planning Point: If the specific jurisdiction attributes a tax base to goodwill, the company must recognize a deferred tax asset to the extent it meets the probability criterion for recognition of deferred tax assets under IAS 12.[560] However, this adjustment affects opening retained earnings, not goodwill as would be the case by retrospectively applying IFRS 3. This is because the IFRS 1 exemption prohibits recasting goodwill except under certain circumstances, as Paragraph 2.18.14 explains.

2.18.19 Contingent Consideration

IFRS 3 (Revised 2008) and IFRS 3 (2004) have different treatments for contingent consideration. Under IFRS 3 (2004), the cost of the combination included a contingent consideration only if that was probable and reliably measurable at acquisition date. Under IFRS 3 (Revised 2008), the consideration transferred includes a contingent consideration at its acquisition-date fair value.[561]

Comment: IFRS 3 (Revised 2008) is effective for business combinations with acquisition date on or after July 1, 2009. For entities that already apply IFRSs, earlier application is possible, but not before the beginning of the annual period that begins on or after June 30, 2007. The amendments of the revised standard do not apply retrospectively to business combinations with acquisition dates prior to application of the standard.[562]

Consequently, the IFRS 1 exemption no longer permits a transition adjustment of goodwill concerning a contingent consideration. Previously, IFRS 1 permitted such adjustments when the probability and reliable measurability criteria were or were no longer met at the transition date. IFRS 1 2005 grandfathered a contingent consideration that had been recognized under previous GAAP and that met the recognition criteria.[563] If under previous GAAP the entity offset goodwill in equity and it did not restate goodwill because of the IFRS 1 exemption, a subsequent adjustment arising from the resolution of the contingency affects retained earnings.[564]

Planning Point: U.S. GAAP is now aligned to IFRS 3 regarding a contingent consideration. It nullifies EITF Issue No. 97-8, which required not recognizing a contingent consideration that was not a publicly traded financial instrument, or linked to such an instrument, until resolution of the contingency.[565]

Example: A British foreign private issuer, in response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that under UK GAAP it had recorded deferred

[560] *IFRS 3, ¶ BC292; IAS 12, ¶¶ 32A, 24.*
[561] *IFRS 3 (2004), ¶¶ 33, 34; IFRS 3 (Revised 2008), ¶ 39.*
[562] *IFRS 3, ¶¶ 64, 65.*
[563] *IFRS 1 (2005), ¶ B2(g)(ii).*
[564] *IFRS 1, ¶ C4(i)(ii).*
[565] *FASB Statement No. 141R, ¶ 41; EITF Issue No. 97-8, Accounting for Contingency Consideration Issued in a Purchase Business Combination (nullified).*

shares as contingent consideration and that it had deducted goodwill from equity. Under U.S. GAAP, it had reversed both, but not under the IFRS 1 (2005) exception for past business combinations. A subsequent conversion of deferred shares to ordinary equity led to a reclassification within equity under both UK GAAP and IFRSs, but to a recognition of goodwill and equity shares under U.S. GAAP.[566]

Exhibit 2-21 compares the accounting for contingent consideration in a past business combination under IFRSs and U.S. GAAP.

2.18.20 Impairment of Goodwill

IFRS 1 requires an IFRS first-time adopter that elects the exception for past business combinations to test goodwill based on conditions that exist at transition date, irrespective of the existence of any impairment indicator.[567] The company must follow the IFRS 1 criteria for accounting estimates and disclosures of impairment (Paragraph 2.12.5.2 and Paragraph 2.11.15 previously).

Goodwill impairment testing may differ in many respects under IFRSs and U.S. GAAP. Differences between IFRSs and U.S. GAAP may arise both from different carrying amounts of cash-generating units under IAS 36 and reporting units under Topic 350 (FASB Statement No. 142) and from the respective impairment testing models. In order to determine a reporting unit level for goodwill impairment testing purposes, Topic 350 (FASB Statement No. 142) requires aggregating components that have similar economic characteristics and that make up part of an operating segment.[568] Conversely, under IAS 36 the single cash-generating unit is the reference for testing impairment of goodwill. A group of cash-generating units is used only when no nonarbitrary basis for allocating goodwill to the individual cash-generating units can be found.[569]

Example: A foreign private issuer from Belgium explained to the SEC Staff that its group of cash-generating units under IFRSs differed from reporting units under U.S. GAAP because of the different levels of aggregation under the respective standards.[570]

Example: A foreign private issuer from The Netherlands, in its response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that the difference in definition of a cash-generating unit under IFRSs and a reporting unit under U.S. GAAP led to a greater impairment loss in 2004 under IFRSs of €7 million.[571]

566 *SEC IFRS Reviews. Letter by the SEC, December 21, 2006. File No. 000-29860, Comment 7. Reply by company, January 31, 2007.*
567 *IFRS 1, ¶¶ C4(g)(ii), BC40.*
568 *FASB Statement No. 142, ¶ 30.*
569 *IAS 36, ¶¶ 80, 81.*
570 *SEC IFRS Reviews. Reply to the SEC, October 31, 2006. File No. 333-13302, Comment 10.*
571 *SEC IFRS Reviews. Letter to the SEC, October 16, 2006. File No. 1-13980, Comment 14.*

Exhibit 2-21 Contingent Consideration in a Past Business Combination

	IFRS 1 Exemption[1]	*Exemption under IFRS 1 (2005)*	*Retrospective Application of IFRS 3*	*Retrospective Application of IFRS 3 (2004)*	*Retrospective Application of FASB Statement No. 141R*	*Retrospective Application of FASB Statement No. 141*
Accounting at acquisition date for contingent consideration that is not a separate transaction	Goodwill is not restated	Goodwill was restated if probability and reliable measurability criteria were not met	Measured at fair value at acquisition date. Classified, based on IAS 32, as equity, liability or asset[2]	Included in the cost of the combination at acquisition date only if the adjustment was probable and could be measured reliably[3]	Measured at fair value at acquisition date. Classified, based on FASB Statement No. 150, EITF Issue No. 00-19 or other GAAP, as equity, liability or asset[4]	Recognized at the acquisition date only if the outcome of the contingency was determinable beyond a reasonable doubt[5]
Subsequent resolution, within the measurement period, of a contingency affecting the consideration based on new information about facts and circumstances that existed as of the acquisition date	Recognized in retained earnings, not goodwill if goodwill had been deducted from equity	Recognized in retained earnings, not goodwill if goodwill had been deducted from equity	Treated as a measurement period adjustment: consideration (equity, liability, or asset) and goodwill are retrospectively adjusted, including comparative information[6]	The cost of the combination was adjusted. Same treatment applied when the adjustment later would become probable and could be measured reliably. However, subsequent compensation, whether recognized as equity or debt, that restored the originally determined cost of the combination did not affect the cost of the combination[7]	Treated as a measurement period adjustment: consideration (equity, liability, or asset) and goodwill are retrospectively adjusted, including comparative information[8]	Contingent consideration was recognized when the contingency was resolved and consideration was issued or became issuable. Transfer of newly-issued securities, cash, or other assets required the adjustment of the cost of the acquisition when the contingency was based on earnings, not when based on security prices, whether additional compensation was recognized as equity or debt[9]

Subsequent resolution of a contingency affecting the consideration based on new information that results from events that occurred after the acquisition date, or subsequently to the end of the measurement period	Recognized in retained earnings, not goodwill if goodwill had been deducted from equity	Recognized in retained earnings, not goodwill if goodwill had been deducted from equity	Contingent consideration classified as equity is not remeasured. Settlement of equity instruments reflecting contingent consideration determines a transfer within equity. Contingent consideration that is a liability or an asset is accounted for under IAS 37 or other appropriate IFRS. Financial instruments within the scope of IFRS 9 and IAS 39 are measured at fair value with changes affecting profit or loss or other comprehensive income, as applicable[10]	As above	Contingent consideration classified as equity is not remeasured. Settlement of equity instruments reflecting contingent consideration determines a transfer within equity. Contingent consideration that is a liability or an asset is remeasured to fair value with changes affecting earnings, or other comprehensive income in case of hedging instruments for which this is required by FAS Statement No. 133[11]	As above

[1]*IFRS 1, ¶¶ C4(g), C4(i).*
[2]*IFRS 3, ¶¶ IN11, 37, 39, 40, B54.*
[3]*IFRS 3 (2004), ¶¶ 32, 34.*
[4]*FASB ASC 805-30-30-7, 805-30-25-5, 805-30-25-6, 805-30-25-7 (FASB Statement No. 141R, ¶¶ 39, 41, 42).*
[5]*FASB Statement No. 141 (superseded), ¶ 26.*
[6]*IFRS 3, ¶¶ 45, 46, 48, 49, 58.*
[7]*IFRS 3 (2004), ¶¶ 33, 35, BC166.*
[8]*FASB ASC 805-30-35-1 (FASB Statement No. 141R, ¶ 65); FASB Statement No. 141R, ¶ B395.*
[9]*FASB Statement No. 141 (superseded), ¶¶ 27, 30.*
[10]*IFRS 3, ¶¶ 45, 46, 58.*
[11]*FASB ASC 805-30-35-1 (FASB Statement No. 141R, ¶ 65).*

2.18.21 Impairment of Goodwill in Conjunction with the Deemed Cost Exemption

Paragraph 2.19.3.22 below illustrates the particular case of the use of this exemption in conjunction with the IFRS 1 exemption for deemed cost of certain long-lived assets.

> **Planning Point:** Particularly in this case, impairment of goodwill is critical to avoid double counting the same fair value adjustments in goodwill (under previous GAAP) and in the revalued amount of those assets (under IFRSs). The company cannot adjust goodwill as if it had applied IFRS 3 at the date of the business combination. Therefore, the impairment test avoids a duplication, but does not reinstate goodwill to the amount that would have been determined under IFRS 3. Furthermore, the fair valuation of those assets is at transition date, not acquisition date. Therefore, it may include an appreciation in value subsequent to the business combination. Thus, the previous GAAP goodwill, even if reduced by the impairment test, may still include an amount of goodwill that has been internally generated from the business combination date to the transition date. However, this is an inner limitation of the concept of goodwill and its impairment test even for ongoing IFRS entities.[572]

2.18.22 Whether Impairment Test of Goodwill Must be Disclosed

IFRS 1 does not require any disclosure in case this test results in no recognition of an impairment loss.

> **Planning Point:** However, the SEC Staff in its review of Form 20-F has often required disclosure of whether goodwill had been tested for impairment.

> **Example:** The SEC Staff also asked a British foreign private issuer to disclose in future filings whether the company tested goodwill for impairment.[573] A French foreign private issuer maintained with the SEC Staff that such disclosure was not necessary because it had recognized no impairment.[574]

2.18.23 Negative Goodwill Recognized under Previous GAAP

IFRSs no longer permit the recognition of negative goodwill in the statement of financial position.

> **Planning Point:** IFRS 1 is silent on this issue. In terms of the IFRS 1 exemption, negative goodwill does not qualify for separate recognition as a liability under IFRSs.[575] Therefore, the company derecognizes it at transition date against opening retained earnings.

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572 *IFRS 1, ¶ BC39.*

573 *SEC IFRS Reviews. Letter by the SEC, September 25, 2006. File No. 001-14978, Comment 28. Reply by the company, November 9, 2006.*

574 *SEC IFRS Reviews. Letter by the SEC, September 12, 2006. File No. 1-15218, Comment 12. Reply by the company, October 23, 2006.*

575 *IFRS 1, ¶ C4(c).*

2.18.24 Retrospective Application of a Change in a Parent's Ownership Interest in a Subsidiary

Under IAS 27R the sale of a parent's ownership interest in a subsidiary to noncontrolling shareholders that does not result in a loss of control and, conversely, a purchase of an interest in a subsidiary (i.e., that was already consolidated) is considered an equity transaction that does not affect goodwill.[576]

Planning Point: Paragraph 2.17.5 explains that IFRS 1 has an exception in this respect. In addition, recasting goodwill would be contrary to the prohibition of the IFRS 1 exemption for past business combinations to adjust goodwill, as described in Paragraph 2.18.14 previously. However, retrospective application of IAS 27R is mandatory for past business combinations for which an entity elects to apply IFRS 3 retrospectively.[577]

Example: A Spanish foreign private issuer, in response to the SEC Staff's review of its Form 20-F for the fiscal year ended December 31, 2005, clarified that under IFRSs it restated goodwill that it had adjusted for a past acquisition of interests in subsidiaries from noncontrolling interests.[578]

Exhibit 2-22 illustrates the accounting under IAS 27R and the restatement under IFRS 3 as of IFRS first-time adoption.

2.18.25 Other Changes in Noncontrolling Interests

An IFRS first-time adopter that recast past business combinations under IFRS 3 also re-determines noncontrolling interests under that standard.[579] If it uses the IFRS 1 exemption, the accounting depends on the item that triggers a change in noncontrolling interests.

Planning Point: If a change in noncontrolling interests arises from a transition adjustment in an intangible asset that was subsumed in goodwill under previous GAAP, the change in noncontrolling interests also affects goodwill. In all other cases in which the change depends on a transition in an item, it affects opening retained earnings.[580]

There are several circumstances where a change in noncontrolling interest does not follow from a change in another item.

Planning Point: The entity recognizes noncontrolling interest when it did not record it under previous GAAP because it had not consolidated a subsidiary (Paragraph 2.18.3 previously). If the difference in noncontrolling interest is due to a change in ownership interest with no change in control and occurred before the transition date, there is no adjustment under the IFRS 1 exemptions (see Paragraph 2.18.24).

[576] *IAS 27 (2010), ¶¶ 30–31.*
[577] *IFRS 1, ¶ B7.*
[578] *SEC IFRS Reviews. Reply to the SEC, February 26, 2007. File No. 001-10110, Comment 18(b).*
[579] *IFRS 1, ¶ IG28.*
[580] *IFRS 1, ¶¶ C4(c)(i), C4(g)(i), C4(k).*

Exhibit 2-22 Restatement of a Change of Interest in a Subsidiary with No Change in Control

Sale of an interest in a subsidiary (IAS 27R)

Debit	*Credit*
Consideration received (fair value)	
Accumulated Other Comprehensive Income (proportionate share reallocated to noncontrolling interest)	
	Noncontrolling interest (increase in interest and reallocation of AOCI)
Equity (if loss difference)	Equity (if gain difference)

Purchase of an interest in a subsidiary (IAS 27R)

Debit	*Credit*
Noncontrolling interest (decrease in interest and reallocation of AOCI)	
	Consideration paid (fair value)
	Accumulated Other Comprehensive Income (proportionate share reallocated from noncontrolling interest)
Equity (if loss difference)	Equity (if gain difference)

Retrospective restatement in the case under previous GAAP the company adjusted goodwill if the entity elects to use IFRS 3

Noncontrolling interest (to the extent this account was not been fully affected previously)	
Opening retained earnings (recording of the difference at transition date)	
	Goodwill (reversal)
Or vice versa	

Finally, a difference in noncontrolling interest may be due to a difference in previous GAAP, or an error in applying previous GAAP. In these cases, there is no adjustment because of the prohibition of the IFRS 1 exemption for past business combinations to adjust goodwill, as described in Paragraph 2.18.14, and because IFRS 1 states that changes in noncontrolling interests follow from changes in the measurement of other assets and liabilities.

2.18.26 References to Other Treatments and Accommodations Under IFRS 1

Paragraph 2.17.1 previously illustrates the exception concerning derecognition of nonderivative assets and liabilities.

Paragraph 2.19.3.3 following explains the recognition requirements of intangible assets under IFRS 1.

Paragraph 2.19.3.22 following explains the interaction with the IFRS 1 accommodation for deemed cost of certain fixed assets.

Paragraph 2.19.7.5 following explains the interaction with the IFRS 1 exemption for employee benefits.

Paragraph 2.17.5.1 previously explains that an IFRS first-time adopter that uses IFRS 3 for past business combinations must also apply the 2008 amendments to IAS 27 retroactively from the same date.

Paragraph 2.19.10.14 following explains the interaction between this exemption and the IFRS 1 exemption for assets and liabilities of subsidiaries, associates, and joint ventures.

Paragraph 2.17.3 previously explains that at the date of a business combination the previous GAAP carrying amount of a financial asset or a financial liability acquired in a past business combination and measured at amortized cost is deemed cost under IFRSs at that date.[581]

Paragraph 2.19.9.3 following highlights certain interactions between this exemption and the IFRS 1 exemption for investments in subsidiaries, associates, and jointly controlled entities.

Paragraph 2.20.1.6 following deals with the interaction with the short-term exemption concerning IFRS 9.

2.19 EXEMPTIONS FROM OTHER IFRSs

2.19.1 Share-Based Payment Transactions

2.19.1.1 Exemption Explained IFRS 1 permits some relief from IFRS 2 based on date of grant and date of vesting of share-based instruments.[582] Exhibit 2-23 illustrates this exemption.

> **Comment:** The exemption refers to January 1, 2005, because this was the beginning date and the date after which IFRS 2 applied to annual financial statements. It also refers to November 7, 2002, because this is the start date of the look-back period under certain conditions set in the transitional provision of IFRS 2.[583] As a matter of fact, the IFRS 1 exemption reproduces the transitional provisions of IFRS 2 to IFRS first-time adopters. IFRS 1 explains that the rationale of the exemption is to treat IFRS first-time adopters in the same way as entities already reporting under IFRSs.

A European survey indicates that all 2005 first-time adopters used this exemption, when available.[584] A 2005 survey of 45 IFRS first-time adopters illustrates that approximately 58% used this exemption.[585] A survey of interim reports of 144 listed companies in FTSE 101-350 in 2005 converting from UK GAAP to IFRSs reveals that 76% availed themselves of this exemption.[586]

2.19.1.2 Implications for Accounting Estimates Paragraph 2.11.14 previously explains the implications on accounting estimates.

> **Comment:** As Exhibit 2-23 illustrates, an entity is encouraged but not required to apply IFRS 2 before certain dates, provided it has publicly disclosed the fair value determined at the IFRS 2 measurement date. For the purpose of applying this exemption, by public disclosure IFRS 2 appears to mean a disclosure made in previous financial statements, including disclosure in the notes, even if under previous GAAP.[587]

581 *IFRS 1, ¶ IG57.*
582 *IFRS 1, ¶¶ D2, D3, IG64, IG65, BC63B.*
583 *IFRS 2, ¶¶ 53–60.*
584 *ICAEW 2007 Survey, ¶ 11.4.*
585 *KPMG 2005 Survey.*
586 *BDO 2006 Survey, pages 3, 8.*
587 *IFRS 2, ¶ IG8.*

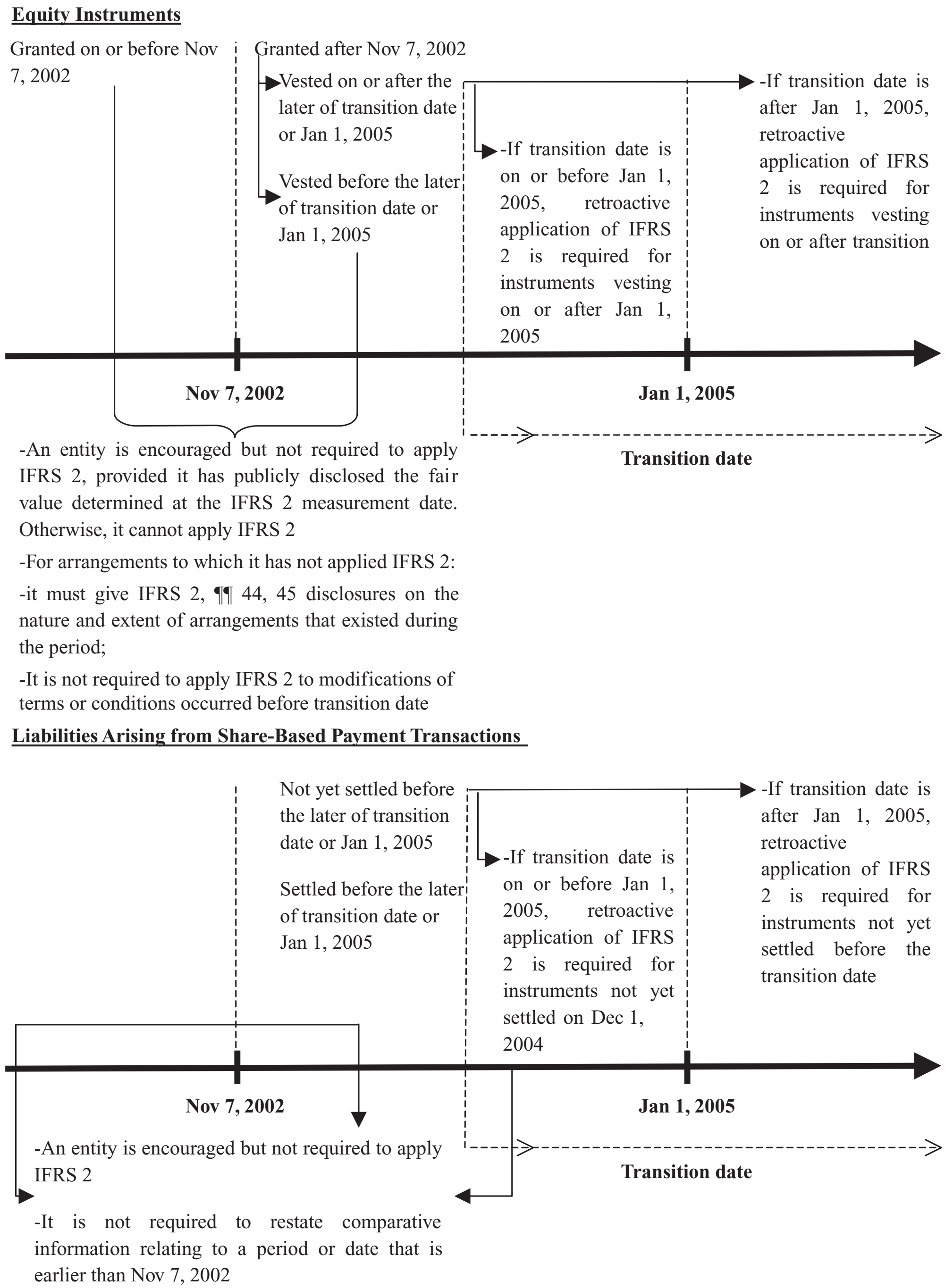

Exhibit 2-23 Share-Based Payment Transaction Exemption under IFRS 1

2.19.1.3 Relevance of Dates The reference to January 1, 2005 no longer has an impact for new adopters.

> **Planning Point:** However, it may still be relevant in comparing entities for financial analysis purposes. Not applying IFRS 2 to exempted transactions may mean that the opening balance of equity is overvalued for the related unrecorded costs, if the entity had not recognized them under previous GAAP. IFRS 2 does not indicate which equity component must reflect equity-settled share-based payment transactions. Therefore, any voluntary restatement of this amount (if permitted under the exemption) would not necessarily affect opening retained earnings.

> **Planning Point:** An IFRS first-time adopter that has a transition date as of January 1, 2010 (i.e., the transition date is after January 1, 2005), which means that the first IFRS reporting date is December 31, 2011 if the entity presents only one comparative year, must retrospectively apply IFRS 2 with restatement of comparative information to equity instruments vesting from January 1, 2010 inclusive. The entity must retrospectively apply IFRS 2 with restatement of comparative information to liabilities arising from cash-settled share-based payment transactions that are not yet settled on December 12, 2009. If the first IFRS reporting date is December 31, 2015 and the entity must present two years of comparative information, it must retrospectively apply IFRS 2 with restatement of comparative information to equity instruments vesting from January 1, 2013 inclusive and to liabilities not yet settled on December 12, 2012.

2.19.1.4 Effects on Income Taxes Paragraph 2.12.6.2 previously explains that deferred taxes may arise even when an IFRS 1 exception or exemption allows an entity not to recognize an item at transition date.

> **Planning Point:** When the IFRS 1 relief results in no recognition of share-based payment compensation costs, expected tax deduction would likely exceed cumulative remuneration expenses recognized under IFRS 2. In such a case, IAS 12 requires the recognition of related deferred tax directly in equity (see Paragraph 5.6.27 following).[588]

2.19.2 Insurance Contracts

IFRS 1 permits an IFRS first-time adopter to use the transitional provisions of IFRS 4.[589] The following paragraph explains the related points.

2.19.2.1 Prospective Application IFRS 4 applies prospectively to annual periods beginning on or after January 1, 2005, unless an entity opts for earlier adoption. Specific amendments to the standard have subsequent effective dates.[590] New adopters have to restate comparative information that is not prior to 2005.

2.19.2.2 Disclosures Regarding Comparative Periods In addition, under IFRS 4, ongoing IFRS entities could waive disclosures relating to comparative periods beginning before

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[588] *IAS 12, ¶ 68C.*
[589] *IFRS 1, ¶ D4; IFRS 4, ¶ 40.*
[590] *IFRS 4, ¶¶ 41, 41A–41C.*

January 1, 2005, except those concerning accounting policies, recognized assets and liabilities, income and expenses, and cash flows when they presented a statement of cash flows under the direct method.[591]

On top of this, another IFRS 1 provision exempted entities adopting before January 1, 2006 to restate comparative information under the standard, at the expense of some additional disclosures (see Paragraph 2.20.2 following).[592]

2.19.2.3 Impracticability IFRS 4 benevolently regards impracticability in the application of the liability adequacy test to comparative information, while an alleged impracticability in other recognition and measurement aspects deserves stronger scrutiny.[593]

2.19.2.4 Claims Development Another transitional provision of IFRS 4 restricts the disclosure of claims development (i.e., the comparison of actual to estimated claims) to five years prior to the year of adoption, instead of up to 10 years. Upon first adoption, an entity must disclose any impracticability to obtain information on claims development preceding the earliest full comparative period under IFRS 4.[594]

2.19.2.5 Reclassifications of Financial Assets Finally, contrary to IFRS 9 that permits reclassifications of financial assets only when an entity changes business model for those assets, IFRS 4 gives an entity that changes its policy of accounting for insurance liabilities an option to reclassify financial assets as at fair value through profit or loss, so as to avoid an accounting mismatch. This choice, which is a change in accounting policy under IAS 8, is available upon the first adoption of IFRS 4 (or IFRS first-time adoption) and upon a change in accounting policies permitted under IFRS 4 (i.e., one that results in more relevance and not less reliability or vice versa), but only when the entity also applies IFRS 9.[595]

2.19.3 Fair Value or Revaluation as Deemed Cost

2.19.3.1 Available Options At transition date, first-time adopters may elect to measure an item of property, plant and equipment, or other eligible items (see Paragraph 2.19.3.2 following) either at historical cost or at a deemed cost at that date. The deemed cost may be the fair value at the date of transition to IFRSs, a previous GAAP revaluation (Paragraph 2.19.3.8 following), or an event-driven fair value measurement (Paragraph 2.19.3.9 following).[596] A previous GAAP revaluation may take several forms. Paragraph 2.18 previously explains the rules that items acquired in a business combination follow.

In a European survey of 2005 first-time adoption, approximately 27% of companies used the deemed cost exemption for tangible assets, but none did so for intangible assets. In particular, 12% used the fair value as deemed cost, 9% a previous GAAP revaluation to fair value, and 3% previous GAAP cost adjusted to reflect changes in an index.[597] According to a survey of

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[591] *IFRS 4, ¶ 42.*
[592] *IFRS 1 (2004), ¶ 36A.*
[593] *IFRS 4, ¶ 43.*
[594] *IFRS 1, ¶ 44.*
[595] *IFRS 4, ¶¶ 41C, 45, BC145; IFRS 9, ¶ 4.4.1.*
[596] *IFRS 1, ¶¶ D5, D6, B8.*
[597] *ICAEW 2007 Survey, ¶ Table 11.4.*

interim reports of 144 listed companies in FTSE 101-350 in 2005 converting from UK GAAP to IFRSs, approximately 14% disclosed that they used fair value as deemed cost.[598]

2.19.3.2 Eligible Items The deemed cost exemption is only available for an item of property, plant and equipment, an intangible asset that meets the recognition criteria in IAS 38 and is eligible for the revaluation model, or an investment property carried at cost model.[599] It is also considered applicable to assets held under finance leases by lessees (but not to related lease liabilities). Conversely, the event-driven revaluation is available for all assets and liabilities.[600]

Comment: A first-timer adopter will measure investment property carried at fair value by using such a basis at the transition date. Paragraph 2.19.3.18 following explains the impact for deferred taxes.

The deemed cost exemption constitutes a targeted use of different types of fair value measurements. The requirement in IAS 16 to revalue the entire class to which the asset belongs does not apply, because the company would immediately reduce the revalued asset if it determines that it is impaired.[601]

Special rules apply to intangible assets. Upon IFRS first-time adoption, IFRS 1 prohibits the use of fair value or of a previous GAAP revaluation as deemed cost to intangible assets that at the transition date do not meet both the recognition criteria for intangible assets and the revaluation criteria in IAS 38.[602]

Comment: Literally, IFRS 1 does not subordinate an event-driven revaluation to these requisites.[603]

As to the recognition criteria for intangible assets, IAS 38 first requires that the asset meets the IAS 38 recognition criteria (i.e., contemporaneous assessment of probable future economic benefits to the entity and reliable measurement, as well as specific criteria in the case of internally generated development activities[604]), in addition to the definition of an intangible asset. As to the revaluation criteria, IFRS 1 also requires the existence of an active market.

Comment: Under IAS 38, the revaluation model is a subsequent measurement of intangible assets (except for intangible assets obtained through a government grant, assets acquired in exchange for a dissimilar asset, and assets acquired in business combinations). In other terms, the initial recognition of the asset is in any event a prerequisite.[605]

2.19.3.3 Recognition Criteria for Intangible Assets A contemporaneous and documented assessment of the probable future economic benefits from an intangible asset is another

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598 *BDO, 2006 Survey, page 19.*
599 *IFRS 1, ¶¶ D7, IG62.*
600 *IFRS 1, ¶ D8.*
601 *IFRS 1, ¶ BC45.*
602 *IFRS 1, ¶¶ D7, IG44(a), IG50, BC71.*
603 *IFRS 1, ¶¶ D7, IG50.*
604 *IAS 38, ¶¶ 21, 57.*
605 *IAS 38, ¶¶ 8, 44, 45, 75, 76.*

feature of the initial recognition criteria under IAS 38. In addition, one of the prerequisites to capitalize internally generated development expenditure is the existence of a reliable cost system that records expenditures at or soon after they are incurred. The system must also be able to segregate development expenditures from research expenditures, which are always expensed. Only after the date on which the asset meets all the recognition criteria, will the entity be able to capitalize the expenditures. IFRS 1 confirms these criteria.[606]

Comment: The prohibition to recognize internally developed intangible assets that did not meet recognition criteria at the transition date derives from the general principle in IFRS 1 that an IFRS first-time adopter cannot recognize assets for which IFRSs do not permit recognition.[607] Recognition of internally developed intangible assets that meet the recognition criteria at the transition date derives from the general principle in IFRS 1 that an IFRS first-time adopter must recognize assets for which IFRSs require recognition.[608]

Planning Point: The same logic applies at comparative periods. As the IFRS 1 provisions on subsequent events do not override the dictates of IAS 38,[609] the entity will recognize internally developed intangible assets that meet recognition criteria within the comparative period only from the date on which recognition criteria are met.

Example: Pre-IFRSs Australian accounting standards allowed recognition of certain internally generated intangible assets and measurement at cost or at a fair-value-based model. Retrospective application of A-IAS 38 often translated into the derecognition of certain intangible assets that did not meet the recognition criteria under A-IFRSs at the transition date, as well as the remeasurement of assets carried at valuation that did not pass the revaluation model test under A-IAS 38.[610]

2.19.3.4 Reinstatement of Expenses Related to Intangible Assets Under IAS 38, an ongoing IFRS entity can capitalize expenditures starting only from the moment in which recognition criteria are met, and only those expenditures that it has not already expensed at that date. Therefore, even if all recognition criteria are met, it will be able to capitalize only the expenditures that it incurred from that moment up to the moment in which the asset is available for use. The fact that the entity is able to reconstruct costs incurred retroactively is irrelevant.[611]

Planning Point: For first-time adopters, this holds true for an internally developed intangible asset that does not meet the IAS 38 recognition criteria at the transition date. However, IFRS 1 appears to override the criterion of prospective capitalization in the case of the initial recognition of an internally developed intangible asset that meets the recognition criteria at the transition date. The first-time adopters will be able to capitalize all the related expenditures in its opening IFRS statement

606 *IFRS 1, ¶ BC69.*
607 *IFRS 1, ¶ 10(b).*
608 *IFRS 1, ¶ 10(a).*
609 *IFRS 1, ¶ IG4(b).*
610 *IASB Update, December 2003.*
611 *IFRS 1, ¶¶ IG46; IAS 38, ¶¶ 57(f), 62.*

of financial position, even those expensed under previous GAAP.[612] Of course, the cost accounting system of the first-time adopter should be such as to give enough information on those expenditures, a fact that the IASB considers unlikely if the entity did not recognize the asset under previous GAAP.[613] This provision is questionable. The linear solution would appear to be the prospective measurement of these assets based on expenditures not yet expensed at the date of recognition. Based on the IFRS 1 rule for reformulating estimates under IFRSs at transition date through inputs that were not required under previous GAAP (see Paragraph 2.11.5 previously), the entity must consider only the data that were available at that time.[614] In addition, the IFRS 1 for estimates do not override the prohibition in IAS 38 to capitalize internally developed intangible assets that do not meet recognition criteria. Although IFRS 1 does not mention the reinstatement of expenses, a reinstatement of amounts already expensed appears to be in conflict with such a provision. As a possible reason for the discrepancy, Paragraph 65 of IAS 38 mentions those expenses within measurement, not recognition requirements. However, its Paragraph 71 places the expenditures in question as part of the recognition criteria as expenses. Finally, the IFRS 1 rule for estimates requires the adjusting of previous GAAP estimates when there is a difference in accounting policies. As IAS 38 does not permit reinstatement of expenses, there is no change in accounting policy to justify it.

This waiver also has an impact on subsequent measurement.

Comment: Under IAS 38, if the entity subsequently uses the cost model, it would not be able to capitalize the amount expensed retrospectively, as this would be tantamount to the use of hindsight. On the contrary, a first-time adopter that at transition date initially recognizes an asset will be able to capitalize all pertinent expenditures, including those expensed under previous GAAP.

Under IAS 38, an entity that already reports under IFRSs can subsequently apply the revaluation model to the whole asset, provided at least part of its expenditures initially met the intangible asset definition and recognition criteria and the entity had capitalized them.[615]

Planning Point: A first-time adopter may reach the same result either by using fair value as deemed cost or by using revaluation as subsequent measurement model.

2.19.3.5 Relevant Dates The first of the three options, i.e., the use of fair value, must refer to the transition date. Conversely, a previous GAAP revaluation may have occurred at or before the transition date. The entity applies this new basis at the transition date under IFRSs.

Comment: According to a literal reading of IFRS 1, the entity uses such a value at its transition date. It would appear that if the measurement date were before the transition date, the entity would not make any further adjustment under IFRSs relating to the period from measurement date to transition date. However, as IFRS 1 does not set a time limit, such a measurement date may be well before the transition date. Therefore, the standard is usually interpreted as requiring reflecting adjustments for

[612] *IFRS 1, ¶ IG47.*
[613] *IFRS 1, ¶¶ BC69, BC70; IASB Update, December 2002.*
[614] *IFRS 1, ¶ 16.*
[615] *IFRS 1, ¶ IG47; IAS 38, ¶¶ 65, 71, 77.*

this passage of time according to IFRSs (e.g., depreciation or amortization) in the carrying amount of the asset in the opening IFRS statement of financial position.

2.19.3.6 Dates for an Event-Driven Fair Value Measurement The date of an event-driven fair value measurement may also precede the transition date. In this case, the entity considers fair value measurement as the deemed cost under previous GAAP at the date of measurement. Arguably, the entity must again adjust the amount for the period from the earlier measurement date to the transition date. The IASB recently extended this exemption to event-driven revaluations that occurred after the date of transition, but no later than the period covered by an entity's first IFRS financial statements. In this case, the entity considers the new basis as the deemed cost at the date of the event, which therefore falls either in the comparative period(s) or in the first IFRS reporting year. Any difference with the carrying amount at the same date adjusts retained earnings or another component of equity, as appropriate. The rationale of this amendment is to release an entity from having to keep track of two sets of measurements (such a revaluation in connection with local legal requirements, and another amount under IFRSs that would be necessary in the absence of this amendment for a revaluation by the first IFRS reporting date).[616]

Comment: An entity may decide not to apply this amendment.

This amendment is effective for annual periods beginning on or after January 1, 2011, with possible earlier adoption, a fact that must be disclosed.[617] However, entities that have already migrated to IFRSs may apply this provision, provided they do so retrospectively in the first financial year after the effective date and make the necessary disclosure.

Planning Point: Therefore, when the event occurs after the transition date, an entity that migrates to IFRSs in an annual period beginning on or after January 1, 2011 or in subsequent years will measure the item at transition date either at historical cost, or at the fair value at transition date, or at a previous GAAP revaluation. Starting from the date of the event, it may use the revalued amount. Instead, it cannot re-determine the amount at transition date by adjusting the event-driven revalued amount for depreciation or amortization or any impairment. A first-time adopter in annual periods beginning on or after May 2010 is able to reach the same result by adopting the amendment early. Conversely, entities that in their annual period beginning on or after January 1, 2011 already report under IFRSs may retrospectively apply the event-driven revalued amount in the subsequent financial year.

2.19.3.7 Rationale and Comparability The deemed cost accommodation is a trade-off between comparability on one hand and a cost-effective solution on the other when redetermining the IFRS amounts of certain long-lived assets at the transition date that would be impossible or difficult because of lack of data or an over complex reconstruction of the effect of past transactions. However, as is the case for all IFRS 1 voluntary exemptions, a company need not demonstrate an undue cost or effort to avail itself of the exemption.[618]

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[616] *IFRS 1, ¶¶ 39E, D8, BC46A, BC46B, as amended by* Improvements to IFRSs *(May 2010).*
[617] *IFRS 1, ¶ 39E.*
[618] *IFRS 1, ¶¶ BC41–BC42.*

Comment: The deemed cost exemption introduces an exemption to the retrospective application of IAS 16 and IAS 38, thus undermining comparability among first-time adopters. The Basis for Conclusions of IFRS 1 expresses the view that deemed cost fair value is equal to the cost of an equivalent used asset acquired at transition date. Consequently, the detriment of comparability would be less than the one that is inherent in the financial statements themselves, where costs of assets acquired on different dates add up to figures that are per se not comparable. This sounds like saying that known limitations of financial reporting justify even more serious, but one-time departures from established measurement attributes, even though they are not so solid as to validate a change in recurring measurement bases. On the other hand, consistently with the revaluation model in IAS 16 and IAS 38, the IASB acknowledges that under certain circumstances, such as previous GAAP or event-driven revaluations, the deemed cost accommodation might be more relevant to users than historical cost.[619]

Planning Point: In practice, an entity may have several reasons for using a deemed cost. A difficult reconstruction of data might come from accounting policies that are incompatible with IFRSs, revaluation of long-lived assets according to local rules, or incorrect capitalization of interest costs. Other motivations may comprise a failure to expense maintenance and repair expenditures, to collect data systematically, or to apply componentization of assets.

2.19.3.8 Previous GAAP Revaluation A revaluation may be available because it had already been made at or before the transition date under previous GAAP. It may qualify as deemed cost, provided at the date of valuation it was broadly comparable to fair value or reflected a measure of changing prices, such as changes in a general or specific price index, applied to cost or depreciated cost.[620] A previous GAAP revaluation is an option only if the entity had used such a measurement in its previous GAAP financial statements.[621]

Planning Point: A previous GAAP revalued amount may take several forms. It might follow the fair value at transition date or the fair value before transition date adjusted to transition date. It might be an amount broadly comparable to fair value in the above two situations, a cost or depreciated cost adjusted for changes in a general or specific index, determined at transition date or before transition date and subsequently adjusted, or an amount broadly comparable to adjusted depreciated costs.

Planning Point: The employment of an index may be useful in an inflationary economy that however does not qualify as hyperinflationary.

Example: A Spanish foreign private issuer, in its reply to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained that it used a revaluation made prior to transition date based on Spanish law, as well as inflation-adjusted values relating to subsidiaries operating in hyperinflationary economies, as deemed cost. The SEC Staff required confirmation that those revaluations were comparable to fair value at transition date as required by IFRS 1.[622]

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[619] *IFRS 1, ¶¶ BC43, BC46, BC71.*
[620] *IFRS 1, ¶¶ D6, BC47.*
[621] *IFRS 1, ¶ BC95.*
[622] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 23. Reply by the Company, February 26, 2007.*

2.19.3.9 Event-Driven Revaluation as Deemed Cost A fair value measurement that the entity had made in connection with a specific event and that it treated as deemed cost under previous GAAP might also qualify. It might be an initial public offering or a privatization. This is an option only if the entity used such measurement in its previous GAAP financial statements.[623] Unlike the other options, the event-driven revaluation opportunity is available for all assets and liabilities.

Comment: This measurement criterion is not necessarily comparable to the other deemed cost fair value measurements. Again, the Basis for Conclusions of IFRS 1 underlines that such revaluations may be more relevant than historical cost.[624] Here, the point is a preference for a fresh start measurement basis. On one hand, this is a pervasive long-term aim in the IASB work plan, wherever such measurement is verifiable, justifiable, practicable, and leads to enhanced information for financial statement users. On the other hand, IFRSs generally permit this because of a transaction or impairment, and exceptionally of allowed accounting policies or specific standards.[625]

Revaluation of tangible assets that a specific jurisdiction might have permitted under previous GAAP will not qualify for the deemed cost exception if it does not constitutes a fair value measurement.

Example: Government-owned enterprises in the People's Republic of China have revalued property, plant, and equipment as part of a process of "corporatization" in contemplation of a public offering of securities. In this case, the SEC Staff did not consider the IFRS 1 accommodation applicable, except in the case of missing reliable historical cost records. Revalued amounts were established by government policy rather than fair value.[626]

2.19.3.10 Determination of Fair Value IFRS 1 does not provide guidance as to how to determine fair value for the purpose of the deemed cost exemption. In general, it refers to the definition of fair value and guidance in other IFRSs.[627] Based on that, one may think of looking at other Standards for applicable guidance. For example, on assets with associated decommissioning liabilities, Paragraph 2.19.3.17 following develops on fair value guidance of other IFRSs. However, the following discussion shows that this is not always the case. IFRS 13, for annual periods beginning on or after January 1, 2013 with earlier application permitted, applies to fair value measurement.[628]

Comment: IFRS 1 is less rigid with reference to a previous revaluation as deemed cost. Broad comparability to fair value suffices, and the Basis for Conclusions explains that a great extent of flexibility is possible.[629]

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[623] *IFRS 1, ¶ BC95.*
[624] *IFRS 1, ¶ BC46.*
[625] *IFRIC 17, ¶ BC56.*
[626] *SEC, International, November 1, 2004, ¶ Appendix A,* Country Specific Issues*, 6.*
[627] *IFRS 1, ¶ 19.*
[628] *IFRS 13, ¶ D2.*
[629] *IFRS 1, ¶ BC43.*

> **Example:** The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that broker estimates of an offshore rig could be used to determine fair value, even if the brokers had not provided the entity with sufficient information on the valuation methods and assumptions used for its independent assessment. The EECS reasoned that the deemed cost exemption is a practical and flexible solution. According to the enforcer, guidance on fair value in other IFRSs cannot be used by analogy. This is because the deemed cost exemption is an alternative approach to retrospective application of IAS 16, including the determination of initial cost (i.e., fair value at initial recognition).[630]

The IASB tentatively decided to introduce a principle in IFRS 1 that fair valuation would not be permitted for transactions before the transition date, unless the entity had obtained inputs required at the time the valuation was needed.[631]

2.19.3.11 Subsequent Depreciation, Amortization, and Impairment Subsequently to the adoption of a deemed cost at transition date, the entity depreciates and amortizes prospectively based on a determination of the asset's useful life at that date.

> **Planning Point:** According to IFRS 1, depreciation starts from the date for which the entity established the deemed cost.[632] This implicitly means that if the company uses a previous GAAP or event-driven revaluation, it must account for the depreciation or amortization from the measurement date to the transition date. IFRS 1 gives no instructions on whether this should be prospective or retrospective. The general interpretation is that such a depreciation or amortization should follow a policy under IFRSs even if it refers to periods under previous GAAP. The counter-account would be opening retained earnings as a retrospective adjustment. However, Paragraph 2.11.16 above explains that IFRS 1 requires retrospective accounting of depreciation and amortization only when the treatment under previous GAAP is unacceptable to IFRSs. Based on this reading, an adjustment compatible with IFRSs that the entity had made under previous GAAP already affected profit or loss before the transition date, with no need for further restatement for different estimates.

The deemed cost, less any subsequent depreciation or amortization if the company adopts the cost method, is subject to impairment test under IAS 36 when an indication in this sense arises.[633]

2.19.3.12 The Effect on Componentization IAS 16 requires a components approach to tangible assets. An entity separately capitalizes and depreciates each significant part (i.e., component) of an item of property, plant, and equipment.[634] IAS 8 regards a change from previous GAAP to such an approach under IAS 16 as a change of accounting policy. This standard gives an example of a company already reporting under IFRSs that adopts a

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630 *Committee of European Securities Regulators (CESR), 2007. CESR/07-630,* 2nd Extract from EECS's Database of Enforcement Decisions, *Paris: CESR, ¶ Decision ref. EECS/1207-05. [Online] CESR. Available at:* www.cesr.eu *[last accessed July 20, 2010].*

631 *IASB Update, May 2008.*

632 *IFRS 1, ¶ IG9.*

633 *IFRS 1, ¶¶ Appendix A, BC45.*

634 *IFRS 1, ¶ IG12; IAS 16, ¶¶ 43, 44.*

components approach more fully and that, due to the impracticability of reconstructing data, applies the policy prospectively from the current year.[635]

> **Planning Point:** The deemed cost exemption would permit an IFRS first-time adopter to bypass such impracticability by applying the components approach based on fair value.

The notion of componentization is mainly functional to defining the level of depreciation. However, IAS 16 acknowledges that it does not identify what level constitutes an item of property, plant, and equipment for recognition purposes and entities must apply judgment in this determination.[636]

> **Comment:** Arguably, as an entity can apply the deemed cost exemption selectively to an item of property, plant, and equipment, it might also do so at components level.

2.19.3.13 Impact of the Choice of a Subsequent Measurement Model The use of some sort of cost or revaluation models under previous GAAP, or the election for a deemed cost at transition date is irrelevant for subsequent measurement. Under IAS 16 and IAS 38, the cost or the revaluation model is an accounting policy decision. Accounting treatment at transition date and subsequent measurement are distinct logically and in terms of time. Transition adjustments affect the beginning balance of retained earnings or other component of equity, as appropriate.[637] Subsequent measurement follows the relevant IFRSs.

IFRS 1 does not explicitly state how to treat any revaluation surplus that existed under previous GAAP, but this can be understood from the Implementation Guidance, as explained next. For simplicity, the discussion above ignores deferred taxes. Exhibit 2-24 illustrates the accounting entries, as discussed next.

> **Planning Point:** If an entity used the historical cost model under both previous GAAP and at transition date, it adjusts the asset account and the accumulated depreciation or amortization account (if the entity used a separate account for the latter), as if it had always followed IFRSs. It adjusts retrospectively, except for changes in estimates that were consistent with IFRS accounting policies (see Paragraph 2.11.16). Any difference with the previous carrying amount at transition date affects opening retained earnings. If the entity used a sort of revaluation model under previous GAAP and decides to use historical cost at transition date, it reverses any previous GAAP revaluation and adjusts the carrying amount of the asset correspondingly. If the entity opts for the revaluation model as subsequent measurement, revaluation surplus reflects any difference between revaluation at transition date (as subsequent measurement) and the restated historical cost amount at the same date.

If the entity uses a previous GAAP revaluation or an event-driven revaluation as deemed cost it would not restate the asset account, because it had already recognized it at that amount in its

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[635] *IAS 8, ¶¶ 5, IG Example 3.*
[636] *IFRS 1, ¶¶ IG12, BC45; IAS 16, ¶ 9.*
[637] *IFRS 1, ¶ 11.*

Exhibit 2-24 Accounting Entries Concerning Fair Value or Revaluation as Deemed Cost

	Debit	*Credit*
A	**The entity used a cost model under previous GAAP and at transition date applies historical cost under IAS 16**	
A.1	Asset	
		Deferred tax liability Opening retained earnings
	At transition date: retrospective application of IFRSs accounting policies and/or corrections of errors concerning recognition and measurement of the asset.	
A.2	Deferred tax liability Opening retained earnings	
		Accumulated depreciation
	At transition date: retrospective application of IFRSs accounting policies and/or corrections of errors concerning depreciation, except for changes in estimates that were consistent with IFRS accounting policies and acceptable under IFRSs, which are accounted for prospectively.	
B	**The entity used a revaluation model under previous GAAP and at transition date retrospectively applies historical cost under IAS 16**	
B.1	Accumulated depreciation Deferred tax liability Revaluation surplus	
		Asset
	At transition date: reversal of revaluation under previous GAAP. The example assumes that the entity used a proportional method of revaluation.	
B.2	Accumulated depreciation	
		Deferred tax liability Opening retained earnings
	At transition date: reversal of additional depreciation of revaluation under previous GAAP.	
B.3	As A.1	
B.4	As A.2	
C	**At transition date, the entity applies historical cost under IAS 16. The entity opts for the revaluation model under IAS 16 for subsequent measurement. This case is compatible with both case A (the entity used the cost model) and case B (the entity used the revaluation model).**	
C.1	Asset	
		Accumulated depreciation Deferred tax liability Revaluation surplus
	At transition date: cumulative revaluation surplus equals revalued amount less restated historical cost. The example assumes that the entity uses a proportional method of revaluation.	
D	**At transition date the entity uses a previous GAAP revaluation or an event-driven revaluation as deemed cost.**	
D.1	Deferred tax liability Opening retained earnings	
		Accumulated depreciation
	At transition date, the entity accounts for depreciation from measurement date to transition date. If the entity already made such an adjustment under previous GAAP on a basis compatible with IFRSs, it would make no entry.	
D.2	Revaluation surplus	
		Opening retained earnings
	At transition date, it reverses revaluation under previous GAAP.	

(continued)

Exhibit 2-24 Accounting Entries Concerning Fair Value or Revaluation as Deemed Cost (*Continued*)

	Debit	Credit
E	**Same conditions as in D. The entity opts for the revaluation model under IAS 16 for subsequent measurement.**	
E.1	As C.1	
	At transition date: cumulative revaluation surplus equals revalued amount less deemed cost. The example assumes that the entity must revalue because the deemed cost differs materially from its fair value at transition date and that the entity uses a proportional method of revaluation.	
F	**The entity used a cost model under previous GAAP and at transition date opts for fair value as deemed cost.**	
F.1	Asset	
		Deferred tax liability
		Opening retained earnings
	At transition date: the entity adjusts to fair value. This entry assumes that the entity follows the gross method of revaluation (the entry to eliminate the previously existing accumulated depreciation is omitted). Arguably, it may use the proportional method.	
G	**The entity used a revaluation model under previous GAAP and at transition date opts for fair value as deemed cost.**	
G.1	As F.1	
G.2	Revaluation surplus	
		Opening retained earnings
	At transition date: reversal of revaluation under previous GAAP.	

Note: *depending on figures, the entries may have opposite debit/credit signs.*

previous GAAP financial statements. It only needs to account for any change (e.g., depreciation or amortization) from the date of revaluation to the transition date using a policy compatible with IFRSs against opening retained earnings (see Paragraph 2.19.3.11 previously). If the entity made such an adjustment under previous GAAP on a basis compatible with IFRSs, this already affected profit or loss under previous GAAP before the transition date.

IFRS 1 is not so explicit on what happens to a revaluation surplus that existed under previous GAAP because of this one-time revaluation. However, it states that if the entity opts for the revaluation model as subsequent measurement, cumulative revaluation surplus must equal the difference between the revalued carrying amount of the asset at transition date and its cost or deemed cost at that date. The company must show a separate line in equity for cumulative revaluation surplus.[638] Under the IAS 16 and IAS 38 revaluation model, an entity must revalue an asset at the reporting date whenever its carrying amount differs materially from fair value.[639] Therefore, it will have to revalue at transition date if the event-driven revaluation is too far in the past or the previous GAAP revaluation was broadly comparable to an index-adjusted cost and not to fair value. Consequently, such revaluation surplus would entirely refer to the subsequent measurement. That is why, whether the entity opts for the cost or the revaluation model as subsequent measurement, it has to reverse any pre-existing revaluation surplus arising under previous GAAP. In the United Kingdom, TECH 21/05 confirms that revaluation due

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[638] *IFRS 1, ¶ IG10.*
[639] *IAS 16, ¶ 31; IAS 38, ¶ 75.*

to the use of the deemed cost exemption should not ordinarily be presented as a revaluation surplus.[640]

If at transition date the entity uses fair value as deemed cost and opts for the cost model as subsequent measurement, any difference between deemed cost and the previous carrying amount at transition date affects opening retained earnings. If the entity used a sort of revaluation model under previous GAAP, it would reverse any previous GAAP revaluation surplus. If the entity elects the revaluation model as subsequent measurement, there would not likely be any revaluation surplus at transition date, because the revaluation under IAS 16 would equal the fair value at the same date. However, any difference would affect revaluation surplus.

Planning Point: When the entity retrospectively applies the cost model, the reversal of a revaluation surplus existing under previous GAAP is against the asset and the accumulated depreciation or amortization accounts. When the entity uses a deemed cost at transition date, it reverses that revaluation surplus against opening retained earnings (or another component of equity other than revaluation surplus under IFRSs).

Comment: IFRS 1 does not explain whether an entity that used the cost method under previous GAAP and at transition date opts for the fair value as deemed cost, must adjust only the asset account or also the accumulated depreciation or amortization as counter-accounts of opening retained earnings. For subsequent measurement, IAS 16 and IAS 38 permit only two methods of revaluation: a proportional restatement of both accounts (also known as the proportional method) or a restatement of the net book value after elimination of accumulated depreciation or amortization against the asset account (also known as the gross method). IFRS 1 does not state whether the same limitation applies to the use of fair value as deemed cost. However, while these treatments apply to a revaluation under IFRSs, the use of fair value as deemed cost does not affect revaluation surplus, so it is not fully comparable to a revaluation.

2.19.3.14 Previously Capitalized Revaluation Surplus Paragraph 2.19.3.13 previously shows, inter alia, that an entity that used a revaluation under previous GAAP and had opted for historical cost at transition date must reverse any previous GAAP revaluation surplus against the asset.

Planning Point: An issue arises when under previous GAAP the entity had capitalized that revaluation surplus, i.e., transferred that equity reserve into capital accounts, for example, because of a bonus issue of shares. In UK., the ICAEW concludes to restate the asset at cost by debiting reserves for an unrealized loss. This is not an impairment to the extent the recoverable value is higher than the previous revalued amount.[641]

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[640] *The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Accountants of Scotland, TECH 21/05,* Distributable Profits: Implication of IFRS*, page 35 (hereinafter TECH 21/05).*

[641] *The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Accountants of Scotland, 2007. TECH 02/07,* Distributable Profits: Implications of Recent Accounting Changes*, ¶ 6.48.*

2.19.3.15 The Impact of an Impairment Loss Once an entity has applied the deemed cost, it accounts for a subsequent impairment of the asset under IFRSs.

> **Planning Point:** As Paragraph 2.19.3.14 explains, at transition date an IFRS first-time adopter reverses any revaluation surplus existing under previous GAAP. Therefore, the entity will expense any subsequent impairment loss that does not offset a post-transition revaluation surplus.

2.19.3.16 The Impact of a Reversal of an Impairment Loss Under IAS 36, an entity reverses an impairment loss of a revalued asset in profit or loss to the extent that the impairment loss previously reduced profit or loss. IFRS 1 explains that this rule also applies to losses recognized under previous GAAP or at transition date.[642]

> **Planning Point:** It is not clear whether to read this principle as referring symmetrically to revaluation surplus. Assume an entity that recorded an impairment loss under previous GAAP as a reversal of a revaluation, and that at transition date values the asset at deemed cost. As Paragraph 2.19.3.13 explains, at transition date an entity adjusts the asset at fair value as deemed cost against beginning retained earnings, even if the appreciation embedded in fair value includes a reversal of such an impairment loss. Any different accounting would violate the requirement in IFRS 1 that at transition date cumulative revaluation surplus must equal the difference between the asset's carrying amount and its cost or deemed cost at that date only if the entity subsequently adopts the revaluation model.[643]

2.19.3.17 Deemed Cost in Conjunction with a Decommissioning or Similar Liability IFRS 1 does not prohibit the use of the deemed cost exemption to an asset that has an associated decommissioning, restoration, and similar liability. However, it does not provide guidance on how to measure such deemed cost at transition date and whether it should include the value of such an obligation. IFRS 1 only provides an exemption from the retrospective application of changes in the liability that occurred before the transition date (Paragraph 2.19.14 following). In such a case, it only explains how to restate the asset and the liability at transition date under the cost model.

Although no guidance exists on how an IFRS first-time adopter must compute the fair value as deemed cost of such an asset, IFRSs provide some directions in the context of the use of revaluation as a subsequent measurement model. Paragraph 2.19.3.10 warns that fair value measurement guidance in other IFRSs does not necessarily apply to fair value as a deemed cost.

> **Comment:** IAS 16 requires revaluing an item of property, plant, and equipment at least when it differs materially from fair value and it states that the revalued amount is its fair value at revaluation date.[644] Although such guidance is in the context of revaluation model, this indirectly provides instructions about the use of fair value. Of course, contrary to subsequent revaluations, fair value as deemed cost affects opening retained earnings at the transition date.

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[642] *IFRS 1, ¶ IG43; IAS 36, ¶¶ 119, 120.*
[643] *IFRS 1, ¶ IG10.*
[644] *IAS 16, ¶ 31.*

IAS 16 is clear that at initial recognition the cost of an item of property, plant, and equipment must include the amount corresponding to the related decommissioning or similar obligation. IAS 37 confirms that those costs are included in the cost of the asset.[645]

The inclusion of the amount corresponding to the related decommissioning or similar obligation in the amount of the asset for financial reporting purposes regards the recognition criteria of tangible assets.

> **Comment:** IAS 16 explains that a decommissioning or similar obligation is associated with the related asset.[646] This is because such an obligation may be assimilated to costs directly attributable to bringing the asset to the location and conditions required for its operations, a fact that triggers capitalization under IAS 16 at initial measurement.[647] IFRIC 1 indirectly means that the liability will ultimately be fully depreciated over the life of the asset irrespective of whether the entity employs the cost or the revaluation model.[648] Subtopic 410-20 (FASB Statement No. 143) is even clearer concerning an asset retirement obligation. This is integral to the related asset because it is a prerequisite for its operations. Those costs are necessary to prepare the asset for its intended use. Consequently, in the valuation of the asset an entity must add the amount necessary to settle the liability.[649]

The inclusion of the amount corresponding to the related decommissioning or similar obligation in the amount of the asset for financial reporting purposes relates to the definition of fair value as an exit price.

> **Comment:** IAS 16 defines the fair value of an item of property, plant, and equipment in the context of an external exchange on an arm's length basis.[650] IAS 36 also evaluates decommissioning and similar obligations in a context of exchange. It refers to them as liabilities that may be evaluated only in association with the related asset because a buyer of the asset would necessarily assume the liability.[651] IFRIC 1 also asserts that ordinarily a buyer of the asset would also assume the obligation.[652] Subtopic 410-20 (FASB Statement No. 143) adds that a buyer would deduct the amount to settle the obligation from the price of the asset.[653]

The inclusion of the amount corresponding to the related decommissioning or similar obligation in the amount of the asset for financial reporting purposes relates to the accrual principle.

> **Comment:** Subtopic 410-20 (FASB Statement No. 143) explains that, as the entity already reports that amount as a liability, it must increase the amount of the asset to report in the statement of financial position.[654] In fact, in case of a sale, it would derecognize both the asset and the liability against the

645 *IAS 16, ¶¶ IN7, 16(c); IAS 37, ¶ IG C Example 3.*
646 *IAS 16, ¶ BC15.*
647 *IAS 16, ¶ 16(b).*
648 *IFRIC 1, ¶ 7.*
649 *FASB Statement No. 143, ¶¶ B42, B47.*
650 *IAS 16, ¶ 6.*
651 *IAS 36, ¶¶ 29, 78.*
652 *IFRIC 1, ¶ IE7.*
653 *FASB Statement No. 143, ¶ B47.*
654 *FASB Statement No. 143, ¶ B47.*

sale proceeds. In case it maintains the operations, it will fully recognize the decommissioning costs in profit or loss though depreciation and will settle the liability against the related expenditures that it will sustain.

When going to subsequent measurement, the first issue is whether the decision to use a revaluation model affects the amount initially recognized for the asset.

Planning Point: IAS 16 specifies that the choice of a subsequent measurement model (cost or revaluation) does not influence the initial measurement.[655] Therefore, even when an entity opts for the revaluation model, it will revalue an asset whose initial measurement already includes an amount related to a decommissioning or similar obligation.

The question arises as to how to measure the fair value of such an asset at revaluation date.

Planning Point: As a general principle, IAS 16 explains that to revalue an item of property, plant, and equipment, an entity generally uses an appraisal of its market value or, if not available, an income approach (e.g., a discounted cash flow valuation) or a depreciated replacement cost.[656] IFRIC 1 explains how to compute this in the context of revaluation as a subsequent measure model. To determine the value of the asset for financial reporting purposes, an appraiser valuing at discounted cash flow will not consider the future cash outflows relating to the decommissioning obligation (so-called gross valuation), because the fair value of such an obligation is already separately recorded as a liability. If it uses a net valuation (i.e., one that includes the cash outflows relating to the decommissioning obligation), it will have to add the value of the liability back to obtain the real fair value of the asset. Similarly, if the appraiser uses a depreciated replacement cost that does not include an amount for the decommissioning obligation, the entity will have to increase the asset by an amount corresponding to the allowance for the liability to determine the amount of the asset to report in the statement of financial position.[657]

The final question is whether a change in value of the liability affects the carrying amount of the asset when the entity uses the revaluation model.

Planning Point: IFRIC 1 explains that when an entity uses the revaluation model, changes in the measurement of the decommissioning or similar liability affect revaluation surplus (unless they adjust an amount previously recognized in profit or loss), and not the carrying amount of the asset. The change in revaluation surplus from subsequent revaluations of the asset will result from comparing the revalued amount to the carrying amount of the asset at that date. The carrying amount includes the amounts of the liability from initial measurement, but not previous changes in the fair value of the liability. Also, the computation of the changes in revaluation of the asset do not consider the change in value of the liability. In conclusion, changes in value of the liability do not affect the previous carrying amount, nor the new revalued amount. This is because the gross valuation mentioned above does not consider the effects of a change in the value of the liability.[658]

[655] *IAS 16, ¶ BC16.*
[656] *IAS 16, ¶¶ 33, 33.*
[657] *IFRIC 1, ¶¶ IE7, IE8.*
[658] *IFRIC 1, ¶¶ 6, IE8–IE12, BC25(a), BC25(b).*

In conclusion, the above guidance gives some indications of fair valuation as deemed cost.

Planning Point: The computation of fair value as deemed cost at transition date under a gross valuation method neutralizes the effect of the associated liability. However, this is a fresh-start measurement. For financial reporting purposes the asset will add back the value of the liability as would be the case upon initial measurements. Subsequent revaluations and changes in the value of the liabilities will follow the rules of IAS 16 and IFRIC 1, respectively.

No guidance exists for the case in which the entity uses a previous GAAP or an event-driven revaluation.

Comment: As Paragraphs 2.19.3.8 and 2.19.3.9 previously explain, a previous GAAP revaluation must be broadly comparable to either fair value or an indexed depreciated cost, and an event-driven revaluation must refer to fair value. Therefore the reasoning presented above should apply to the extent to which fair value is involved. As Paragraph 2.19.3.11 explains, an entity must make appropriate adjustments to bring the value to that at transition date.

Planning Point: If under previous GAAP the entity did not recognize the decommissioning or similar liability, at transition date it will record the liability against a negative adjustment in opening retained earnings. If under previous GAAP it did not gross up the asset for the decommissioning or similar obligation, at transition date it will record a positive adjustment in opening retained earnings. This holds true irrespective of whether the entity: 1) restates the asset at historical cost or uses a deemed cost at transition date, 2) avails itself of the IFRS 1 exemption for changes in the decommissioning liability, and 3) subsequently uses the cost or revaluation model.

2.19.3.18 Deferred Taxes An entity that elects the fair value as deemed cost must recognize the related deferred taxes at transition date according to the rules in IAS 12, irrespective of whether the entity intends to sell the asset.[659] Paragraph 2.12.6.1 previously explains that IFRS 1 does not waive IAS 12.

An issue arises about whether at transition date deferred taxes arising from fair value as deemed cost should affect opening retained earnings or accumulated other comprehensive income.

Planning Point: IAS 12 does not give explicit guidance on this topic. This is not a fair value measurement made under the revaluation model in IAS 16, which would affect other comprehensive income. As an adjustment to deemed cost affects opening retained earnings, under the ordinary backwards tracing rules of IAS 12 the entity records deferred taxes against opening retained earnings.[660] By analogy, in a restatement for hyperinflation (a different case of fair value measurement that does not affect revaluation surplus), IAS 12 recognizes deferred taxes in profit or loss, and not other comprehensive income.[661]

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[659] *IAS 12, ¶ 20.*
[660] *IAS 12, ¶¶ 61A, 62A.*
[661] *IAS 12, ¶ IE18.*

Another point concerns the account that a subsequent change in tax rates or tax laws will affect. Paragraph 2.12.6.5 previously deals with this issue.

According to IAS 12, measurement of deferred taxes must reflect the tax base and the tax rates applicable to the manner in which the entity expects to recover the carrying amount of the asset.[662] IFRS first-time adopters must also retroactively apply SIC-21 and the December 2010 Amendments to IAS 12 that, inter alia, incorporated SIC-21 in IAS 12, effective for annual periods beginning on or after January 1, 2012.[663] Based on SIC-21, an entity computes deferred taxes on a nondepreciable item of property, plant, and equipment that is measured under the IAS 16 revaluation model by assuming recovery through sale. The Amendments to IAS 12 incorporate this first part of SIC-12.[664] Then a first issue is whether this guidance only applies in subsequent measurement or whether it can also be validly applied to initial measurement.

Planning Point: SIC-21 says, and the Amendments to IAS 12 confirm, that the choice of a subsequent measurement basis is not a determinant of the recovery pattern. However, although there is no link between subsequent accounting policy choice and measurement of deferred taxes, a recovery substantially through sale excludes the cost model as subsequent measurement. Here, the critical point is that an item must not be depreciable, because this means that recovery it not through use. Through depreciation, the cost model establishes a pattern of recovery through use. However, SIC-21 does not explain why it limits its provisions to nondepreciable items of property, plant, and equipment that are revalued under IAS 16 and does not cover nondepreciable items carried at cost model. The Amendments to IAS 12 explain (although with reference to investment property acquired in a business combination) that the initial measurement of deferred taxes must be consistent with their subsequent measurement resulting from the choice of an accounting policy for subsequent measurement, so as to avoid adjusting deferred taxes soon after initial recognition.[665] Therefore, it appears that deferred taxes on a nondepreciable item of property, plant, and equipment that is measured at fair value as deemed cost will assume recovery through sale, without a specific determination, only if the subsequent measurement model is revaluation under IAS 16. Initial measurement at fair value as deemed cost appears irrelevant.

SIC-21 extends its conclusions to an investment property carried at the fair value model that would be nondepreciable if the entity used the cost model. As a practical expedient, the Amendments to IAS 12 introduce a rebuttable presumption to assume recovery entirely through sale for an investment property carried at the fair value model. Conversely, a determination of the recovery pattern will be necessary if the asset is depreciable and it is held within a business model that implies the consumption of substantially all its economic benefits over time.[666] Therefore, under the amendments, it is no longer necessary to determine whether an investment property carried at fair value would be nondepreciable under the cost model. Furthermore, the entity need no longer determine whether an investment property carried at

[662] *IAS 12, ¶¶ 51, 52.*

[663] *Amendments to IAS 12,* Deferred Tax: Recovery of Underlying Assets*, ¶¶ 98, 99, BC35, BC36.*

[664] *SIC Interpretation No. 21,* Income Taxes – Recovery of Revalued Non-Depreciable Assets*, ¶ 5; Amendments to IAS 12,* Deferred Tax: Recovery of Underlying Assets*, ¶ 51B.*

[665] *SIC Interpretation No. 21, ¶¶ BC6–BC7; Amendments to IAS 12,* Deferred Tax: Recovery of Underlying Assets*, ¶¶ BC6, BC7, BC9, BC16, BC20, BC23.*

[666] *SIC Interpretation No. 21, ¶ 4; Amendments to IAS 12,* Deferred Tax: Recovery of Underlying Assets*, ¶ 51C.*

Exhibit 2-25 Interaction between Fair Value as Deemed Cost and Manner of Recovery of Investment Property for Measurement of Deferred Taxes

Type of Investment Property:	*Is Deemed Cost Exemption Applicable?*	*Is SIC-21 Applicable?*	*Manner of Recovery Under SIC-21 and IAS 12*	*Is December 2010 Amendments to IAS 12 Applicable?*	*Manner of Recovery Under Amendments to IAS 12*
– Would be nondepreciable if IAS 16 were to be applied*					
• accounted for at cost model	Yes	No	A determination is required	No	A determination is required
• accounted for at fair value model	No	Yes	Sale	Yes	Sale (presumption is not rebuttable)[1]
– Would be depreciable if IAS 16 were to be applied*					
• accounted for at cost model	Yes	No	A determination is required	No	A determination is required
• accounted for at fair value model	No	No	A determination is required	Yes	Presumption is rebuttable if business model implies the consumption of substantially all its economic benefits over time

**This determination is no longer required under the December 2010 Amendments to IAS 12.*
[1]*Amendments to IAS 12,* Deferred Tax: Recovery of Underlying Assets*, ¶¶ BC6, BC23.*

fair value is recoverable principally through use (to earn rental income) or through sale (to gain from capital appreciation), unless the presumption is rebutted. Then, the issue becomes whether the guidance in SIC-21 and in the December 2010 Amendments to IAS 12 also apply upon initial measurement of investment property that is fair valued as deemed cost.

> **Planning Point:** Exhibit 2-25 illustrates that under no circumstance could these rules apply to such an investment property at transition date, because the fair value as deemed cost only applies to an investment property that is carried at cost model.

2.19.3.19 Disclosures An IFRS first-time adopter that uses the fair value as deemed cost must disclose those fair values in aggregate and the adjustments to the carrying amounts under previous GAAP for each applicable line item of the opening IFRS statement of financial position. This is on top of the IFRS 1 reconciliations (Paragraph 2.16 previously). This requirement does not apply to a previous GAAP revaluation or an event-driven revaluation because those amounts were already part of previous GAAP financial statements.[667]

[667] *IFRS 1, ¶¶ 30, IG8, IG50, IG62, BC95.*

Comment: Strangely enough, IFRS 1 does not require disclosure of the valuation methods and assumptions used.

2.19.3.20 Jurisdictional Deemed Cost Reserves Under certain jurisdictions equity reserves for deemed cost valuation has been imposed, as a sort of appropriation of retained earnings.

Planning Point: Some jurisdictions have mandated the use of additional reserves in conjunction with the first-time adoption of IFRSs, or have made some of the reserves required by IFRSs not distributable. This is because IFRSs make use, to a certain extent, of fair value and recognize some items of income and expense in other comprehensive income or directly in equity, a procedure that is not permitted under certain prior local standards. Although this may not be relevant from an IFRS perspective, it is for corporate governance. Insofar as those items are considered unearned, their distributability is sanctioned under the principle of defense of capital.

Example: In Italy, some new reserves have been mandated in conjunction with the first-time adoption of IFRSs.[668] One of these is an undistributable reserve for the IFRS 1 election to use fair value or revaluation as deemed cost at first-time adoption of IFRSs. Furthermore, in banking financial statements, Italy's Banca d'Italia requires the disclosure of revaluation reserves, which existed prior to the first-time adoption of IFRSs, in a note and in the statement of changes in equity.[669]

2.19.3.21 Restatement of Fair Value or Revaluation as Deemed Cost to U.S. GAAP Under APB 6[670] property, plant, and equipment cannot be written up by an entity to reflect appraisal, market, or current values above cost, except as a result of a quasi-reorganization, although this pronouncement leaves room for a possible exemption for foreign operations in serious inflation or currency devaluation economies. ATB 1 reserved a specific caption in stockholders' equity to revaluation of fixed assets, i.e., "excess of appraised or fair value of fixed assets over cost" or "appreciation of fixed assets".[671] Therefore, for U.S. GAAP purposes such a revaluation would be reversed.

Example: An Irish foreign private issuer explained to the SEC Staff, in its reply to the review of Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, that a previous revaluation used as deemed cost was a U.S. GAAP reconciling item.

2.19.3.22 Interaction with the IFRS 1 Exemption for Past Business Combinations An IFRS first-time adopter that avails itself of the IFRS 1 exemption for past business combinations (Paragraph 2.18 previously) may also apply the deemed cost to qualifying long-lived assets.

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668 *Decreto legislativo 28 febbraio 2005, n. 38.*
669 *Banca d'Italia, Circolare No. 262,* I bilanci delle banche: schemi e regole di compilazione *(December 30, 2005), published in Supplemento ordinario n. 12 alla Gazzetta Ufficiale n. 11, Serie generale (January 14, 2006).*
670 *APB 6, ¶ 17.*
671 *Accounting Terminology Bulletin No. 1, ¶ 69.6.*

Planning Point: In such a case, as Paragraph 2.18.21 previously above explains, impairment of goodwill is critical to avoid double counting the same fair value adjustment in goodwill (under previous GAAP) and in the revalued amount of those assets (under IFRSs).[672]

Planning Point: However, it cannot apply the deemed cost to an intangible asset that it had not recognized under previous GAAP as part of the acquisition and that would not meet the IAS 38 recognition criteria as an intangible asset in the acquiree's individual financial statements.[673]

2.19.4 Deemed Cost for Oil and Gas Assets

Effectively for annual periods beginning on or after January 1, 2010 (with earlier application permitted and disclosed), IFRS 1 permits an additional deemed cost exemption at transition date to an IFRS first-time adopter that used the full cost method under previous GAAP to account for certain oil and gas assets.[674] This accommodation is limited to exploration, evaluation, development, or production activities, and only to companies applying the full cost method. At the transition date, such an entity can maintain the amounts of those assets that it recognized and measured under previous GAAP. It must attribute the amount that it computed for each cost center in the development and production phases under previous GAAP to the related assets on a pro rata basis, on the basis of the reserve volumes or values associated with the oil and gas assets in that cost center at that date. Companies must disclose the use of previous GAAP and the basis of allocation.

IFRS 1 explains that the cost centers used under full cost method are often too large according to IFRSs. IFRS 1 grandfathers the use of existing values because restating assets and accumulated amortization or using fair value as deemed cost would often be impracticable or would result in undue cost and effort.

Without this exemption, IFRSs would not have permitted the capitalization of certain overhead costs, costs not meeting recognition criteria as intangible assets under IAS 38, and unsuccessful exploration costs. Hence, the company must pursue an impairment test under IFRS 6 for exploration and evaluation assets and under IAS 36 for those assets that are in the development or production phases.[675]

2.19.5 Deemed Cost for Operations Subject to Rate Regulation

An IFRS first-time adopter can maintain the previous GAAP amounts for items of property, plant and equipment, and intangible assets that were related to or still relate to rate-regulated operations. This is their deemed cost at transition date, provided the entity tests them for impairment under IAS 36. It cannot use the IFRS 1 exemption for borrowing costs for those assets (Paragraph 2.19.17 following). This exemption grandfathers components of the cost of

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[672] *IFRS 1, ¶ BC39.*
[673] *IFRS 1, ¶¶ IG44(b), IG49.*
[674] *FASB Statement No. 69, ¶ 24 Footnote 8 explains that the full method capitalized all exploration costs when incurred. Subsequent depreciation, amortization, depletion, and valuation provisions affect net income.*
[675] *IFRS 1, ¶¶ 31A, 39A, D8A, IG8(d), BC47A-BC47E; IFRS 6, ¶¶ 5(a), 17.*

the asset that the entity might have recognized under previous GAAP but that would not be capitalizable under IFRSs, such as an imputed cost of equity. In this way, a company need not use fair value as deemed cost, which generally is not easily available for this type of assets. The election is available on an individual asset basis, for annual periods beginning on or after January 1, 2011, with earlier application permitted. Disclosures include the use of the exemption and the basis used under previous GAAP.[676]

Planning Point: IFRS 1 argues that the previous GAAP deemed cost becomes a new cost basis as if the entity had acquired a used asset at transition date. The entity must set up new depreciation and capitalization policies under IFRSs.[677] Consequently, recording the previous GAAP net book value as gross asset amount appears feasible. Of course, depending on the jurisdiction, the entity must check any tax implications of such a resetting of accounts.

2.19.6 Leases

2.19.6.1 Exemption Explained IFRS 1 extends the transitional provisions of IFRIC 4 to IFRS first-time adopters. IFRIC 4 concerns how to determine whether an arrangement is or contains a lease, i.e., whether it is within the scope of IAS 17. The transitional provision of IFRIC 4 concerns the determination of whether an agreement is or contains a lease at the start of the earliest comparative date presented, on the basis of facts and circumstances at that date. Alternatively, an entity can opt for the retrospective application of IFRIC 4, i.e., based on circumstances existing at the inception of the arrangement and subsequently. Similarly, an IFRS first-time adopter may elect to apply IFRIC 4 at transition date based on circumstances existing at transition date, or retrospectively based on circumstances existing at the inception of the arrangement and subsequently but before the transition date.[678]

Exhibit 2-26 shows the decision tree concerning this topic. Paragraph 2.11.9 explains the interaction with changes in accounting estimates.

2.19.6.2 Interaction with IAS 17 IFRS 1 explains that the rationale of this exemption is to treat IFRS first-time adopters in the same way as ongoing IFRSs entities, mainly because of the complexity or the retrospective application of IFRIC 4.[679] However, this exemption does not necessarily imply lower effort.

Comment: In fact, there are three separate logical moments to consider: 1) determining whether a lease exists, 2) classifying a lease that proves to exist, and 3) applying IAS 17 to that lease. The exemption only pertains to the first point.

Planning Point: If the assessment establishes that a lease exists, an entity already reporting under IFRSs must classify the lease under IAS 17 based on circumstances existing at the inception of the lease, or as modified by any subsequent circumstances that under IAS 17 would change the classification. If it already uses IAS 17, it applies IAS 17 retrospectively from the commencement of the agreement. If a lease exists, at transition date an IFRS first-time adopter classifies it under IAS 17,

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[676] *IFRS 1, ¶¶ 39E, B8B, 31B, BC47F–BC47K.*
[677] *IFRS 1, ¶ BC47K.*
[678] *IFRS 1, ¶ D9; IFRIC 4, ¶ 17.*
[679] *IFRS 1, ¶ BC63D.*

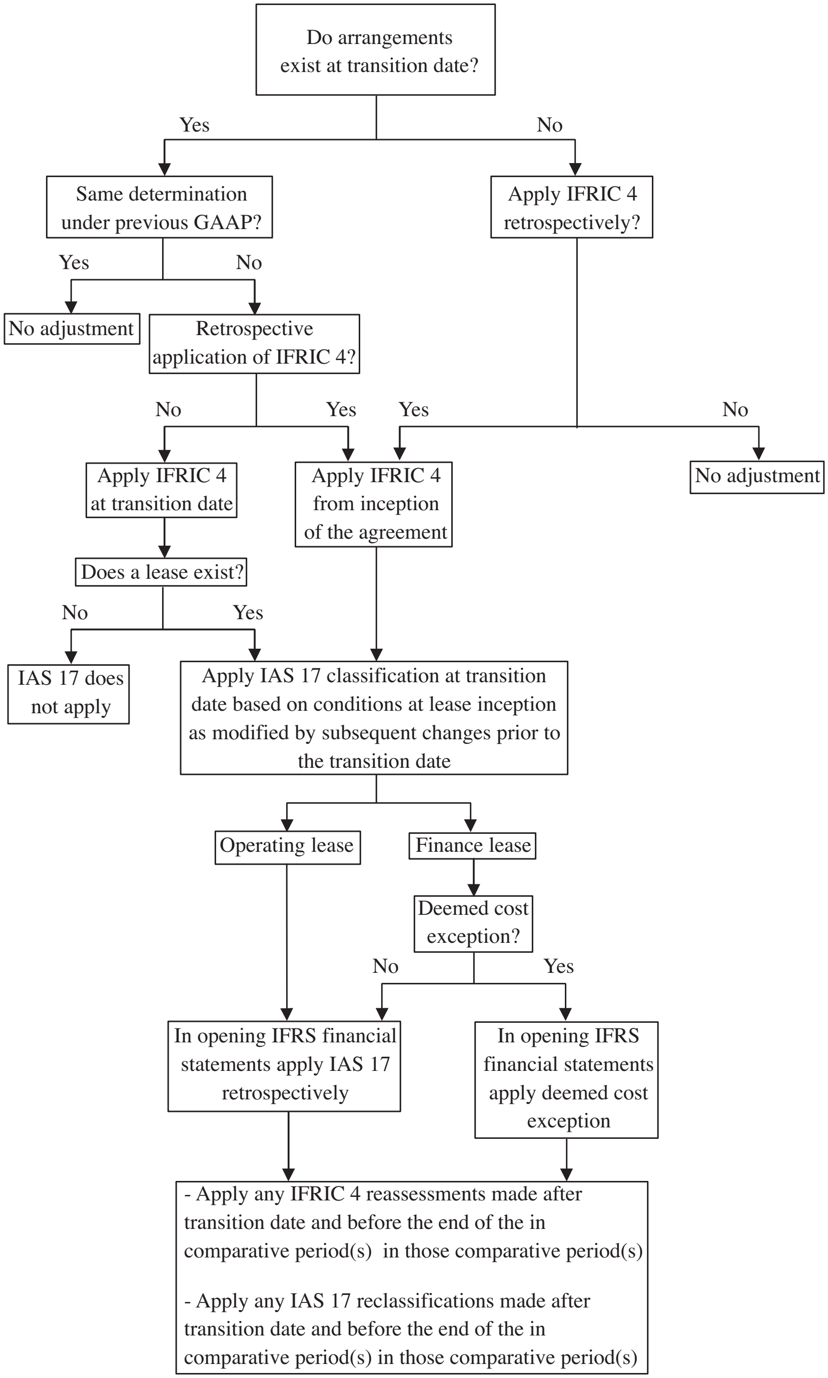

Exhibit 2-26 IFRIC 4 Exemption and its Interaction with IAS 17

based on circumstances existing at the inception of the agreement, or as modified by subsequent classification changes that had occurred prior to transition date. As transitional provisions of IFRSs are not valid for IFRS first-time adoption, in any case the entity applies IAS 17 retrospectively. However, if the agreement proves not to be a lease or to contain a lease, through using the IFRS 1 exemption, the company does not apply any lease accounting to that agreement. For example, this may be the case of a change in circumstances occurring prior to transition date that triggers a reassessment and negates the characterization of the arrangement as a lease at transition date.[680] All the above applies to an agreement that still exists at the above-mentioned dates for assessment. On the contrary, by electing retrospective application of IFRIC 4, the entity would have to assess an agreement from its inception even if it is no longer outstanding at transition date.

2.19.6.3 Assessment at a Different Date under Previous GAAP Effectively for annual periods beginning on or after January 1, 2010 (with earlier application permitted), reassessment of whether an arrangement contains a lease is not required of an IFRS first-time adopter that under previous GAAP reached the same (not similar) conclusion as IFRIC 4 but at a different date. However, the "same determination" means that the outcome under previous GAAP is the same as under the application of both IFRIC 4 and IAS 17.[681]

Comment: This accommodation clearly facilitates U.S. GAAP companies. IFRIC 4 moves from EITF Issue No. 01-8. Its stipulations, including transitional provisions, are similar to those in IFRIC 4, but effective dates are different. EITF Issue No. 01-8 is effective for arrangements for which the earlier of the agreement or commitment date, the modification date, or the commencement date of a business combination in which the arrangements are acquired fall after the beginning of the next reporting period beginning after May 28, 2003.[682]

Planning Point: The sense of this exemption is to avoid a costly and useless determination that would lead to the same result. However, an issue arises as to how an entity can know that the outcome is the same without going through the process of reassessing the agreement. Arguably, this may come from an evaluation of the impact of the minor differences between EITF Issue No. 01-8 and IFRIC 4. However, once the entity determines that the assessment would produce no differences under IFRIC 4, it will need to look into whether to review if this also holds true for IAS 17, as discrepancies in lease accounting under IFRSs and U.S. GAAP are not necessarily minor. A U.S. GAAP company migrating to IFRSs is advised to use this exemption if the determination is the same. If EITF Issue No. 01-8 gives the same result as IFRIC 4, but lease accounting is different, the entity still has an option to determine the fair value of a finance lease as deemed cost at transition date (Paragraph 2.19.3.2 previously) rather than retrospectively applying IAS 17. If EITF Issue No. 01-8 does not give the same result as IFRIC 4, it may still find it easier to use the accommodation to apply IFRIC 4 at transition date.[683]

2.19.7 Employee Benefits

The first part of this section explains the treatment prior to the 2011 revision of IAS 19. The last paragraph explains what happens after those amendments.

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[680] *IFRS 1, ¶¶ IG14, IG204, IG205; IAS 17, ¶ 13; IFRIC 4, ¶¶ 2, 11, 12, BC43, BC50.*
[681] *IFRS 1, ¶¶ D9A, BC63DA, BC63DB.*
[682] *EITF Issue No. 01-8, Determining Whether an Arrangement Contains a Lease, ¶ 16.*
[683] *IFRS 1, ¶ IG206.*

2.19.7.1 Measurement of Defined Benefit Plan Obligations An IFRS first-time adopter must keep measurements of defined benefit plan obligations for each plan current at transition date, comparative period(s), and reporting date, as appropriate. It may perhaps achieve this even through starting from a single valuation at one of these dates and adjusting for material transactions and events that occurred, including market price and interest rate fluctuations.[684]

2.19.7.2 Accounting Estimates Once an IFRS first-time adopter has checked that the computation rules used under previous GAAP conform to IAS 19 and there are no errors, the general rule in IFRS 1 for estimates at transition date applies, as Paragraph 2.11.13 explains.

2.19.7.3 Exemption Explained At this point, under IFRS 1 the entity can fully recognize the cumulative actuarial gains and losses of defined benefit plans at transition date resulting from such a measurement in opening retained earnings, irrespective of the fact that subsequently it may want to use the corridor approach.

> **Planning Point:** If under previous GAAP, as under U.S. GAAP, the entity used a sort of corridor method, through the exemption this would be zeroed at transition date. Any subsequent use of the corridor approach under IFRSs will refer to actuarial gains and losses arising after transition date.

> **Planning Point:** Effective for financial years beginning on or after January 1, 2013, with earlier application permitted, IAS 19 has retroactively banned the corridor approach.[685]

Of course, the company may go for retrospective application of IAS 19, which has the effect of leaving a portion of cumulative actuarial gains and losses unrecognized at transition date. Once chosen, one of the two treatments is mandatory for all defined benefit plans.

A European survey indicates that all 2005 first-time adopters that employed the corridor approach used this exemption.[686] A survey of 52 large multinational first-time adopters, part of the 2005 Financial Times Global 500, showed that virtually all used this exemption.[687] A survey of interim reports of 144 listed companies in FTSE 101-350 in 2005 converting from UK GAAP to IFRSs highlighted that 69% availed themselves of this exemption.[688]

2.19.7.4 Implications in Consolidated Financial Statements IFRS 1 requires that the consolidated statement of financial position prepared by a parent company that migrates to IFRSs after its subsidiary includes the subsidiary's assets and liabilities at the IFRS carrying amounts in the subsidiary's financial statements (Paragraph 2.19.10.3 following).

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684 *IFRS 1, ¶ IG21.*
685 *IAS 19 (June 2011), ¶¶ 172, 173, BC67(a), BC70.*
686 *ICAEW 2007 Survey, ¶ 11.4.*
687 *Ernst & Young, 2006.* Observations on the Implementation of IFRS, *page 8. [Online] EY. Available at: www.ey.com [last accessed February 16, 2007].*
688 *BDO, 2006 Survey, pages 3, 9.*

> **Planning Point:** Even in the case that both have elected to zero out unrecognized cumulative actuarial gains and losses, the subsidiary did so one or more years before its parent. Therefore, its corridor will not be zero at the transition date in the consolidated financial statements. This might result in not having one and only one treatment for all plans at consolidated level.[689]

2.19.7.5 Interaction with the IFRS 1 Exemption for Past Business Combinations An issue arises when an IFRS first-time adopter decides to retroactively apply the corridor method to a defined benefit plan acquired in a past business combination for which it uses the related IFRS 1 exemption.

> **Planning Point:** IFRS 1 does not say which of the two exemptions prevails. IFRSs measure a defined benefit plan at a basis different from cost. In such a case, the IFRS 1 exemption states that the entity must remeasure it on that basis at transition date.[690] Arguably, the entity applies the corridor method prospectively from transition date. This also arises from the fact that measuring the plan under IAS 19 implicitly maintains certain actuarial gains and losses unrecognized at transition date.

The mirroring case is when the company applies IFRS 3 retrospectively.

> **Planning Point:** The company restates the defined benefit plan from the date of the business combination and re-computes the corridor method from that date. Conversely, if it did not acquire the plan in a business combination, it would re-determine the corridor method from the inception of the plan.

The reverse situation is a company that wants to use the exemption for employee benefits, but recasts the past business combination under IFRS 3.

> **Planning Point:** Arguably, the company applies the corridor method prospectively. However, the standard does not provide explicit guidance.

2.19.7.6 Other Long-Term Employee Benefits IAS 19 does not apply the corridor method to other long-term employee benefits, such as long-term disability benefits.

> **Planning Point:** Therefore, this IFRS 1 exemption does not affect the employee benefits in question, even when they may be providing defined benefits to employees.[691]

2.19.7.7 Unvested Portions of Past Service Cost This exemption does not apply to the unrecognized unvested portion of past service cost, for which retrospective calculation and subsequent amortization under pre-2011 IAS 19 is the rule.[692]

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[689] *IFRS 1, ¶¶ D17, IG22 Example 2(f),*
[690] *IFRS 1, ¶ C4(d).*
[691] *IAS 19 (2007), ¶¶ 126, 127.*
[692] *IFRS 1, ¶ BC52.*

2.19.7.8 Disclosures The disclosure of the present value of the defined benefit obligation and of the plan assets, the fund status, and the experience adjustments on plan liabilities and on plan assets may be prospective, instead of covering the current and the prior four years as required of entities reporting under IFRSs.[693]

2.19.7.9 The Amendments Made by the 2011 Revision of IAS 19 The 2011 revision of IAS 19, effective for financial years beginning on or after January 1, 2013, eliminated the IFRS 1 accommodation for defined benefit plans starting from when an IFRS first-time adopter applies the revised IAS 19, with retrospective application. However, the amendments added a short-term exemption, commented in Paragraph 2.20.5 below.[694]

2.19.8 Cumulative Translation Adjustment

2.19.8.1 Exemption Explained IFRS 1 exempts an IFRS first-time adopter from recognizing cumulative foreign translation adjustment on a net investment in foreign operations in accumulated other comprehensive income at transition date.

> **Planning Point:** An entity that reported such an amount under previous GAAP can zero it out against opening retained earnings. If it wants to maintain any other figure, it cannot use the amount under previous GAAP but must restate it under IFRSs, separately for each foreign operation from the acquisition or formation date. If it did not employ such a method under previous GAAP but expensed it, the cumulative adjustment is already part of opening retained earnings. This company need not reconstruct cumulative foreign translation adjustment at transition date under IFRSs. If it does, it must restate it from opening retained earnings to accumulated other comprehensive income.

After the exemption, the computation of foreign translation adjustment under IAS 21 will start prospectively from the transition date. Upon subsequent disposal or other events that trigger reclassification of other comprehensive income to profit or loss, the entity will recycle only this amount.[695] Hence, the cumulative foreign translation gain or loss at transition date will not affect profit or loss in the following years.

> **Planning Point:** The SEC refused to provide a one-time accommodation to IFRS foreign private issuers to zero out past cumulative translation adjustments under U.S. GAAP. Consequently, these companies must repost such a variation in Form 20-F reconciliations, when required. Upon sale or disposal of the subsidiary, the company recycles differences as part of other comprehensive income.[696]

A European survey indicates that all 2005 first-time adopters used this exemption, when available.[697] A survey of interim reports of 144 listed companies in FTSE 101-350 in 2005

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[693] *IFRS 1, ¶¶ D10, D11, IG19–IG21, BC51.*
[694] *IAS 19 (2011), ¶¶ A1–A3, BC270.*
[695] *IFRS 1, ¶¶ D12, D13, BC53–BC55.*
[696] *AICPA, 2005.* AICPA International Practices Task Force Meeting Highlights, November 22, 2005, *Washington, DC, AICPA. Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF November 22, 2005).*
[697] *ICAEW 2007 Survey, ¶ 11.4.*

converting from UK GAAP to IFRSs highlighted that 49% availed themselves of this exemption.[698]

2.19.8.2 The Foreign Exchange Translation Methods that Apply at Transition Date IFRS 1 does not grant an IFRS first-time adopter a special accommodation for foreign exchange concerning translation methods that are different from the functional currency approach in IAS 21. For example, applying a single foreign exchange rate to all assets and liabilities at the transition date is not permitted.[699]

Conversely, IFRS 1 permits the election for cumulative translation difference and gives an exemption to apply IAS 21 retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRSs (Paragraph 2.18.15).[700]

2.19.8.3 Convenience Translation However, IAS 21 does not prohibit the use of a convenience translation, in addition to presenting financial statements according to the requirements in that standard, under certain conditions. A convenience translation is a translation of financial statements or portions of them into a currency other than the presentation currency (including, under IFRSs, the functional currency) when the translation method is not in line GAAP.[701] Under IAS 21, a convenience translation may also exist in an entity's financial statements or in its separate financial statements, in which case the currency is different from both the reporting and the functional currency. Both IAS 21 and Regulation S-X do not require or encourage convenience translation, but they do not prohibit it. IAS 21 mandates that the entity clearly identify convenience translation as supplementary information, disclosing the currency, the functional currency, and the method used for the convenience translation. Regulation S-X requires that it be limited to only the most recent fiscal year and any subsequent interim period presented, and to compute all amounts presented in a given period at the same most recent closing exchange rate of the filing, unless a more recent rate is materially different. If these financial statements are incorporated by reference into a previously filed Form 20-F, an amendment to reflect a more recent exchange rate is not required.[702]

2.19.8.4 Interaction with Hedge Accounting Paragraph 2.17.2.9 previously explains the interaction with net investment hedges.

2.19.8.5 Interaction with the IFRS 1 Exemption for Past Business Combinations Paragraph 2.18.15 previously explains the interaction with the foreign exchange used in goodwill and fair value adjustment for past business combinations.

2.19.9 Investments in Subsidiaries, Associates, and Jointly Controlled Entities

2.19.9.1 Exemption Explained As far as separate financial statements are concerned, under IAS 27, IAS 28, and IAS 31 a parent, investor, or joint venturer must record an investment either at cost (that is, the fair value of the consideration paid less any impairment

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698 *BDO, 2006 Survey, pages 3, 13.*
699 *IFRIC Update, October 2004.*
700 *IFRS 1, ¶¶ C2, D13, IG21A.*
701 *IAS 21, ¶¶ 57, BC14.*
702 *Regulation S-X, ¶ 210.3-20(b); SEC, International, November 1, 2004, ¶ VIII.D; IAS 21, ¶¶ 54, BC14.*

loss) or at fair value.[703] On transition to IFRSs, if the entity had applied other criteria (as in the case of merger relief or group reconstruction in the United Kingdom[704]), IAS 27, IAS 28, and IAS 32 would ordinarily require retrospective application to the investment, starting from the fair value of the consideration given. IFRS 1 has an exemption whereby a first-time adopter that measures the investment at cost in its separate financial statements may elect to use a deemed cost, represented by either the fair value or the previous GAAP carrying amount of the investment at transition date.[705] This exemption applies for financial years beginning on or after July 1, 2009, with earlier application permitted.[706]

2.19.9.2 Disclosures A company that uses this exemption must disclose the aggregate amounts of investments carried at previous GAAP deemed cost, the aggregate amounts of investments carried at fair value deemed cost, and the aggregate adjustments versus previous GAAP.[707]

2.19.9.3 Interactions with Consolidated Financial Statements A previous GAAP deemed cost in separate financial statement may give a different carrying amount of the investment from consolidated financial statements.

Planning Point: Unlike U.S. GAAP, this is not a surprise but a general rule under IFRSs, which do not use the equity method in separate financial statements. However, this difference would be less if the entity uses the IFRS 1 exemption for past business combinations in consolidated financial statements (Paragraph 2.18 previously).[708]

Planning Point: A parent that did not consolidate the subsidiary under previous GAAP (Paragraph 2.19.10.15 following) will not be able to avail itself of the IFRS 1 exemption for past business combinations.

Planning Point: Separate financial statements will not really be affected by the fact that a parent or a subsidiary decide to use the IFRS 1 exemption for assets and liabilities of subsidiaries (Paragraph 2.19.10), irrespective of whether the parent carries its investment at cost, fair value, or deemed cost.

2.19.9.4 Difference versus Other Types of Fair Value Measurement Electing fair value as deemed cost at transition date is not equivalent to choosing fair value through profit or loss under IFRS 9 and IAS 39, as referred to by IAS 27.

Planning Point: The former is a fresh-start measurement at transition date with subsequent use of the cost method, whereas the latter applies as a subsequent measurement model. An investor that uses IAS 39 (as opposed to adopting IFRS 9 early) may classify the investment at transition date as

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703 *IAS 27 (2010), ¶ 38; IAS 28 (2010), ¶ 35; IAS 31, ¶ 46.*
704 *IFRS 1, ¶ BC58C; Sections 611–615 of the Companies Act of 2006.*
705 *IFRS 1, ¶¶ D14, D15; IAS 27 (2010), ¶ BC66E.*
706 *IFRS 1, ¶ 38.*
707 *IFRS 1, ¶ 31.*
708 *IFRS 1, ¶ BC58H(b).*

at fair value through profit or loss or as available for sale (an option available only under IAS 39, and not under IFRS 9), if appropriate conditions under IAS 39 are met. This would require retrospective adjustment of opening retained earnings or accumulated other comprehensive income, respectively, for changes in fair value prior to the transition date. Conversely, an IFRS first-time adopter that uses IFRS 9 may avail itself of the IFRS 1 election to designate such investment as at fair value through profit or loss or as at fair value through other comprehensive income, if relevant conditions under IFRS 9 are met. If, in migrating to IFRSs, it adopts IFRS 9 after its effective date or for a year beginning on or after January 1, 2012, the entity must apply IFRS 9 retrospectively.[709] Finally, the IFRS 1 exemption does not impose the use of a single rule for all investments. Conversely, a choice of an ongoing measurement model extends to all the investments in the same category (i.e., subsidiaries, associates, joint ventures).[710]

Planning Point: In effect, another option is available, that is, an event-driven revaluation under previous GAAP adjusted to the transition date. As Paragraph 2.19.3.9 previously explains, this may apply to any asset or liability.

Planning Point: Effective for annual periods beginning on or after January 1, 2013, unless earlier applied, IFRS 13 deletes references to IAS 39 or IFRS 9 in the determination of fair value.

2.19.9.5 Preacquisition Dividends By using the previous GAAP carrying amount of the investment at transition date, the parent does not re-determine its investment. There is a link between this exemption and the May 2008 amendments to IAS 27 and IAS 18. Before the introduction of this exemption, a parent company or an investor was required to re-compute the cost of investment and retained earnings at the date of transition to IFRSs, as if IFRSs had always been applied. This necessitated a determination of a subsidiary's preacquisition accumulated earnings under IFRSs and related preacquisition dividends. In fact, under the cost method, only dividends that originated from accumulated profits of the investee after the date of acquisition had to be accounted for as dividend income. Preacquisition earnings had to be treated as a reduction of the cost of the investment, in effect a distribution of the assets at acquisition (realization of part of the investment).[711] The implications of this could be serious. For example, as part of group reorganizations, a subsidiary might be sold by the parent to another company of the group. Any dividends that had been or would be distributed to the new parent but had arisen out of previously accumulated profit would be preacquisition dividends with respect to the new parent and would not be part of its income (and therefore its distributable profit). Hence, preacquisition retained earnings of the subsidiary purchased would also not become distributable to its new parent and indirectly to the former parent (the seller).[712] The IASB tackled the issue in its Project on *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. The final amendments did not add an exemption to IFRS 1. Instead, the IASB decided that a parent, investor, or joint venturer must consider all

[709] *IFRS 1, ¶¶ 29, D19A, D19B, E1; IFRS 1 (November 2008), ¶¶ 29, D19A (superseded).*
[710] *IAS 27 (2010), ¶ 38.*
[711] *IFRS 1, ¶ BC58B; IAS 18, ¶ 32 and IAS 27 (2010), ¶ 4, before Amendments to IFRS 1,* First-time Adoption of International Financial Reporting Standards *and IAS 27,* Consolidated and Separate Financial Statements*,* Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate *(May 2008).*
[712] *Ernst & Young,* IFRS in Individual Company Accounts *(2005).*

dividends from a subsidiary, associate, or jointly controlled entity as income in its separate financial statements, subject to assessment for impairment in the value of the investment. These amendments apply for annual periods beginning on or after January 1, 2009, with earlier adoption permitted.[713]

2.19.10 Assets and Liabilities of Subsidiaries, Associates, and Joint Ventures

This IFRS 1 exemption is made up of three subtypes. Exhibit 2-27 illustrates the three situations.

2.19.10.1 A Subsidiary Migrates after the Parent Under the ordinary rules in IFRS 1, a subsidiary, associate, or joint venture would apply IFRSs based on its own transition date like any other company, irrespective of when its parent, investor, or joint venturers transition to IFRSs. However, when a company migrates to IFRSs after its parent, IFRS 1 permits it to utilize the carrying amounts incorporated in the consolidated statement of financial position (before the process of consolidation) in its opening IFRS statement of financial position.[714] The following paragraphs will call this "exemption A".

> **Planning Point:** Assume that a subsidiary migrates to IFRSs one year after its parent company. By electing the exemption, in its opening IFRS statement of financial position it reports assets and liabilities at the same pre-consolidation amounts as shown at the end of the comparative period of the first IFRS consolidated statement of financial position. Note that even if this calculation is based on IFRSs' adoption at the parent's transition date (e.g., one year before), the subsidiary's transition date remains unchanged (i.e., its own).[715] The language of IFRS 1 is not so explicit and another interpretation exists, based on which the subsidiary uses the amounts in the opening IFRS consolidated statement of financial position as adjusted to the subsidiary's transition date.

> **Comment:** IFRS 1 mentions a subsidiary's carrying amounts computed based on the parent's transition date. It is debatable whether this wording must be taken literally or whether the exemption can be extended to a company acquired after the parent's transition date.

2.19.10.2 The Parent's Perspective A mirrored situation arises from the parent's perspective at its transition date.

> **Planning Point:** The parent does not have IFRS amounts of its affiliates available. Whether provided by them as part of a consolidation package or reconstructed by the parent, the consolidated financial statements must reflect their assets and liabilities at the amounts that IFRSs would require in the affiliate's statements of financial position, as adjusted after the process of consolidation, with certain relaxations if the parent avails itself of the exemption for past business combinations.[716]

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[713] *IAS 27 (2010), ¶¶ 38A, BC66H; IASB Update, September 2006.*
[714] *IFRS 1, ¶¶ D16.*
[715] *IFRS 1, ¶ IG 29 Example 8.*
[716] *IFRS 1, ¶¶ C4(j), IG27(a).*

12/31/2011: Parent first adopts IFRSs but subsidiary has not adopted yet

Parent

- Parent's transition date is 1/1/2010
- Parent reports the subsidiary's assets and liabilities at the carrying amounts that IFRSs would require in the subsidiary's statement of financial position, as adjusted after the process of consolidation
- If parent acquired the subsidiary before 1/1/2010, it can apply the IFRS 1 rules for past business combinations. It applies the IFRS 1 exception to assets and liabilities recognized by the subsidiary after the business combination and still existing at the parent's transition date
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

Subsidiary

- The subsidiary prepares statements under previous GAAP
- It prepares a reporting package as of 12/31/2011 under IFRSs for consolidation purposes

12/31/2012: subsidiary first adopts IFRSs

Option 1

- The subsidiary measures its assets and liabilities as in the IFRS consolidated statements (before consolidation adjustments and effects of combination) based on parent's date of transition to IFRSs (1/1/2010) according to the parent's accounting policies
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

Parent

Subsidiary

Option 2

- Parent consolidates after restating based on parent's transition date (1/1/2010)
- If parent acquired the subsidiary before 1/1/2010, it applies the IFRS 1 rules for past business combinations. It applies the IFRS 1 exception to assets and liabilities recognized by the subsidiary after the business combination
- The subsidiary prepares its first IFRSs statements based on its transition date (1/1/2011)
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

12/31/2011: subsidiary first adopts IFRSs but parent has not adopted

Parent

- The subsidiary's transition date is 1/1/2010
- It prepares financial statements under IFRSs
- It prepares a reporting package as of 12/31/2011 under previous GAAP
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

Subsidiary

12/31/2012: parent first adopts IFRSs

Parent

- Parent's transition date is 1/1/2011
- It uses subsidiary's IFRSs statements based on the subsidiary's transition date (1/1/2010)
- If parent acquired the subsidiary before 1/1/2011, it may apply the IFRS 1 rules for past business combinations. It applies the IFRS 1 exception to assets and liabilities recognized by the subsidiary after the business combination and still existing at the parent's transition date

Subsidiary

- Parent gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

Exhibit 2-27 Assets and Liabilities or Subsidiaries, Associates and Joint Ventures

<u>Parent first adopts IFRSs for its12/31/2011 consolidated statements but not for its separate financial statements</u>

Consolidated Financial Statements

- Transition date is 1/1/2010
- Parent prepares consolidated financial statements under IFRSs
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

Parent's Separate Financial Statements

- Parent prepares separate statements under previous GAAP
- It prepares a reporting package at 12/31/2012 under IFRSs for consolidation purposes

<u>12/31/2012: parent first adopts IFRSs for its separate financial statements</u>

Consolidated Financial Statements

Parent's Separate Financial Statements

- Parent prepares separate statements under IFRSs measuring its assets and liabilities at the same amount as in consolidated financial statements before consolidation adjustments
- It gives all disclosures required by IFRS1 as of its own date of transition to IFRSs

<u>Parent first adopts IFRSs for its 12/31/2011 separate statements but not for its consolidated financial statements</u>

Consolidated Financial Statements

- Parent prepares consolidated statements under previous GAAP

Parent's Separate Financial Statements

- Transition date is 1/1/2010
- Parent prepares separate financial statements under IFRSs
- At 12/31/2011 it prepares reporting package under previous GAAP for consolidation purposes
- It gives all disclosures required by IFRS 1 as of its own date of transition to IFRSs

<u>12/31/2012: parent first adopts IFRSs for its consolidated statements</u>

Consolidated Financial Statements

- Parent prepares consolidated financial statements under IFRSs measuring its assets and liabilities at the same amount as in its separate financial statements, and makes consolidation adjustments
- It gives all disclosures required by IFRS1 as of its own date of transition to IFRSs

Parent's Separate Financial Statements

Exhibit 2-27 Assets and Liabilities or Subsidiaries, Associates and Joint Ventures (*Continued*)

Paragraph 2.19.10.15 explains what happens if the parent did not consolidate the subsidiary under previous GAAP. Paragraph 2.19.10.14 following analyzes the interactions with the exemption for past business combinations.

2.19.10.3 A Subsidiary Migrates before the Parent A second exemption (thereafter, "exemption B") concerns a parent that migrates to IFRSs after its subsidiary. Notwithstanding the term "exemption", the parent has no option. In its consolidated financial statements, it must use the IFRS carrying amount that the affiliate used in its IFRS financial statements, after adjusting for the process of consolidation. This also holds true of a parent that did not present consolidated financial statements under previous GAAP (Paragraph 2.19.10.15).[717]

> **Planning Point:** Assume that a parent migrates to IFRSs one year after its parent company. In its opening IFRS consolidated statement of financial position, it reports assets and liabilities of the subsidiary at the same amounts as shown at the end of the comparative period of the subsidiary's first IFRS statement of financial position, as adjusted for the consolidation process. Note that even if this calculation is based on IFRSs' adoption at the subsidiary's transition date (e.g., one year before), the transition date for the purpose of consolidated financial statements remains unchanged (i.e., one year later).[718] The language of IFRS 1 is not so explicit and another interpretation exists, based on which the consolidated statements use the amounts in the subsidiary's opening IFRS statement of financial position as adjusted to the parent's transition date.

2.19.10.4 Associates and Joint Ventures The exemptions also apply to an associate and a joint venture that migrate at different dates from their investor or joint venturers.

> **Comment:** IFRS 1 is not clear as to which consolidated financial statements an associate and a joint venture company must look at. A joint venture has more than one joint venturer. Furthermore, a company that is an associate of another company will be a subsidiary to a third company.

2.19.10.5 Parent and Consolidated Financial Statements Migrate at Different Dates A third situation "exemption C" arises when a parent's separate and consolidated financial statements have different first IFRS reporting dates. Irrespective of the dates of adoption of IFRSs in both financial statements, the pre-consolidation IFRS carrying amounts of the parent's assets and liabilities in the opening IFRS financial statements cannot differ from one set of financial statements to the other.[719] Again this treatment is mandatory.

2.19.10.6 Connections with EC Regulation 1606/2002 These options clearly address situations permitted by the EC Regulation 1606/2002.

> **Planning Point:** While the EC Regulation 1606/2002 requires IFRSs in the 2005 consolidated financial statements of publicly listed companies in the EU, it permits EU Member States to defer the first-time adoption of IFRSs to a financial year starting on or after January 2007 for companies, inter

[717] *IFRS 1, ¶¶ D17, IG27(a), BC63.*
[718] *IFRS 1, ¶¶ IG 29 Example 9, IG30(a).*
[719] *IFRS 1, ¶ D17.*

alia, that are listed in an EU non-member State and report under U.S. GAAP.[720] Hence, a U.S. GAAP subsidiary would be able to migrate to IFRSs later than its EU parent, and may elect "exemption A".

In terms of the EC Regulation 1606/2002, "exemption B" concerns a U.S. GAAP parent that has a subsidiary that is a publicly listed entity in the EU.

2.19.10.7 Effects on Bookkeeping "Exemption A" does not get rid of structural differences between consolidated financial statements and affiliates' amounts incorporated in them, such as consolidation adjustments, the effects of accounting for business combination, equity method or proportionate consolidation, the application of a different level of materiality in consolidated financial statements, or subsequent events for the purpose of the consolidated financial statement.[721] However, it has a significant impact.

Planning Point: A subsidiary, associate, or joint venture that did not migrate to IFRSs in prior years would have ordinarily been providing IFRS data or the reporting package to its IFRS parent or investor for consolidating purposes. Through "exemption A", it can reuse those data. Otherwise, it would continue to have two sets of accounting records or reconciliations, one for its financial statements and the other for the reporting package to its parent.

2.19.10.8 Effects on Selection of Accounting Policies A subsidiary, associate, or joint venture elects accounting options as permitted by IFRSs. It may happen that they differ from those selected by the parent for consolidation purposes.

Planning Point: By using "exemption A", the company implicitly uses the same accounting policies as the parent. IFRS 1 admits that the use of different accounting policies may affect the subsidiary's first IFRS financial statements if the subsidiary does not use the exemption. This may mean that no differences due to either transition dates or accounting policies arise if the subsidiary opts for "exemption A", because it grandfathers the policies chosen by the parents. Conversely, not using this exemption might require adjustments by the parent to the subsidiary's accounting data for the purpose of consolidated financial statements. In fact, IAS 27 requires the use of uniform accounting policies in consolidated financial statements. A disconnection in accounting policies would not be so common, though. In fact, although each company is legally autonomous, generally the parent company manages group accounting policies and exerts a certain power in directing the entity's accounting policies. Also, the company would ordinarily refer to policies already studied and selected by its parent and would have to justify any change. Whatever the case may be, any difference in policy must be within those allowed by IFRSs. Otherwise, the company has made an error under IFRSs that must first be corrected in its own financial statements.

This topic might be read in reverse when the company does not elect "exemption A". It may take its carrying amount under IFRSs based on pre-consolidation figures incorporated in the consolidated financial statements, and then restate them for different IFRS accounting policies that it elects in its subsidiary's financial statements.

[720] *EC Regulation 1606/2002, Art. 9.*
[721] *IFRS 1, ¶ BC59.*

As another element, IFRS 1 refers to central adjustments made by the parent to the reporting package sent by its subsidiaries, and specifies that they are not errors.[722]

> **Planning Point:** Most of the adjustments referred to above arise because the parent directs the subsidiary not to include certain centrally decided allocations in the reporting package for consolidation purposes. However, once the company has migrated to IFRSs, it must include those items in its own IFRS financial statements pursuant to an agreement with its parent and thus they will no longer be a relevant point to the topic discussed here.

2.19.10.9 Effects on the Election of Other IFRS 1 Exemptions The effects of electing these exemptions may be very pervasive.

> **Planning Point:** "Exemption A" changes the date used to determine the figures in the opening IFRS statement of financial position of a subsidiary. As some other IFRS 1 exceptions and exemptions are a function of the transition date, this may create a disconnection between consolidated financial statements and the company's financial statements.
>
> By using "exemption A", the company implicitly uses the same IFRS 1 exemptions as the consolidated financial statements. Not using this exemption would ordinarily require adjustments by the parent to reflect the IFRS 1 exemptions elected by the parent in consolidated financial statements.
>
> "Exemption B" implicitly means that in consolidated financial statements the parent uses the IFRS 1 exemptions that each affiliate selected. Paragraph 2.19.7 previously illustrates an example concerning employee benefits. The election by an affiliate does not affect the choice by another affiliate. In the absence of the parent's direction to the subsidiaries and conflict resolution procedures, this may result in hybrid or inconsistent situations.

IFRS 1 states that the remaining part of the standard ordinarily applies in the measurement of assets and liabilities for which "exemptions A" and "B" are not relevant.[723] An issue may arise concerning balances eliminated in consolidation.

> **Planning Point:** Literally, from the consolidated perspective, these balances are not relevant, as they are eliminated. From the perspective of the "exemption B", they are not "included" in consolidated financial statements. They also do not matter to a parent and to an affiliate that migrates after its parent, but only if the subsidiary adopts "exemption A".

2.19.10.10 Combinations of Exemptions Combinations of these exemptions may arise when a subsidiary migrates to IFRSs first and then the parent migrates in consolidated financial statements, and finally it migrates in its separate financial statements. Alternatively, it may happen that consolidated financial statements migrate first, then the subsidiary, and finally the parent.

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[722] *IFRS 1, ¶ IG31; IAS 27 (2010), ¶ 24.*
[723] *IFRS 1, ¶ IG30(b).*

Comment: In both cases, the parent's separate financial statements will not really be affected by the IFRS values of the subsidiary, because its investment will be either at cost or fair value, or at deemed cost under the IFRS 1 exemption of Paragraph 2.19.9 previously.

Assume that the subsidiary migrates to IFRSs first, then the parent migrates in the parent's separate financial statements, and finally it migrates in consolidated financial statements.

Planning Point: In theory, the parent's separate financial statements have no links with respect to the subsidiary's statements, as the parent uses the cost method, deemed cost, or fair value. However, consolidated financial statements must have the same pre-consolidation IFRS amounts as the parent and the subsidiary. Subsidiary and parent's financial statements may have different transition dates. This may cause a partial elimination of intercompany transactions between the parent and the subsidiary. An issue arises as to whether the requirement in IAS 27 to use uniform accounting policies in consolidated financial statements may override the IFRS 1 exemption versus the subsidiary. IFRS 1 does not provide any guidance, which some may take to mean that there is no override of IAS 27.

Assume that the parent's separate financial statements migrate first, then consolidated financial statements, and finally the subsidiary migrates to IFRSs without using the IFRS 1 exemption.

Planning Point: Consolidated financial statements must have the same pre-consolidation IFRS amounts as the parent. Parent and subsidiary have two different transition dates. Also, the subsidiary may have adopted different accounting policies. These situations may cause a partial elimination of intercompany transactions between the parent and the subsidiary, as in the situation above.

Assume that consolidated financial statements migrate to IFRSs first, then the subsidiary's and the parent's financial statements.

Planning Point: The parent's separate financial statements must assume the parent's pre-consolidation figures in the consolidated financial statements. If the subsidiary re-determines its amounts based on its own transition date, again intercompany transactions turn out to be partially eliminated.

2.19.10.11 Strategic Planning of Migration of a Group to IFRSs The discussion above demonstrates that these exemptions have a reflection on the strategic planning of migration of a group to IFRSs.

Planning Point: As the treatment in "exemption B" is mandatory, while the reverse case is optional, having members of a group separately moving to IFRSs is more rigid than a parent migrating and then requiring its subsidiaries to migrate. Unfortunately, in most occurrences, whether a foreign subsidiary has to report under IFRSs will depend on local regulations and listing requirements.

Finally, in "exemption C", the first set of financial statements to migrate dictates the IFRS 1 election to follow.

> **Planning Point:** A parent must be aware not to hurry in migrating its separate financial statements (for example, to address local requirements) before considering the impact on consolidated financial statements. The combination of the conclusions in this and the previous paragraph shows that planning the effects of IFRS 1 exemption at consolidated level leads to a better informed decision.

2.19.10.12 Effects on Noncontrolling Interests Choosing "exemption A" or not changes the figures in the affiliate's financial statements.

> **Planning Point:** Depending on whether or not a parent is able to orchestrate or make uniform accounting policies, an affiliate choices "exemption A" may or may not affect the consolidated financial statements, and therefore noncontrolling interests.[724] However, this choice may impact the real ownership interests accruing to noncontrolling shareholders determined from a legal viewpoint on the basis of the affiliate's financial statements. Also, minority shareholders might accuse the controlling shareholders of selecting policies that are detrimental to their interests.

2.19.10.13 Effects on the Applicable IFRSs The reporting date of the first IFRS financial statements does not change as a result of "exemption A". However, this exemption may affect the IFRSs that are applicable.

> **Planning Point:** By maintaining the carrying amounts used in consolidated financial statements through "exemption A", it appears that the company must use IFRSs in effect at the reporting date of its parent's first IFRS financial statements for recognition and measurement purposes. IFRS 1 is not explicit on this. The fact that IFRS 1 refers to carrying amounts and recognition and measurement[725] does not appear to free presentation and disclosures from being based on IFRSs that are effective at the end of its first IFRS reporting period. Furthermore, it explicitly requires the disclosures prescribed by IFRS 1 at the company's own transition date.[726]

2.19.10.14 Acquisitions in Past Business Combinations If the parent that applies "exemption B" acquired the investee before the acquirer's transition date, it may choose to apply the IFRS 1 exemption for past business combinations to that acquisition. In such a case, the rules for past business combinations prevail. "Exemption B" only applies to assets and liabilities recognized by the acquiree after the business combination and still existing at the parent's transition date.[727]

> **Comment:** While IFRS 1 affirms that "exemption B" prevails, in the context of the exemption for past business combinations it asserts that the parent would measure a pension liability as in the subsidiary's financial statements.[728]

[724] *IFRS 1, ¶ IG28.*
[725] *IFRS 1, ¶¶ D16(a), BC60.*
[726] *IFRS 1, ¶ IG30(c).*
[727] *IFRS 1, ¶ IG30(a)*
[728] *IFRS 1, ¶ IG22 Example 2(f).*

> **Planning Point:** The parent may decide not to avail itself of the IFRS 1 exemption for past business combinations. In theory, this would require the retrospective application of IFRS 3 to the items of the subsidiary, but this is in conflict with "exemption B". IFRS 1 does not provide explicit guidance on this situation. However, it says that Appendix C of IFRS 1 prevails, and Appendix C also notes that an acquirer may apply IFRS 3 retroactively.[729] A second implication is that, in theory, the retrospective application of IFRS 3 may be in conflict with any other IFRS 1 elections made by the subsidiary that migrated to IFRSs before the transition date. In this case, IFRS 1 provides no directions. Arguably, Appendix C of IFRS 1 prevails.

An issue arises on how to account for the reverse situation. Assume that the parent acquired a company before its transition date. Upon migration to IFRSs, the parent elects the IFRS 1 exemption for past business combinations. The subsidiary migrates after its parent and elects to use the same pre-consolidation amounts as in the consolidated financial statements.

> **Planning Point:** A literal reading of IFRS 1 appears to say that in its first IFRS financial statements the subsidiary can recognize and measure its own assets and liabilities at the pre-consolidation amounts recorded by the parent under the IFRS 1 exemption for past business combinations.[730] However, this would not have a significant impact as, under the IFRS 1 exemption for past business combinations, the parent could have recognized the subsidiary's assets and liabilities to the extent they qualified for separate recognition under IFRSs in the acquiree's financial statements.

Assume the acquiree had previously acquired another company and had recorded goodwill in a way that would not be permitted under IFRSs. The parent uses the IFRS 1 exemption for past business combinations as in the above situation.

> **Planning Point:** Arguably, from the parent's perspective, goodwill recorded by the acquiree is an acquiree's item. The parent should analyze and re-determine it as for any other item of the subsidiary, based on the criteria in the IFRS 1 exemption for past business combinations. Once the subsidiary later migrates to IFRSs and uses "exemption B", it will have to recognize goodwill under IFRSs as recast by the parent. The result would be the same as if the subsidiary had applied IFRS 3 retroactively. However, if the subsidiary also uses the IFRS 1 exemption for past business combinations, an issue arises as to whether the literal reading of IFRS 1 that Appendix C prevails means that it must grandfather the accounting for goodwill it had made under previous GAAP rather than "exemption B".

2.19.10.15 Previously Unconsolidated Entities IFRS 1 does not waive IAS 27 concerning consolidation. An IFRS first-time adopter must consolidate all subsidiaries according to IAS 27.[731] Paragraph 2.19.10.3 previously explains that a parent that consolidates a previously unconsolidated subsidiary must reconstruct the IFRS carrying amounts that the subsidiary would use in its IFRS financial statements before adjusting for the process of consolidation. Paragraph 2.18.3 previously explains the topic in more detail.

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[729] *IFRS 1, ¶ C1.*
[730] *IFRS 1, ¶ IG30(a)*
[731] *IFRS 1, ¶ IG26.*

2.19.11 Compound Financial Instruments

IFRS 1 permits an IFRS first-time adopter to avoid the application of split accounting retrospectively to a compound financial instrument that at transition date has no liability component outstanding (e.g., a convertible bond that the holders fully converted before the transition date). The exemption is applied on an instrument-by-instrument basis.

Comment: The equity section of the opening IFRS statement of financial position will report either the original equity component or any additional item that arose from the conversion or exercise of the instrument, or both, depending on whether or not under previous GAAP the entity had used a form of split accounting. Any cumulative effect resulting from the liability component, e.g., cumulative interest expense, is already in equity, although recognized and measured under previous GAAP. In most cases, this has affected retained earnings, as would be the case for IFRSs. Retained earnings also include the cumulative effect of reversal deferred tax liability related to the temporary differences associated with the liability component.[732]

Alternatively, the company may apply IAS 32 retrospectively from initial recognition of the liability on the basis of circumstances existing at the date of issuance of the compound instrument, which means adjusting opening retained earnings for any effects on the liability component.[733]

Comment: Retrospective application of IAS 32 would also restate any gain or loss arising from a partial derecognition of the instrument in the past or from a partial induced early conversion.

Planning Point: IFRS 1 explains that if the liability component is outstanding at transition date, recasting is mandatory. The exemption excludes an option to value such a liability at fair value as deemed cost. However, the entity would be able to designate it at fair value through profit or loss under the exemption for previously recognized financial instruments (Paragraph 2.19.12) but only to the extent that IFRS 9 permits it.[734]

2.19.12 Designation of Previously Recognized Financial Instruments

2.19.12.1 Designation at Fair Value Paragraph 2.17.3.2 previously explains the general rule under IFRS 9 and IAS 39 that initial measurement of a financial asset and a financial liability occurs from initial recognition. However, IFRS 9 concedes three particular measurement options, as explained below, to ongoing IFRSs entities both at initial recognition of a financial instrument and upon initial adoption of IFRS 9, based on facts and circumstances existing at that date. Prior to amendments by IFRS 9, IAS 39 upon its initial adoption also permitted special designations as available-for-sale assets and as at fair value through profit or loss assets and liabilities. IFRS 1 extends these accommodations to transition date, on the basis of circumstances existing at that date, subject to the same criteria in IFRS 9 or IAS 39. The rationale is giving IFRS first-time adopters the same tools as ongoing IFRS entities.[735]

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[732] *IAS 12, ¶ IE Example 4.*
[733] *IFRS 1, ¶¶ D18, IG35, IG36, BC56; IAS 32, ¶ 15.*
[734] *IFRS 1, ¶ BC58; IFRS 9, ¶ 4.2.2.*
[735] *IFRS 1 (December 2010 with no earlier adoption), ¶¶ D19, BC63A; IFRS 1 (December 2010 with earlier adoption), ¶¶ D19, D19A, D19B, BC63A.*

> **Comment:** Conversely, upon first application of the amendments to IAS 39 related to the fair value option for years starting on or after January 1, 2006, an ongoing IFRS entity was not permitted to designate a pre-existing financial asset or liability as at fair value through profit or loss.[736]

The first two options concern the election to designate a financial asset or a financial liability at fair value through profit or loss. Under IFRS 9 (October 2010), these irrevocable elections are subordinated to enhancing relevance due to the elimination of an accounting mismatch between differently measured assets and liabilities and/or related gains or losses. For a financial liability, this is also possible when the liability is part of a group of financial instruments managed, evaluated, documented, and internally reported at fair value. A hybrid contract liability that contains a host that is not an asset within the scope of IFRS 9 and that meets certain criteria may also be designated as at fair value through profit or loss. The rationale is giving IFRS first-time adopters the same tools as ongoing IFRS entities.[737]

> **Planning Point:** Before the issuance of IFRS 9 (November 2009), IFRS 1 referred to IAS 39 for both financial assets and financial liabilities. The November 2009 version of IFRS 9 continues to refer to IAS 39 only for financial liabilities, because, unlike the October 2010 revision, it does not include financial liabilities in its scope. Therefore, if the entity uses IAS 39, it must meet the IAS 39 criteria for designation as at fair value through profit or loss. As the IAS 39 criteria differ from those in IFRS 9, using IFRS 9 forces both ongoing IFRS entities and IFRS first-time adopters to reassess whether the criteria for the fair value option are met at IFRS 9 adoption or transition date, respectively.[738] Paragraph 2.9.5 illustrates the interaction of effective dates of IAS 39, IFRS 9 (November 2009) and IFRS 9 (October 2010) for both ongoing IFRS entities and IFRS first-time adopters.

Paragraph 2.19.12.3 following explains the third election under IFRS 9 for equity instruments carried at fair value through other comprehensive income, and under IAS 39 for available-for-sale financial assets.

Of course, an IFRS first-time adopter must stop a designation under previous GAAP that does not qualify under IFRSs.[739]

2.19.12.2 Assessment of an Accounting Mismatch due to Own Credit Risk Under IFRS 9, other comprehensive income includes the portion of change in fair value of a financial liability carried at fair value through profit or loss, unless this would create or enlarge an accounting mismatch in profit or loss. IFRS 1 requires an IFRS first-time adopter to make such a determination at transition date.[740]

2.19.12.3 Available-for-Sale Instruments and Nontrading Equity Instruments The third election mentioned in Paragraph 2.19.12.1 applies to the designation of a nontrading equity instrument as at fair value through other comprehensive income under IFRS 9.

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736 *IAS 39 (December 2010 with no earlier adoption), ¶ 105C(b).*
737 *IFRS 1, ¶¶ D19, D19A, D19B; IFRS 9, ¶¶ 4.1.5, 4.2.2, 4.3.5, 5.7.5, 7.2.7, 7.2.9.*
738 *IFRS 9, ¶ BC7.19.*
739 *IFRS 1, ¶ 10(c).*
740 *IFRS 1, ¶ D19D; IFRS 9, ¶ 5.7.7.*

> **Comment:** IFRS 9 has introduced the category of equity instruments measured as at fair value through other comprehensive income and deleted the available-for-sale category that previously existed under IAS 39. Therefore, IFRS 1 with no earlier adoption of IFRS 9, gives an election at transition date to designate a financial asset (or a financial liability) as available-for-sale under IAS 39.[741]

2.19.12.4 Impractical Application of the Interest Method or Impairment Requirements Unlike for the other occurrences of the impracticability exception under IAS 8 (Paragraph 2.9.9), IFRS 1 permits it for financial assets carried at amortized cost in case the entity cannot apply the interest method or the impairment provisions of IAS 39 retrospectively. In such a case, the company must determine the fair value of the asset at transition date and consider this as its deemed cost at that date for the purpose of subsequent application of amortized cost.[742]

> **Comment:** The reference is to IAS 39 and not to IFRS 9 because the revision of guidance on impairment is still in progress after the publication of the Exposure Draft, *Financial Instruments: Amortised Cost and Impairment*.

> **Comment:** The version of IFRS 1 with no earlier adoption does not include this accommodation.

IFRS 9 explains that a case of impracticability might arise when under previous GAAP an entity measured many financial instruments at fair value that under IFRS 9 must be carried at amortized cost. Retrospective application of IAS 39 would imply the recalculation of impairment losses and their reversals.[743]

While an ongoing entity must also apply fair value at comparative periods, an IFRS first-time adopter must consider the interaction with the exemption from comparative information explained in Paragraph 2.20.1.

2.19.12.5 Transaction Costs However, as a matter of fact, IFRS 1 forecloses the possibility to invoke impracticability in determining past transaction costs, because for example the entity is not able to find records of those costs.

> **Planning Point:** An entity must make an educated estimate even if the unamortized portion is material. IFRS 1 continues by saying that transaction costs are immaterial in most occurrences, but it does not say what happens in such a case.[744] According to certain jurisdictional guidance, if estimates are not reliable, an entity could compute amortized cost without considering transaction costs.[745]

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741 *IFRS 1 (2008), ¶ D19(a); IFRS 9, ¶ 5.7.5; IAS 39, ¶¶ 9, 105.*
742 *IFRS 1, ¶ D19C.*
743 *IFRS 9, ¶ BC7.14.*
744 *IFRS 1, ¶¶ BC72, BC73.*
745 *Associazione Bancaria Italiana (ABI), November 28, 2005. Soluzioni IAS No. 5.*

2.19.12.6 Unquoted Equity Instruments IAS 39 requires the measurement at cost of unquoted equity instruments whose fair value cannot be reliably measured and of derivative assets and liabilities linked to or settled by delivery of such instruments. Conversely, IFRS 9 requires fair value measurement of these instruments upon first adoption of the standard.[746]

> **Planning Point:** An IFRS first-time adopter that uses IAS 39 will measure these instruments at cost. In the period of subsequent adoption of IFRS 9, it will remeasure them at fair value against opening retained earnings. An IFRS first-time adopter that adopts IFRS 9 early would measure them at fair value at transition date.[747]

2.19.12.7 Reclassification of an Associate to an Available-for-Sale Financial Asset Under previous GAAP, an entity may have accounted for an investment by using the equity method, but this asset does not qualify as an associate under IAS 28. A company that reclassifies this investment as an available-for-sale financial asset must apply IAS 39 retrospectively. Exhibit 2-28 illustrates the accounting entries and compares them to the case of loss of significant influence over an associate.

> **Planning Point:** This case is different from the accounting for discontinuation of the equity method due to loss of significant influence over an associate. Reclassification is a case of a different accounting policy used under previous GAAP. Loss of significant influence is the result of circumstances that had changed the substance of the investment and at transition date retroactively reflects the discontinuation of equity method from the date in which the investor lost significant influence. The difference between the fair value of any retained investment plus disposal proceeds, if any, and the carrying amount of the former associate affects profit or loss (i.e., there is no retrospective application). Upon IFRS first-time adoption, this affects opening retained earnings. IAS 39 applies prospectively from the date in which significant influence is lost. Furthermore, this situation determines a reclassification adjustment of any cumulative other comprehensive income of the associate that the investor recognized separately and that would have been reclassified had the associate derecognized the related assets or liabilities.[748]

> **Example:** A Spanish foreign private issuer, in its reply to the SEC Staff's review of Form 20-F containing financial statements for the fiscal year ended December 31, 2005 prepared for the first time on the basis of IFRSs explained that it had restated certain less-than-20% interests classified as associates under previous GAAP into the available-for-sale financial assets, because it no longer exercised significant influence.[749]

2.19.12.8 Disclosures In the case of designation of a financial asset or a financial liability as at fair value through profit or loss, the entity must disclose the fair value of the financial asset or financial liability as well as their classification and carrying amount under previous GAAP.[750]

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[746] *IFRS 9, ¶¶ 7.2.11, 7.2.12, BC7.15; IAS 39 (2008), ¶¶ 46(c), 66.*
[747] *IFRS 1 (2008), ¶ IG52; IFRS 9, ¶¶ 7.2.11, 7.2.12.*
[748] *IAS 28 (2010), ¶¶ 18, 19A.*
[749] *SEC IFRS Reviews. Reply to the SEC, February 26, 2007. File No. 001-10110, Comment 18.*
[750] *IFRS 1, ¶¶ 29, 29A.*

Exhibit 2-28 Reclassification from Equity Method to Available-for-Sale Financial Asset under IAS 39

Data:

Carrying amount of the associate under previous GAAP at transition date: currency units (CU) 100.
Cumulative equity income of the associate included in the carrying amount at transition date: CU 15.
Cumulative other comprehensive income of the associate that has been separately presented by the investor: CU 5.
Fair value of the investment at transition date: CU 150.

Restatement:

Debit:		*Credit:*	
Retained earnings (restatement of cumulative equity income)	15		
Accumulated other comprehensive income (parent's restatement of cumulative other comprehensive income of the associate)	5		
Available-for-sale financial asset (recognition)	150		
		Associate (restatement of accumulated other comprehensive income)	100
		Accumulated other comprehensive income (fair value remeasurement of the available-for-sale financial asset)	70
	170		170

By contrast, the accounting at transition date for a loss of significant influence follows. Data are the same.

Loss of significant influence:

Debit:		*Credit:*	
Available-for-sale financial asset	150		
Accounts receivable (proceeds: assumed nil)	0		
Accumulated other comprehensive income (reclassification adjustment)	5		
		Associate	100
		Opening retained earnings (reclassification adjustment)	5
		Opening retained earnings (profit)	50
	155		155

2.19.13 Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition

2.19.13.1 Day-One Gain or Loss Explained Day-one gain or loss refers to a gain or loss on initial recognition of a financial instrument given by the difference between fair value and the transaction price. Under IFRS 9 and IAS 39, an entity ordinarily cannot recognize day-one gains or losses for a financial instrument that has no quoted price in an active market and for which the transaction price is different from a model-based estimate of fair value. It does so only when such a fair value is entirely evidenced by comparison with other observable current market transactions in the same instrument without modification or repackaging or is based on a valuation technique that incorporates only observable market data. If this is not possible, the transaction price is regarded as the best evidence of fair value. IFRS 13, for annual periods beginning on or after January 1, 2013 with earlier application permitted, refers to fair value as evidenced by a Level 1 input in the fair value hierarchy, i.e., a quoted price in an active market for an identical asset or liability.[751] Subsequent recognition of a previously unrecognized

[751] *IFRS 9, ¶ B5.1.2A as added by IFRS 3,* Fair Value Measurement*; IFRS 3, ¶ C1.*

day-one gain or loss is limited to the extent that it arises from a change in factors, including the time variable, that market participants regard as relevant for price setting.[752]

> **Example:** A British foreign private issuer, in its response to the SEC Staff's review of its Form 20-F for the fiscal year ended December 31, 2006, explained that it had not recognized any day-one profits under both IFRSs and U.S. GAAP. An example was a derivative swap agreement to exchange one set of cash flows based on a specific floating gas price index for a fixed set of cash flows over a 10-year term. The initial fair value was not based on an observable market for natural gas, as contracts in that industry do not extend in excess of five years.[753]

2.19.13.2 Day-Two Gain or Loss Gains and losses arising subsequently must also respect the rules of day-one gain or loss.

> **Planning Point:** The Discussion Paper on fair value measurements helps interpret these provisions. Therefore, they do not include the entire difference between a computed fair value and the transaction price. Had this not been the case, there would be the so-called day-two gain or loss phenomenon, i.e., day-one gain or loss would be recognized the day after. Instead, they only include the subsequent changes in the model-based fair values and the portion of the unrecognized day-one gain or loss arising from the change in factors described previously. As time is one of the variables that may affect subsequent recognition, IAS 39 mentioned amortization as an allowed technique. However, neither IFRS 9 nor IAS 39 provides guidance on the pattern of subsequent recognition of day-one gains or losses.[754] One study illustrates that banks use different recognition methods, including amortization, recognition once inputs become observable, upon maturity or termination of the instrument, as well as other approaches.[755] However, whether all these techniques meet the requirements in the standards has not been proven.

2.19.13.3 The IFRS 1 Exemption Under the above circumstance the transitional provisions of IAS 39 allow an ongoing IFRS entity to recognize gains or losses on the initial recognition of financial asset or financial liability retrospectively, prospectively for transactions entered into after October 25, 2002, or prospectively to transactions entered into after January 1, 2004. IFRS 1 with no earlier adoption extends this accommodation to IFRS first-time adopters that do not apply IFRS 9 early.[756]

> **Comment:** The date of October 25, 2002 was to converge with EITF Issue No. 02-3, now nullified by Subtopic 820-10 (FASB Statement No. 157) on this point.[757] The transitional provisions of EITF Issue No. 02-3 accounted for its effects by the cumulative-effect method, then changed to limited retrospective application under FASB Statement No. 157. Under EITF Issue No. 02-3, prior to the initial application of FASB Statement No. 157, day-one gain or loss of a derivative or other financial instrument that was measured at transaction price at initial recognition under FASB Statement

[752] *IFRS 9, ¶¶ B5.4.8, B5.4.9; IAS 39, ¶¶ AG76, AG76A, BC104, BC221(e).*

[753] *SEC IFRS Reviews. Reply to the SEC, July 13, 2007. File No. 001-6262, Comment 6.*

[754] *IASB, November 2006. Discussion Paper,* Fair Value Measurements*, Part 1, ¶ 27.*

[755] *EY, 2005 Banking.*

[756] *IFRS 1, ¶¶ D20, BC83A; IAS 39, ¶¶ 107A, BC222(v).*

[757] *FASB Statement No. 157, A26, Footnote 17; EITF Issue No. 02-3,* Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, ¶ 22.*

No. 133 could not be recognized in earnings when its fair value was determined using significant unobservable inputs.[758] Now fair value, as measured under Subtopic 820-10 (FASB Statement No 157), applies to these instruments and a difference between a model-based estimate of fair value and the transaction price is recognized in earnings at initial recognition. FASB Statement No. 157 was effective for fiscal years beginning after November 15, 2007. Contrary to the general prospective application of this Standard, it accounts for such a situation retrospectively limited to the beginning of the year of adoption of the standard with no restatement of prior periods. In this case, a cumulative-effect adjustment to the beginning balance of retained earnings or other component of equity must be separately displayed for the difference between carrying amounts and fair values of related instruments.[759]

2.19.13.4 Earlier Adoption of IFRS 9 IFRS 9 does not re-propose these transitional provisions, and therefore the day-one gain or loss rules apply retrospectively to ongoing IFRS entities.

Planning Point: IFRS 9 (November 2009) did not amend IFRS 1. Therefore, an entity migrating to IFRSs that adopts IFRS 9 early still uses this exemption with reference to IAS 39. Conversely, IFRS 9 (October 2010) amended IFRS 1 to re-propose the accommodation with the same date but with reference to IFRS 9. In practice there is no impact, because IFRS 9 reproduces the provisions of IAS 39 on day-one gain or loss.[760]

2.19.13.5 Adoption after July 1, 2011 Effective for annual periods beginning on or after July 1, 2011, the exemption loses any reference to specific dates. IFRS first-time adopters may use IFRS 9 rules on day-one gain or loss prospectively from transactions entered into on or after transition date.[761]

Planning Point: The amendments modified IFRS 9 (October 2010) and added the same exemption to IFRS 9 (November 2009). Therefore, this change applies to all entities migrating to IFRSs that use or adopt IFRS 9 early. However, the amendments did not modify IAS 39. Therefore, by a literal reading, IFRS first-time adopters that do not adopt IFRS 9 early must stick to the older dates.[762]

2.19.14 Decommissioning, Restoration, and Similar Liabilities

2.19.14.1 Treatment under IFRIC as Compared to U.S. GAAP Under both U.S. GAAP and IFRSs, a decommissioning, restoration, or similar obligation is capitalized to the depreciable cost of the related asset against an offsetting liability (called asset retirement obligation – ARO – and asset retirement cost under Subtopic 410-20 (FASB Statement

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[758] *FASB Statement No. 157, ¶¶ 37, C10-C11, C108.*

[759] *FASB ASC 820-10-65-1 (FASB Statement No. 157, ¶ 36, superseded after the end of the transition period stated in FASB Staff Position FAS 157-2); FASB Statement No. 157, ¶ 37.*

[760] *IFRS 9 (October 2010), ¶ C3.*

[761] *IASB, Amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (December 2010), ¶¶ D20, BC22A.*

[762] *IASB, Amendments to IFRS 1,* Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters *(December 2010), Amendments to IFRS 9 (November 2009), ¶ C3, and to IFRS 9 (October 2010), ¶ C3.*

No. 143)[763]) and depreciated within the long-lived asset prospectively over the remaining useful life of the asset. Under IAS 16, this happens to the extent that such obligation is recognized as a liability under IAS 37.[764] FASB Statement No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. IFRIC 1 is effective for fiscal years beginning on or after September 1, 2004. Paragraph 2.19.3.17 previously explains some of the rationales behind these provisions.

IFRIC 1 establishes that, when an asset is carried at the revaluation model, a change in the estimates of amount or timing determinants of the estimated cash outflows of a related existing decommissioning, restoration, or similar liability, or a change in the current market-based discount rate, affects such a liability and follows IAS 16 revaluation rules. These revaluation rules are read here in the reverse order as compared to IAS 16, as they refer to changes in the value of a liability and not of an asset. A decrease in the liability increases revaluation surplus, unless it is recognized in income to the extent it reverses a revaluation deficit that had previously been expensed. In case the liability decreases in excess of the carrying amount of the related asset that would result if the cost model were adopted, the asset is reduced to nil against the revaluation surplus and any excess is recognized in profit or loss. An increase in the liability first reduces the revaluation surplus of that asset, then it is expensed to the extent of the excess. All changes in the liability subsequent to when the related asset has reached the end of its useful life must be recognized in profit or loss as they occur.[765]

Planning Point: As the revaluation model is not allowed under U.S. GAAP, Subtopic 410-20 (FASB Statement No. 143) may be compared to IFRIC 1 only within the limits of the cost model. Under both standards, if the entity uses this model, a change in estimate of the liability is capitalized to the cost of the related asset against an offsetting change in liability. However, under Subtopic 410-20 (FASB Statement No. 143), if the expected present value of the liability increases, separate ARO liabilities arise per period of revision to record incremental obligations, unless this is not practical, in which case a weighted-average credit-adjusted risk-free rate can be used. The incremental ARO is depreciated prospectively. If the revision increase affects one period only, the incremental ARO is fully depreciated in that period.[766] If the expected present value decreases, IFRIC 1 recognizes a gain only to the extent of the excess of the decrease over the asset's carrying amount.[767] Subtopic 410-20 (FASB Statement No. 143) uses the current credit-adjusted risk-free rate for decreases and an historical credit-adjusted risk-free rate for increases, while IFRIC 1 includes all changes in the current market-based discount rate in the calculation of both the present value and the unwinding of discount.[768] Furthermore, contrary to Subtopic 410-20 (FASB Statement No. 143), IFRIC 1 does not address changes in decommissioning, restoration, and similar liabilities resulting from new legal or contractual requirements.[769] Under both pronouncements (and with both the revaluation and cost models, under IFRSs), accretion cost for the periodic unwinding of the discount due to passage of

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[763] *FASB ASC 410-20-20 (FASB Statement No. 143,* Accounting for Asset Retirement Obligations*, ¶ 1, Footnote 1).*

[764] *IAS 16,* Property, Plant and Equipment*, ¶¶ 16(c), 18; IAS 37,* Provisions, Contingent Liabilities and Contingent Assets*, ¶ Appendix C, Example 3.*

[765] *IFRIC Interpretation No. 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, ¶¶ 6–8, B25(d).*

[766] *FASB ASC 410-20-35-8, 410-20-55-19, 410-20-55-20 (FASB Statement No. 143, ¶¶ 15, A26–A27.*

[767] *IFRIC 1, ¶ 5.*

[768] *FASB ASC 410-20-35-8 (FASB Statement No. 143, ¶ 15); FASB Statement No. 143, ¶ B54; IFRIC 1, ¶¶ IE5, BC3, BC19.*

[769] *FASB ASC 410-20-55-19 (FASB Statement No. 143, ¶ A26); IFRIC 1, ¶ BC23.*

time is charged in the income statement as it occurs, and is counterbalanced by an increase in the liability.[770] Subtopic 410-20 FASB Statement No. 143) accounts for the unwinding of the discount before determining the impact of a change in estimate.[771]

2.19.14.2 Effect of Retrospective Application Entities already reporting under IFRSs must retrospectively apply IFRIC 1, if practicable.

Planning Point: Under IFRIC 1, a change of the decommissioning liability is retrospectively capitalized and depreciated from the date of the revised estimate. The impact on the beginning balance of retained earnings amounts to the cumulative unwinding of the discount related to the change in estimate plus (in case of the cost model) the accumulated depreciation on the change in estimate that would have been capitalized on the asset. If the entity adopts the revaluation model, retrospective application also affects revaluation surplus for the changes in value of the liability and any revaluation of the asset. The policy followed by the entity to account for the accumulated depreciation at revaluation date also influences accumulated depreciation. Upon its first application, Subtopic 410-20 (FASB Statement No. 143) requires the recognition of AROs adjusted by cumulative accretion, by asset retirement costs capitalized on assets, and by accumulated depreciation. The cumulative-effect adjustment is recognized in the income statement as per the current method under APB 20, including pro forma information as if Subtopic 410-20 (FASB Statement No. 143) had been applied from the date of the obligation.[772] However, the transitional provisions of FASB Statement No. 143 require the use of assumptions and information current as of the date of adoption, as opposed to the full retrospective approach of IFRIC 1 (although IFRIC 1 contains an impracticability exception).[773]

Comment: Some constituents found retrospective application inconsistent with the IAS 8 prospective accounting for changes in estimates, for example, for changes in the estimate of asset's residual value or useful life.[774] Furthermore, retrospective application seems somehow inconsistent with the transition provision for adopting the fair value model of IAS 40 that seeks to rule out any possible manipulation in allocating fair values across periods.

2.19.14.3 Impact of the IFRS 1 Exemption As an accommodation for changes that occurred before the date of transition to IFRSs, an IFRS first-time adopter may opt for an alternative procedure. At transition date, it may measure the liability at its revised estimate under IAS 37, discount it to the date it was first incurred using the historical risk-adjusted discount rates applicable in that period, and compute the accretion costs of prior periods as unwinding of the discount. If it uses the cost model, it then capitalizes the change in valuation into the cost of the asset and depreciates it to the transition date using the current estimate of the useful life of the asset. This accommodation avoids modifying the depreciable basis by considering all the historical record of changes in estimates that occurred before the transition date. However, this exemption does not neutralize the effect in opening retained earnings of any difference between the carrying amount of the liability and the amount of the decommissioning

[770] *FASB ASC 410-20-55-18 (FASB Statement No. 143, ¶¶ A25); IFRIC 1, ¶ 8.*
[771] *FASB ASC 410-20-35-3 (FASB Statement No. 143, ¶ 13).*
[772] *FASB Statement No. 143, ¶¶ 24–27.*
[773] *FASB Statement No. 143, ¶¶ 25, B82–B84, B90.*
[774] *IFRIC 1, ¶¶ BC14–BC18.*

obligation included in the asset value that is due to its depreciation and any asset impairment loss.[775]

> **Planning Point:** The impact of such IFRS 1 exemption on the opening balance of retained earnings at transition date, as opposed to retrospective application, amounts to the change in estimate that would have been capitalized on the asset and the related accumulated depreciation. The liability at transition date and the cumulative unwinding of discount are equal under the two methods.

2.19.15 Decommissioning Liabilities Related to Oil and Gas Assets

Effectively for annual periods beginning on or after January 1, 2010 (with earlier application permitted and disclosed), IFRS 1 requires IFRS first-time adopters to quantify a decommissioning, restoration, or similar liabilities related to oil and gas assets in the development or production phases at the value under IAS 37 at transition date. This method is different from both the retrospective application of IFRIC 1 and the alternative accounting under IFRS 1 (Paragraph 2.19.14). The prerequisite is that such an entity elects the full cost method under previous GAAP as deemed cost at transition date (a further IFRS 1 exemption treated in Paragraph 2.19.4). The difference between the liability measured at transition date under IAS 37 and the carrying amount under previous GAAP at the same date affects the opening balance of retained earnings.[776]

2.19.16 Financial Assets or Intangible Assets Related to Service Concession Agreements

2.19.16.1 The IFRS 1 Exemption Through derogation to the principle that transitional provisions of other IFRSs do not apply to IFRS first-time adopters, IFRS 1 gives those IFRS first-time adopters the accommodation to apply the transitional provisions of IFRIC 12 instead of retrospectively applying it.[777]

2.19.16.2 The Transitional Provisions in IFRIC 12 IFRIC 12 allows an operator in public-to-private service concession agreements to use an alternative method of adoption of the Interpretation in the case where its retrospective application turns to be impracticable. This consists in assuming the previous GAAP amount of the concession rights financial asset or intangible asset at the beginning of the earliest period presented as their deemed cost under IFRSs at that date. On the same date or, if impracticable, at the beginning of the current period, the company must test them for impairment. The fact that the entity previously classified those assets differently is irrelevant. The IASB expressed a view that reclassification is always practicable. Conversely, prospective application is prohibited, because it might result in the coexistence of different measurement models.[778]

2.19.16.3 Leases versus Service Contracts versus Service Concession Agreements It may be difficult to determine whether IFRIC 4 or IFRIC 12 applies to certain service contracts.

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[775] *IFRS 1, ¶¶ D21, IG13, BC63C; IFRIC 1, ¶¶ 10, BC33.*
[776] *IFRS 1, ¶¶ D21A, BC63CA.*
[777] *IFRS 1, ¶ D22.*
[778] *IFRIC 12,* Service Concession Arrangements*, ¶¶ 30, BC73, BC74.*

Example: As explained in its reply to the SEC Staff for the review of Form 20-F for the fiscal year ended December 31, 2005, a French foreign private issuer adopted IFRIC 12 early in 2006. Some of those contracts were previously accounted for under IFRIC 4. The company split those contracts into construction and operation. The retrospective application of IFRIC 12 required an extensive review of thousands of contracts for hundreds of subsidiaries.[779]

To avoid doubt, both IFRIC 4 and IFRIC 12 exclude contracts to which the other Interpretation applies from their respective scopes, so as to avoid overlapping between the two. Similarly, IFRIC 12 scopes out leases.[780]

Planning Point: IFRIC 12 pictures leases, service contracts, and service concession agreements in a continuum scale according to their features.[781] One of the purposes of IFRIC 4 is to differentiate situations in which lease accounting is appropriate as opposed to service agreements or other contracts. Certain features discriminate a lease contract from a service contract and from a service concession agreement in particular. IFRIC 12 applies to public-to-private service concession agreements that meet certain requirements, although application by analogy with private-to-private agreements may be warranted depending on circumstances.[782] Unlike service contracts, the existence of a specific asset associated with the agreement is one of the prerequisites of a lease.[783] However, this is not conclusive to distinguish a lease from a service concession agreement, which may also refer to specific public service infrastructure. A lease assumes the conveyance of a right to use an asset as opposed to the consumption of the output of that asset as in a service contract.[784] Unlike in a contract for a service or product, the price in a lease cannot contractually be fixed per unit of output or equal to its current market value at delivery: this would not convey the right to use the asset.[785] In addition, a service component in a lease is generally ancillary to the right of use of the asset, although services are often present in leases.[786] Under IFRIC 4, a right to use an asset derives from a right to control the use of that asset, also including a right to control physical access.[787] Conversely, a service concession agreement assumes that the grantor retains the right to control the use of the underlying asset, while the operator simply has access to the asset pursuant to fulfilling the agreement and servicing the public on the grantor's behalf.[788]

2.19.17 Borrowing Costs

2.19.17.1 Transition Provisions of IAS 23 IAS 23 applies prospectively to assets that, as a change in accounting principle due to its initial adoption, start capitalizing borrowing costs from its effective date, unless the entity chooses an earlier date for all qualifying assets that did not begin capitalization before that date.[789]

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[779] *SEC IFRS Reviews. Letter to the SEC, April 2, 2007. File No. 1-15248, Comments 12, 17, 18.*
[780] *IFRIC 4,* Determining whether an Arrangement contains a Lease*, ¶¶ 4(b), BC14A; IFRIC 12, ¶¶ BC29, AG8.*
[781] *IFRIC 12, ¶ Appendix B, Information note 2.*
[782] *IFRIC 12, ¶¶ 4, 5, BC14.*
[783] *IFRIC 4, ¶¶ 6(a), BC24.*
[784] *IFRIC 4, ¶¶ 6(b), BC37.*
[785] *IFRIC 4, ¶¶ 9(c), BC37.*
[786] *IAS 17,* Leases, *¶ 3; IFRIC 4, ¶¶ 1, BC36(b).*
[787] *IFRIC 4, ¶ 9; IFRIC 12, ¶ BC22.*
[788] *IFRIC 12, ¶¶ 5(a), BC24, BC25, BC28.*
[789] *IAS 23,* Borrowing Costs, *¶¶ 27, 28.*

> **Planning Point:** IAS 23 states that the transitional provision mentioned above applies when application of the March 2007 amendments to IAS 23 constitutes a change in accounting principles. IAS 23 does not say what happens otherwise. According to the ordinary rules, when transitional provisions do not say otherwise, retrospective application under IAS 8 applies. In addition, the previous version of IAS 23 required retrospective application as the basic treatment, although it also permitted prospective capitalization.[790] However, the Basis for Conclusions of IAS 23, in indicating that the standard applies prospectively, does not make such a distinction. Arguably, if under the previous version of IAS 23 an entity elected to capitalize borrowing costs there would be no change to the amended version, as it requires capitalization.

2.19.17.2 IFRS 1 Exemption Explained Through derogation to the principle that transitional provisions of other IFRSs do not apply to IFRS first-time adopters, IFRS 1 gives those IFRS first-time adopters the accommodation to apply the transitional provisions of IAS 23 as of January 1, 2009 or from transition date, whichever comes later. The rationale of this exemption is to place IFRS first-time adopters on the same level as ongoing IFRS entities with respect to mandatory capitalization of borrowing costs.[791] Hence, IFRS first-time adopters are also able to begin capitalizing borrowing costs for an earlier date than the later of January 1, 2009 or transition date.

The Amendments to IFRS 1 concerning borrowing costs apply to financial years beginning on or after July 1, 2009, unless the company already applies them for an earlier period.[792]

2.19.17.3 When IAS 23R Applies Retrospectively As Paragraph 2.19.17.1 previously notes, IAS 23R gives an option to an ongoing IFRS company that already applied the previous version of IAS 23 for a specific prospective application when the 2007 amendments constitute a change in accounting policies. An issue arises on how to read this phrase under IFRS 1.

> **Planning Point:** IFRS 1 cross-references IAS 23R, but such a situation in which applying IAS 23R is a change in accounting policies versus IAS 23 cannot apply to IFRS first-time adopters that first apply IAS 23R. Therefore, under all circumstances, an entity that elects the IFRS 1 exemption applies it prospectively. If the company does not elect the IFRS 1 exemption and IAS 23R differs from previous GAAP, it has to restate borrowing costs retrospectively under IAS 23R at transition date.

2.19.17.4 Borrowing Costs Capitalized under Previous GAAP An issue arises as to how an IFRS first-time adopter that uses the IFRS 1 exemption must account for borrowing costs incurred before the application of IAS 23 whose treatment under previous GAAP differs from IAS 23R. A first aspect of this issue concerns borrowing costs capitalized under previous GAAP that do not warrant capitalization under IFRS 23R. The IFRIC concluded that under the IFRS 1 exemption a first adopter of IFRSs does not have to restate borrowing costs capitalized under previous GAAP. A recent Exposure Draft proposes this interpretation.[793]

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[790] *IAS 23 (2006), ¶ 30.*
[791] *IFRS 1, ¶¶ D23, BC63E.*
[792] *IFRS 1, ¶ 35.*
[793] *Exposure Draft,* Improvements to IFRSs, Proposed Amendments to IFRS 1 *(June 2011); IFRIC Update, May 2010.*

> **Comment:** The Basis for Conclusions of IAS 23 implies that the differences between IAS 23 Revised and Subtopic 835-20 (FASB Statement No. 34) are such that a foreign private issuer that reconciles to U.S. GAAP will likely continue to do so. As this comment is in the context of transitional provisions, it might also be intended to include capitalizations made before the adoption of the amendments to IAS 23. The comment of the IFRIC seems to confirm a reading against retrospective application of IAS 23 when the IFRS 1 exemption is elected. The Exposure Draft explicitly state this.

2.19.17.5 Borrowing Costs Not Capitalized under Previous GAAP A second point is how to account under the IFRS 1 exemption for costs previously not capitalized that IFRS 23R would capitalize. Again, an IFRS first-time adopter does not have to capitalize borrowing costs that it has incurred before a date established under the IFRS 1 exemption.

2.19.17.6 Assets under Construction at the Transition Date The IFRIC has dealt with the issue of whether IAS 23 applies to qualifying assets that are under construction at the transition date.[794] Although a literal reading of the IFRS 1 exemption and of IAS 23 would exclude it, this appears to be a desired outcome. A recent Exposure Draft would confirm this interpretation.[795]

2.19.17.7 Interaction with the Deemed Cost Exemption IFRS 1 acknowledges that using fair value as deemed cost may be a solution that eliminates the need to capitalize borrowing costs. Capitalization of borrowing costs is prohibited after the date of the election of the deemed cost exemption. However, that exemption is not available for every asset covered by IAS 23, for example, inventories.[796]

2.19.18 Transfers of Assets from Customers

Through derogation to the principle that transitional provisions of other IFRSs do not apply to IFRS first-time adopters, IFRS 1 gives those IFRS first-time adopters the accommodation to apply the transitional provisions of IFRIC 18 as of July 1, 2009 or transition date, whichever comes later. However, they can apply IFRIC 18 from all transfers of assets from customers received on or after any earlier date than the later of June 1, 2009 or transition date.[797]

> **Comment:** Of course, IFRS 1 does not say that the condition in IFRIC 18 for earlier adoption must have existed before the transition date.

IFRIC 18 requires ongoing IFRS entities' prospective adoption for transfers of assets from customers received starting from July 1, 2009. It permits earlier adoption only if contemporaneous information was available and valuation were made. The reason is that in the absence of this condition, fair valuation might be impracticable or require unobservable inputs.[798]

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[794] *IFRIC Update, May 2010.*
[795] *Exposure Draft, Improvements to IFRSs, Proposed Amendments to IFRS 1 (June 2011).*
[796] *IFRS 1, ¶¶ IG23, BC63E.*
[797] *IFRS 1, ¶ D24.*
[798] *IFRIC 18, Transfers of Assets from Customers, ¶¶ 22, BC25.*

2.19.19 Extinguishing Financial Liabilities with Equity Instruments

Through derogation to the principle that transitional provisions of other IFRSs do not apply to IFRS first-time adopters, IFRS 1 gives those IFRS first-time adopters the accommodation to apply the transitional provisions of IFRIC 19 when they apply IFRIC 19.[799]

IFRIC 19 applies for annual periods beginning on or after July 1, 2010, with earlier application permitted. IFRIC 19 applies retrospectively only from the beginning of the earliest comparative period presented, on the grounds that the effect of recasting a debt to equity swap occurring before that date would constitute only a reclassification within equity.[800]

2.19.20 Severe Hyperinflation

2.19.20.1 Exemption Explained In December 2010, the IASB added an IFRS 1 exemption, effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. It defines severe hyperinflation (i.e., chronic hyperinflation) as a situation in which neither a reliable general price index for all entities with that functional currency nor exchangeability with a relatively stable currency are available.[801]

> **Planning Point:** Conversely, the above circumstances generally exist in hyperinflation. The issue arises because application of IAS 29 would likely be impracticable.[802] After the effective date of this exemption, all entities operating in a hyperinflationary economy (whether new adopters or not) must make a determination of whether severe hyperinflation existed before the transition date.

The functional currency normalization date is the date on which one of the above two points ceases to exist or the entity changes its functional currency to a nonsevere hyperinflated one. An entity whose functional currency was subject to severe hyperinflation on or before transition date may measure all assets and liabilities held before the functional currency normalization date at fair value as their deemed cost at the date of transition to IFRSs against opening retained earnings. The fair values become their deemed cost at transition date. However, this criterion does not apply to all other assets and liabilities.[803]

> **Comment:** IFRS 1 gives this method as an option. Arguably, the entity is free to try to apply IAS 29 retrospectively.

> **Planning Point:** IFRS 1 explains that applying IFRSs under severe hyperinflation may be impossible. It does not say what happens if the functional currency normalization date falls after transition date. In such a case, the entity will no longer be an IFRS first-time adopter, and IFRS 1 also requires an ongoing IFRS entity to determine the presence of severe hyperinflation and to use the same method to resume presenting IFRS financial statements. In the case of an intraperiod functional currency normalization date falling in the comparative period (i.e., after transition date), the first IFRS financial

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799 *IFRS 1, ¶¶ 39C, D25.*
800 *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, ¶¶ 12, 13, BC33.*
801 *IFRS 1, ¶¶ 39H, D27; IASB Update, May 2010.*
802 *IFRS 1, ¶ BC63F.*
803 *IFRS 1, ¶¶ 31C, D27–D29, BC63H, BC63I.*

statements may show a comparative period that is shorter than one year. However, IFRS 1 does not waive the date of fair value measurements. In other terms, the entity again quantifies the deemed cost at transition date, but shortens the length of the earliest comparative period presented. A question remains about whether and how to make the fair value that was determined in a severe hyperinflated functional currency at transition date current at the subsequent normalization date. Furthermore, while ongoing IFRS entities may use the same method later on, IFRS 1 does not explain what an IFRS first-time adopter should do if the normalization date falls in the current period.[804]

The company must disclose the circumstances that gave rise to and ceased severe hyperinflation. It must also provide pertinent information in the IFRS 1 reconciliations. Finally, the company must assess the information value of providing comparative periods or historical summaries under previous GAAP under the severe hyperinflation.[805]

2.19.20.2 Other Hyperinflationary Economies IFRS 1 does not contain any accommodation for the first adoption of IAS 29, even if the hyperinflation ceased to be so after transition date. The rationale is that the impact of hyperinflation is too dramatic and pervasive for financial statements to be faithfully representative without retrospective application. Therefore, an IFRS first-time adopter that operates in hyperinflationary economies must apply IAS 29 with full retrospective application.[806]

2.19.20.3 Use of Fair Value as Deemed Cost Even when a hyperinflation is not severe, at transition date an entity may use the deemed cost exemption for its property, plant and equipment, or other eligible items under IFRS 1. In contrast to severe hyperinflation, this option does not apply to other assets and liabilities. By applying fair value or other eligible revalued amounts, it would apply IAS 29 from that date to those assets.[807] In addition, as Paragraph 2.19.3.8 previously mentions, a previous GAAP reconciliation as deemed cost may be used even if the functional currency does not meet the definition of a hyperinflationary currency.

2.19.20.4 Form 20-F Accommodations concerning Hyperinflation Form 20-F exempts a foreign private issuer not reporting under U.S. GAAP (e.g., using jurisdictional IFRSs) from reconciling the effects of price level changes to U.S. GAAP (Paragraph 2.10.3 previously) when it uses the historical cost/constant currency or the current cost approach, e.g., such as under IAS 29. This also holds when it does not operate in a hyperinflationary economy. The entity must disclose the basis of the financial statements and the use of such an exemption. A subsidiary restates the effects of changing prices under IAS 29 and the parent translates to the reporting currency under IAS 21. A company operating in a stable currency that uses IAS 21 to incorporate another entity into its financial statements (e.g., through consolidation) may omit the difference that would have resulted from the use of Subtopic 830-30 (FASB Statement No. 52) in U.S. GAAP reconciliations. The reconciliations must give information to this effect and inform that figures differ from U.S. GAAP. It must disclose that the policy used complies with IAS 21.[808]

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[804] *IFRS 1, ¶¶ D30, BC63J.*
[805] *IFRS 1, ¶ BC63J.*
[806] *IFRS 1, ¶¶ IG32, BC67; IFRIC Update, February 2005.*
[807] *IFRS 1, ¶¶ IG33, IG34; IFRIC Update, December 2003.*
[808] *Form 20-F, Item 17(c)(2)(iv), Instruction 5 to Item 17; SEC,* Financial Reporting Manual*, 6710.2*

Finally, SEC registrants based in highly inflationary economies have an option to present their financial statements in a highly inflationary currency with a convenience translation to USD. They can also supplement them with Subtopic 355-10 (FASB Statement No. 89) information, or disclose quantification of the effects of changing prices.[809]

2.19.21 Joint Arrangements

IFRS 11 added an exemption to IFRS 1. When an entity applies IFRS 10 and IFRS 11, it may use this exemption with the same effective date as those standards, i.e., for annual periods beginning on or after January 1, 2013, unless earlier applied. This exemption extends the transitional provisions of IFRS 11 to IFRS first-time adopters that permits redetermination of the new classifications based on aggregate amounts of assets and liabilities as of the start of the earliest period presented as opposed to retrospective application. An entity may apply the new classification as equity method under IFRS 11 of an investment that it previously carried at proportionate consolidation, or the new configuration as a joint operation of a previously classified equity method investment, at the beginning of the earliest period presented. However, it must test the investment for impairment under IAS 36 and not IAS 28, irrespective of existence of impairment indicators, and charge any resulting adjustment to beginning retained earnings of the earliest period presented. Beginning retained earnings is also affected when a reclassification from proportionate consolidation to equity method results in negative net assets for which the investor has no legal or constructive obligation to justify a provision. In the case of the reclassification of an equity method investment to the accounting for assets and liabilities of a joint operation, any net difference, after an offset with any goodwill of the investment, also results in an adjustment to beginning retained earnings. This also applies in recasting separately the financial statements in which the investor used to account for its investment at cost or at fair value.[810]

2.20 SHORT-TERM EXEMPTIONS FROM OTHER IFRSs

2.20.1 Comparative Information Under IFRS 9 and Related IFRS 7 Disclosures

2.20.1.1 Exemption Explained In its first IFRS financial statements, an entity that migrates to IFRSs including earlier adoption of IFRS 9 for annual periods beginning before January 1, 2012 is exempted from applying comparative information according to IFRS 9 and to the IFRS 7 disclosures concerning items within the scope of IFRS 9.

> **Comment:** The rationale of this exemption is similar to the former short-term exemption from comparative information under IAS 39 and IAS 32, that is, IFRS 9 is not yet mandatory and its earlier adoption before January 1, 2012 does not require restatement of prior periods. This exemption parallels the transitional provision of IFRS 9 for an ongoing IFRS company that adopts the standard for annual periods beginning before January 1, 2012.[811]

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[809] *Regulation S-X, ¶ 210.3-20; SEC, International, November 1, 2004, ¶ XI,* Reporting in Highly Inflationary Economies.

[810] *IFRS 1, as amended by IFRS 11, ¶¶ 39I, D31; IFRS 11, ¶¶ C1–C13.*

[811] *IFRS 1, ¶ BC89A; IFRS 9, ¶ 7.2.14.*

The entity must give most of the disclosures required by IAS 8 for an involuntary change in an accounting principle, as well as any additional information required under the circumstances.[812]

Comment: The current version of IFRS 1 no longer repeats the comment that reference to transition date must be intended as the beginning of the first IFRS reporting period only for the purpose of the standards involved. However, this is implicit. Previous GAAP applies to comparative information. Any differences between amounts as of the beginning of the first IFRS reporting period and those relating to the previous GAAP comparative period are accounted for as a change in accounting principles.

2.20.1.2 The Meaning of Exemption from Comparative Information This accommodation simply permits the presentation of unrestated comparative information, but does not avoid the retrospective application of IFRS 9 and of the related points in IFRS 7.

Planning Point: It simply moves the cumulative-effect adjustments from the transition date to the beginning of the first IFRS reporting period. This means that, unlike the ordinary application of IAS 8, it restates the opening balance of retained earnings and other applicable equity accounts at the beginning of the current reporting period (i.e., the first IFRS reporting period), not at the beginning or the earliest comparative period (i.e., the transition date). With one year of comparative information, the beginning balance of the current period would be equal to the ending balance of the earliest period presented, after the application of IFRS 9. This would not be the case for an IFRS first-time adopter that presented two years of comparative information. In both cases, the cumulative-effect adjustment of applying IFRS 9 at the beginning of the current reporting period includes the entire impact of retrospective application to all prior periods at that date. This can be construed from the fact that IFRS 1 refers to changes in accounting policies under IAS 8 and its Basis for Conclusions clarifies that prospective application is not an option.[813] The above retrospective adjustments must not be confused with the pro forma adjustment that IFRS 1 requires for the comparative period.

Example: A French foreign private issuer, in its response to the SEC Staff's review of Form 20-F for the fiscal year ended December 31, 2005, explained its first adoption of IAS 32 and IAS 39. The statement of changes in equity showed the retrospective application of those standards as of the beginning of the current period (2005) and not at the beginning of the earliest comparative period presented.[814]

Of course, an entity may decide not to benefit from this exemption. In this case, if it presents more than one comparative period it will have to apply IFRS 9 to all those periods.

2.20.1.3 Effects of Early Adoption of IFRS 9 Early adoption of IFRS 9 is not neutral.

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812 *IFRS 1 (December 2009), ¶¶ E1, E2; IFRS 1 (2003, as amended by IFRS 9), ¶¶ 36D, 36E.*
813 *IFRS 1, ¶¶ E2(c), BC89; IFRS 1 (March 2004), ¶ 36A.*
814 *SEC IFRS Reviews. Letter by the SEC, September 7, 2006. Fine No. 1-15234, Comment 37. Reply by the company, November 24, 2006.*

Planning Point: An entity that does not adopt IFRS 9 early cannot avail itself of this accommodation. The previously existing IAS 39 exemption (Paragraph 2.20.2 below) has already expired. Furthermore, adopting IFRS 9 (November 2009) early instead of IFRS 9 (October 2010) scopes financial liabilities out of this short-term exemption. In any event, the accommodation does not affect impairment and hedging provisions, which are still governed by IAS 39.

2.20.1.4 Impact on Other IFRSs An issue arises about whether an entity that does not use IFRS 9 in comparative periods is also exempted, for those periods only, from other IFRSs that refer to IFRS 9.

Planning Point: Firstly, it is logical to conclude that any amendment by IFRS 9 to other IFRSs is still valid to the extent that those other pronouncements have autonomous life. Secondly, although a literal reading of IFRS 1 leads to the conclusion that it gives exemption from IFRS 9 only, the rationale for including the related disclosure in IFRS 7 is that these would have no meaning without IFRS 9. Similarly, certain provisions in other standards are consequential to the application of IFRS 9. For example, IAS 1 requires the separate presentation of gains or losses from reclassifications of financial assets under IFRS 9.[815] However, IFRS 1 could have mentioned other standards in addition to IFRS 7, but it did not do so. Therefore, it would be conservative to assess whether the substance of a requirement in another IFRSs may still be applicable to a transaction or event under previous GAAP even without applying IFRS 9 to comparative periods.

2.20.1.5 Interaction with IAS 39 The point discussed in Paragraph 2.20.1.3 previously becomes even more complex in relation to IAS 39.

Planning Point: IFRS 9 adopted some of the provisions of IAS 39 with no substantial modifications. In those cases, it amended other IFRSs to read many of their references to IAS 39 as IFRS 9. An entity migrating to IFRSs that adopts IFRS 9 early does not follow the provisions of IAS 39 that IFRS 9 substituted. Therefore, a literal reading of the provision means that an entity that adopts IFRS 9 early does not apply IFRS 9 or IAS 39, whereas it does apply the corresponding provisions under IAS 39 if it does not adopt IFRS 9.

In other cases, IFRS 9 did not amend previous references to IAS 39 in other IFRSs. For example, IAS 18 still requires the use of the effective interest method as set out in IAS 39, not IFRS 9. Consequently, IFRS 1 with earlier application continues to refer to IAS 39.[816] In seeking to apply that provision in IAS 18 to comparative periods, the entity will refer to paragraphs of IAS 39 that are still in force. On the contrary, in the past some suggested that IAS 18 did not apply to a company that had elected the IFRS 1 short-term exemption from comparative information under IAS 39. Therefore, there is a substantial difference between the short-term exemption from comparative information under IFRS 9 and the previously existing exemption concerning IAS 39 (Paragraph 2.20.2).

2.20.1.6 Interaction with Other Exceptions and Exemptions This exemption is compatible with other IFRS 1 special provisions, especially concerning financial assets and financial liabilities.

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[815] *IAS 1, ¶ 82(ca).*
[816] *IFRS 1 (December 2010 with earlier application), ¶ D19C.*

> **Comment:** An issue arises as to whether this short-term exemption may apply to consolidated financial statements and its interaction with the past business combination exemption. One may interpret that the retrospective application of IFRS 3 or of the IFRS 1 exemption for past business combinations applies to the beginning of the first IFRS reporting period only for the purpose of IFRS 9 and related IFRS 7 disclosures. However, there is no official confirmation on this point.

2.20.1.7 Effects on IFRS 1 Reconciliations Electing this short-term exemption implies that comparative periods in the IFRS 1 reconciliations (Paragraph 2.16 previously) must follow previous GAAP about the items affected by the exemption. In such a case, certain disclosures become mandatory, such as the title of the IFRS that was not applied and the nature of the changes in accounting policies that would have followed if the exempted standards had been applied. A quantification of the adjustments per line item of the statement of financial position is required only at the end of the comparative period.[817]

> **Planning Point:** Short-term exemptions from comparative information are the only case in which IFRS 1 requires disclosure of the use of the exemption. They are all qualitative, except the amount of the adjustments to comparative period on a pro forma basis. The required disclosures comprise the effects of the adjustments to each line item of each financial statement.[818] Paragraph 2.16.9 and Paragraph 2.14.2 previously explain the SEC guidance about disclosure of the effects of the IFRS 1 accommodations. The association of Italian auditors also required a specific item in the IFRS 1 reconciliations concerning short-term exemptions.[819]

Exhibit 2-29 offers an illustrative statement of changes in equity that shows the adjustments from the first adoption of IFRS 9.

2.20.2 Previous Short-Term Exemptions from Comparative Information of Other IFRSs

The short-term exemption explained in Paragraph 2.20.1 previously is similar to those permitted to entities adopting IFRS before January 1, 2006 to present comparative information under previous GAAP and not under IAS 39, IAS 32, IFRS 4, IFRS 7, and IFRS 6.[820]

A European survey of 2005 first-time adoption reports that approximately 40% of IFRS first-time adopters used the exemption from restating comparative information under IAS 32 and 44% under IAS 39.[821] A 2005 survey of 45 IFRS first-time adopters illustrated that approximately 58% presented IAS 32/39 and IFRS 4 comparatives under previous GAAP.[822]

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[817] *IFRS 1, ¶ E2.*
[818] *IFRS 1, ¶ E2(c); IAS 8, ¶ 28(f)(i).*
[819] *Assirevi, 2005. Documento di ricerca No. 91,* L'attività di revisione contabile nella fase di transizione agli IAS/IFRS*, ¶ 3.b (hereinafter Assirevi No. 91).*
[820] *IFRS 1 (December 2005), ¶¶ 36B, 36C; IFRS 1 (March 2004), ¶ 36A.*
[821] *ICAEW 2007 Survey, ¶¶ Tables 11.2, 11.3.*
[822] *KPMG 2005 Survey.*

Exhibit 2-29 Adjustments for the First Application of IFRS 9

	Shareholders' Equity, Beginning	....	*Shareholders' Equity, Ending*
Previous GAAP balances as of the beginning of the earliest period presented			
First-time adoption of IFRSs			
Restated balance			
. . .			
Balances as of the end of the earliest period presented (A)			
. . . . .			
Balances as of the beginning of the current period (B)[1]			
Adjustments for the first application of IFRS 9[2]			
Restated balance			
. . .			
IFRS balances as of the end of the current period			

[1]*In case of one year of comparative information, (B) would equal (A). This would not be the case for an IFRS first-time adopter that presents two years of comparative information. B includes balances under IFRSs except for items within the scope of IFRS 9.*
[2]*The adjustments for the first application of IFRS 9 required by IAS 8, ¶ 28(f)(i) comprise each line item effects in each financial statement. This illustration focuses only on the statement of changes in equity. The standard does not require this form of illustration.*

A survey of interim reports of 144 listed companies in FTSE 101-350 in 2005 converting from UK GAAP to IFRSs showed that 72% availed themselves of this exemption.[823]

> **Comment:** IFRS 1 does not have exemptions from presentation and disclosures of other IFRSs, except certain short-term exemptions generally introduced upon issuance of a new standard, as was the case for IFRS 4, IFRS 5, IFRS 6, IFRS 7, IAS 32, and IAS 39 and currently IFRS 9. With reference to IAS 32 and IAS 39, this IFRS 1 provision intended to make transition possible for entities adopting IFRSs in 2005, as the December 2003 revisions of those standards were not yet fully available.[824] However, the exemptions from restating comparative information under IFRS 6 and IFRS 7 dealt with disclosure, not recognition and measurement, and therefore had no particular cumulative-effect treatment as the exemptions concerning IAS 32, IAS 39, and IFRS 9.

Paragraph 2.17.7.1 previously explains the now obsolete exemption from the retrospective application of IFRS 5.

2.20.3 Enhanced Disclosures about Fair Value Measurements and Liquidity Risk

In March 2009, the IASB issued certain amendments to IFRS 7 concerning enhanced disclosures about fair value measurements and liquidity risks for ongoing IFRS entities. The amendments are effective for annual periods beginning on or after January 1, 2009, with

[823] *BDO, 2006 Survey, pages 3, 10.*
[824] *IFRS 1 (March 2004), ¶ BC89A.*

earlier application permitted. The original transitional provision exempted from comparative information upon application of the amendments.[825] In January 2010, the IASB amended IFRS 1 to permit IFRS first-time adopters to use the same exemption, starting from annual periods beginning on or after July 1, 2010, with earlier application permitted. The document also amended the transitional provision of IFRS 7, to clarify that an entity need not apply the disclosures introduced by the amendments to annual periods or interim periods that fall within a comparative financial year ending before December 31, 2009 or to a period falling within the earliest comparative financial year beginning before December 31, 2009, with earlier application permitted.[826]

2.20.4 Disclosures about Transfers of Financial Assets

In October 2010, the IASB issued certain amendments to IFRS 7 concerning disclosures of transfers of financial assets. They are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. Upon their initial application, these disclosures are not mandatory for comparative periods. Similarly, entities migrating to IFRSs that adopt these amendments, or adopt them early, may do the same.[827]

2.20.5 Defined Benefit Plans

The 2011 revision of IAS 19 added a short-term exemption. In financial statements for periods beginning before January 1, 2014, an IFRS first-time adopter may avoid presenting comparative disclosure of the sensitivity analysis of a defined benefit plan obligation that the 2011 amendments to IAS 19 require.[828]

2.21 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating IFRSs financial statements arising from the issues discussed in this chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraph 2.2
Check the amendments to IFRS 1 that apply to your company and their effective dates.
Paragraph 2.4
Plan the transition to IFRSs well ahead. Schedule the accounting steps required and consequences in terms of implementation.

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825 *IFRS 7, ¶ 44G, as amended by Amendments to IFRS 7,* Improving Disclosures about Financial Instruments *(March 2009).*
826 *IFRS 1, ¶¶ 39D, E3 and IFRS 7, ¶ 44G, as amended by Amendment to IFRS 1,* Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters.
827 *IFRS 1, ¶¶ E4, 39F and IFRS 7, 44M, as amended by Amendments to IFRS 7,* Disclosures – Transfers of Financial Assets*,*
828 *IFRS 1, ¶ E5, as amended by IAS 19 (2011); IAS 19 (2011), ¶¶ 173(b), A3.*

Paragraph 2.5

Review situations that constitute IFRS first-time adoption and those that are not;
Understand the implications of the location of first IFRS financial statements;
Review the consequences for other entities consolidated in the first IFRS financial statements;
Review the consequences for other entities included in a registrant's report;
Designate previous GAAP and what happens when different sets of local accounting standards exist in different contexts;
Understand the differences between the first IFRS financial statements, pro forma financial statements, and post-event financial statements.

Paragraph 2.6

Understand when use of IFRS 1 is prohibited;
Figure out the implications of adopting IFRS 1 at different levels of consolidated financial statements, separate financial statements, and entity's financial statements.

Paragraph 2.7

Understand the meaning of an explicit and unreserved statement of compliance with IFRSs;
Understand the differences in this notion under IFRS 1 and Form 20-F;
Understand the modifications that apply to IFRS for small and medium-sized entities;
Understand what should happen for the first time;
Understand what happens in case the statement of compliance is inaccurate;
Review the implications to the statement of compliance of a foreign private issuer adopting a jurisdictional version of IFRSs, an endorsed version of IFRSs, or IASB-IFRSs adopted as local GAAP as opposed to IASB-IFRSs;
Highlight possible conflicts between the SEC requirements and local requirements;
Understand where the statement of compliance can be placed and the auditing implications;
Understand the requirements for auditor's opinion on compliance with IFRSs;
Figure out what happens if a company returns to IFRSs or to IFRS for small and medium-sized entities;
Be aware of situations where compliance with IFRSs cannot be stated.

Paragraph 2.8

Understand the importance of setting a transition date;
Understand how the number of comparative financial years affects the transition date.

Paragraph 2.9

Understand the importance of setting the date of the end of the first IFRS reporting period;
Identify applicable IFRSs;
Exclude the application of transitional provisions;
Identify which IFRSs are available for earlier adoptions and what the effects are;
Understand what happens to IFRSs issued or endorsed after the reporting date;
Figure out the implications of adopting IFRS 9 early;
Manage the endorsement lag, if applicable to the jurisdiction;
Understand the interaction with IAS 8 concerning changes in accounting policies, correction of errors, and impracticability exception;
Understand the difference between changes in accounting policies and correction of errors in the context of IFRS first-time adoption.

Paragraph 2.10

Understand the options of comprehensive bases of accounting available to foreign private issuers;
Understand the effects of the choice of jurisdictional versions of IFRSs versus IASB-IFRSs on comparative periods required in Form 20-F and on reconciliations to U.S. GAAP;

Understand further effects for Item 18 filers, pro forma financial statements, and other impacts;
Understand the implications of the comprehensive bases of accounting used on other entities whose financial statements are included in a registrant's document.

Paragraph 2.11

Understand the IFRS 1 rules for accounting estimates and the interaction between IAS 10 and IAS 8;
Distinguish changes in estimates from changes in accounting policies and from correction of errors.

Paragraph 2.12

Plan the basic accounting steps under IFRS 1.

Paragraph 2.13

Compare and decide the composition of a complete set of financial statements under IFRSs as opposed to U.S. GAAP;
Compare the minimum number of comparative periods under IFRSs, IFRS 1, U.S. GAAP, and SEC guidance;
Understand how the basis of reporting affects the number of comparative periods in SEC filings;
Understand how reclassifications or retrospective adjustments affect the number of comparative periods presented;
Decide the number of comparative periods in the first IFRS financial statements and how this number affects the transition date;
Understand the publication requirements of the opening IFRS statement of financial position;
Compare the requirements for selected financial data under IFRS 1, U.S. GAAP, and SEC guidance and how the basis of accounting used affects them;
Understand the implications of the location of selected financial data.

Paragraph 2.14

Identify exemptions and exceptions applicable;
Consider SEC guidance to exemptions and exceptions;

Paragraph 2.15

Determine whether your interim reports are within the scope of IFRS 1;
Identify any new IFRS developments in the transition year;
Distinguish correction of errors from changes in accounting principles;
Scrutinize the admissibility of any change in accounting principles in the transition year;
Identify the specific treatment in consideration depending on the use of IAS 34 and on the IAS 8 override.

Paragraph 2.16

Determine the sufficient level of detail of IFRS 1 reconciliations, also consider SEC guidance;
Determine the impact of short-term exemptions on the IFRS 1 reconciliations;
Determine the format and layout of the IFRS 1 reconciliations;
Decide on the location of the IFRS 1 reconciliations, also consider the consequences on auditing;
Determine how to reconcile the statement of cash flows and the SEC guidance, if applicable;
Determine the interaction with Form 20-F reconciliations. Consider using those formats in lieu of the IFRS 1 reconciliations.

Paragraph 2.17

For each of the mandatory exceptions, review the specific requirements, consider grey areas, and planning points for resolution.

Paragraph 2.18

Review the specific requirements of the exemption for past business combinations, consider grey areas, and planning points for resolution;

Scrupulously plan the interaction with other exemptions and exceptions.

Paragraph 2.19

For each of the voluntary exemptions, review the specific requirements, consider grey areas, and planning points for resolution.

Paragraph 2.20

For the short-term exemptions, review the specific requirements, consider grey areas, and planning points for resolution.

OTHER CONTROL POINTS

Paragraph 2.10

Review the requirements concerning reconciliations to U.S. GAAP for foreign private issuers that use a jurisdictional version of IFRSs;

Review the provisions concerning the form and content of IFRS financial statements included in Form 20-F, applicability of Regulation S-X, SABs, and other Commission guidance that concerns filing requirements and auditing;

Review the rules for significance testing resulting from using IFRSs in SEC filings.

Paragraph 2.11

List subsequent events and distinguish those related to the previous GAAP financial statements, those referring to the current period, and those covered by the IFRS 1 override;

Identify which subsequent events must not affect the opening IFRS statement of financial position;

Identify which subsequent events must not affect comparative periods;

Identify which subsequent events must affect comparative periods;

Identify which subsequent events must affect the current period;

Identify which subsequent events are pre-event financial statements under SEC rules and regulations;

Identify new estimation inputs;

Apply specific guidance to estimates concerning lease, equity versus financial liabilities, internally developed intangible assets, financial assets and liabilities, employee benefits, share-based payment transactions, and impairment of nonfinancial assets;

Identify depreciation and amortization policies that are unacceptable under IFRSs.

Paragraph 2.12

Identify the adjustments that affect the opening balances of the opening IFRS statement of financial position;

Understand the consequences of a failure to adjust opening retained earnings;

Understand the shift of the adjustments to the beginning of the first IFRS reporting period by using certain short-term exemptions;

Understand how to account for retroactive adjustments involving other comprehensive income;

Do not capitalize migration costs;

Do not set up a provision for migration costs;

Apply accounting for income taxes retrospectively;

Understand the counter-accounts affected by subsequent changes in tax rates and tax laws.

Paragraph 2.13

Identify the adjustments that affect the opening balances of the current period;

Comply with disclosures required in case of presentation of additional comparative periods;

Identify disclosures and narrative concerning comparative periods.

Paragraph 2.15

Disclose and reconcile any new IFRS developments and changes in accounting principles in the transition year;

Provide ordinary disclosures under IAS 34, as appropriate.

Paragraph 2.16

Check compliance and completeness of the IFRS 1 reconciliations.

Paragraph 2.17

Check compliance with each specific requirement of the mandatory exceptions.

Paragraph 2.18

Check compliance with each specific requirement of the exemption for past business combinations.

Paragraph 2.19

Check compliance with each specific requirement of the voluntary exemptions.

Paragraph 2.20

Check compliance with each specific requirement of the short-term exemptions.

3 DUAL REPORTING FOR THE STATEMENT OF FINANCIAL POSITION

3.1 CHAPTER PREVIEW

This chapter provides ready-made dual reporting tools to assist financial statement preparers in designing the structure of the statement of financial position under IFRSs, U.S. GAAP, and SEC rules and regulations, as well as to reconcile respective captions and line items.

The chapter first explains the statement of financial position in the context of commercial and industrial companies and of certain specialized industries, explains titles used, and specific requirements for small and medium-sized entities.

Then the chapter identifies the structural elements and alternative schemes of the statement of financial position under IFRSs, U.S. GAAP, and SEC guidance. It analyzes the equity versus the balance format and the account versus the report and the financial position forms, including their historical and geographic implications. It goes on with contrasting a classified to an unclassified statement, a liquidity criterion, and a mixed basis. It goes in depth into the notion of current items, and short- versus long-term classification, including the current developments under the *Financial Statement Presentation Project*. It contrasts the sorting order of IFRSs to U.S. GAAP balance sheets, as well as totalization requirements. Entities must be aware of the IFRSs thresholds for current operating assets and liabilities and other current assets and current liabilities, as compared with U.S. GAAP and the different definitions of the operating cycle. They must understand how a differing use of a contractual versus an expected date for liabilities may affect working capital analysis under IFRSs versus U.S. GAAP.

The chapter continues with specific structural elements, such as offsetting, held-for-sale assets and liabilities. It compares the concept of equity reserves under IFRSs to components of equity under U.S. GAAP, and analyzes the alternative means of presentation and disclosure of share premium and treasury stock.

Finally, it includes Exhibits that provide a listing of line items that an entity must display on the face of the statements of financial position under IFRSs, U.S. GAAP, and SEC rules and regulations. Other Exhibits illustrate items that an entity may either present in the statement or disclose in the notes. A clear picture emerges concerning items whose display is mandatory, those for which note disclosure as opposed to display is an option, and those that allow parenthetical explanation. Importantly, a section of the chapter develops a comprehensive disaggregation guidance model.

3.2 CONTEXT OF THE STATEMENT OF FINANCIAL POSITION

3.2.1 Titles of Statement

3.2.1.1 Titles in Accounting Pronouncements The 2007 Revision of IAS 1 moved to the expression *statement of financial position* to focus on the underlying concept and align with the auditing terminology. IAS 1 (2005) used the title *balance sheet*,[1] which had long been the title most frequently used by business entities. The EU also uses *balance sheet* in its accounting directives.

As the U.S. Concepts acknowledge, a business enterprise that reports under U.S. GAAP generally uses the titles *statement of financial position* or *balance sheet*.[2] CON 8 now refers to the *statement of financial position*. Paragraph 3.2.3 mentions the terms that are applicable to certain specialized industries. For example, Subsection 962-205-S99-1 (Regulation S-X) uses *balance sheet*, but favors *statement of financial condition* when treating an employee stock purchase or savings and similar plans.[3] Form 20-F uses both *balance sheet* and *statement of financial position*.[4] The *AICPA Accounting Trends & Techniques* shows that, from 2009 to 2002, approximately 96% of U.S. GAAP companies surveyed used the title *balance sheet*. The remaining companies preferred either the designation *statement of financial position* or the title *statement of financial condition*.[5]

3.2.1.2 Titles in Auditing Pronouncements As per the U.S. accounting and auditing standards, entities that adopt a special purpose framework (i.e., a comprehensive basis of accounting other than GAAP – so-called OCBOA, such as cash basis, income tax basis, a basis prescribed by a regulatory agency, or a contractual basis) may use diverse titles. While under IFRSs not-for-profit organizations or nonbusiness entities that choose to report under IFRSs may adapt or use other terminology,[6] U.S. governmental, not-for-profit, and other nonbusiness organizations must use specific terms, such as those entailed by GASB standards.

3.2.1.3 Use of Titles to Denote GAAP Used In general, under most local GAAP, the use of specific titles identifies the comprehensive basis of accounting used. Furthermore, clear identification of financial statements warns users about the type of information to which a specific body of standards applies as opposed to other data.

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1 *IAS 1 (2005),* Presentation of Financial Statements *(superseded), ¶ 5.*

2 *CON 1* Objectives of Financial Reporting by Business Enterprises *(superseded), ¶ 6; CON 5,* Recognition and Measurement in Financial Statements of Business Enterprises*, ¶ 24.*

3 *FASB ASC 962-205-S99-1 (Regulation S-X, ¶¶ 210.6A-02 (d), 210.6A-05(a)).*

4 *Form 20-F, Item 5, E2(c), General Instructions to Items 11(a) and 11(b), 3C(ii).*

5 *Calderisi, M.C., Bowman, D., Cohen, D., eds. (2010)* Accounting Trends & Techniques. *64th edn. New York: AICPA, ¶ Table 2-1 (hereinafter AICPA ATT 2010); Lofe, Y., Calderisi, M.C., eds. (2006)* Accounting Trends & Techniques. *60th edn. New York: AICPA, ¶ Table 2-1 (hereinafter AICPA ATT 2006).*

6 *IAS 1,* Presentation of Financial Statements*, ¶ 5.*

> **Planning Point:** IAS 1 acknowledges that titles of IFRS financial statements are subject to change depending on the situation of the specific entity. IAS 1 allows titles other than the *statement of financial position*.[7] The *Financial Statement Presentation Project* proposes to do the same.[8] Flexibility in financial statements titles now partially blurs this concept, although entities would rather use titles of financial statements that clearly identify the GAAP used. Consequently, in an international context, when the title of a financial statement is the same under both IFRS and GAAP, the title alone does not denote the standards used any longer. When a title is the same under both IFRSs and U.S. GAAP, an entity should prominently state the basis of accounting so as to enhance clarity.

3.2.2 Location of Statement

According to the *AICPA Accounting Trends & Techniques*, most U.S. GAAP companies present the individual financial statements sequentially in their annual reports. More than half of the companies surveyed in 2009 and 2005 presented an income statement first and then a statement of financial position, while approximately 37–38% used the reverse order.[9]

3.2.3 The Statement of Financial Position in Certain Specialized Industries

Under U.S. GAAP, entities in certain specialized industries have specific formats and titles of the statement of financial position. Under IFRSs, this is a much more limited phenomenon due to narrower industry guidance. Under IFRSs, the statement of financial position applies to all industries, unless differently specified.[10] This Book does not deal with any statutory accounting practices.

Paragraph 3.3.2 and Paragraph 3.3.3 below discuss the uses of a classified versus unclassified statement of financial position in certain specialized industries.

The Exhibits of Paragraph III.E below include illustrative statements of financial positions of certain specialized industries. Generally, insurers, banks and financial institutions, investment companies, and employee stock purchase, savings and similar plans use a statement of financial position in order of liquidity, although they may use a classified statement.

Subsection 958-205-45-4 (FASB Statement No. 117) mentions the statement of financial position for not-for-profit organizations.[11] As we have said, not-for-profit entities and governmental organizations fall outside of the scope of this Book.

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7 *IAS 1, ¶¶ 10, IG1.*

8 *FASB and IASB, July 2010.* Staff Draft of an Exposure Draft on Financial Statement Presentation, *¶ 10 (hereinafter Staff Draft).*

9 *AICPA ATT 2010, ¶ 1.36; AICPA ATT 2006, ¶¶ 1.37, 1.38.*

10 *IAS 1, ¶ 4.*

11 *FASB ASC 958-205-45-4 (FASB Statement No. 117,* Financial Statements of Not-for-Profit Organizations, *¶ 6).*

3.2.3.1 Insurance Companies Under U.S. GAAP, insurance companies present a balance sheet, a statement of financial position, or a statement of financial condition.[12] Insurance companies include stock or mutual life and health insurance entities, stock or mutual property and liability insurance entities, title insurance entities, assessment entities, fraternal benefit societies, mortgage guaranty insurance entities, financial guaranty insurance entities, pools other than public-entity risk pools, syndicates, captive insurance guaranty insurance entities, reinsurance guaranty insurance entities, reciprocal exchange or inter-insurance exchange.[13] For all insurance entities, IFRS 4 mentions the statement of financial position.[14]

3.2.3.2 Investment Companies Under U.S. GAAP, unregistered and registered investment companies present a statement of assets and liabilities, a statement of net assets or, depending on circumstances and regulatory context, a balance sheet. Under Regulation S-X, registered investment companies may use a statement of net assets as opposed to a balance sheet when investments in securities of unaffiliated issuers amount to 95% or more of total assets. Investment companies may include management investment companies, unit investment trusts, common trust funds, investment partnerships, offshore funds, and certain separate accounts of life insurance companies.[15] Under IFRSs, investment companies use a statement of financial position.[16]

3.2.3.3 Financial Institutions Under U.S. GAAP, banks and similar financial institutions use a statement of financial position or a balance sheet. These institutions and activities include finance companies, depository institutions insured by the Federal Deposit Insurance Corporation's Bank Insurance Fund or Saving Association Insurance Fund, and depository institutions insured by the National Credit Union Administration's National Credit Union Share Insurance Fund. They also comprise bank holding companies, savings and loans association holding companies, branches and agencies of foreign banks regulated by the U.S. Federal banking regulatory agencies, state-chartered banks, credit unions, and savings institutions that are not federally insured, foreign financial institutions reporting under U.S. GAAP, mortgage companies, corporate credit unions, and lending and financial activities of insurance companies. Under Article 9 of Regulation S-X, bank holding companies use a balance sheet. Subsection 942-10-S99-4 (SAB 11-K) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent that this is relevant to the

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[12] *FASB ASC 944-360-45-1 (FASB Statement No. 60,* Accounting and Reporting by Insurance Enterprises*, ¶ 19); FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113,* Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, ¶ 120); AICPA Statement of Position No. 03-1,* Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*, ¶ A-7; FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03).*

[13] *FASB ASC 944-10-15-2 (FASB Statement No. 60, ¶ 6).*

[14] *IFRS 4,* Insurance Contracts*, ¶¶ 39(d)(i), IG20.*

[15] *FASB ASC 946-20-45-6, 946-20-45-7; 946-205-45-1, 946-210-45-1, 946-210-45-2 (AICPA Audit and Accounting Guide,* Investment Companies *(INV), ¶¶ 7.01, 7.08, 7.10, Appendix A); FASB ASC 946-10-05-6 (AICPA Statement of Position, No. 07-1,* Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, ¶ 54); FASB ASC 946-210-S99-1, 946-210-S99-2 (Regulation S-X, ¶¶ 210.6-04, 210.6-05).*

[16] *IAS 32, Financial Instruments: Presentation, ¶ IE32.*

understanding of their operations.[17] IAS 30 (superseded) used to require a balance sheet for banks and financial institutions.[18]

3.2.3.4 Brokers and Dealers Under U.S. GAAP, both registered and nonpublic brokers-dealers have a balance sheet or a statement of financial condition.[19]

3.2.3.5 Real Estate Under U.S. GAAP, real estate companies use a balance sheet.[20] Common interest realty associations present a balance sheet. Examples of these associations include condominiums, homeowners and time-share associations, planet-unit developments, and co-operative housing corporations.[21] Under Subsection 974-10-S99-1 (Regulation S-X), some specific items apply to real estate investment trusts.[22]

3.2.3.6 Benefit Plans Under U.S. GAAP, benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. They use a statement of net assets available for benefits.[23] Defined benefit pension plans may adopt a statement of net assets available for benefits and a statement of accumulated plan benefits, combine the two into a statement of accumulated plan benefits and net assets available for benefits, or disclose actuarial present value of accumulated plan benefits in the notes.[24] Health and welfare defined benefit plans may combine information on benefit obligations with those on net assets in a statement of benefit obligations and net assets available for benefits. Alternatively, they may disclose benefit obligations in the notes, or use a separate statement.[25] Subsection 962-205-S99-1 (Regulation S-X) has a statement of financial condition for employee stock purchase, savings, and similar plans.[26] IAS 26 applies to retirement

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[17] *FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03); FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*).*

[18] *FASB ASC 942-230-55-4 (FASB Statement No. 95, Statement of Cash Flows, ¶ 148); FASB ASC 942-10-15-2 (AICPA Statement of Position No. 01-6,* Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, ¶¶ 3-5); FASB ASC 942-405-55-3 (EITF Issue No. 89-03,* Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions*, ¶ Exhibit 3A); FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03); IAS 30,* Disclosures in the Financial Statements of Banks and Similar Financial Institutions *(superseded), ¶ 18.*

[19] *FASB ASC 940-320-45-2, 940-20-45-1 (AICPA Audit and Accounting Guide,* Brokers and Dealers in Securities *(BRD), ¶¶ 4.06, 4.38); SEC, August 4, 2003. Release No. 34-48281,* Broker-Dealer Financial Statement Requirements under Section 17 of the Exchange Act. *[Online] SEC. Available at: www.sec-gov/rules/other/34-48281.htm [last accessed November 26, 2010].*

[20] *FASB ASC 976-605-55-11, 976-605-55-13, 976-605-55-14 (FASB Statement No. 66,* Accounting for Sales of Real Estate*, ¶¶ 95–97).*

[21] *FASB ASC 972-205-45-6, 972-205-45-14 (AICPA Audit and Accounting Guide,* Common Interest Realty Associations *(CIR), ¶¶ 4.05, 9.09).*

[22] *FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(2)).*

[23] *FASB ASC 962-205-45-1, 960-205-45-3, 960-205-55-1 (FASB Statement No. 35,* Accounting and Reporting by Defined Benefit Pension Plans*, ¶¶ 6, 7, 282); FASB ASC 960-205-55-1 (FASB Statement No. 35, ¶ Exhibit D-1); FASB ASC 960-10-05-1 (FASB Statement No. 87,* Employers' Accounting for Pensions*, ¶ 7); FASB ASC 962-205-45-1 (AICPA Audit and Accounting Guide,* Employee Benefit Plans *(EBP), ¶ 3.10); FASB ASC 965-20-45-1, 965-205-45-1, 965-205-45-3 (AICPA Statement of Position No. 92-6,* Accounting and Reporting by Health and Welfare Benefit Plans*, ¶¶ 20, 23, 64).*

[24] *FASB ASC 962-205-45-1, 960-20-45-2, 960-205-55-1 (FASB Statement No. 35, ¶¶ 6, 8, 282).*

[25] *FASB ASC 965-205-45-2, 965-205-55-6 (AICPA Statement of Position No. 92-6, ¶¶ 20, Exhibit B).*

[26] *FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-03).*

benefit plans, including defined benefit and defined contribution plans. A statement of net assets available for benefits is required.[27] IAS 26 permits defined benefit plans either to present the actuarial present value of promised retirement benefits as part of the statement of net assets available for benefits and actuarial present value of promised retirement benefits, or to disclose such information in the notes. Placement of such information in a separate actuarial report is possible to the extent that this actuarial report accompanies the financial statements and the financial statements incorporate it by reference.[28] The Staff Draft of the *Financial Statement Presentation Project* scopes out benefit plans.[29]

3.2.3.7 Health Care Entities Under U.S. GAAP, not-for-profit, business-oriented health care entities present a statement of financial position or a balance sheet. They include investor-owned health care entities and not-for-profit, business-oriented entities.[30]

3.2.4 The Statement of Financial Position of Small and Medium-Sized Entities

Paragraph 3.5.1 below deals with the minimum content of the statement of financial position. IFRS for small and medium-sized entities requires separate lines for investments in associates and investments in jointly controlled entities, as opposed to a single line under full IFRSs. Unlike full IFRSs, the line for investment property explicitly refers to amounts carried at fair value model. Agricultural entities must separately display biological assets carried at fair value through profit or loss and those measured at cost model.[31] Paragraph 3.5.2 following treats items that an entity may either present in the statement of financial position or disclose in the notes. In this regard, IFRS for small and medium-sized entities is more detailed than full IFRSs.

3.3 STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION

3.3.1 Equity versus Balanced Formats

Exhibit 3-1 illustrates the basic formats and basic forms of the statement of financial position.

3.3.1.1 Basic Formats

Comment: Accounting practice in different countries has been developing around the two basic formats – balanced and the equity formats – with varied column or page arrangements.

The balanced format, which is the graphic representation of the so-called "fundamental accounting (or balance sheet) equation", whereby assets equal the sum of liabilities and equity, emphasizes sources of finance (liabilities and equity) and how they are used or invested (assets) as of the reporting date. Under this view, equity is the source of contributed and earned risk capital which together with debt (non-risk capital) finances the entity's assets. Alternatively, both equity and liabilities embody rights, although different, on an entity's assets.

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[27] *IAS 26,* Accounting and Reporting by Retirement Benefit Plans*, ¶¶ 13, 17.*
[28] *IAS 26, ¶¶ 17, 28-31.*
[29] *Staff Draft, ¶ 4.b.*
[30] *FASB ASC 954-10-05-2, 954-205-45-1 (AICPA Audit and Accounting, Guide,* Health Care Organizations*, (HCO), ¶¶ 1.02, 1.05).*
[31] IFRS for SMEs*, ¶ 4.2.*

Exhibit 3-1 Basic Formats and Basic Forms of the Statement of Financial Position

Balanced Format

- Graphical representation of the fundamental (or balance sheet) accounting equation (A = L + E)
- Emphasis: sources of finance (liabilities and equity) and how they are used (assets)
- Functional to the calculation of working capital when associated with a classified balance sheet

Equity Format

- Graphical representation of alternative accounting equation (A − L = E)
- Emphasis: equity as a residual element (IASB and FASB frameworks)
- Functional to the calculation of capital employed and ROI, and of net working capital and permanent financing when associated with a classified balance sheet

With account (or horizontal) basic form

Balanced format:

Assets	Liabilities Equity

Equity format:

Assets (Liabilities)	 Equity

With report (or vertical, top-to-bottom, or running) basic form

Balanced format:

Assets = Liabilities + Equity

Equity format:

Assets − Liabilities = Equity

- Franco-Italy-German tradition
- Most U.S. companies: balanced format/account form
- IAS 1 IG shows balanced format/report form

- Equity format and vertical form: also known as net asset or UK GAAP format
- Typically UK and a minority of U.S. companies

Adapted from: Bellandi, F., 2007. Dual Reporting under U.S. GAAP and IFRS, Layout of the Statement of Financial Position for Commercial and Industrial Entities. *The CPA Journal, LXXVII (12), December 2007, Reprinted by permission of the New York State Society of Certified Public Accountants.*

The French-Italian-German tradition typically employs this model. Incidentally, accounting practice in these countries denominates each side of the statement of financial position with specific terms, while the English language simply splits the sources side of the balance sheet into equity and liabilities.

The equity format (also known as "net asset" or "UK GAAP" format) represents the so-called "alternative accounting equation", whereby assets minus liabilities equal net assets (i.e., equity, or capital in a larger sense). British companies typically use this approach; some U.S. companies do so. It emphasizes equity as a residual element. Besides, the concept of capital invested or employed is in line with this approach.

3.3.1.2 Basic Forms For each of those formats there may be two basic forms. The account (or horizontal) form places assets on the left-hand side or column, and liabilities and equity on the right-hand side or column. The report (or vertical) form gives a top-to-bottom or running presentation whereby assets come first, then liabilities and equity follow.

Planning Point: A classified statement of financial position (see Paragraph 3.3.2 following) in equity format and report form brings out net working capital and permanent financing. This is the so-called financial position format. A classified statement of financial position in balanced format highlights gross working capital. Financial re-classification for the calculation of ROI in its several variants based on a strict financial orientation generally adopts the former scheme. It is much used internationally, although strangely not so much in the United States. In 2009 and in 2005, 87% and 84% of surveyed U.S. GAAP companies used a report form of the statement of financial position, respectively, while the remaining companies used the account form.[32]

Comment: Based on nonpromulgated GAAP, both formats are compatible with U.S. GAAP and IFRSs, although both the IASB and the FASB conceptual frameworks typically employ the equity format – equity as a residual. However, IAS 1 Implementation Guidance (which accompanies but is not part of the Standard) shows an example of a balance sheet under balanced format and report form.

Planning Point: The FASB and IASB joint *Financial Statement Presentation Project* addresses different display formats. However, the Boards' discussion on the categorization working principle would seem not to have really coordinated their consideration on presentation layouts with the longstanding debate on the equity format versus the balanced format. The different uses behind these two formats serve users' needs in several ways. In many jurisdictions practices of reclassifying the financial statement along the lines of the equity format show such purposes.

Planning Point: In certain jurisdictions, companies prepare both a traditional presentation according to GAAP in financial statements and a reclassification based on financial market practices in management commentary. This solution has been available for a long time. It addresses the debate around the primary categories to present on the face of the financial statements. In addition to being more cohesive, this approach tackles different angles on financial analysis, such as financing versus operating or other categories, internal versus external financing, working capital versus permanent financing, liquidity information, or balance sheet classification.

As part of the *Financial Statement Presentation Project,* the FASB and the IASB tentatively decided for a format of the statement of financial position where equity financing is separate from debt financing.

Comment: The main rationale here is to enhance transparency and cohesiveness among the financial statements.[33] However, a clear distinction of equity from debt financing is an implicit confirmation of the concept of equity as a residual interest.

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[32] *AICPA ATT 2010, ¶ Table 2-2; AICPA ATT 2006, ¶ Table 2-2.*

[33] *Staff Draft, ¶¶ 84, IG4; FASB Meeting, January 31, 2007, FASB Memoranda No. 46A-C, ¶ 49 (January 31, 2007); IASB Meeting, January 25, 2007, Agenda Paper 13d,* Application of Working Principles, *¶¶ 21, 28 (January 25, 2007).*

3.3.2 Classified versus Unclassified Statement of Financial Position

3.3.2.1 Main Orders of Presentation The two main orders of presentation in the statement of financial position are: a) classified statement of financial position (current or noncurrent shown on the face of the statement); and b) a display in order of increasing/descending liquidity (or in order by nature, subcategorized by short-term/long-term).

3.3.2.2 Working Capital Analysis The main purpose of a classified statement of financial position is to assist financial statement users in working capital analysis. The current/noncurrent distinction is usually a proxy for liquidity. Therefore, the distinction between these two displays centers on the role of, and the means of, delivering liquidity information and on the role of presentation versus note disclosure to convey liquidity information.

The Discussion Paper of the *Financial Statement Presentation Project* considered assisting users in assessing liquidity and an entity's ability to generate net cash inflows as a basic principle of all financial statements. The Staff Draft now does not give any particular prominence to this notion, as the new Conceptual Framework places it in the context of the objectives of financial reporting.[34]

3.3.2.3 Use under U.S. GAAP U.S. GAAP does not mandate the use of a classified statement of financial position. However, most entities provide it. Practice in certain industries does not deem classified presentation to be significant, or does so only under certain circumstances.

For not for-profit organizations, Subtopic 958-210 (FASB Statement No. 117) explicitly requires the use of a classified balance sheet, a decreasing-liquidity order, or note disclosure to convey liquidity information. Its Basis for Conclusion contains a long discussion to support the view that leaving those entities free to use a mix of classification methods, order of sequencing items, detail of disaggregation, and disclosure techniques is the best way to provide relevant information about liquidity and maturity of assets and liabilities.[35]

For SEC registrants, Subsection 210-10-S99-1 (Regulation S-X) prescribes a classified balance sheet for industrial and commercial companies when appropriate.[36] In such a case, companies must total current assets and current liabilities.

3.3.2.4 IFRS Rules IAS 1 requires a classified statement of financial position. As an exception, entities must use a liquidity criterion or a mixed basis whenever either of the two assure reliability and enhances relevance.[37] The Implementation Guidance of IAS 41 shows a classified statement of financial position for agricultural entities.

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[34] The Conceptual Framework for Financial Reporting 2010, *¶¶ OB3, OB13; Staff Draft, ¶¶ 8, BC72, BC73.*

[35] *FASB ASC 958-210-45-8 (FASB Statement No. 117,* Financial Statements of Not-for-Profit Organizations, *¶ 12); FASB Statement No. 117, ¶¶ 87–91.*

[36] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02).*

[37] *IAS 1, ¶ 60.*

Comment: The pre-2003 version of IAS 1 did not mandate a classified balance sheet. Therefore, an entity that, prior to January 1, 2005, elected not to present the current/noncurrent distinction on the face of the balance sheet, notwithstanding a clearly identifiable operating cycle, had to restate the statement of financial position retrospectively, including comparative information.

Planning Point: Enable the accounting system to generate a classified statement of financial position automatically.

IFRS Accounting Trends & Techniques illustrates that 89% of surveyed IFRS companies use a classified statement of financial position and 11% a liquidity criterion.[38]

3.3.2.5 Long-Term Portions Embedded in a Single-Line Item Regardless of whether an entity adopts a classified, liquidity-based, or mixed basis statement of financial position, it must disaggregate the long-term portion embedded in a single-line item, whether monetary or not, either on the face of the balance sheet or in the notes.[39] U.S. GAAP does not specifically contemplate such a requirement.

3.3.2.6 New Developments The *Financial Statement Presentation Project* in substance maintains the basic approach in IAS 1, though with some important differences. It substitutes the terms "current" and "noncurrent" with "short-term" and "long-term". Paragraph 3.3.5 treats this concept in detail. The *classified statement of financial position* would then refer to functional classification of the statement in sections, categories, and subcategories and no longer to the current/noncurrent distinction of assets and liabilities as is now the case.[40] Finally, the proposal does not reiterate the second condition currently in IAS 1 for the use of the liquidity or mixed format that such a presentation must prove to be reliable.[41]

3.3.3 Liquidity or Mixed Bases

3.3.3.1 Use of a Liquidity Criterion in Industry Practices Notwithstanding that investment companies generally use an unclassified statement of financial position, IAS 32 shows a classified statement.[42]

IAS 30 (superseded) explicitly required banks and other financial institutions to classify assets and liabilities by nature and subclassify them by liquidity, without distinguishing current from noncurrent items, because the operating cycle of many assets and liabilities is usually shorter than one year.[43]

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38 *Doran Walters, P., Bowman, D. (2010)* IFRS Accounting Trends & Techniques – 2009. *New York: AICPA, ¶ Table 2-1 (hereinafter AICPA IFRS ATT 2009).*

39 *IAS 1, ¶ 61.*

40 *IASB, October 2008. Discussion Paper,* Preliminary Views on Financial Statement Presentation*, ¶ 3.4 (hereinafter DP on Presentation).*

41 *Staff Draft, ¶¶ 115, 116.*

42 *IAS 32, ¶¶ IE32, IE33.*

43 *IAS 30 (superseded), ¶ 18.*

U.S. GAAP reports that certain industries use an unclassified statement of financial position, such as finance, real estate, life insurance, investment companies, utilities, plus personal financial statements.[44] Subsection 946-210-45-1 indicates that investment companies generally use an unclassified statement of assets and liabilities or a statement of net assets.[45]

A classified statement of financial position is not suitable for broker-dealers.[46]

Common interest realty associations do not generally use a classified balance sheet, unless they have important commercial operations.[47] Subsection 948-310-45-1 (FASB Statement No. 65) mentions both classified and unclassified balance sheets for mortgage banks.[48]

Generally, insurers, banks and financial institutions, investment companies, and employee stock purchase, savings and similar plans use a statement of financial position in order of liquidity, although they may use a classified statement. The *Financial Statement Presentation Project* explains some cases that may lead to a liquidity classification. For banking, insurance, broker-dealers, and financial services, maturities of financial assets and financial liabilities are so diverse that any threshold would be artificial.[49]

3.3.3.2 The Reliability and Relevance Criterion Irrespective of Industry Paragraph 3.3.2 above mentions the criteria in IAS 1 that exempt entities from a classified statement of financial position. Under certain circumstances, reliability and enhanced relevance might necessitate a decreasing/increasing liquidity criterion or a mixed basis, irrespective of the industry.[50]

Firstly, the characteristics of a specific sector may suggest a liquidity-based display (e.g., financial institutions), not because of the industry per se but because the relevance and reliability test applies due to the inapplicability of the normal operating cycle. Secondly, a mixed basis may suit a conglomerate or a company that has a diversified business. Residually, those classifications may be pertinent to all entities, when the current/noncurrent distinction is not applicable because the operating cycle is not clearly identifiable.[51]

Comment: No similar guidance for a mixed basis exists under U.S. GAAP. The *Financial Statement Presentation Project* would reiterate current guidance in IAS 1 about mixed basis.[52]

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44 *FASB Statement No. 6,* Classification of Short-Term Obligations Expected to Be Refinanced: An Amendment of ARB No. 43, Chapter 3A*, ¶ 7; FASB Statement No. 117, ¶ 89.*

45 *FASB ASC 946-210-45-1 (AICPA Audit and Accounting Guide,* Investment Companies *(INV), ¶ 7.08).*

46 *FASB ASC 940-20-45-1 (AICPA Audit and Accounting Guide, BRD, ¶ 4.06).*

47 *FASB ASC 972-205-45-13 AICPA Audit and Accounting Guide, CIR, ¶ 4.10).*

48 *FASB ASC 948-310-45-1 (FASB Statement No. 65,* Accounting for Certain Mortgage Banking Activities*, ¶ 28).*

49 *DP on Presentation, ¶ 3.6.*

50 *IAS 1, ¶ 60.*

51 *IAS 1, ¶¶ 63, 64.*

52 *Staff Draft, ¶ 116.*

> **Planning Point:** Be ready to substantiate whether and how another order of presentation meet the reliability and relevance criteria, irrespective of tradition and practice.

> **Planning Point:** Link time/date coding fields, at the moment an accounting entry is made, to the way the information systems generate liquidity sorting. Do not use subaccounts for this purpose, as this may require lengthy manual and subjective adjustments.

The Staff Draft of the *Financial Statement Presentation Project* does not repeat the proposal of the Discussion Paper that an entity that uses a liquidity criterion must disclose maturities of short-term contractual assets and liabilities in the notes, because specific IFRS and U.S. GAAP pronouncements deal with this topic.[53]

3.3.4 The Concept of Current Items

3.3.4.1 Current Operating versus Other Current Items IAS 1 makes a distinction between current operating assets and liabilities (i.e., assets sold, consumed, or realized as part of the normal operating cycle, and associated liabilities) and other current assets and current liabilities.[54] It considers the operating cycle as the threshold for a status as current for operating assets and liabilities, and a year from the reporting date as the threshold other assets and liabilities.

> **Comment:** This distinction is not present under U.S. GAAP for assets[55] and only notionally for liabilities.[56] Both assets and liabilities follow the criterion of the operating cycle or a period of one year depending on which is longer.

3.3.4.2 Operating Cycle As mentioned above, under IFRSs the operating cycle is the basis of current operating items.

> **Comment:** Under U.S. GAAP, the normal operating cycle is the period between the attainment of productive resources and their ultimate conversion to cash,[57] and under IFRSs the conversion to cash or cash equivalents.[58] While financial analysis calculates separately the cycle days of operating assets and operating liabilities, IAS 1 assumes them to be equal for accounting purposes.[59]

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[53] *Staff Draft, ¶¶ BC139-BC140.*
[54] *IAS 1, ¶¶ 68, 69.*
[55] *FASB ASC 210-10-45-3 (ARB 43,* Restatement and Revision of Accounting Research Bulletins, *Ch. 3A, ¶ 5).*
[56] *FASB ASC 210-10-45-8, 210-10-45-9 (ARB 43, Ch. 3A, ¶ 7).*
[57] *FASB ASC 210-10-20 (ARB 43, Ch. 3A, ¶ 5).*
[58] *IAS 1, ¶ 68.*
[59] *IAS 1, ¶ 70.*

3.3.4.3 The 12-Month Convention Under IFRSs, the 12-month convention would apply when the normal operating cycle is ambiguous,[60] while the 12-month convention would apply under U.S. GAAP when different infra-year operating cycles exist.[61]

> **Planning Point:** Under IAS 1, lack of clear identifiability may be a prerequisite for adopting a liquidity-based order of presentation, because the relevance of working capital analysis diminishes with time and with the difficulty in identifying the normal operating cycle.[62] In those cases, a U.S. GAAP classified statement of financial position would follow the same 12-month rule as a classification with a liquidity criterion under IFRSs.

3.3.4.4 Net Working Capital and Relationship with Equity Format The concept of net working capital strictly relates to the current/noncurrent classification, as it equals current assets minus current liabilities.

> **Planning Point:** To show net working capital on the face of the statement, or in its financial reclassification, the statement shall be in the "equity format", as Paragraph 3.3.1 previously explains. In financial analysis several ways of calculating net working capital exist. Operating net working capital excludes cash and other liquid assets and short-term financial debt. Paragraph 5.3.6 following deals with the concept of net debt.

3.3.4.5 Expected versus Contractual Dates Under both U.S. GAAP and IFRSs, the determination of a status as current assets depends on expectations (under IAS 1, based on intended sale, consumption, or expected realization date for operating assets and expected realization date for other assets;[63] and under Subsection 310-10-45-9 (ARB 43), based on reasonably expected realization date[64]). On the other hand, unlike U.S. GAAP, under IAS 1[65] the contractual maturity date is relevant for nonoperating current liabilities.

> **Planning Point:** Therefore, two entities' differing use of a contractual versus an expected date for liabilities may affect working capital analysis.

3.3.4.6 Autonomous versus Derivative Status of a Current Liability U.S. GAAP defines a current liability by the effects that result from its extinguishment, in terms of either employment of current assets or origination of different current liabilities.[66]

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[60] *IAS 1, ¶ 68.*
[61] *FASB ASC 210-10-45-3 (ARB 43, Ch. 3.A, ¶ 5).*
[62] *IAS 1, ¶ 63.*
[63] *IAS 1, ¶ 66.*
[64] *FASB ASC 310-10-45-9 (ARB 43, Ch. 3,A, ¶.4).*
[65] *IAS 1, ¶ 69.*
[66] *FASB ASC 210-10-20 (ARB 43, Ch. 3.A, ¶ 7).*

Comment: IAS 1 does not explicitly state this link. It might be argued that this is implicit for an operating liability; however, for a financial liability it is the status of a liability as of the balance sheet date that determines its classification, not the classification of assets used for its settlement.

3.3.5 Short versus Long-Term

3.3.5.1 Short-Term versus Current A classified statement of financial position is generally associated with the terms "current" and "noncurrent". Conversely, a liquidity perspective is generally associated with short-term or long-term assets, with the threshold between the two being whether they are recoverable within 12 months of the reporting date.

Short-/long-term has diverse uses in IFRSs and U.S. GAAP. Moreover, IFRSs provide no consistent definition of short- and long-term.

Comment: U.S. GAAP uses both the terms "current/noncurrent" and "short-/long-term" for display on a classified statement of financial position (e.g., short-term investments, noncurrent liabilities). Section 470-10-20 (FASB Statement No. 6) uses the one-year threshold to define short- and long-term obligations, or refers to the operating cycle if the entity uses a classified balance sheet.[67] The use of current/noncurrent tends to prevail under IFRSs for descriptions of items on the face of a classified statement of financial position, although IAS 1 generally permits alternative nomenclature.[68] IFRSs usually leave the term short-/long-term for purposes other than presentation, such as recognition and measurement (e.g., short-term employee benefits, short-term compensated absences, long-term debt). For example, short-term items may have an impact on measurement of accounts receivable and payable per IFRS 9.[69] IAS 1 uses the one-year threshold for long-term financial liabilities.[70] When an entity uses a presentation in order of liquidity, IFRS 5 and IFRS 8 use noncurrent to indicate recoverability beyond 12 months.[71]

3.3.5.2 Criticism of the Current/Noncurrent Distinction The main criticism of the current/noncurrent distinction is that it does not succeed in differentiating operating assets and liabilities from other assets or liabilities, nor does it convey liquidity information. In fact, because of the varied lengths of the operating cycles of different industries and the interactions between the notion of contractual and expected conversion to cash, it mixes different time periods depending on the type of assets or liabilities they refer to, as Paragraph 3.3.4 previously explains.[72]

3.3.5.3 New Developments As mentioned, the *Financial Statement Presentation Project* would require classification of assets and liabilities based on the short-/long-term approach under a strict one-year version, as opposed to a classification based on the operating cycle of

[67] *FASB ASC 470-10-20 (FASB Statement No. 6, ¶ 2).*
[68] *IAS 1, ¶ 67.*
[69] *IFRS 9, ¶ B5.4.12.*
[70] *IAS 1, ¶ 71.*
[71] *IFRS 5,* Non-current Assets Held for Sale and Discontinued Operations*, ¶ 2; IFRS 8, ¶ 24.*
[72] *IASB, 2006. Minutes of Meeting, July 21, 2006, Financial Statement Presentation, Agenda Paper 17,* Application of Working Principles*, ¶ 71. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

an entity that does not elect the liquidity or the mixed basis criteria. However, an entity would disclose the length of its operating cycle(s) in the notes. The Implementation Guidance of the Staff Draft does not show short-term/long-term classification in the discontinued operations section, but it does not state this explicitly, as the Discussion Paper did. The notion of short-term would use both a contractual and an expectation criterion. An asset or a liability other than deferred tax would be short-term if the entity realizes or settles them, respectively, within 12 months of the reporting date. The shorter of the contractual or expected maturity determines the classification. The rationale is twofold. Firstly, a criterion based on a one-year threshold is simple, objective, and consistent with the financial statements timeframe. It is applicable to all industries irrespective of the length of the operating cycle, and also those with an operating cycle exceeding one year, such as certain agricultural produce, or tobacco, distillery, and lumber,[73] and therefore enhances comparability. Consequently, entities in industries with operating cycles longer than one year would classify inventories as long-term inventories. Secondly, it assists in assessing the amount, timing, and uncertainty of future cash flows, the timing of realization of assets and liabilities, and therefore liquidity.[74] The IASB version of the Staff Draft would maintain certain provisions currently in IAS 1 for the classification of financial liabilities.

> **Planning Point:** Under this proposal, a statement of financial position would not show working capital. However, matching short-term items and the business and financing sections would determine working capital; the combination of the short-term dimension and the operating category (except cash) would give operating working capital.

> **Planning Point:** Make short- versus long-term analysis as automatic as possible. Enable the accounting system to display a short-term versus current criterion as a reversible on demand presentation key.

3.3.6 Sorting Order

3.3.6.1 IFRSs versus U.S. GAAP U.S. accounting practice generally presents assets in descending order of liquidity, liabilities in ascending order of time to maturity, and equity in descending order of priority in liquidation. Statements of financial positions under IFRS, however, typically follow an order of increasing liquidity, as Exhibit 3-2 illustrates.

3.3.6.2 Accounting Practice and Override by Standards The sorting order is generally a result of accounting practice. Standards may override such patterns, though. Paragraph 3.4.1 following illustrates how IFRS 5 overrules this criterion for noncurrent assets (or disposal groups) classified as held for sale and the liabilities directly associated with them. SEC registrants may choose various sorting orders, provided they are consistent throughout the filing.[75]

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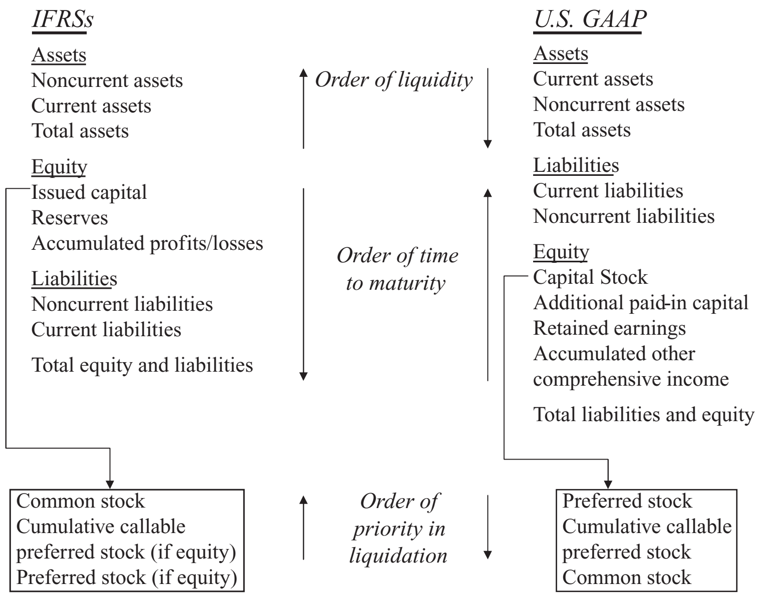
[73] *FASB ASC 210-10-45-3 (ARB 43, Ch. 3A, ¶ 5).*

[74] *Staff Draft, ¶¶ 122, 123, 256, BC129-BC131, BC133, Implementation Guidance Example 10; DP on Presentation, ¶¶ 3.7, 3.8.*

[75] *FASB ASC 205-10-S99-9 (SEC Staff Accounting Bulletin, Topic 11-E,* Chronological Ordering of Data*).*

Exhibit 3-2 Sorting Orders of the Statement of Financial Position



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3.3.6.3 Interaction with Classified or Liquidity Criteria Sorting order is independent of the adoption of a specific order of presentation, such as a classified statement of financial position (Paragraph 3.3.2 previously) or a liquidity criterion (Paragraph 3.3.3 previously).

IFRS Accounting Trends & Techniques illustrates that 82% of surveyed IFRSs companies using a classified statement of financial position use a sorting from least current to most current and 18% use the reverse order. 64% of companies using a liquidity criterion use a sorting from most current to least current.[76]

3.3.7 Totalization

3.3.7.1 IFRSs IFRSs has no separate display requirement for totalization of current assets, noncurrent assets, current liabilities, noncurrent liabilities, total assets, total liabilities, and total equity and liabilities, although the Implementation Guidance and examples in IAS 1, IFRS 5, and IAS 41 show them. IFRSs display and make use of the expression *total equity and liabilities* (not *liabilities and shareholders' equity*). The Implementation Guidance of IAS 1 shows a total equity caption, although the standard does not include it in the minimum content of the statement of financial position.[77] IAS 32 mentions a total for net assets attributable to

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[76] *AICPA IFRS ATT 2009, ¶ Table 2-1.*
[77] *IAS 1, ¶ IG Part I.*

unitholders for entities (e.g., mutual funds, unit trusts, cooperatives, etc.) with only shares or interest instruments that do not meet the equity classification under IAS 32, with only share capital repayable on demand, or similar puttable instruments that IAS 32 does not classify as equity. This standard shows a memorandum note totalization for entities with both shares or interest instruments classified as liability under IAS 32 and other components of equity that embody no obligation to deliver assets to shareholders. IAS 32 uses a totalization of liabilities excluding net assets attributable to unitholders for entities whose net assets do not meet the requirements for equity classification under IAS 32. If the entity adopts a classified statement of financial position, it amends the caption as noncurrent liabilities excluding net assets attributable to unitholders.[78] IAS 26 requires the disclosure of a total for net assets available for benefits of employee benefit plans.[79]

IAS 1 permits the display of additional headings and subtotals in the statement of financial position that an entity regards as relevant to users' understanding.[80]

Example: A British foreign private issuer presented an aggregate for total assets less current liabilities in its first-time IFRS financial statements for the fiscal year ended March 31, 2006. The SEC Staff, in its review of Form 20-F, requested Management's Discussion and Analysis to include an explanation of the composition of such a subtotal and of the reason why the company considered it meaningful to investors.[81]

3.3.7.2 U.S. GAAP U.S. GAAP requires totalization of current liabilities if the entity presents a classified statement of financial position. U.S. GAAP does not require separate presentation of totals for current assets and liabilities, but it takes this as customary in a classified statement of financial position.[82] U.S. GAAP entities that present a classified statement of financial position ordinarily also report a total of current assets, as this makes computation of working capital easier.[83] Insurance companies present total assets and total liabilities.[84] Banks and finance companies also do so.[85] Health and welfare benefit plans and defined-contribution pension plans show total assets. Investment companies present total assets and total liabilities. They show net assets reflecting all investments at fair value, adjustment from fair value to contract value for fully benefit-responsive investment contracts, and a total for net assets. Benefit plans do the same with reference to net assets available for benefits.[86] Subsection 958-210-45-1

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78 *Under IAS 32, ¶¶ 18, IE32, IE3, BC7, BC8.*
79 *IAS 26, ¶¶ 17, 28.*
80 *IAS 1, ¶ 55.*
81 *SEC IFRS Reviews. Letter by the SEC, May 3, 2007. File No. 1-08819 and 2-94004, Comment 12. Reply by the company, May 10, 2007 and June 22, 2007.*
82 *FASB ASC 210-10-45-5 (FASB Statement No. 6, ¶ 15).*
83 *FASB ASC 210-10-05-5 (ARB 43, Ch. 3A, ¶ 3).*
84 *FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120).*
85 *FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148).*
86 *FASB ASC 960-205-55-1 (FASB Statement No. 35, ¶ Exhibit D-1); FASB ASC 965-20-45-1, 965-205-55-4 (AICPA Statement of Position No. 92-6, ¶¶ 64, Exhibit A); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3,* Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters, *¶ 33); FASB ASC 962-205-45-2 (AICPA Statement of Position No. 94-4,* Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans, *¶ 15); FASB ASC 960-205-55-2, 956-205-55-8 (AICPA Statement of Position No. 99-2,* Accounting for and Reporting of Postretirement Medical Benefit

(FASB Statement No. 117) requires separate presentation of total assets, total liabilities, and total net assets of not-for-profit entities.[87] Subsection 272-10-45-3 (PB 14) requires the title of members' equity for LLCs.[88] U.S. GAAP pronouncements generally totalize equity and liabilities separately. Only a few pronouncements employ the terminology or display *liabilities and stockholders' equity* or *liabilities and equity*.[89]

According to the *AICPA Accounting Trends & Techniques*, half or more of the U.S. GAAP companies surveyed in 2009, 2005, and 2002 used the title stockholders' equity, about 36%–38% shareholders' equity, and the remaining companies used other terminology.[90]

3.3.7.3 SEC Rules and Regulations Subsection 210-10-S99-1 (Regulation S-X) prescribes a classified balance sheet only when appropriate. In such a case, it requires totalization of current assets and current liabilities.[91] It does not indicate a total for noncurrent assets. It calls noncurrent liabilities long-term debt. Rule 5-02 has an item for total assets and one for total liabilities and stockholders' equity.[92] Smaller reporting companies that use an annual classified balance sheet must display total current assets and current liabilities in their interim balance sheet.[93] Insurance companies and bank holding companies present total assets and total liabilities and equity. Registered investment companies show total assets, total liabilities, and total net assets.[94] Because of the existence of temporary and permanent equity, SEC registrants cannot totalize stockholders' equity. They must identify main captions separately. They are, for commercial and industrial entities, redeemable preferred stock, nonredeemable preferred stock, common stock, other stockholders' equity, and noncontrolling interests. For this reason, Subsection 480-10-S99-1 (CFRR 211) prohibits the use of a stockholders' equity heading inclusive of redeemable preferred stock by SEC registrants that have this item. Registrants that do not have redeemable preferred stock may use a subtotal for nonredeemable preferred stock, common stock, and other stockholders' equity.[95] Paragraph 4.5.10.6 following

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(401(h)) Features of Defined Benefit Pension Plans*, ¶¶ Appendix B Example 1, Appendix C Example 1); FASB ASC 946-210-45-9, 946-210-45-15, 946-210-45-16, 946-210-50-14, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1,* Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, ¶¶ 1, 8, 9, 11, A1).*

[87] *FASB ASC 958-210-45-1 (FASB Statement No. 117, ¶ 10).*

[88] *FASB ASC 272-10-45-3 (Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships*, ¶ 10).*

[89] *For example, FASB ASC 976-605-55-11 (FASB Statement No. 66, ¶ Appendix D.95); FASB ASC 355-10-55-53 (FASB Statement No. 89,* Financial Reporting and Changing Prices*, ¶ Appendix A.73); FASB ASC 230-10-55-19, 942-230-55-4 (FASB Statement No. 95, ¶¶ Appendix C.133, 148); FASB ASC 944-605-55-11 (FASB Statement No. 113, ¶ Appendix B.120); FASB ASC 220-10-55-17 (FASB Statement No. 130,* Reporting Comprehensive Income*, ¶ Appendix B.131); FASB Statement No. 133,* Accounting for Derivative Instruments and Hedging Activities*, ¶ Appendix C.225; FASB ASC 250-10-55-11 (FASB Statement No. 154,* Accounting Changes and Error Corrections—a Replacement of APB Opinion No. 20 and FASB Statement No. *3, ¶ A7).*

[90] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-33.*

[91] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.9, 210.5-02.21).*

[92] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.18, 210.5-02.32).*

[93] *Regulation S-X, ¶ 210.8-03(a)1.*

[94] *FASB ASC 944-210-S99-1, 942-210-S99-1, 946-210-S99-1 (Regulation S-X, ¶¶ 210.7-03.12, 210.7-03.25, 210.9-03.11, 210.9-03.23, 210.6-04.9, 210.6-04.14, 210.6-04.19).*

[95] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.27-31); FASB ASC 480-10-S99-1 (Codification of Financial Reporting Release, CFRR 211,* Redeemable Preferred Stock*, ¶¶ 1, 3).*

explains the impact of this point on the statement of changes in equity or equity reconciliation. Finally, selected financial data in Form 20-F include total assets and total net assets.[96]

3.3.7.4 New Developments The *Financial Statement Presentation Project* would make the display of total assets and total liabilities mandatory in the statement of financial position. The Staff Draft requires headings and subtotals for each section (i.e., business, financing, income tax, and discontinues operations), category (i.e., operating, investing, plus debt and equity in the statement of financial position), and subcategory (i.e., operating finance) of the statement of financial position, the statement of comprehensive income, and the statement of cash flows (in this statement, not operating finance). The statement of financial position would also have a subtotal of net operating assets and liabilities before the operating finance subcategory. The entity would ensure the same prominence and consistency of presentation of headings and subtotals across statements, including any other totalization that they may judge useful, although the same sorting is not mandatory. Under a classified statement of financial position, totals for short-term assets, short-term liabilities, long-term assets, and long-term liabilities would be necessary, as well as their subtotals for each category (except equity) and subcategory of the business and financing sections.[97] The Staff Draft changed the initial position expressed in the Discussion Paper, based on which entities could put together these totals either in the statement of financial position or in the notes, provided in one and the same location.[98]

3.3.8 Development Stage Enterprises

Under U.S. GAAP, a development stage enterprise (as opposed to an established operating enterprise) is an entity that is devoting substantially all of its efforts to establishing a new business with either no principal operations commenced or with a still insignificant amount of revenue. Regulation S-X gives a similar definition. A development stage enterprise (including a development stage subsidiary or other investee) must comply with U.S. GAAP in the same way as other entities. However, some additional information must be reported. These include a "deficit accumulated during the development stage" or equivalent line item to be displayed in the stockholders' equity section for net losses accumulated since the inception of the entity. The heading of the financial statements must identify the enterprise as being in development stage and describe the nature of its activities. In the first year in which the entity is no longer in development stage, its financial statements must disclose its previous status. If comparative statements are presented, the above-mentioned displays and disclosures are not required. Changes to comparative figures resulting from the adoption of FASB Statement No. 7 are accounted for as prior period adjustments.[99]

Comment: IFRSs do not provide guidance on the presentational requirements of development stage enterprises.

[96] *Form 20-F, Item 3.A.2.*
[97] *Staff Draft, ¶¶ 112, 129–131, Implementation Guidance Example 10, BC118.*
[98] *DP on Presentation, ¶¶ 3.22, 3.23.*
[99] *FASB Statement No. 7, ¶¶ 8-15 (FASB ASC 915-10-05-2, 915-205-45-1, 915-210-45-1, 915-235-50-1, 915-235-50-2, 915-205-45-4, 915-205-45-5); Regulation S-X, ¶ 210.1-02(h).*

The SEC Staff clarified that Item 17 filers that are development stage enterprises are exempted from these special disclosures, not Item 18 filers.[100]

3.4 CERTAIN OTHER STRUCTURAL ELEMENTS OF THE STATEMENT OF FINANCIAL POSITION

The following paragraphs deal with some items of the statement of financial position that affect its structure. However, they are not exhaustive, as the topic is so vast that it falls outside of the scope of this Book. The Exhibits concerning presentation and disclosures (see Paragraphs 3.5.1 below and 3.5.2 below) cover many other specific issues, for example investments in separate accounts of insurance companies.

3.4.1 Held-for-Sale Noncurrent Assets and Liabilities

3.4.1.1 Separate Presentation in a Classified Statement of Financial Position IFRSs require separate presentation of noncurrent assets or disposal groups that meet the criteria for classification as held for sale or held for distribution to owners acting in their capacity as owners, as well as of directly associated liabilities. The entity reports noncurrent assets as held for sale only when they meet related classification rules. This requirement also applies to a noncurrent asset, disposal group, or investment that an entity acquires exclusively with a view to resale and that meets the criteria for classification as held for sale on acquisition. Furthermore, in separate financial statements, an entity separately presents an investment in a subsidiary, associate, or jointly controlled entity that meets held-for-sale criteria. IAS 1 displays held-for-sale assets and held-for-sale liabilities as two separate minimum line items.

> **Planning Point:** The Implementation Guidance of IFRS 5 shows held-for-sale assets and held-for-sale liabilities as the last rank of current assets and current liabilities, respectively, although their degree of liquidity within current items may vary depending on the specific circumstances.

An entity must either separately display major classes of noncurrent assets and liabilities classified as held for sale or disclose them in the notes, except for a newly acquired subsidiary classified as held for sale on acquisition.[101]

3.4.1.2 Separate Presentation under a Liquidity Criterion In case the entity uses a liquidity classification of the statement of financial position, noncurrent assets are those that are recoverable after one year of the reporting date.

3.4.1.3 Inventories that are Part of a Disposal Group In particular, IFRSs require the display of the total amount of inventories on the face of the statement of financial position.[102]

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[100] *AICPA, 2004*. AICPA International Practices Task Force Meeting Highlights, September 27, 2004, *Washington, DC, AICPA, ¶ 3. Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, September 27, 2004).*

[101] *IFRS 5, ¶¶ 2, 3, 5A, 11, 38, 39, Implementation Guidance Example 12, BC10, BC11; IAS 1, ¶¶ 54(j), 54(p); IAS 27 (2010), ¶¶ 38, BC66C; IAS 28 (2010), ¶¶ Footnote to IN9, 13a, 14; IAS 31, ¶¶ Footnote to IN 7, 2a, 42.*

[102] *IAS 1, ¶ 54(g); IAS 2, ¶ 36(b).*

Planning Point: A problem arises when inventories are part of the assets of a disposal group classified as held for sale, which is another minimum item of the statement of financial position. Showing both the amounts would double count inventories. Arguably, either the inventories caption adds a contra-asset line item to deduct the amount already counted in the disposal group or the notes must disclose the total amount of inventories that also include the amount that is part of the disposal group.

3.4.1.4 Presentation under U.S. GAAP Under U.S. GAAP, an entity must separately show a held-for-sale long-lived asset, as well as the assets and the liabilities, separately, of a disposal group classified as held for sale. Unlike IFRS 5, this is possible either in their categories or as part of other assets and other liabilities captions. The ordinary current/noncurrent classification in ARB 43, Ch. 3A applies. Entities may separately display major classes of assets and liabilities of a disposal group classified as held for sale in their respective categories or disclose them in the notes.[103]

3.4.2 Offsetting

As a rule, IFRSs and U.S. GAAP do not permit offsetting assets and liabilities.[104] However, IFRSs require, and U.S. GAAP permits offsetting financial assets and liabilities when an entity has a legal right to set off those amounts and intends to settle them net or gross but simultaneously.[105] Special rules apply to particular topics, such as master settling agreements, offsetting of derivative instruments, repurchase or reverse repurchase agreements, current or deferred taxes, cash or other assets against a tax liability, and other situations. This paragraph does not examine this topic, as it falls outside the scope of this Book.

In January 2011, the FASB and the IASB published a new proposal to eliminate the differences between U.S. GAAP and IFRSs on this subject matter.[106] An entity would offset financial assets and financial liabilities only in the presence of a right of setoff that is enforceable in all circumstances. This would happen when the right of setoff is enforceable even in the event of default and bankruptcy, the entity's ability to exercise such a right is unconditional (i.e., not dependent on a future event), and a demonstrated intention to settle net or in simultaneous gross payments exists. Under the above conditions, offsetting would be mandatory. Otherwise, the entity would have to report gross amounts. Disclosures would include information about rights of setoff, collateral agreements, and their effects on the statement of financial position. The proposal would mainly affect U.S. GAAP entities with large derivative activities, especially banks and financial institutions.

3.4.3 Capital and Reserves

3.4.3.1 Minimum Captions of the Equity Section of the Statement of Financial Position Under U.S. GAAP, the typical stockholders' equity section of the statement of financial position shows at least contributed (or paid-in) capital, retained earnings, and accumulated other

[103] *FASB ASC 205-20-45-10, 205-20-50-1 (FASB Statement No. 144,* Accounting for the Impairment or Disposal of Long-Lived Assets, *¶¶ 46, 47(a)); FASB Statement No. 144, ¶ B120.*
[104] *FASB ASC 210-20-05-1 (APB 10,* Omnibus Opinion – 1966*, ¶ 7.1); IAS 1, ¶ 32.*
[105] *FASB ASC 210-10-45-4 (FASB Interpretation No. 39,* Offsetting of Amounts Related to Certain Contracts, *¶ 5); FASB ASC 210-20-45-2 (APB 10, ¶ 7.1); IAS 32, ¶ 42.*
[106] *FASB, Proposed Accounting Standards Update,* Balance Sheet (Topic 210): Offsetting*; IASB, Exposure Draft,* Offsetting Financial Assets and Financial Liabilities.

comprehensive income, although the presentation of a separate line item for retained earnings is a matter of customary practice. ATB 1 supported a display by source of equity, namely legal capital, additional paid-in capital, and retained earnings.[107] Regulation S-X requires the display of retained earnings as part of other stockholders' equity.[108] Under Subtopic 220-10 (FASB Statement No. 130), accumulated other comprehensive income must be displayed separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. However, the SEC Staff clarified that a foreign private issuer which, under local GAAP, reports items of accumulated other comprehensive income in retained earnings is exempted from reclassifying the components of accumulated other comprehensive income in case this reconstruction is impracticable and it discloses this fact.[109] The *AICPA Accounting Trends & Techniques* reports that in 2009, 2005, and 2002 about 5%, 9%, and 8% of surveyed U.S. GAAP companies, respectively, displayed accumulated balances by component of accumulated other comprehensive income on the face of the statement of financial position. Approximately 60%, 55%, and 36%, respectively, disclosed those components in the notes, while 18%, 15%, and 32% in the statement of changes in equity.[110] Paragraph 3.3.7 previously explains that SEC registrants that have redeemable preferred stock cannot report a stockholders' equity heading inclusive of those items. Form 20-F requires the disclosure of issued capital and other information.[111]

IAS 1 lists "issued capital and reserves" attributable to the controlling interest as one of the minimum line items for display on the face of the statement of financial position.[112]

3.4.3.2 Reconciliation between IFRSs and U.S. GAAP In summary, those minimum line items of the statement of financial position reconcile as follows:

U.S. GAAP	***IFRSs***
Contributed capital	Issued capital and reserves
Retained earnings	
Accumulated other comprehensive income	

or, in more detail:

U.S. GAAP	***IFRSs***
Contributed capital	Issued capital
Retained earnings	Retained earnings
Accumulated other comprehensive income	Other reserves or components of equity

The Exhibits in Paragraph III.E below give details of each specific item.

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[107] *Accounting Terminology Bulletin No. 1,* Review and Resume *(superseded), ¶¶ 65–66, 68, 69.2.*
[108] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.31(a)); FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03.24(a)).*
[109] *FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26); FASB Statement No. 130, ¶ 95; SEC, International, November 1, 2004, ¶ VI.A.*
[110] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-40.*
[111] *Form 20-F, Item 10.A.1.*
[112] *IAS 1, ¶ 54.*

3.4.3.3 Disaggregation Guidance in the Equity Section The IASB Framework specifies that equity components may be shown separately. It welcomes disclosure of equity reserves.[113] IAS 1 requires appropriate subclassifications of classes of equity capital and reserves either in the statement of financial position or in the notes. It also requests a description of the nature and purpose of each reserve within equity either in the statement of financial position or the statement of changes in equity, or in the notes, plus reconciliation of each component of equity in the statement of changes in equity. Additionally, other information may be necessary if relevant to an understanding of the financial statements.[114] Paragraph 4.3.5 below treats the statement of income and retained earnings. Paragraph 6.3.4 below deals with the statement of retained earnings. Paragraph 6.4 focuses on the statement of changes in equity.

Comment: Hence, there is no strict requirement to accumulate components of equity separately on the face of the statement of financial position. IAS 5, superseded, required a separate display for retained earnings.[115] Furthermore, the IFRS for small and medium-sized entities considers the manner of presentation of shares and equity instruments on the face of the statement of financial position, such as whether or not to present par value and share premium separately, as a matter of corporate law.[116] Typically, U.S. practice has a more detailed display of individual classes of equity on the face of the statement of financial position.

An entity that has no equity instruments outstanding and, under Subtopic 480-10 (FASB Statement No. 150) presents all shares as subject to mandatory redemption in the liability section of the statement of financial position, must provide certain information. Contrary to IAS 32, it must separately disclose the components of such instruments that would be par value, additional paid-in capital, retained earnings, accumulated other comprehensive income, had the instruments not been classified as a liability.[117]

3.4.4 Additional Paid-in Capital

U.S. practice has two main formats of presentation of additional paid-in capital accounts: either all together in a separate section, or separately under the section of each related source of contributed capital. Exhibit 3-3 illustrates those alternative display arrangements. However, *The AICPA Accounting Trends & Techniques* illustrates that in 2009 and 2005, respectively, out of the U.S. GAAP companies that reported additional paid-in capital, almost all used the statement of stockholders' equity, with a schedule in the notes ranking as the second most popular method.[118]

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[113] *IASB Framework, ¶ 65.*

[114] *IAS 1, ¶¶ 78, 79, 106(d), 108, 112(c); IAS 19 (2007), ¶ BC48Z; IASB Update, October 2005.*

[115] *International Accounting Standard No. 5,* Information to be Disclosed in Financial Statements *(superseded), ¶ 17.*

[116] *IASB,* International Financial Reporting Standards for Small and Medium-sized Entities*, ¶ 22.10 (2009).*

[117] *FASB ASC 480-10-50-4 (FASB Statement No. 150,* Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, ¶ 28); FASB Statement No. 150, ¶ B60.*

[118] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 5-5.*

Exhibit 3-3 Alternative Displays of Additional Paid-In Capital under U.S. GAAP

A) *Display in a Separate Section:*

Capital stock:
  $. . . convertible preferred stock, $. . . stated value, . . . shares authorized, . . . outstanding
    . . .% cumulative preferred stock, $. . . stated value, callable at $. . . , . . . shares authorized, . . . Outstanding
  Common stock, $. . . stated value, . . . issued, . . . held in treasury
  Less: Subscription receivable
Additional paid-in capital:
  From . . .% cumulative preferred stock
  From common stock
  From treasury stock transactions
  From stock dividends
  From expiration of stock options
  Warrants outstanding
Retained earnings:
  Appropriated for . . .
  Free and unappropriated
Accumulated other comprehensive income
Total stockholders' equity
  Less: Treasury stock at cost
Total liabilities and stockholders' equity

B) *Display in the Sections of Each Related Source of Contributed Capital:*

$. . . convertible preferred stock, $. . . stated value, . . . shares authorized, . . . outstanding
Additional paid-in capital
. . .% cumulative preferred stock, $. . . stated value, callable at $. . . , . . . shares authorized, . . . Outstanding
Additional paid-in capital
Common stock, $. . . stated value, . . . issued, . . . held in treasury
Additional paid-in capital
Other paid-in capital
  From treasury stock transactions
  From stock dividends
  From expiration of stock options
  Warrants outstanding
Total contributed capital
Retained earnings:
  Appropriated for . . .
  Free and unappropriated
Accumulated other comprehensive income
  Less: Subscription receivable
Total stockholders' equity
  Less: Treasury stock at cost
Total liabilities and stockholders' equity

For SEC registrants, FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.31), FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03.24), and FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.22) permit either additional paid-in capital to be shown as part of "Other Stockholders' Equity" or its combination with the related stock captions.

Under IFRSs, share premium need not be shown separately in the statement of financial position (although this is allowed as a subclassification) but in the statement of changes in equity.[119]

> **Comment:** As part of the *Financial Statement Presentation Project*, the IASB and the FASB have discussed whether to locate proceeds from all the capital components of each equity transaction (such as additional paid-in capital) under the same heading of the respective instrument, and whether this would result in loss of information. Furthermore, the Staff suggested modifications to the format of the statement of changes in equity for items reported in additional-paid-in capital under U.S. GAAP and directly in equity under IFRS.[120] Chapter 7 explains the statement of changes in equity, including its components such as share premium.

3.4.5 Treasury Stock

3.4.5.1 U.S. GAAP Presentation Depending on the Accounting Method Used Both U.S. GAAP and IFRSs account for treasury stock as a contra-equity account. From a presentation standpoint under U.S. GAAP, when an entity acquires treasury stock for formal or constructive retirement or if it has not yet taken the decision on its ultimate use (and therefore the entity adopts either the constructive retirement method or the par value method), it deducts treasury stock from the issued capital stock of the same class. When the entity uses the par value method, it deducts par value from capital stock and any excess/deficiency from other paid-in capital or retained earnings. Otherwise, under the cost method, an entity separately shows treasury stock as an unallocated amount: it therefore deducts treasury stock from the total of capital stock, additional paid-in capital, and retained earnings.[121] In practice, under the cost method treasury stock is a deduction from total equity, or alternatively from total stockholders' equity and liabilities, as follows:

. . . Equity items
Less: common stock in treasury [number of] shares at cost
Total stockholders' equity

Or, alternatively:

. . . Total stockholders' equity
Less: common stock in treasury, [number of] shares at cost
Total stockholders' equity and liabilities

An entity must report any excess purchase cost in the retained earnings section when a U.S. state law views it as equivalent to dividends. According to the *AICPA Accounting Trends &*

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[119] *IAS 1, ¶¶ 54, 78, 106.*
[120] *IASB Meeting, January 25, 2007, Agenda Paper 13D,* Statement of Changes in Equity and Other Equity-Related Issues*, ¶¶ 10–16 (January 2007); FASB Meeting, January 31, 2007, Financial Statement Presentation* – Discontinued Operations, Hybrid Entities, and Equity-Related Issues*, ¶¶ 50, 60 (January 2007).*
[121] *APB 6,* Status of Accounting Research Bulletins*, ¶ 12(b).*

Techniques, in 2002–2005 over 92% of surveyed U.S. GAAP companies disclosing treasury stock deducted it from stockholders' equity.

3.4.5.2 Presentation and Disclosure under IFRSs IAS 1 requires disclosure of treasury shares either in the statement of financial position or the statement of changes in equity, or in the notes. IAS 32 permits disclosure either in the statement of financial position or in the notes.[122]

Comment: The presentation of treasury stock under U.S. GAAP depends on the purpose for purchasing, and therefore on the accounting method used, with some variants in practice. On the contrary under IAS 32, separate presentation as deduction from equity on the face of the statement of financial position does not depend on the purpose of acquisition.[123] Furthermore, separate note disclosure is an available option, as an alternative to displaying the amount of treasury stock in the statement of financial position.[124]

Comment: Contrary to U.S. GAAP, IFRSs do not state under what caption within equity an entity must or may report treasury shares. The superseded SIC-16 stated as an example that treasury shares might be presented either as a one-line adjustment of equity or as a deduction from par value and a separate deduction of premium/discounts from other components of equity or as different adjustments to several categories of equity.[125] Depending on IFRS jurisdiction, specific guidance by the local accounting bodies exists.

Example: The Italian accounting body (OIC) suggested the separate display of treasury shares at par value as a deduction from issued capital. The difference between purchase price and par value has to adjust the other component of equity to which it relates. The notes may provide details.[126]

Example: In contrast, a British foreign private issuer in its reply to the SEC Staff's review or its Form 20-F for the fiscal year ended March 31, 2006 explained that the total issued share capital represents a legal amount, which therefore cannot change regardless of the existence of treasury shares.[127]

3.4.5.3 Additional Disclosures Exhibit 3-4 compares treasury stock disclosures under U.S. GAAP and IFRSs. Some of those are simply notes disclosures but are included in the same Exhibit for the sake of completeness.

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122 *IAS 1, ¶ 79; IAS 32, ¶ 34.*
123 *IAS 32, ¶ AG36.*
124 *IAS 32, ¶ 34.*
125 *SIC Interpretation No. 16,* Share Capital – Reacquired Own Equity Instruments (Treasury Shares), *¶ 10.*
126 *OIC – Organismo Italiano di Contabilità,* Guida Operativa per la Transizione ai Principi Contabili Internazionali (IAS/IFRS) *(October 2005), page 100.*
127 *SEC IFRS Reviews. Letter by the SEC, File No. 001-14452, Comment 3 (January 25, 2007). Reply by the company (February 16, 2007).*

Exhibit 3-4 Treasury Stock Disclosures

U.S. GAAP and SEC Rules and Regulations	*IFRSs*
The entity's policy on whether new or treasury shares are used for issuing shares upon share option exercise[1]	[2]
An estimate or the amount or range of shares the entity expects to repurchase for this purpose in the following annual period[1]	Shares reserved for issue under options and contracts for the sale of shares, including terms and amounts[3*]
	IFRS 2 disclosures for share-based payment transactions apply to treasury shares held by an ESOP
Number, book value, and face value of own shares held by the entity or by its subsidiaries[4]	Own shares held by the entity or by its subsidiaries or associates[3,5*]
Changes in treasury shares[6]	Reconciliation of changes in treasury shares[5]
Related party disclosures under FASB Statement No. 57[7]	Related party disclosures under IAS 24 if treasury shares are reacquired from related parties[7,8]

[*]*Disclosure either in the statement of financial position or the statement of changes in equity, or in the notes.*
[1]*FASB ASC 718-10-50-2 (FASB Statement No. 123(R), ¶ A240(k)).*
[2]*Disclosure of policy on treasury shares may be considered part of the disclosures on capital management under IAS 1.*
[3]*IAS 1, ¶ 79 requires disclosure either in the statement of financial position or the statement of changes in equity, or in the notes.*
[4]*Form 20-F, Item 10.A.3.*
[5]*IAS 32, ¶ 34 permits disclosure of treasury shares either in the statement of financial position or in the notes. IAS 1 (Revised 2005), ¶ 97 permitted note disclosure (as opposed to presentation in the statement of changes in equity) for a reconciliation of ending to beginning carrying amount of each component of equity. Now IAS 1, ¶ 106 requires this sort of information in the statement of changes in equity.*
[6]*As part of changes in the equity accounts other than retained earnings at least in the most recent fiscal period and any subsequent interim period presented, as required by APB 12, ¶ 9; FASB ASC 505-10-50-2 (APB 12, ¶ 10), and as part of changes in each class of common shares for each period presented, as required by FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.30).*
[7]*In addition, under FASB Statement No. 57, ¶ 24(f) and IAS 24, ¶ 9(g) a post-employment benefit plan or trust for the benefit of employees is a related party of the entity.*
[8]*IAS 32, ¶ 34.*

Comment: The main purpose for disclosure concerning treasury stock is to make its existence clear to users of financial statements, inform on whether or not such transactions involved related parties, and on their expected use, such as utilization in employee share schemes, resale, or cancellation.

When national laws permit a company to acquire own shares, the EC Second Directive requires disclosure in the annual report of the reasons for treasury share purchase, the number and nominal value of shares purchased and disposed of, both in the period and in total, the corresponding proportion of subscribed capital, and the consideration received or paid.[128]

3.5 CAPTIONS AND LINE ITEMS

3.5.1 Minimum Content on the Face of the Statement of Financial Position

IAS 1 requires certain captions that entities must present on the face of the statement of financial position. Conversely, U.S. GAAP has no standardized minimum requirement for line items

[128] *Second Council Directive 77/91/EEC, Art. 22(2); Fourth Council Directive 78/660/EEC (25 July 1978), Art. 46(d).*

displayed on a balance sheet. Subsection 958-210-45-5 (FASB Statement No. 117) expresses minimum grouping of not-for-profit organizations in conceptual terms of similarity.[129]

Exhibit 3-6 compares the minimum captions of the statement of financial position under IFRSs, U.S. GAAP, and SEC rules and regulations. Exhibit 3-8, Exhibit 3-10, Exhibit 3-12, Exhibit 3-14, and Exhibit 3-16 propose a similar analysis for insurance companies, banks and finance companies, investment companies, employee benefit plans, and real estate companies, respectively. Exhibit 3-5 reports a general key to all these Exhibits. These Exhibits should be read in conjunction with the Exhibits in Paragraph 3.5.2 that list items either to present in the statement of financial position or to disclose in the notes. Under IFRSs, the term "disclosure" does not exclude presentation:[130] hence, display on the face of financial statements is always an option.

Planning Point: Minimum content literally means the display of at least certain line items. Additional detail would ordinarily be in the form of subheadings and subitems. In practice, however, it is not difficult to find entities reporting under IFRSs and presenting a statement of financial position with additional subheadings at the same level of those minimum captions, a situation that is clearly wrong. For most other items, IFRSs generally require disclosure either on the face of the statement or in the notes, or simply note disclosure.

Both IAS 1 and Subsection 205-10-S99-2 (Regulation S-X) exempt immaterial items from separate presentation.[131] Most U.S. GAAP pronouncements also include exemptions from their application to immaterial items.

Comment: IAS 1 places this consideration about immaterial items in the context of disaggregation guidance. However, when explaining the content of the financial statements, the Standard sets minimum line items. Therefore, one may argue that such guidance applies to further disaggregation and aggregation within the minimum content. Conversely, Subsection 210-10-S99-1 (Regulation S-X) requires the minimum content only when applicable.[132]

A pan-European survey on IFRSs 2006 financial statements found that the number of separate captions of assets presented on the face of the statement of financial position varied from five to 54, with an average of 16.7, while for equity and liabilities it ranged from eight to 70, with an average of 21.1.[133]

The Staff Draft of the *Financial Statement Presentation Project* would not mention a list of minimum line items to display on the face of the statement of financial position, apart from certain basic subtotals. The FASB's view is that the new disaggregation guidance makes this unnecessary. Conversely, the IASB would simply transfer those items at the level of specific standards.[134]

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[129] *FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11).*
[130] *IAS 1, ¶¶ IN5, 3, 47, 48.*
[131] *FASB ASC 205-10-S99-2 (Regulation S-X, ¶ 210.4-02); IAS 1, ¶ 29.*
[132] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02).*
[133] *Ineum Consulting, 2008.* Evaluation of the Application of IFRS in the 2006 Financial Statements of EU Companies, Report to the European Commission*, ¶ 5.2. France: Ineum Consulting (hereinafter Ineum 2008 Survey).*
[134] *Staff Draft, ¶¶ 119, Footnote 4, BC145, BC146.*

Exhibit 3-5 General Key to the Exhibits Relating to Items of the Statement of Financial Position

Occurrences mentioned are based on requirements in accounting pronouncements, although they should not be construed as being exclusive. However, the Exhibits may report some nonpromulgated practice in their footnotes. Presentation of other items on the face of the statement may be customary according to current accounting practice. The reconciliation would be adapted to an entity's specific circumstances. The fact that there is no specific separate display or disclosure requirement for a certain item does not mean that entities may not present that item in the financial statements or disclose it in the notes depending on the specific case. Furthermore, under IFRSs and U.S. GAAP an entity may show additional content based on the relevant disaggregation guidance. The Exhibits do not report any items for which accounting pronouncements do not specify any statement or for which they simply require note disclosures.

For convenience, the Exhibits for companies other than in certain specialized industries show a classified statement of financial position (the general rule for IFRSs), by duplicating some items. The categories shown in the first column are based on a classification that accommodates U.S. GAAP, IFRSs, and SEC requirements, with a terminology that is sometimes adapted to reflect common features, and therefore must not be intended as being prescriptive. The Exhibits do not indicate whether companies should present items as headings, captions, line items, or subclassifications, as this depends on the specific circumstances, unless indicated by a specific accounting pronouncement. The sorting order follows that of Regulation S-X for commercial and industrial companies, adapted to include additional captions that may denote common features of IFRSs, U.S. GAAP, and SEC rules and regulations. Therefore, alternative locations in the statement of financial position may be possible. The Exhibits do not report items prescribed by transitional provisions. The Exhibits do not include any statutory accounting practices. For the sake of completeness, the Exhibits may include some references to not-for-profit organizations and not-for-profit business-oriented health care entities.

When the column relating to SEC guidance indicates that there is no specific separate display requirement, this means that there is no requirement in addition to what is stated in U.S. GAAP for nonpublic entities. Form 20-F refers to Regulation S-X for the presentation of financial information in a registration statement or report (Form 20-F, General Instruction B(d)). Therefore, the column relating to SEC guidance is generally also applicable for the purpose of Form 20-F, to the extent to which a foreign private issuer is required to reconcile to U.S. GAAP. For SEC registrants this column is in addition to what is reported in the U.S. GAAP column. Besides specific lines as illustrated, as a general guideline, under ASR No. 41 an SEC registrant must separately disclose items on the face of the statement of financial position when they equal or exceed 10% of their immediate category or 5% of total assets. Finally, foreign private issuers should judge whether presentation in the body of the financial statements is warranted for significant reconciling items in the reconciliation to U.S. GAAP required by Form 20-F (Instruction 1 to Item 17).

When the Exhibits refer to a certain specialized industry, please refer to the chapter on the statement of financial position for a listing of the types of companies in such an industry. The Exhibits do not report items that are common to both specialized industries and other industries, because they have already been shown in the Exhibits applicable to commercial, industrial, and most other companies. Any other requirements appropriate irrespective of the type of industry may apply. The expression "no specialized industry requirement" means that accounting pronouncements for a certain specialized industry do not mandate any specific presentation or disclosure apart from that required of all companies as shown in that Exhibit. When the Exhibit indicates a specific item under specialized industry accounting pronouncements, display or disclosure of additional requirements may still be needed based on general requirements for all types of industries. The column that refers to the SEC guidance "no specialized industry requirement" indicates that there is no requirement in addition to that already stated in the column relating to U.S. GAAP, as applicable. The Exhibits relating to items that an entity may either present on the face of the statement of financial position or disclose in the notes omit items with no specialized industry requirement under all sets of standards.

* *Parenthetical explanation.*

** *Presentation either in the statement of financial position or in the statement of changes in equity, or disclosure in the notes.*

*** *Either presentation in the basic financial statements, or disclosure in separate statements, or in the notes.*

**** *Disclosure in a note or a statement.*

***** *The pronouncement mentions disclosure either in the body of the financial statements or in the notes without specifying any individual financial statement.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Assets	–	–	Yes: assets and other debits
Current assets	c	a	Yes (when appropriate)[b]
Cash and cash equivalents	– Yes[4] – Cash collateral[5]	– Yes[6,7,8] – Current restricted cash[9]	– Yes, Item 1, Cash and cash items[10] – Compensating balances when cash availability is legally restricted[11]

[1]*See general key. This Exhibit focuses on companies other those in certain specialized industries (see specific Exhibits).*
"–" means that there are no specific separate display requirements.
Parenthetical explanation.
[a] *FASB ASC 210-10-05-5 (ARB 43, Ch. 3A, ¶ 3) does not require separate presentation of totals for current assets and liabilities, but takes it as customary in a classified statement of financial position. Entities that present a classified statement of financial position ordinarily also report a total of current assets.*
[b] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02) prescribes a classified balance sheet only when appropriate. In such a case, it requires totalization of current assets and current liabilities.*
[c] *Totalization is not required, although the Implementation Guidance and the examples in IAS 1, IFRS 5, and IAS 41 show it.*
[2]*Items are adapted from IAS 1, ¶ 54, plus other standards as noted.*
[3]*Items are adapted from Regulation S-X, plus other references as noted. Guidance comes from FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02) for commercial and industrial companies, unless differently stated.*
[4]*Under IAS 1, ¶ 66(d), cash and cash equivalents are current assets, unless restricted from exchange or designated to liquidate a liability for at least twelve months after the reporting period.*
[5]*Under IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1), an entity recognizes nonsegregated cash collateral received as an asset against a payable to the transferor.*
[6]*FASB ASC 230-10-45-4 (FASB Statement No. 95, ¶ 7); FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11). According to Table 2-3 of the AICPA ATT 2010 and AICPA ATT 2006, most survey U.S. GAAP companies use a caption for "cash and cash equivalents" (59% in 2009, 88% in 2005, and 84% in 2002). Other expressions, such as "cash" or "cash and equivalents", are residual.*
[7]*Cash and cash equivalents include certificates of deposit with original maturities up to 90 days. Entities must include longer-maturity certificates of deposit that are not debt securities into other short-term investments, or other long-term investments if they are beyond one year (AICPA, TIS Section 2130,* Receivables, *¶ 39).*
[8]*Under FASB ASC 860-30-25-4 (FASB Statement No. 140, ¶ 15, Footnote 4), an entity recognizes a cash collateral received as proceeds. See financial assets and financial liabilities below for master netting arrangements.*
[9]*If restrictions expire in current operations, restricted cash is current assets. Companies generally report them after unrestricted cash equivalents or separately captioned within cash equivalents.*
[10]*Under FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(1)(iii)), cash deposits for repurchase agreements are restricted. The SEC Staff specified that restricted cash warrants a display separate from cash and cash equivalents on the face of the statement of financial position of all companies (Davine, C.Q. (1996)* American Institute of Certified Public Accountants 1996 Twenty-Third National Conference on Current SEC Developments, *¶ E. [Online] Washington, DC: SEC. Available at: www.sec.gov/news/speech/speecharchive/1996/spch080.txt [last accessed: February 5, 2007] – hereinafter Davine 1996 Speech).*
[11]*Based on FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.1) and FASB ASC 210-10-S99 (SEC Staff Accounting Bulletin, Topic 6-H,* Accounting Series Release 148 – Disclosure Of Compensating Balances And Short-Term Borrowing Arrangements*), SEC registrants must segregate compensating balances when cash availability is legally restricted, though related guidance does not explicitly mention separate display. Conversely, an entity must simply provide note disclosure of amounts and terms of compensating balances that do not legally restrict reported cash or that have the purpose of assuring availability of future credit.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Short-term investments	Not required as a minimum caption. It may be part of other current financial assets	Short-term investments[12,13] Required specific items are: – Financial assets that are measured at fair value under the fair value option separately from those not measured at fair value (either through separate line item(s) or through parenthetical explanation)[14*] – Available-for-sale securities and trading securities separately from securities not measured at fair value, such as held-to-maturity securities (either through separate line item(s) or through parenthetical explanation)[15*] – Hybrid financial instruments that are elected to be measured in their entirety at fair value (either presented separately from those measured under other bases or through parenthetical explanation)[16*] – Servicing assets that are subsequently measured at fair value, separately from those assets that are subsequently measured at the amortization method (either through two separate lines or parenthetical explanation of the latter ones)[19] – Noncash financial collateral that the transferee has the right to sell or repledge[20]	– Yes: Item 2, Marketable securities Required specific items are: – A material asset pledge[17] – Securities and other assets arising from reverse repurchase agreements if the aggregate carrying amount exceeds 10% of total assets[18]

[12]*Short-term and long-term investment classification is a matter of accounting practice. Some accounting pronouncements, such as FASB ASC 825-10-55-4 (FASB Statement No. 107, ¶ 32) also mention such terms. The term "marketable securities" is often used in place of short-term investments, e.g., FASB ASC 210-10-45-1 (ARB 43, Ch.3A, ¶ 4).*
[13]*Cash and cash equivalents include certificates of deposit with original maturities up to 90 days. Entities must include longer-maturity certificates of deposit that are not debt securities into other short-term investments, or other long-term investments if they are beyond one year (AICPA, TIS Section 2130, ¶ 39).*
[14]*FASB ASC 825-10-45-1, 825-10-45-2 (FASB Statement No. 159, ¶ 15); FASB Statement No. 159, ¶ A29.*
[15]*FASB ASC 320-10-45-1, 320-10-45-13 (FASB Statement No. 115, ¶¶ 17, 117). Categories of available-for-sale, trading, and held-to-maturity securities may be segregated either through separate presentation in the statement of financial position or disclosure in the notes.*
[16]*FASB ASC 815-15-45-1 (FASB Statement No. 133, ¶ 44A).*
[17]*FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J,* Push Down Basis of Accounting Required in Certain Limited Circumstances, *Footnote 10) requires the display of a material asset pledge (including nonfinancial assets) on the face of the statement of financial position, even parenthetically.*
[18]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(2)(i)(A)).*
[19]*FASB ASC 860-50-45-1, 860-50-45-2 (FASB Statement No. 140, ¶ 13B); FASB Statement No. 156, ¶ 4.f.*
[20]*FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 15.a); FASB Special Report, A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, ¶¶ 114, 115.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Short-term investments (*continued*)		– Elective accounting policy to offset derivative instruments measured at fair value and a cash collateral receivable or payable arising from such derivative instruments executed with the same counterparty under a master netting arrangement[21] – Patrons' investment in agricultural cooperatives: retains that are to be redeemed in the current year[22]	
Accounts and notes receivable	Trade and other receivables caption, except those that are part of other current financial assets Required specific items are: – Gross amount due from customers for contract work[23] – Current portion of receivable for a lessor's net investment in finance leases[24]	Yes[25] Required specific items are: – Deduction for unearned discounts other than cash or quantity discounts, finance charges, and interest included in the face amount[26] – Loans or trade receivables may be presented as aggregate amounts, but receivables held for sale must be in a separate line[27] – Receivables for Federal Government contracts[28] – Advances received before termination of Federal Government contract, displayed as a deduction from claim receivable[29]	Yes, Item 3, Accounts and notes receivable Required specific items are: – Customers (trade) – Related parties[d] – Underwriters – Promoters and employees (other than related parties) other than ordinary course of business – Others

[21]*FASB ASC 815-10-45-5, 815-10-45-6 (FASB Interpretation No. 39, ¶¶ 10, 10A).*
[22]*FASB ASC 905-325-30-3, 905-325-45-1 (AICPA Audit and Accounting Guide,* Agricultural Producers and Cooperatives*, ¶ 6.92). The pronouncement mentions classification, not separate presentation.*
[23]*IAS 11, ¶ 42. The Standard does not explain under what caption an entity should display this item and does not mention whether it should present is in a separate item. Therefore, the entity might show this within a separate caption. IFRIC Update, June 2005 concluded that in a context of concession arrangements the gross amount due from customers is a financial asset.*
[24]*IAS 17, ¶ 36. It does not mention separate presentation.*
[25]*FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11) specifically requires this line for not-for-profit organizations. According to AICPA ATT 2006 and AICPA ATT 2010, ¶ Table 2-5, in 2002, 2005 about 46% and in 2009 about 48% of surveyed U.S. GAAP companies used the accounts receivable caption. In 2009 and 2005, approximately 22% used the title "receivables" (21% in 2002), 21% in 2009 (16% in 2005 and 20% in 2002) "trade accounts receivable", and between 8% and 10% "accounts and notes receivable", while the remaining companies used no caption.*
[26]*FASB ASC 310-10-45-8 (ARB 43, Ch. 3A, ¶ 10).*
[27]*FASB ASC 310-10-45-2 (AICPA Statement of Position No. 01-6,* Accounting by Certain Entities (Including Trade Receivables) That Lend to or Finance the Activities of Others*, ¶ 13.e).*
[28]*FASB ASC 912-310-45-1 (AICPA Audit and Accounting Guide, FGC, ¶ 3.68).*
[29]*FASB ASC 912-310-45-4 (ARB 43, Ch.11C, ¶ 6).*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accounts and notes receivable (*continued*)		– For cost-plus-fixed-fee government contract receivables, separate display of: • billed accounts receivable • unbilled costs and fee[30] – A material terminated war and defense contract claim[31] – Lessor's net investment in direct financing and sales-type leases – current portion[32] – For health care entities:[33] • receivables net of allowance for doubtful accounts • amounts due from third-party payors for retrospective adjustments such as final settlements or appeals	
Related party receivables	–	– Notes and accounts receivable from officers, employees, or affiliated companies, to be show separately and not under a general heading[34]	See above[d]
Unearned income	–	–	Yes: Item 5
Other current financial assets	Yes Required specific items are: – Hedged item gain or loss in a portfolio hedge of interest rate risk[35] – Noncash financial collateral that the transferee has the right to sell or repledge[36]	–	Yes: Item 8

[30]*FASB ASC 912-310-25-1, 912-310-25-2 (ARB 43, Ch. 11A, ¶¶ 4, 21).*
[d]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*
[31]*FASB ASC 912-310-50-2, 912-310-45-6 (ARB 43, Ch. 11C, ¶¶ 5, 21).*
[32]*FASB ASC 840-30-25-7, 840-10-55-40 (FASB Statement No. 13, ¶¶ 18, Appendix D).*
[33]*FASB ASC 954-310-45-1 (AICPA Audit and Accounting Guide,* Health Care Organizations, *¶ 5.21).*
[34]*FASB ASC 310-10-45-13, 850-10-50-2 (ARB 43, Ch. 1A, ¶ 5).*
[35]*IAS 39, ¶ 89A. If the entity uses a classified statement of financial position, classification as current or noncurrent would depend on classification of related financial assets or financial liabilities.*
[36]*IFRS 7, ¶ 14; IFRS 9, ¶¶ 3.2.23(a), B3.2.16; IAS 39, ¶¶ 37, AG51, for example including loaned assets, pledged equity instruments, and repurchase receivables.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Current tax assets	Yes	–	Part of accounts and notes receivable (item 3) or other current assets (item 8)
Deferred tax assets	No[e]	Deferred tax assets[37] May be shown in the other assets caption	Not explicitly stated. As subclassification of other current assets
Current biological assets	Yes – For small and medium-sized entities: • current biological assets carried at fair values though profit or loss • current biological assets measured at cost model[38]	–	–
Inventories	Yes	Yes[39] Required specific items are: – Cost of uncompleted contracts in excess of related billings, under the completed-contract method of accounting for construction contracts[40] – Costs and recognized income not yet billed, under the percentage-of-completion method of accounting for construction contracts[41] – Costs of undelivered units under the units-of-delivery method of accounting for construction contracts, reported as inventory, or work in progress[42] – Advances that are not payments on account of construction contract work in progress, shown as a deduction[43] – Inventory consigned to others[44] – LIFO valuation allowance to adjust another base to LIFO	Yes: Item 6 A required specific item is: For extractive industries: – Materials on the "leach pad", reported separately from inventories if material[45]

[e] *IAS 1, ¶ 56 does not show deferred taxes as current items.*
[37] *FASB Statement No. 37,* Balance Sheet Classification of Deferred Income Taxes*, ¶ 7; FASB ASC 740-10-45-4 (FASB Statement No. 109, ¶ 41). Although these pronouncements require presentation of the current and noncurrent portions of deferred income taxes, they do not specify whether a separate line must be used.*
[38] *IFRS for SMEs, ¶ 4.2.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Prepaid expenses and deferred charges	Part of trade and other receivables or other current assets[46]	[47] – Deposits, prepayments[48] – Issue cost of notes payable[49] – Allowable costs that are deferred for future recovery and capitalized under phase-in plans[50] – Environmental costs or other incurred cost that meet the capitalization criteria for rate-regulated enterprises[51] – For health care entities:[52] • current prepaid expenses, prepaid costs, deposits, and deferred expenses	Yes: Item 7
Certain assets of a variable interest entity (VIE) (by asset line)	Not applicable	By asset line item, assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE[53*]	–

[39] *FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11); FASB ASC 330-10-20 (ARB 43, Ch. 4, ¶ 1).*
[40] *FASB ASC 605-35-45-4 (ARB 45, ¶ 12). The pronouncement does not suggest the use of terms such as inventory or work in progress.*
[41] *FASB ASC 605-35-45-3 (ARB 45, ¶ 5). The pronouncement does not state separate presentation. It does not explain whether this item may be shown within inventories or another caption, but it simply mentions classification as current item. FASB ASC 605-35-25-24.605-35-25-41 (AICPA Statement of Position No. 81-1, ¶¶ 69, 75) refer to work in progress or inventory.*
[42] *FASB ASC 605-35-25-55 (AICPA Statement of Position No. 81-1, ¶ 4).*
[43] *FASB ASC 910-405-45-2 (AICPA Audit and Accounting Guide,* Construction Contractors, *¶ 6.19).*
[44] *FASB ASC 605-10-S99-1 (SEC Staff Accounting Bulletin, Topic 13-A.2),* Persuasive Evidence of an Arrangement.
[45] *AICPA, 2003.* AICPA International Practices Task Force Meeting Highlights, March 4, 2003*, Washington, DC, AICPA, ¶ Appendix. [Online] Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, March 4, 2003).*
[46] *Based on accounting practice, entities might also show prepaid expenses in other current assets or in a separate caption. An example of the former situation is in Novartis AG, December 2008,* Consolidated Balance Sheets*, Switzerland: Novartis AG cited in AICPA IFRS ATT 2009, ¶ 2.24.*
[47] *According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-11, most of the survey U.S. GAAP companies that present prepaid expenses through a separate caption use the expression "prepaid expenses and other current assets" (63% in 2009, 59% in 2005, and 58% in 2002). "Prepaid expenses" is the second most used caption (22% in 2009, 26% in 2005, and 28% in 2002).*
[48] *FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11).*
[49] *FASB ASC 835-30-45-3 (APB 21, ¶ 16).*
[50] *FASB ASC 980-340-25-3, 980-340-45-1, 980-340-55-37 (FASB Statement No. 92, ¶¶ 5, 10, 24). Presentation of allowable costs that are deferred for future recovery and capitalized under phase-in plans in the Other assets category is possible.*
[51] *FASB ASC 980-340-25-1 (FASB Statement No. 71, ¶ 9); FASB ASC 980-410-S99-1 (SEC Staff Accounting Bulletin, Topic 10-F,* Presentation of Liabilities for Environmental Costs*). Other lines of presentation are possible.*
[52] *FASB ASC 954-340-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 6.03).*
[53] *FASB Statement No. 167, ¶ A81; FASB ASC 810-10-45-25 (FASB Interpretation No. 46(R), ¶ 22A, as amended by FASB Statement No. 167 and by FASB Accounting Standards Update No. 2009-17,* Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*). Separate line items for each asset in the VIE or parenthetical presentation are available options.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other current assets	[54]	– Asset for rights acquired by a licensee under a broadcast license agreement – current portion[55]	Yes: Item 8 For extractive industries: • materials on the "leach pad", if not material[56]
Long-lived assets to be disposed of by sale	Required specific items are:[57] – A noncurrent asset classified as held for sale – Assets of a disposal group classified as held for sale[58] – A noncurrent asset or assets of a disposal group that is classified as held for distribution to owners[59] – A noncurrent asset, disposal group or investment that is acquired exclusively with a view to resale and classified as held for sale on acquisition[60] – In separate financial statements, an investment in a subsidiary, associate, or jointly controlled entity that is classified as held for sale[61]	May be shown in their categories or as part of other assets Required specific items are: – A long-lived asset classified as held for sale – Assets of a disposal group classified as held for sale[62]	–
Total current assets	No[c]	[a]	Yes: Item 9 (when appropriate)[b]
Securities of related parties	– Equity method investment (as a minimum line item)[63] – Strategic investments accounted for under IAS 28 or IAS 31[65] – For small and medium-sized entities: • investments in associates • investments in jointly-controlled entities[66]	– Equity method investment[64] – Patrons' investment in agricultural cooperatives: retains that are not to be redeemed in the current year[67]	Yes: Item 10[d] – Deduction for deferred gains, including deferred interest or dividend income on highly leveraged entity securities received[68]

[54] *However, IAS 1, ¶ IG6 shows this caption.*
[55] *FASB ASC 920-350-45-1 (FASB Statement No. 63, ¶ 3).*
[56] *IPTF, March 4, 2003, ¶ Appendix.*
[57] *AICPA IFRS ATT 2009, ¶ Table 6-1 illustrates that 45% of surveyed companies report assets classified as held-for-sale.*
[58] *IFRS 5, ¶¶ 38, Implementation Guidance Example 12; IAS 1, ¶ 54(j).*
[59] *IFRS 5, ¶¶ 5A, 12A, 38.*
[60] *IFRS 5, ¶¶ 3, 11.*
[61] *IFRS 5, ¶¶ 2, 38; IAS 27 (2010), ¶¶ 38, BC66C; IAS 28 (2010), ¶¶ Footnote to IN9, 13a, 14; IAS 31, ¶¶ Footnote to IN 7, 2a, 42.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Debt of related parties	[69]	Equity method investment[70]	Yes: Item 11, Indebtedness of related parties – not current[d]
Long-term investments	As part of other noncurrent financial assets Required specific items are: – Noncurrent noncash financial collateral that the transferee has the right to sell or repledge[71]	Long-term investments[72,73] Required specific items are: – Noncurrent financial assets that are measured at fair value under the fair value option separately from those not measured at fair value (either through separate line item(s) or through parenthetical explanation)[74*]	Yes: Item 12, Other investments

[62]*FASB ASC 205-20-45-10 (FASB Statement No. 144, ¶ 46). Based on FASB Statement No. 144, ¶ B120, current/noncurrent classification follows the general rule under ARB 43, Ch.3A.*
[63]*IAS 1, ¶ 54(e) and IAS 28 (2010), ¶ 38 require separate presentation (under IAS 28, separate disclosure). When under IAS 31(prior to IFRS 11) entities use proportionate consolidation of a jointly controlled entity, they must show separate lines of assets and liabilities. No requirement exists for separate presentation of investment in associates and investment in jointly controlled entities accounted for at equity method.*
[64]*FASB ASC 323-10-45-1, 323-10-45-1 (APB 18, ¶¶ 11, 19(c)). However, under the practice of using proportionate consolidation for investments in separate legal entities in the construction and extraction of mineral resources, entities may show separate lines of major assets and liabilities or their captions (FASB ASC 910-810-45-1 (EITF Issue No. 00-1,* Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures, *¶¶ 2, 4)).*
[65]*According to IAS 39, ¶ AG3, as amended by IFRS 11, depending on circumstances an entity may account for an equity investment held for strategic purposes either at the equity method under IAS 28, or as a proportionately consolidated or equity method joint venture under IAS 31 (prior to IFRS 11), or as an investment at fair value through other comprehensive income under IFRS 9 ¶¶ 5.4.1, 5.4.4. In the latter instance, IFRS 7, ¶ 8(h) requires either presentation in the statement of financial position or disclosure in the notes.*
[66]*IFRS for SMEs, ¶ 4.2.*
[67]*FASB ASC 905-325-30-3, 905-325-45-1 (AICPA Audit and Accounting Guide, APC, ¶ 6.92). The pronouncement mentions classification, not separate presentation.*
[68]*SEC Staff Accounting Bulletin, Topic 5-U,* Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity*, removed by SAB 112, ¶ 2.d as deemed no longer necessary, and superseded by FASB Accounting Standards Update No. 2010-22,* Accounting for Various Topics – Technical Corrections to SEC Paragraphs, An Announcement Made by the Staff of the U.S. Securities and Exchange Commission*, ¶ 4.*
[69]*Under IAS 28 (2010), ¶¶ 29, BC18, this might be part of the amount of in-substance net investment in an associate for the purpose of equity loss pick up.*
[70]*It might include an equity method investment applied to an investment that is in-substance common stock under FASB ASC 323-10-15 (EITF Issue No. 02-14,* Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock*).*
[71]*IFRS 7, ¶ 14; IAS 39, ¶¶ 37, AG51, for example including loaned assets, pledged equity instruments, and repurchase receivables.*
[72]*Short-term and long-term investment classification is a matter of accounting practice. Such terms are also found in accounting pronouncements, such as FASB ASC 825-10-55-4 (FASB Statement No. 107, ¶ 32).*
[73]*Cash and cash equivalents include certificates of deposit with original maturities up to 90 days. Entities must include longer-maturity certificates of deposit that are not debt securities into other short-term investments, or other long-term investments if they are beyond one year (AICPA, TIS Section 2130, ¶ 39).*
[74]*ASC 825-10-45-1, 825-10-45-2 (FASB Statement No. 159, ¶ 15); FASB Statement No. 159, ¶ A29.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term investments (*continued*)	– Reimbursement rights that do not qualify as employee benefit plan assets, such as from an insurance policy that is not a qualifying insurance policy[75] – Noncurrent portion of receivable for a lessor's net investment in finance leases[76]	– Noncurrent available-for-sale securities separately from held-to-maturity securities (either through separate line item(s) or through parenthetical explanation)[77*] – Unamortized balance of net nonrefundable fees and costs for loan origination, commitment and others, to be reported as part of the loan balance[78] – Loans and trade receivables not held for sale (i.e., that management has the intent and ability to hold for the foreseeable future or until maturity or payoff), to be presented net of any chargeoffs, allowances for loan losses or doubtful accounts, deferred fees or costs on originated loans, unamortized premiums or discounts on purchased loans[79] – A lessor's investment in a leveraged lease[80] – Noncurrent servicing assets that are subsequently measured at the amortization method and those assets that are subsequently measured at fair value (either through two separate lines or parenthetical explanation of the latter ones)[82] – For not-for-profit organizations: • cash and contributions receivable restricted by donors to investment in land, buildings, and equipment[83]	– A material asset pledge[81*]

[75]*IAS 19 (2011), ¶¶ 116, 118; IAS 19 (2007), ¶¶ IN6(g), 104A, 104C.*
[76]*IAS 17, ¶ 36. It does not mention separate presentation.*
[77]*FASB ASC 320-10-45-1, 320-10-45-13 (FASB Statement No. 115, ¶¶ 17, 117). Entities may segregate categories of available-for-sale, trading, and held-to-maturity securities either through separate presentation in the statement of financial position or disclosure in the notes.*
[78]*FASB ASC 310-20-45-1 (FASB Statement No. 91, ¶ 21); FASB ASC 310-20-50-3 (FASB Implementation Guides – Q&A 91, ¶¶ 59, 63).*
[79]*FASB ASC 310-10-45-2 (AICPA Statement of Position No. 01-6, ¶ 8.a).*
[80]*FASB ASC 840-30-25-8 (FASB Statement No. 13, ¶ 43); FASB ASC 255-10-55-8 (FASB Statement No. 89, ¶ 103). The pronouncements do not indicate a specific line. Arguably, other asset captions may also be used.*
[81]*FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J, ¶ Footnote 10) requires the display of a material asset pledge (including nonfinancial assets) on the face of the statement of financial position, even parenthetically.*
[82]*FASB ASC 860-50-45-1, 860-50-45-2 (FASB Statement No. 140, ¶ 13B); FASB Statement No. 156, ¶ 4.f.*
[83]*FASB ASC 958-205-05-3, 958-205-55-7 (FASB Statement No. 117, ¶¶ 4, 156). Entities must place these items closer to land, buildings, and equipment.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term investments (*continued*)		– For not-for-profit organizations: cash and cash equivalents of permanent endowment funds held temporarily for long-term investment opportunities[84] – Cash and cash equivalents that are not withdrawable or usable for current operations, such as assigned for the acquisition or construction of noncurrent assets or for the payment of long-term debts, sinking funds or other noncurrent liabilities[85] – Noncurrent noncash financial collateral that the transferee has the right to sell or repledge[86] – Cash surrender value of life insurance policies[87] – Investments in life settlement contracts by third-party investors measured at fair value, separately from those accounted for under the investment method (either through separate line item(s) or through parenthetical explanation)[88*] – For health care entities:[89] • property held for investment purposes, presented as part of investments	

[84]*FASB ASC 958-205-05-3, 958-205-55-7 (FASB Statement No. 117, ¶¶ 4, 156).*
[85]*FASB ASC 210-10-45-4 (ARB 43, Ch. 3A, ¶ 6). Generally presented in other assets or under long-term investments.*
[86]*FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 15.a); FASB Special Report, A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, ¶¶ 114, 115.*
[87]*FASB ASC 325-30-25-1 (FASB Technical Bulletin No. 85-4,* Accounting for Purchases of Life Insurance*, ¶ 2). This item is also found within the Other assets caption.*
[88]*FASB ASC 325-30-45-1 (FASB Staff Position FTB 85-4-1,* Accounting for Life Settlement Contracts by Third-Party Investors*, ¶ 9). This item is also found within the Other assets caption.*
[89]*FASB ASC 954-325-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 6.07).*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Investment property	Yes – Lessor's real property subject to operating leases[90] – For small and medium-sized entities: • investments property carried at fair value model[91]	No such category Generally classified under PP&E. Also see long-term investments or other assets[92]	–
Property, plant, and equipment	Yes Required specific items are: – Classes that are carried at cost and those that are measured at revaluation model, separately[93] – Lessor's assets subject to operating leases[94]	Yes[95] Required specific items are: – Premises and equipment, net of accumulated depreciation[96] – Foreclosed and repossessed assets, either separately or in other assets[97] – Operating leases for the lessor, together or near property, plant, and equipment[98] – Collections that are capitalized prospectively, mentioning starting date of acquisition[99] – Deferred investment tax credit, as a deduction[100] – Record masters cost borne and capitalized by a record company[101]	Yes: Item 13 Required specific items are: – For entities that follow the full cost method of accounting for oil and gas producing activities, capitalized costs of unproved properties and major development projects that are excluded from the amortizable development costs[102] – Deferred stripping cost asset in mining activities[103]

[90]*IAS 17, ¶ 49; IAS 40, ¶¶ 8(c), 8(d).*
[91]*IFRS for SMEs, ¶ 4.2.*
[92]*U.S. GAAP for nonspecialized industry accounting does not use the term "investment property".*
[93]*IAS 1, ¶ 59.*
[94]*IAS 17, ¶ 49.*
[95]*FASB ASC 958-210-45-5 (FASB Statement No. 117, ¶ 11) specifically requires this line for not-for-profit organizations.*
[96]*FASB ASC 942-360-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.18).*
[97]*FASB ASC 310-10-45-3 (AICPA Statement of Position No. 01-6, ¶ 13.f). Inclusion of foreclosed or repossessed assets in the Other assets category is possible in conjunction with details in the notes. Separate classification does not apply to inventory and other repossessed assets to be reused in operations.*
[98]*FASB ASC 840-20-45-2 (FASB Statement No. 13, ¶ 19).*
[99]*FASB ASC 958-360-45-3 (FASB Statement No. 116, ¶ 27).*
[100]*FASB Statement No. 109, ¶¶ 116-117; FASB ASC 740-10-25-45, 740-10-25-46, 740-10-45-27, 740-10-45-28 (APB 2, ¶¶ 13-16); FASB ASC 740-10-50-20 (APB 4, ¶ 11). This is the preferred display method. Alternatively, entities may show deferred tax credit as deferred income. In both cases, amortization is over the life of the related asset. The flow-through method, which reduces depreciation and income tax expense, is also acceptable. In any event, an entity must give disclosure of material amounts.*
[101]*FASB ASC 928-340-50-1 (FASB Statement No. 50,* Financial Reporting in the Record and Music Industry*, ¶ 14).*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Intangible assets	Yes Additional items are: – Goodwill – Other intangible assets[104] – Classes that are carried at cost and those that are measured at revaluation model, separately[105]	Yes[106] Required specific items are: – Unamortized computer software costs[107] – Goodwill[108] – Asset for rights acquired by a licensee under a broadcast license agreement – noncurrent portion[109] – Film costs, classified as noncurrent[110]	Yes: Item 15 Required specific items are: – Separately, any class in excess of 5% of total assets – The basis used
Noncurrent biological assets	Yes – For small and medium-sized entities: • noncurrent biological assets carried at fair values though profit or loss • noncurrent biological assets measured at cost model[111]	–	–
Deferred tax assets	Yes[e]	– Noncurrent deferred tax assets.[112] They may be included in the other assets caption	Not explicitly stated. Shown as subclassification of the other assets caption

[102]*FASB ASC 932-10-S99-1 (Regulation S-X, ¶ 210.4-10(c)(7)(ii)). Classification may be within intangible assets to the extent of items that are determined to be intangible assets.*
[103]*AICPA, 2002.* AICPA International Practices Task Force Meeting Highlights, November 25, 2002*, Washington, DC, AICPA, ¶ Appendix, II. [Online] Available at: www.aicpa.org [last accessed December 24, 2006] (hereinafter IPTF, November 25, 2002).*
[104]*IFRSs does not mandate separate presentation. However, IAS 1, ¶ IG6 shows it. ICAEW 2007 Survey, ¶ 21.3 explains that 18 out of 20 survey companies either displayed goodwill on the face of the statement of financial position or disclosed it in the notes.*
[105]*IAS 1, ¶ 59.*
[106]*FASB ASC 350-30-45-1 (FASB Statement No. 142, ¶ 42); FASB Statement No. 142, ¶ B177.*
[107]*FASB ASC 985-20-50-1 (FASB Statement No. 86, ¶ 11(a)); FASB ASC 985-20-45-2 (Implementation Guides Q&A 86,* Computer Software: Guidance on Applying Statement 86*, ¶ 21). Also see the Other assets caption.*
[108]*FASB ASC 350-20-45-1 (FASB Statement No. 142, ¶ 43).*
[109]*FASB ASC 920-350-45-1 (FASB Statement No. 63, ¶ 3).*
[110]*FASB ASC 926-20-25-1, 926-20-45-1 (AICPA Statement of Position No. 00-2,* Accounting by Producers or Distributors of Films*, ¶¶ 29, 51).*
[111]*IFRS for SMEs, ¶ 4.2.*
[112]*FASB Statement No. 37, ¶ 7; FASB ASC 740-10-45-4, 740-10-45-6 (FASB Statement No. 109, ¶¶ 41, 42). Although these Standards require presentation of the current and noncurrent portions of deferred income taxes, they do not specify whether to use a separate line.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other assets	–	Required specific items are: – Unamortized costs of computer software to be sold, leased, or otherwise marketed[113] – Construction contract retainage not collectible within the longer of one year or the operating cycle[114] – Allowable costs that are deferred for future recovery and capitalized under phase-in plans[115] – Notes and accounts receivable from officers, employees, or affiliated companies, to be shown separately and not under a general heading[116] – Lessor's net investment in direct financing and sales-type leases – noncurrent portion[117] – In connection with environmental remediation liabilities:[118] • receivable for other potential responsible parties (PRPs) that are not providing initial funding • anticipated recoveries from insurers • anticipated recoveries from prior owners as a result of indemnification agreements – Noncurrent restricted cash[119] – For healthcare entities: • cash and claims to cash:[120] > restricted as to withdrawal or use for other than current operation > designated for expenditure in the acquisition or construction of noncurrent assets > required to be segregated for the liquidation of long-term debt > limited to long-term use by a donor-imposed restriction • noncurrent prepaid expenses, prepaid costs, deposits, and deferred expenses[121]	Yes: Item 17

[113]*FASB ASC 985-20-50-1 (FASB Statement No. 86, ¶ 11). FASB ASC 985-20-45-2 (FASB Implementation Guides – Q&A 86, ¶ 21) states that long-lived capitalized software is an intangible asset. However, it does not state whether entities must show a separate item. Also see intangible assets caption. AICPA ATT 2010 ¶ 2.83 and AICPA ATT 2006, ¶ 2.86 found out that many U.S. GAAP companies present capitalized software costs either in Property, Plant, and Equipment or in the Other noncurrent assets caption in their financial statements.*
[114]*FASB ASC 910-310-45-1 (AICPA Audit and Accounting Guide, CC, ¶ 6.28). The pronouncement does not state separate presentation.*
[115]*FASB ASC 980-340-50-2, 980-340-55-37 (FASB Statement No. 92, ¶¶ 10, 24). Presentation of allowable costs that are deferred for future recovery and capitalized under phase-in plans in the Other assets category is possible.*
[116]*FASB ASC 310-10-45-13, 850-10-50-2 (ARB 43, Ch. 1A, ¶ 5).*
[117]*FASB ASC 840-30-25-7, 840-10-55-40 (FASB Statement No. 13, ¶¶ 18, Appendix D).*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Certain assets of a variable interest entity (VIE) (by asset line)	Not applicable	By asset line item, assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE[122*]	–
Total noncurrent assets	[c]	–	–
Total assets	[c]	[123]	Yes: Item 18
Equity and Liabilities	[124]	[125]	Liabilities and stockholders' equity
Current liabilities	[c]	Yes[126]	Yes (when appropriate)[b]
Accounts and notes payable	Trade and other payables caption, except those that are part of financial liabilities[127]	Items often found[128] Required specific items are: – Obligations under capital lease for a lessee[129]	Yes: Item 19, Accounts and notes payable Required specific items are: – Banks for borrowing

[118]*FASB ASC 410-30-45-1 (AICPA Statement of Position No. 96-1,* Environmental Remediation Liabilities*, ¶ 144). However, it does not explicitly indicate separate presentation.*
[119]*Under U.S. GAAP, companies generally include noncurrent restricted cash and cash equivalents in other assets or under long-term investments.*
[120]*FASB ASC 954-305-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 3.01).*
[121]*FASB ASC 954-340-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 6.03).*
[122]*FASB Statement No. 167, ¶ A81; FASB ASC 810-10-45-25 (FASB Interpretation No. 46(R), ¶ 22A, as amended by FASB Accounting Standards Update No. 2009-17,* Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*).*
[123]*FASB ASC 958-210-45-1 (FASB Statement No. 117, ¶ 10) requires separate presentation of such totalization for not-for-profit entities.*
[124]*Totalization is not required, although the guidance and examples in IFRS 5, IAS 1, and IAS 41 show it. IFRSs display and make use of the expression* total equity and liabilities *(not* liabilities and shareholders' equity*).*
[125]*U.S. GAAP pronouncements generally use equity and liabilities separately. Only a few standards display or employ the terminology* liabilities and stockholders' equity *or* liabilities and equity*, such as FASB ASC 976-605-55-11 (FASB Statement No. 66,* Accounting for Sales of Real Estate*, ¶ Appendix D.95); FASB ASC 355-10-55-53 (FASB Statement No. 89,* Financial Reporting and Changing Prices*, ¶ Appendix A.73); FASB ASC 230-10-55-19, 942-230-55-4 (FASB Statement No. 95,* Statement of Cash Flows*, ¶¶ Appendix C.133, 148); FASB ASC 944-605-55-11 (FASB Statement No. 113,* Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, ¶ Appendix B.120); FASB ASC 220-10-55-17 (FASB Statement No. 130, ¶ Appendix B.131); FASB Statement No. 133, ¶ Appendix C.225; FASB ASC 250-10-55-11 (FASB Statement No. 154,* Accounting Changes and Error Corrections *– a replacement of APB Opinion No. 20 and FASB Statement No. 3, ¶ A7).*
[126]*FASB ASC 210-10-45-5 (FASB Statement No. 6, ¶ 15) requires totalization of current liabilities if the entity presents a classified statement of financial position. FASB ASC 210-10-05-5 (ARB 43, Ch. 3A, ¶ 3) does not require separate presentation of totals for current assets and liabilities, but it takes it as customary in a classified statement of financial position.*
[127]*ICAEW 2007 Survey, ¶ 17.7 found out that all survey banks separately presented deposits by banks and customers.*
[128]*According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-23, in the period 2002–2009 approximately 77% of the survey U.S. GAAP companies used an "accounts payable" caption and 13–16% a "trade accounts payable" caption.*
[129]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 840-30-45-1 (FASB Statement No. 13, ¶ 13).*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accounts and notes payable (*continued*)		– A payable under securities borrowing and resale agreement transactions[130] – Termination loans on Federal Government contracts, with cross-reference to the related claims[131]	– Factors or other financial institutions for borrowings – Holders of commercial paper[132] – Trade creditors – Related parties – Underwriters, promoters, and employees (other than related parties) – Others – Aggregate liabilities incurred including accrued interest payable arising from repurchase agreements if the greater of carrying or market value of related securities or other assets sold exceeds 10% of total assets[133]
Other financial liabilities	Yes A required specific item is: – Hedged item gain or loss in a portfolio hedge of interest rate risk[134] – Current portion of finance lease liability[135]	[136] Required specific items are: – Financial liabilities that are measured at fair value under the fair value option separately from those not measured at fair value (either through separate line item(s) or through parenthetical explanation)[137*] – Hybrid financial instruments that are elected to be measured in their entirety at fair value (either presented separately from those measured under other bases or through parenthetical explanation)[138*]	Not a specific item. It is part of accounts and notes payable (item 19) or other current liabilities (item 20)

[130]*FASB ASC 860-30-50-1A, 860-30-55-3 (FASB Statement No. 140, ¶¶ 17.a(2), 95); FASB Special Report, A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, ¶ 116.*

[131]*FASB ASC 912-405-45-4 (ARB 43, Ch. 11C, ¶ 22).*

[132]*An entity may either present these three subclassifications in the statement of financial position or disclose them in the notes.*

[133]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶¶ 210.4-08(m)(1)(i)).*

[134]*IAS 39, ¶ 89A. If the entity uses a classified statement of financial position, classification as current or noncurrent would depend on classification of related financial assets or financial liabilities.*

[135]*IAS 17, ¶ 23. It does not mention separate presentation.*

[136]*According to Table 2-26 of the AICPA ATT 2010 and AICPA ATT 2006, in 2009, 46% of surveyed U.S. GAAP companies (49% in 2005 and 47% in 2002) reported a "current portion of long-term debt" caption. Approximately 31–33% called it "current maturities of long-term debt". A minor number of them used terms such as "current amount of long-term leases", "long-term debt due or payable within one year", "current installment of long-term debt", or other titles.*

[137]*FASB ASC 825-10-45-1, 825-10-45-2 (FASB Statement No. 159, ¶ 15); FASB Statement No. 159, ¶ A29.*

[138]*FASB ASC 815-15-45-1 (FASB Statement No. 133, ¶ 44A).*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other financial liabilities (*continued*)		– Servicing liabilities that are subsequently measured at fair value separately from those liabilities that are subsequently measured at the amortization method (either through two separate lines or parenthetical explanation of the latter ones)[139] – A recourse obligation on a transfer of receivables[140] – Elective accounting policy to offset derivative instruments measured at fair value and a cash collateral receivable or payable arising from such derivative instruments executed with the same counterparty under a master netting arrangement[141]	
Current tax liability	Yes	–	It is part of other current liabilities (item 20)
Deferred tax liability	No[e]	Current portion of deferred tax liability[142]	It is part of other current liabilities (item 20)
Short-term provisions	Yes[143]	– Loss contingencies that meet accrual criteria[144] – Significant provisions for losses on construction contracts, if not deducted from the related accumulated costs[145]	It is part of other current liabilities (item 20)

[139]*FASB ASC 860-50-45-1, 860-50-45-2 (FASB Statement No. 140, ¶ 13B); FASB Statement No. 156, ¶ 4.f.*
[140]*EITF Issue No. 92-2, Measuring Loss Accruals by Transferors for Transfers of Receivables with Recourse.*
[141]*FASB ASC 815-10-45-5, 815-10-45-6 (FASB Interpretation No. 39, ¶¶ 10, 10A).*
[142]*FASB Statement No. 37, ¶ 7; FASB ASC 740-10-45-4, ASC 740-10-45-6 (FASB Statement No. 109, ¶¶ 41, 42). Although these pronouncements require presentation of the current and noncurrent portions of deferred income taxes, they do not specify whether a separate line must be used.*
[143]*IAS 1, ¶ 54(l); IAS 37, ¶ 11.*
[144]*FASB ASC 450-20-25-2, 450-20-50-1 (FASB Statement No. 5, ¶¶ 8, 9). Loss contingencies and environmental remediation liabilities are often found within the Other liabilities caption (see AICPA ATT 2006, ¶ Table 2-27).*
[145]*FASB ASC 605-35-45-2 (AICPA Statement of Position No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, ¶ 89).*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other current liabilities	A required specific item is: – Gross amount due from customers for contract work[146]	Required specific item are: – Billings on uncompleted contracts in excess of related costs, under the completed-contract method for construction contracts[147] – Billings in excess of costs and recognized income, under the percentage-of-completion method of accounting for construction contracts[148] – Amounts received in excess of costs incurred under Federal Government contracts[149] – Liability for obligations acquired by a licensee under a broadcast license agreement – current portion[150]	Yes: Item 20
Certain liabilities of a variable interest entity (VIE) (by liability item)	Not applicable	By liability line item, liabilities of a consolidated VIE for which creditors or beneficial interest holders do not have recourse to the general credit of the primary beneficiary[151*]	–
Liabilities directly associated with long-lived assets to be disposed of by sale	Liabilities directly associated with noncurrent assets classified as held for sale[152]	Liabilities of a disposal group classified as held for sale, displayed in their categories or in other liabilities[153]	–
Total current liabilities	[c]	Yes[154]	Yes: Item 21 (when appropriate)[b]
Noncurrent liabilities	[c]	–	Yes: long-term debt

[146] *IAS 11, ¶ 42.b.*
[147] *FASB ASC 605-35-45-4, 605-35-45-5 (ARB 45, ¶ 12).*
[148] *FASB ASC 605-35-45-3 (ARB 45, ¶ 5). The pronouncement does not state separate presentation. It does not indicate the caption of classification, but it simply mentions classification as a current item.*
[149] *FASB ASC 912-405-45-6 (AICPA Audit and Accounting Guide, FGC, ¶ 3.73).*
[150] *FASB ASC 920-350-25-2, 920-405-45-1 (FASB Statement No. 63, ¶ 3).*
[151] *FASB Statement No. 167, ¶ A81; FASB ASC 810-10-45-25 (FASB Interpretation No. 46(R), ¶ 22A, as amended by FASB Statement No. 167 and by FASB Accounting Standards Update No. 2009-17,* Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*).*
[152] *IFRS 5, ¶¶ 38, Implementation Guidance Example 12; IAS 1, ¶ 54(p).*
[153] *FASB ASC 205-20-45-10 (FASB Statement No. 144, ¶ 46). Based on FASB Statement No. 144, ¶ B120, current/noncurrent classification follows the general rule under ARB 43, Ch. 3A.*
[154] *FASB ASC 210-10-45-5 (FASB Statement No. 6, ¶ 15) requires totalization of current liabilities if a classified statement of financial position is presented. FASB ASC 210-10-05-5 (ARB 43, Ch. 3A, ¶ 3) does not require separate presentation of totals for current assets and liabilities, but takes it as customary in a classified statement of financial position.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Bonds, mortgages and other long-term debt	– As part of noncurrent financial liabilities Required specific item: – Noncurrent portion of finance lease liability[155]	Required specific items are: – Discounts or premiums as a deduction from or addition to the face amount of the note[156] – Obligations under capital lease for a lessee[157] – Termination loans in government contracts[158] – Termination loans in war and defense contracts, with cross-reference to the related claims receivable – Financial liabilities that are measured at fair value under the fair value option separately from those not measured at fair value (either through separate line item(s) or through parenthetical explanation)[159*] – Hybrid financial instruments that are elected to be measured in their entirety at fair value (either presented separately from those measured under other bases or through parenthetical explanation)[160*] – Servicing liabilities that are subsequently measured at fair value separately from those liabilities that are subsequently measured at the amortization method (either through two separate lines or parenthetical explanation of the latter ones)[161]	Yes: Item 22, including capitalized leases
Indebtedness to related parties – noncurrent	Under financial liabilities[162]	[163]	Yes: Item 23[d]

[155]*IAS 17, ¶ 23. It does not mention separate presentation.*
[156]*FASB ASC 835-30-45-1A (APB 21, ¶ 16).*
[157]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 840-30-45-1 (FASB Statement No. 13, ¶ 13).*
[158]*FASB ASC 912-405-45-4 (ARB 43, Ch. 11C, ¶ 22).*
[159]*FASB ASC 825-10-45-1, 825-10-45-2 (FASB Statement No. 159, ¶ 15); FASB Statement No. 159, ¶ A29.*
[160]*FASB ASC 815-15-45-1 (FASB Statement No. 133, ¶ 44A).*
[161]*FASB ASC 860-50-45-1, 860-50-45-2 (FASB Statement No. 140, ¶ 13B); FASB Statement No. 156, ¶ 4.f.*
[162]*Under IAS 24, ¶ 20, an entity must display related party information in the financial statements or disclose it in the notes.*
[163]*FASB ASC 850-10-50-1 (FASB Statement No. 57, ¶ 2.d) generically requires financial statements disclosure of amounts due to or from related parties, other than in the ordinary course of business.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Puttable or mandatorily redeemable instruments classified as liabilities	Share capital repayable on demand or similar puttable instruments that do not meet the criteria for equity classification under IAS 32[164]	Shares subject to mandatory redemption that represent the only shares in the entity (or in other noncurrent liabilities)[165]	See Mandatory redeemable preferred stock
Other liabilities	–	– Noncurrent portion of deferred tax liabilities (or in separate caption)[166] – Deferred taxes arising from leveraged leases[167] – Liability for obligations acquired by a licensee under a broadcast license agreement – noncurrent portion[168]	Yes: Item 24
Long-term provisions	Yes[169]	Loss contingencies that meet related accrual criteria[170]	Yes, Item 25, Commitments and contingent liabilities
Deferred tax liability	Yes[e]	Or as part of other liabilities[171]	Part of Item 26
Deferred credits	Required specific items are: – Deferred income related to government grants related to assets[172]	– Deferred investment tax credit[173] – Deposits, prepayments received, and unearned revenues[174]	Yes: Item 26, Deferred credits Required specific items are: – Deferred income taxes – Deferred tax credits – Deferred income, if material – Deferred stripping cost liability in mining activities[175]

[164]*Under IAS 32, ¶¶ IE33, 18, BC7, BC8, this item refers to shares or nonshare puttable instruments that IAS 32 classifies as liability.*
[165]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement No. 150, ¶¶ 19, A6). For all other mandatorily redeemable instruments and other instruments for which it requires liability classification, FASB ASC 480-10-45-1 (FASB Statement No. 150, ¶ 18) does not specifically mention separate presentation. FASB ASC 480-10-65-1 (FASB Staff Position FAS 150-3, ¶ 3) indefinitely delayed the classification, measurement and disclosure provisions of Subtopic 480-10 (FASB Statement No. 150) for mandatorily redeemable financial instruments of nonpublic, nonSEC registrant entities. For these companies, liability classification holds only for those financial instruments that are mandatorily redeemable on fixed dates for amounts that are either fixed or determinable through an external index.*
[166]*FASB Statement No. 37, ¶ 7; FASB ASC 740-10-45-4, 740-10-45-6 (FASB Statement No. 109, ¶¶ 41, 42). Although these pronouncements require presentation of the current and noncurrent portions of deferred income taxes, they do not specify whether an entity must use a separate line.*
[167]*FASB ASC 840-30-45-5, 840-30-55-34 (FASB Statement No. 13, ¶¶ 47, Appendix E).*
[168]*FASB ASC 920-350-25-2, 920-405-45-1 (FASB Statement No. 63, ¶ 3).*
[169]*IAS 1, ¶ 54(l); IAS 37, ¶ 11.*
[170]*FASB ASC 450-20-25-2, 450-20-50-1 (FASB Statement No. 5, ¶¶ 8, 9). Loss contingencies and environmental remediation liabilities are often found within the Other liabilities caption (see AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-31).*
[171]*FASB Statement No. 37, ¶ 7; FASB ASC 740-10-45-4, 740-10-45-6 (FASB Statement No. 109, ¶¶ 41, 42). Although these Standards require presentation of the current and noncurrent portions of deferred income taxes, they do not specify whether an entity must use a separate line.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Certain liabilities of a variable interest entity (VIE) (by liability line)	Not applicable	Liabilities of a consolidated VIE for which creditors or beneficial interest holders do not have recourse to the general credit of the primary beneficiary[176*]	No specific additional separate display requirement
Total noncurrent liabilities	c	–	–
Total liabilities	c For entities whose net assets do not meet the requirements for equity classification under IAS 32: liabilities excluding net assets attributable to unitholders[177]	[178]	–
Mandatory redeemable preferred stock	No, as part of financial liabilities[179]	No, if part of liabilities (mandatorily redeemable instruments)	Yes: Item 27, Preferred stocks subject to mandatory redemption requirements or whose redemption is outside the control of the issuer[180] Required specific items are: – Title of each issue – Carrying amount – Redemption amount – Shares subscribed but unissued

[172]*IAS 20, ¶ 24. Alternatively, entities present government grants related to assets as a deduction from the amount of the related asset. However, the standard does not specify whether the display of a separate line item is required. Ineum 2008 Survey, ¶ 14.1 explains that 60% of the survey companies that received grants relating to assets used the deferred income method.*

[173]*FASB Statement No. 109, ¶¶ 116–117; FASB ASC 740-10-25-45, 740-10-25-46, 740-10-45-27, 740-10-45-28 (APB 2, ¶¶ 13–16); FASB ASC 740-10-50-20 (APB 4, ¶ 11). Preferably, entities may show deferred tax credit as a reduction of the cost of the asset. In both cases amortization is over the life of the related asset. The flow-through method, which reduces depreciation and income tax expense, is also acceptable. In any event, an entity must give disclosure of material amounts.*

[174]*CON 6, ¶ 197.*

[175]*IPTF, November 25, 2002, ¶ Appendix, II.*

[176]*FASB ASC 810-10-45-25 (FASB Interpretation No. 46(R), ¶ 22A, as amended by FASB Accounting Standards Update No. 2009-17,* Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*).*

[177]*IAS 32, ¶¶ IE32, BC7, BC8. If the entity adopts a classified statement of financial position, it amends the caption as noncurrent liabilities excluding net assets attributable to unitholders.*

[178]*FASB ASC 958-210-45-1 (FASB Statement No. 117, ¶ 10) requires separate presentation of such a totalization for not-for-profit entities.*

[179]*IAS 32, ¶ 18, when redemption is at a fixed or determinable amount at a fixed or determinable future date.*

[180]*As part of a separate section as redeemable preferred stocks. For publicly held companies, classification as temporary equity applies if the instrument is outside the scope of FASB Statement No. 150.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Mandatory redeemable preferred stock (*continued*)			– Deduction of subscriptions receivable[181] – Other stock with debt-like features classified in temporary equity as per ASR 268 and EITF Issue No. D-98[182] – Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures[183]
Preferred stock	As a subclassification of equity capital and reserves[184]	For each class of stock, required specific items are: – Number of shares authorized, issued, and outstanding[185] – Less: Unamortized balance of discount on issue[186] – Less: Related subscription receivable[187] – The relationship between the aggregate preference in involuntary liquidations of preferred shares or other senior stock and par or stated value of stock must be disclosed in parenthetical format in the respective line items, when such preference rights are considerably in excess of par or stated value[188]*	Yes, Item 28, Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer[189] Required specific items are: – Aggregate preferences on involuntary liquidation other than par or stated value, including impact on retained earnings[190]* – Less: Unamortized balance of discount on shares[191] – Less: Related subscription receivable[192]

[181]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.27).*
[182]*FASB ASC 480-10-S99-3A (EITF Topic No. D-98,* Classification and Measurement of Redeemable Securities*, as amended by FASB Accounting Standards Update No. 2009-04).*
[183]*Securities and Exchange Commission, Division of Corporate Finance,* Current Issues and Rulemaking Projects*, page 81 (November 14, 2000), ¶ IX.F.*
[184]*IAS 1, ¶ 78(e).*
[185]*Based on accounting practice, generally on the face of the statement of financial position.*
[186]*Based on accounting practice, entities show discount on issue as a deduction either from the appropriate share caption or from additional paid-in capital relating to the same class of stock.*
[187]*As a matter of accounting practice. Also see EITF Issue No. 88-16,* Basis in Leveraged Buyout Transactions*, ¶ Section 3.b.*
[188]*FASB ASC 505-10-50-4 (FASB Statement No. 129, ¶ 6).*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Common stock	As a subclassification of equity capital and reserves[193,194]	For each class of stock: – Number of shares authorized, issued, and outstanding – Par, stated, or assigned value[195] – Less: Unamortized balance of discount on issue[197] – Less: Related subscription receivable[198] – For agriculture, retained patronage allocations and per-unit retains when they have no fixed maturity dates and are subordinated to all debt instruments[199]	Yes: Item 29[196] For each class of stock, required specific items are: – Number and amount of shares issued or outstanding – If they are convertible – Less: Unamortized balance of discount on shares[200] – Less: Related subscription receivable[201]

[189]*As part of a separate section as nonredeemable preferred stocks. Based on FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J), disclosure on the face of the statement of financial position is also required for actual and potential financing arrangements and the intent to pay dividends to serve the debt of the parent, when the cash flows of the company will service all or part of the parent's debt and there are not all the requisites to reflect the parent's debt on the company's financial statements.*

[190]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(d)).*

[191]*FASB ASC 510-10-S99-2 (Regulation S-X, ¶ 210.4-07). Discount on shares is shown as a reduction of the related share account.*

[192]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.27-30).*

[193]*IAS 1, ¶ 78(e).*

[194]*IAS 1, ¶¶ 135(a)(ii), 135(d), 136 require entities to disclose the type of any applicable regulatory capital requirements and their compliance with them. IAS 1, ¶¶ 79(a)(v), 80 require the disclosure of restrictions on distribution of dividends and repayment of capital for each class of share capital or equity interest.*

[195]*Based on accounting practice, generally on the face of the statement of financial position.*

[196]*As part of a separate section as common stocks. Based on FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J), presentation on the face of the statement of financial position is also required for actual and potential financing arrangements and the intent to pay dividends to serve the debt of the parent, when the cash flows of the company will service all or part of the parent's debt and there are not all the requisites to reflect the parent's debt on the company's financial statements.*

[197]*Based on accounting practice, entities show discount on issue as a deduction either from the appropriate share caption or from additional paid-in capital relating to the same class of stock.*

[198]*As a matter of accounting practice. Also see EITF Issue No. 88-16,* Basis in Leveraged Buyout Transactions*, ¶ Section 3.b.*

[199]*FASB ASC 905-505-45-4 (AICPA Audit and Accounting Guide, ¶* Accounting by Agricultural Producers and Agricultural Cooperatives*, 11.26).*

[200]*FASB ASC 510-10-S99-2 (Regulation S-X, ¶ 210.4-07). Discount on shares is shown as a reduction of the related share account.*

[201]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.27-30).*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Additional paid-in capital and other paid-in capital	As a subclassification of equity capital and reserves[202] Required specific items are: – Option to convert or similar equity component of a compound instrument[203] – Any difference between the carrying amount of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation that are classified as equity and the fair value of the financial liability at the date of their reclassification[206] – The increase in equity for goods or services received in relation to equity-settled share-based payment transactions, if shown as a specific reserve[207]	Additional paid-in capital is either a separate caption or shown separately under the section of each related source of contributed capital[204] Required specific items are: – Paid-in capital: quasi-reorganization[208] – Less: Unamortized balance of discount on issue[209] – Other paid-in capital accounts[210]	No, it is part of Item 30, Other stockholders' equity[205] Required specific items are: – Additional paid-in capital – Other additional capital

[202]*IAS 1, ¶ 78(e).*
[203]*IAS 32, ¶ 28 prescribes the presentation of the equity component of a compound instrument separately from that of the liability component. However, it does not literally mandate presentation as a separate line item on the face of the statement of financial position.*
[204]*As a matter of accounting practice. According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-37, approximately 63% and 61% of the survey companies that in 2009 and 2005, respectively, presented an additional paid-in capital account used the term "additional paid-in capital" on the face of the balance sheet, 11% and 10% the term "paid-in capital", 3% "capital surplus", approximately 17% and 20% the expression "capital in excess of par or stated value", and the other companies used other terms. No one used "paid-in surplus".*
[205]*Or combined with the related stock. Other stockholders' equity is a separate section.*
[206]*IAS 32, ¶ 16F(a).*
[207]*IFRS 2, ¶ 7 provides no specific guidance on display of this item. The Institute of Chartered Accountants in England and Wales,* EU Implementation of IFRS and the Fair Value Directive, A Report for the European Commission*, ¶ Table 23.4 (October 2007) showed that out of 20 companies presenting share-based payments in equity 30% used retained earnings, 20% a capital reserve, 15% a specific reserve, and the remainder other reserves or did not make it visible. Display in a separate equity reserve helps to isolate that component of equity and highlights amounts for future issuance of shares. This may be a way of complying with IAS 1 disclosure requirement of shares reserved for issue under options and contracts for the sale of shares under IAS 1, ¶ 79. This approach also maintains the fundamental principle that company's operations may reduce but not increase retained earnings unless passing through the income statement. Conversely, a credit to retained earnings would not conflict with the fact that retained earnings is not yet defined by the IASB as the cumulative total of undistributed profit or loss (IAS 19, (2007) ¶ BC48W; IAS 19 (2011), ¶ BC100). In addition, a forfeiture of share-based payment after the vesting period would not result, under IFRS 2, ¶ 23, contrary to FASB Statement No. 123(R), in a reversal of the accrued compensation cost and of the corresponding increase in equity, although a transfer from one component of equity to another would possibly occur.*
[208]*FASB ASC 852-20-25-3, 852-20-30-2, 852-20-30-3, 852-20-30-4, 852-20-25-4 (ARB 43, Ch. 7A, ¶¶ 3-6); ARB 43, Appendix B, ¶ 9.*
[209]*Based on accounting practice, entities show discount on issue as a deduction either from the appropriate share caption or from additional paid-in capital relating to the same class of stock.*
[210]*Several paid-in capital accounts may exist, including in the case of stock dividends, conversion of a convertible debt, warrants, unexercised premium puts, beneficial conversion, modified conversion terms, stock options outstanding, clawback in a share-based payment transaction, undistributed earnings of an S-corporation, in-substance capital contributions, transaction costs, certain preferred stock, and acquired interest in a controlled subsidiary.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Retained earnings	– As a subclassification of equity capital and reserves[211]	[212] Required specific items are: – Any general purpose contingency reserve is shown under stockholders' equity[213] – Appropriations of retained earnings[214] – Date of the new retained earnings account for 10 years from quasi-reorganization[215] – Deficit accumulated during the development stage for development stage enterprises[216] – Retrospective changes in accounting principles or corrections of errors[217] – Investor's share of investee's retrospective changes in accounting principles or corrections of errors, if material for the investor[218] – Agricultural cooperatives may allocate retained earnings arising from nonpatronage earnings[219]	No, it is part of Item 30, Other stockholders' equity Required specific items are: – Appropriated retained earnings – Unappropriated retained earnings – Date of the new retained earnings account for 10 years after quasi-reorganization[220] – Deficit eliminated in a quasi-reorganization, for 3 years after quasi-reorganization – Whether retained earnings that are available for distribution differ from those presented in SEC filings when GAAP or reporting currency differ from that it used in its home country[221]

[211] *Under both U.S. GAAP and IFRSs, the presentation of a separate line item for retained earnings on the face of the statement of financial position is mainly a matter of accounting practice. IAS 5,* Information to be Disclosed in Financial Statements, *¶ 17 (then superseded) used to require a separate display for retained earnings.*
[212] *According to Table 2-38 of the AICPA ATT 2010 and AICPA ATT 2006, in 2002–2009, approximately 82–84% of the survey companies used expressions that contained the words "retained earnings" on the face of the statement of financial position, approximately 11–13% the term "accumulated deficit", and approximately 5–6% expressions did not contain the word "retained".*
[213] *ARB 43, Appendix B, ¶ 8.*
[214] *FASB ASC 505-10-45-3 (FASB Statement No. 5, ¶ 15; APB 9, ¶ 28).*
[215] *FASB ASC 852-20-25-5, 852-20-50-2 (ARB 43, Ch.7A, ¶¶ 9-10); ARB 46,* Discontinuance of Dating Earned Surplus, *¶¶ 1-2; Accounting Terminology Bulletin No. 1,* Review and Resume *(superseded), ¶¶ 68, 69.5 (superseded).*
[216] *FASB ASC 915-210-45-1 (FASB Statement No. 7, ¶ 11).*
[217] *FASB ASC 250-10-45-5, 250-10-45-6, 250-10-50-1, 250-10-45-23, 250-10-50-7 (FASB Statement No. 154, ¶¶ 7b, 8, 17b, 25b, 26b). The Standard mentions the statement of financial position, although it does not explicitly requires separate presentation in it; APB 9, ¶ 28.*
[218] *FASB ASC 323-10-45-2 (APB 18, ¶ 19.d).*
[219] *FASB ASC 905-505-45-2 (AICPA Audit and Accounting Guide, ¶* Accounting by Agricultural Producers and Agricultural Cooperatives, *11.24).*
[220] *FASB ASC 852-20-50-2 (ARB 43, Ch. 7A, ¶ 10).*
[221] *IPTF Summary 2003, ¶ XXVII.E. However, this document simply mentions disclosure.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accumulated other comprehensive income (AOCI)	– No specific separate display requirement for total AOCI – Required specific items are: – Accumulated foreign currency translation adjustment[222] – In financial statements that include a foreign operation and the reporting entity, AOCI related to a exchange differences on a monetary item that is in-substance a net investment in a foreign operation[223] – AOCI relating to noncurrent assets held for sale[228]	– Total AOCI[224] – An investor's share of an investee's equity adjustments in AOCI[225] – Beginning and ending accumulated gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments, the net gain or loss that arises in the period, and respective net reclassification adjustments[226]	– Total AOCI for certain registrants[227]

[222]*IAS 21, ¶¶ 41, 48, 52(b). The Standard mentions a separate component of equity. Although it may be inferred that that component is accumulated other comprehensive income, its December 2009 version does not amend this terminology. Arguably, it may be construed as being a subclassification of accumulated other comprehensive income that must be separately presented on the face of the statement of financial position.*

[223]*IAS 21, ¶ 45. Although in a context of financial position, this standard does not mention separate presentation.*

[224]*FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26). Such a requirement for separate presentation does not apply to not-for-profit organizations and heath care organizations (FASB ASC 954-815-45-1 (AICPA Statement of Position No. 02-2,* Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, ¶ 24; FASB ASC 954-815-45-1 (AICPA Statement of Position No. 02-2, ¶ 25)). According to AICPA ATT 2010 and AICPA ATT 2006, ¶¶ Tables 2-39, 2-30, almost all of the approximately 92% survey U.S. GAAP companies that in 2009 presented total accumulated other comprehensive income (in 2005 and 2002, 87% and 88%) used expressions that contained the word "comprehensive" – therefore, either "accumulated other comprehensive income", or "accumulated other comprehensive loss", or "accumulated other comprehensive income (loss)" – on the face of the statement of financial position. Few companies used the term "accumulated other non-owner changes in equity" or other titles. About 5% in 2009 (8% in 2005 and 9% in 2002) displayed accumulated balances by component of accumulated other comprehensive income on the face of the statement of financial position. In 2009, 2005, and 2002, 60%, 55%, and 36%, respectively, disclosed those components in the notes, while 18%, 15%, and 32% presented them in the statement of changes in equity.*

[225]*FASB ASC 323-10-35-18 (FASB Statement No. 130, ¶ 121); FASB Technical Bulletin No. 79-19,* Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee*, ¶ 6. Display may be separate or combined with investor's own other comprehensive income.*

[226]*FASB ASC 815-30-50-2 (FASB Statement No. 133, ¶ 47). Presentation in the statement of changes in equity or disclosure in the notes is also possible. Similar requirements apply to not-for-profit health care organizations under FASB ASC 954-815-50-1 (AICPA Statement of Position No. 02-2, ¶ 8).*

[227]*Separate display of accumulated other comprehensive income is not required under Item 17 of Form 20-F. However, effective for fiscal years ending on or after December 15, 2011, all issuers have to comply with Item 18 rather than Item 17. The SEC Staff clarified that a foreign private issuer that under local GAAP reports items of accumulated other comprehensive income in retained earnings is exempted from reclassifying the components of accumulated other comprehensive income in case this reconstruction is impracticable and it discloses this fact (SEC, International, November 1, 2004, ¶ VI.A; U.S. Securities and Exchange Commission, Release No. 33-8959,* Foreign Issuer Reporting Enhancements*, ¶ II.E (December 2008). [Online] www.sec.gov [last accessed October 11, 2009] (hereinafter SEC, Release No. 33-8959).*

[228]*IFRS 5, ¶ 38.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accumulated other comprehensive income (AOCI) (*continued*)	– AOCI related to a cash flow hedge[229] – Prior to IFRS 9 effective date: cumulative changes in the fair value of a financial asset that has previously been recognized and that is designated as available for sale at first application of IAS 39[230] – Prior to IFRS 9: on IFRS first-time adoption, changes in investments measured at fair value that had been recognized directly in equity under previous GAAP and that are classified as available-for-sale financial assets on initial application of IAS 39[231] – On IFRS first-time adoption, any previously existing cumulative gains or losses that had been recognized outside profit or loss under previous GAAP with respect to an equity instrument that is classified at fair value through other comprehensive income on initial application of IFRS 9[233] – Accumulated amount of revaluation surplus[234]	– Amounts of AOCI related to held-to-maturity and available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings[232*]	

[229]*IAS 39, ¶ 96. The Standard mentions a separate component of equity. Although it may be inferred that that component is accumulated other comprehensive income, its December 2009 version does not amend this terminology. Arguably, it may be construed as being a subclassification of accumulated other comprehensive income that must be separately presented on the face of the statement of financial position.*
[230]*IAS 39, ¶ 105. The Standard mentions a separate component of equity. Although it may be inferred that that component is accumulated other comprehensive income, its December 2009 version does not amend this terminology. Arguably, it may be construed as being a subclassification of accumulated other comprehensive income that must be separately presented on the face of the statement of financial position.*
[231]*IFRS 1, ¶ IG59 (before amendments by IFRS 9). The Standard mentions a separate component of equity. Although it may be inferred that that component is accumulated other comprehensive income, its December 2009 version does not amend this terminology. Arguably, it may be construed as being a subclassification of accumulated other comprehensive income that must be separately presented on the face of the statement of financial position. According to different opinions (for example, ABI – Associazione Bancaria Italiana, Soluzioni IAS No. 16 (March 10, 2006)), the pre-IAS 39 component would be accounted in the same equity reserve.*
[232]*FASB ASC 320-10S99-2 (EITF Topic D-41,* Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of FASB Statement No. 115*); FASB ASC 320-10-45-9A (FASB Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, ¶ 16C); FASB Staff Position No. FAS 115-2 and FAS 124-2, ¶ 37. Display must be in the statement that reports the components of accumulated other comprehensive income, i.e., the statement of financial position, the statement of changes in equity or the notes.*
[233]*IFRS 1, ¶ IG59 (as amended by IFRS 9). The Standard mentions a separate component of equity. Although it may be inferred that that component is accumulated other comprehensive income, its December 2009 version does not amend this terminology. Arguably, it may be construed as being a subclassification of accumulated other comprehensive income that must be separately presented on the face of the statement of financial position.*
[234]*IFRS 1, ¶ IG10; IAS 16, ¶ 39; IAS 38, ¶ 85.* These standards do not mention separate presentation.

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Less: Treasury stock and other contra-equity accounts	–	– Treasury stock accounted for at cost method[235] – Employer stock held in a rabbi trust under certain circumstances[236] – Own sharesreacquired as a consequence of a clawback feature in a share-based payment transaction[237] – Unearned ESOP shares[238] – Sponsor's "loan to ESOP" or "deferred compensation", for an amount proportional to the equity securities held by the ESOP classified outside of permanent equity, where the holders have, by the terms of the securities, a put option to the sponsor for cash in exchange for those equity securities[239]	–
Noncontrolling interest	Yes[240]	Yes[241] A required specific item is: – A separately equity-classified instrument or embedded feature for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary[242]	Yes: Item 31, Noncontrolling interests in consolidated subsidiaries[243]

[235]*APB 6, ¶ 12. In practice, the cost method shows treasury stock as a deduction from total equity, or alternatively from total stockholders' equity and liabilities. According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-41, in 2009 68% of the survey U.S. GAAP companies disclose treasury stock (65% in 2005 and 66% in 2002). Approximately 93%, 94%, and 92% of them, respectively, display it at cost method as a deduction from shareholders' equity.*

[236]*FASB ASC 710-10-25-16, 710-10-25-17 (EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested).*

[237]*FASB ASC 718-20-35-2, 718-10-55-8, 718-10-55-47, 718-20-55-85, 718-20-55-86 (FASB Statement No. 123(R), ¶¶ 27, A5, A42. A190–A191.*

[238]*FASB ASC 220-10-55-3 (FASB Statement No. 130, ¶ 110); FASB ASC 718-40-45-2 (AICPA Statement of Position No. 93-6,* Employer's Accounting for Employee Stock Ownership Plans, *¶ 13).*

[239]*FASB ASC 480-10-S99-4 (EITF Issue No. 89-11, Sponsor's Balance Sheet Classification of Capital Stock with a Put Option Held by an Employee Stock Ownership Plan, ¶ Discussion.*

[240]*Separately, as part of equity (IAS 1, ¶ 54(q); IAS 17, ¶¶ IN7, 27).*

[241]*FASB ASC 958-810-45-1 (FASB Statement No. 164,* Not-for-Profit Entities: Mergers and Acquisitions, *¶ B2, as amended by FASB Accounting Standards Update No. 2010-07,* Not-for-Profit Entities (Topic 958) - Not-for-Profit Entities: Mergers and Acquisitions, *¶ 10); FASB ASC 810-10-45-16 (ARB 51, ¶ 26, as amended by FASB Statement No. 160).*

[242]*FASB ASC 810-10-45-17A (EITF Issue No. 08-8,* Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary, *¶ 9). Actually, this pronouncement does not mention separate presentation.*

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total Equity (Net Assets)	Total equity[244] – Total equity, for entities whose only shares or interest instruments are classified as equity under IAS 32 and the entity has other components of equity that embody no obligation to deliver to its shareholders – Net assets attributable to unitholders, for entities (mutual funds, unit trusts, etc.) with only shares or interest instruments that are not classified as equity under IAS 32 or with only share capital repayable on demand or similar puttable instruments that do not meet the criteria for equity classification under IAS 32[245]	[246]	Prohibited under certain circumstances[247]

[243]*Traditional presentation of noncontrolling interest for publicly held companies has been as a mezzanine between the long-term debt and equity sections and before redeemable preferred stocks, or, alternatively, a debt caption with an appropriate description in the notes. However, the SEC Staff took the view that registrants must abide with the presentation requirements of Subtopic 810-10 (FASB Statement No. 160) (AICPA, SEC Regulations Committee, April 9, 2008 – Joint Meeting with SEC Staff, ¶ Discussion Document A, 4,* Presentation of Minority Interest in Consolidated Financial Statements under Article 5 of Regulation S-X Upon Adoption of FAS 160). *[Online] Available at: www.sec.gov [last accessed July 20, 2010] (hereinafter SEC Regulations Committee, April 9, 2008). Furthermore, the SEC announced that classification as liability is no longer acceptable (Revised SEC Staff Announcement, EITF Abstract, Topic No. D-98,* Classification and Measurement of Redeemable Securities, *¶ 38).*

[244]*IAS 1, ¶ IG Part I shows a total equity caption, although IAS 1, ¶ 54 does not include it into the minimum content of the statement of financial position.*

[245]*Under IAS 32, ¶¶ IE32, 18, BC7, BC8, this may apply to entities whose net assets do not meet the requirements for equity classification under IAS 32 or whose shares are entirely puttable instruments classified as liabilities under IAS 32.*

[246]*FASB ASC 958-210-45-1 (FASB Statement No. 117, ¶ 10) requires separate presentation of such totalization for not-for-profit entities. FASB ASC 272-10-45-6 (Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships, *¶ 10) requires the title of members' equity for LLCs. According to Table 2-33 of the AICPA ATT 2010 and AICPA ATT 2006, half or more of the U.S. GAAP companies surveyed in 2002–2009 used the title stockholders' equity, about 36–38% shareholders' equity, and the remaining companies other terminology.*

[247]*Because of the existence of temporary and permanent equity, no totalization of stockholders' equity is possible and main captions are identified separately. They are, for commercial and industrial entities, redeemable preferred stock, nonredeemable preferred stock, common stock, other stockholders' equity, and noncontrolling interests (FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.27-31)). For this reason, FASB ASC 480-10-S99-1 (Codification of Financial Reporting Release, CFRR 211,* Redeemable Preferred Stock, *¶¶ 1, 3) prohibits SEC registrants that have redeemable preferred stock to use a stockholders' equity heading inclusive of those items. Registrants that do not have redeemable preferred stock may use a subtotal for nonredeemable preferred stock, common stock and other stockholders' equity.*

(continued)

Exhibit 3-6 Minimum Captions of the Statement of Financial Position (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total Equity (Net Assets) (*continued*)	– Memorandum note totalization, for entities with both shares or interest instruments classified as liability under IAS 32 and other components of equity that embody no obligation to deliver to its shareholders[248]		
Total equity and liabilities	[249]	[250]	Yes: Item 32, Total liabilities and equity

[248]*IAS 32, ¶¶ IE33.*
[249]*Totalization is not required, although the guidance and examples in IFRS 5, IAS 1, and IAS 41 show it. IFRSs display and make use of the expression* total equity and liabilities *(not* liabilities and shareholders' equity*).*
[250]*U.S. GAAP pronouncements generally use equity and liabilities separately. Only a few standards display or employ the terminology* liabilities and stockholders' equity *or* liabilities and equity*, such as FASB ASC 976-605-55-11 (FASB Statement No. 66, ¶ Appendix D.95); FASB ASC 355-10-55-53 (FASB Statement No. 89, ¶ Appendix A.73); FASB ASC 230-10-55-19, 942-230-55-4 (FASB Statement No. 95, ¶¶ Appendix C.133, 148); FASB ASC 944-605-55-11 (FASB Statement No. 113, ¶ Appendix B.120); FASB ASC 220-10-55-17 (FASB Statement No. 130, ¶ Appendix B.131); FASB Statement No. 133, ¶ Appendix C.225; FASB ASC 250-10-55-11 (FASB Statement No. 154, ¶ A7).*

3.5.2 Presentation on the Face of the Statement of Financial Position or Note Disclosure

Exhibit 3-7 lists the items that entities may present on the face of the statement of financial position or disclose in the notes under IFRSs, U.S. GAAP, and SEC rules and regulations. A reading in conjunction with Exhibit 3-6 (mandatory display items) gives a detailed view of the statement of financial position. Exhibit 3-9, Exhibit 3-11, Exhibit 3-13, Exhibit 3-15, and Exhibit 3-17 propose a similar analysis for insurance companies, banks and finance companies, investment companies, employee benefit plans, and real estate companies, respectively. Exhibit 3-5 reports a general key to all these Exhibits.

> **Comment:** On one hand, IAS 1 has an open attitude to considering subclassifications either in the statement of financial position or in the notes. This is in line with the IASB Framework that welcomes subclassification on the face of the financial statements.[135] As Paragraph 3.5.5 following explains, the key to such a judgment rests on size, nature, and function of the specific item, in addition to liquidity of assets and timing of liabilities. It is up to the entity to find the best fit with the characteristics of its operations.[136] On the other hand, certain standards give an option between presentation and note disclosure for specific items and, on certain occasions, between the display in different statements. Finally, the term "disclosure" in IFRSs does not exclude presentation:[137] hence, display on the face of financial statements is always an option, unless forbidden. By contrast, Regulation S-X clearly indicates what items must be shown either in the balance sheet or in the notes and when only note disclosure is required.

[135] *IASB Framework, ¶ 48.*
[136] *IAS 1, ¶¶ 58, 77, 78; IASB Framework, ¶¶ 48, 72.*
[137] *IAS 1, ¶¶ IN5, 3, 47, 48.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Assets			
Current assets			
Cash and cash equivalents	–	–	– Restricted as to withdrawal or usage[4] – Compensating balances[5]
Short-term investments	Part of other current financial assets[6]	– Available-for-sale securities – Trading securities – Held-to-maturity securities[7] – Fair value of financial instruments for which fair value is practicable to be estimated[8]***** – Securities and financial instruments collateralized for borrowings[9]	– Basis of nonequity marketable securities and alternative cost or market value at the balance sheet date[P]

[1]*See general key. This Exhibit focuses on companies other those in certain specialized industries (see specific Exhibits).*
"–" means that there are no separate display or disclosure requirements.
[2]*Items are adapted from IAS 1, ¶¶ 78–80A, plus other standards as noted.*
[3]*Items are adapted from Regulation S-X, plus other references as noted. Guidance comes from FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02) for commercial and industrial companies, unless differently stated.*
[4]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.1) for commercial and industrial companies and FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.1(a)) for bank holding companies simply mention separate disclosure. Regulation S-X, ¶ 210.6-04.5 requires note disclosure for registered investment companies. FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03(a)2) mandates separate display for insurance companies. Deposits for repurchase agreements are also restricted cash (FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(1)(iii))).*
[5]*FASB ASC 210-10-S99-1, 946-210-S99-1, 944-210-S99-1, 942-210-S99-1 (Regulation S-X, ¶ 210.5-02.1, 210.6-04.5, 210.7-03(a).2, 210.9-03.1(a)) and FASB ASC 210-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-H) require segregation when cash availability is legally restricted, but do not explicitly state separate display. However, an entity must simply provide note disclosure of amounts and terms of compensating balances that do not restrict reported cash or that have the purpose to assure availability of future credit.*
[6]*Ineum 2008 Survey, ¶¶ 10.2, 18.8 observed the practice by IFRSs nonfinancial entities of disclosing IFRS 7 classifications of financial instruments in the notes while insurance entities tend to display them in the statement of financial position. ICAEW 2007 Survey, ¶ 17.5 surveyed that under IFRSs banks either display hedging derivatives in separate lines or include them into items at fair value through profit or loss (either within trading items or separately), or in other assets and in other liabilities.*
[7]*FASB ASC 320-10-45-1, 320-10-45-13 (FASB Statement No. 115, ¶¶ 17, 117).*
[8]*FASB ASC 825-10-50-10 (FASB Statement No. 107, ¶ 10).*
[9]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 17.a(2)); FASB ASC 310-10-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.i). The pronouncements mention disclosure.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accounts and notes receivable	– Trade and other receivables may be subclassified as: • receivables from trade customers • from related parties[10] • prepayments • others – For small and medium sized-entities, also receivables arising from accrued income not yet billed[11]	– Each major category of loans or trade receivables – For loans or trade receivables: • unamortized premium or discounts • net unamortized deferred fees and costs • unearned income[12] – Trade receivables collateralized for borrowings[13] – Current portion of a lessor's net investment in significant sales-type and direct financing leases, components thereof and analysis[14] – Current portion of minimum sublease rentals under noncancellable subleases for a lessee[15] – For billed or unbilled unapproved change orders, claims, and other uncertain items under construction contracts: amount, nature, status, and amount expected to be collected after one year[16] – Advances received on terminated fixed-price war and defense contracts, displayed as a deduction from claim receivable[17]	– Customers (trade) – Related parties[18] – Underwriters, promoters and employees (other than related parties) other than in ordinary course of business – Others All above must be distinguished for accounts receivable and notes receivable if notes receivable are more than 20% of total receivables – Subclassifications of receivables under long-term contracts as: • balances billed but not paid under retainage provisions • recognized sales value of performance • unbilled and unbillable value of performance at the balance sheet date • billed or unbilled claims or other uncertain items

[10]*IAS 1, ¶ 78(b); IAS 24, ¶ 20. Disclosure of related party transactions may extend to other items in addition to payables and receivables. Information to be displayed or disclosed in the notes also includes transaction amounts, terms and conditions, security, commitments, guarantees, and provisions for doubtful accounts.*
[11]IFRS for SMEs, *¶ 4.11(b).*
[12]*FASB ASC 310-10-50-4 (AICPA Statement of Position No. 01-6, ¶ 13.e).*
[13]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 17.a(2)); FASB ASC 310-10-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.i). These pronouncements mention disclosure.*
[14]*FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*
[15]*FASB ASC 840-30-50-1 (FASB Statement No. 13, ¶ 16). Entities may show these items within a specific caption.*
[16]*FASB ASC 910-310-50-1 (AICPA Audit and Accounting Guide, CC, ¶ 6.24).*
[17]*FASB ASC 912-310-5-4 (ARB 43, Ch. 11C, ¶ 6).*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accounts and notes receivable (*continued*)		– Amounts due from related parties[18] – For construction contract retainage billed but not paid: amount, amount expected to be collected after one year, and the years of expected collection (if practicable)[19] – For notes receivable: • face amount • discount or premium either as a direct deduction from or addition to the face amount or parenthetical explanation, or note disclosure[20*]	
Allowance for doubtful accounts	No, shown net	– Deducted from receivables and disclosed[21] – Allowance for credit losses and allowance for doubtful accounts for loans or trade receivables[22]	• Yes, Item 4, Allowance for doubtful accounts and notes receivable
Other current financial assets	– Financial assets designated as at fair value through profit or loss upon initial recognition – Financial assets mandatorily measured at fair value through profit or loss under IFRS 9 – Financial assets measured at amortized cost[23,24]	–	–

[a]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*

[18]*FASB ASC 850-10-50-1 (FASB Statement No. 57, ¶ 2.d) generically requires financial statements disclosure of amounts due to or from related parties, other than in the ordinary course of business. Disclosure of related party transactions may extend to other items in addition to payables and receivables.*

[19]*FASB ASC 910-310-50-4 (AICPA Audit and Accounting Guide, CC, ¶ 6.28).*

[20]*FASB ASC 310-10-457, 835-30-45-1A through 45-4 (APB 21, ¶¶ 16, 20).*

[21]*FASB ASC 310-10-45-4 (APB 12, ¶ 3). According to Table 2-7 of the AICPA ATT 2010 and AICPA ATT 2006, in 2002–2009 approximately 4–5% of surveyed U.S. GAAP companies showed accounts receivable net of the allowance for doubtful accounts. Most of the approximately 87–89% that showed a separate caption for such an allowance denoted it as "allowance for doubtful accounts" (66% of them in 2009, 62% in 2005, and 55% in 2002), while less than one third simply used the term "allowance". The remainder was scattered through other terminology.*

[22]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148); FASB ASC 310-10-50-4 (AICPA Statement of Position No. 01-6, ¶ 13.e).*

[23]*IFRS 7, ¶ 8.*

[24]*Ineum 2008 Survey, ¶¶ 10.2, 18.8 observed the practice by IFRSs nonfinancial entities of disclosing IFRS 7 classifications of financial instruments in the notes.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Current tax assets	–	– Taxes currently refundable[25]	–
Inventories	May be subclassified as: • merchandise • production supplies • materials and supplies • work in progress • finished goods[26]	– Components of inventories, such as: • merchandise • finished goods • work in process • raw materials • supplies[27] – Basis used[28]	– Subclassified in major classes, such as: • finished goods • long-term contracts or programs • work in process • raw materials • supplies – The excess of replacement or current cost over LIFO value, if material*
Other current assets	–	[29]	Any amounts in excess of 5% of current assets
Long-lived assets to be disposed of by sale	Major classes of noncurrent assets classified as held for sale[30]	Major classes of assets of a disposal group classified as held for sale, displayed in their respective categories or in other assets[31]	–
Total current assets			
Securities of related parties	–	– Name of each equity method investee and % of ownership, accounting policy, and the difference between carrying amount and equity in net assets of the investee[32]*	–

[25]*FASB ASC 740-10-50-9 (FASB Statement No. 109, ¶ 45a). Although this paragraph mainly applies to the statement of income, it mentions the financial statements in general.*
[26]*IAS 1, ¶ 78(c); IAS 2, ¶¶ 6, 8, 37.*
[27]*FASB ASC 235-10-50-5 (APB 22, ¶ 14); FASB ASC 330-10-20 (ARB 43, Ch. 4, ¶ 3).*
[28]*FASB ASC 330-10-50-2, 330-10-50-4 (ARB 43, Ch. 4, ¶¶ 14, 16).*
[29]*Table 2-12 of the AICPA ATT 2010 and AICPA ATT 2006 shows that survey U.S. GAAP companies include deferred income taxes in other current assets (51% of the occurrences in 2009, 66% in 2005, and 72% in 2002), as well as property held for sale (11%, 15%, and 11%, respectively). Other main items comprise derivatives, advances or deposits, and unbilled costs.*
[30]*IFRS 5, ¶ 38.*
[31]*FASB ASC 205-20-45-10, 205-20-50-1 (FASB Statement No. 144, ¶¶ 46, 47(e)). Based on FASB Statement No. 144, ¶ B120, current/noncurrent classification follows the general rule under ARB 43, Ch. 3A.*
[32]*FASB ASC 232-10-50-3 (APB 18, ¶ 20(a)). An entity may provide such information either parenthetically, as note disclosure, or in separate statements or schedules.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term investments	As part of other noncurrent financial assets, they may be subclassified as: – Financial assets designated as at fair value through profit or loss upon initial recognition – Financial assets mandatorily measured at fair value through profit or loss under IFRS 9 – Financial assets measured at amortized cost – Financial assets measured at fair value through other comprehensive income[33]	– Subclassification of marketable securities as: • available-for-sale securities • trading securities • held-to-maturity securities[34] – For notes receivable:[35] • face amount • discount or premium either as a direct deduction from or addition to the face amount or parenthetical explanation, or note disclosure[36*] – Each major category of loans or trade receivables[37] • unamortized premium or discounts • net unamortized deferred fees and costs • unearned income[38] – Loans, trade receivables, securities, and financial instruments collateralized for borrowings[40]	– Basis of nonequity marketable securities and alternative cost or market value at the balance sheet date[*] – Assets mortgaged, pledged, or otherwise subject to lien[39]

[33]*IFRS 7, ¶ 8, as amended by IFRS 9. depending on circumstances an entity may account for an equity investment held for strategic purposes either at the equity method under IAS 28 or as a proportionately consolidated or equity method joint venture under IAS 31, or as an investment at fair value through other comprehensive income under IFRS 9 ¶¶ 5.4.1, 5.4.4. In the latter instance, IFRS 7, 8(h) requires either presentation in the statement of financial position or disclosure in the notes.*
[34]*FASB ASC 320-10-45-1, 320-10-45-13 (FASB Statement No. 115, ¶¶ 17, 117).*
[35]*A noncurrent receivables caption is often presented. According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-18, approximately one fourth of surveyed U.S. GAAP companies presents a caption for noncurrent receivables, including titles such as finance receivables, long-term receivables, notes receivable, insurance receivables, receivables from related parties, and other names.*
[36]*FASB ASC 310-10-457, 835-30-45-1A through 45-4 (APB 21, ¶¶ 16, 20).*
[37]*FASB ASC 310-10-50-3, 310-10-45-2 (AICPA Statement of Position No. 01-6, ¶ 13).*
[38]*FASB ASC 310-10-50-4 (AICPA Statement of Position No. 01-6, ¶ 13.e).*
[39]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(b)) requires designation of assets mortgaged, pledged or otherwise subject to lien either on the face of the financial statements or in the notes. FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J, ¶ Footnote 10) requires the display of a material asset pledge on the face of the statement of financial position, even parenthetically.*
[40]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 17.a(2)); FASB ASC 310-10-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.i). The pronouncements mention disclosure.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term investments (*continued*)		– For impaired loans, by class of financial receivable:[41] • total recorded investment • amount for which allowance for credit losses exists and amount of the allowance • amount with no related allowance • unpaid principal balance – Fair value of financial instruments for which fair value is practicable to be estimated[42]*****	
Investment property	– Investment property, for which an entity may choose either the fair value model or the cost model, that backs insurance contracts or financial instruments that pay a return linked directly to the fair value of, or returns from such an investment property[43]	–	–
Property, plant, and equipment	– May be subclassified into classes of similar nature and use, such as: • land • land and buildings • machinery • ships • aircraft • motor vehicles • furniture and fixtures • office equipment • PP&E in the course of construction • others[44] • exploration and evaluation assets, to the extent they are presented as tangible assets[45]	– Must be subclassified into major classes, by nature or function[46] – Mineral rights[47] – Premises – Equipment[48] – Assets under capital lease for a lessee[49] – Lessor's property under operating leases and property held for leases, by major classes by nature or function[50] – Major classes of lessee's assets under capital lease, by nature or function[51] – Capitalized interest costs[52]	– May be disaggregated into major classifications, such as:[53] • land • buildings • equipment – For utility plant of a public utility company: original cost, plant acquisition adjustments, and plant adjustments

[41] *FASB ASC 310-10-50-15 (FASB Statement No. 114, ¶ 20(a), as amended by FASB Statement No. 118. Amendments by FASB Accounting Standards Update No. 2010-20,* Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*).*
[42] *FASB ASC 825-10-50-10 (FASB Statement No. 107, ¶ 10).*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Property, plant, and equipment (*continued*)		– Capitalized costs relating to oil and gas producing activities by (or combinations of) mineral interests in properties, wells and related equipment and facilities, support equipment and facilities, uncompleted wells, equipment and facilities[54] – Capitalized costs of oil and gas unproved properties	

[43]*IFRS 4, ¶ BC178(c); IAS 40, ¶¶ 32A, 32B, 32C. However, IAS 40 does not mention presentation or disclosure.*
[44]*IAS 1, ¶ 78(a); IAS 16, ¶¶ 37, 74(b).*
[45]*IFRS 6, ¶ 25.*
[46]*FASB ASC 958-360-35-1 (FASB Statement No. 93, ¶ 5); FASB ASC 360-10-501 (APB 12, ¶ 5). According to AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-14, the items most used by the survey U.S. GAAP companies include land, buildings, machinery, equipment, construction in progress, leasehold improvements, furniture and fixtures, automobiles, marine equipment, etc., software, computer equipment, leased assets, and assets leased to others. Table 2-13 shows that in the period 2002–2009 survey U.S. GAAP companies used "land" for approximately 56% of the occurrences, "land and improvements" for approximately 22%, and "land and buildings" for approximately 9–10% of cases. The remaining companies used either land in conjunction with other tangible asset items, a classification by line of business, or no land item. Table 2-14 illustrates that in 2009 47%, in 2005 45%, and in 2002 42% used "buildings and improvements", in 2009 27%, 31% in 2005, and 32% in 2002 simply "buildings". In 2009, 2005 and in 2002, respectively, 13%, 14% and 12% used buildings in conjunction with land or equipment. The other companies used either "buildings" in conjunction with other tangible assets items, a classification by line of business, or no buildings item.*
[47]*FASB ASC 805-20-55-37 (FASB Statement No. 141R, ¶ A50). Unlike EITF Issue No. 04-2,* Whether Mineral Rights Are Tangible or Intangible Assets*, (nullified) ¶ 9 and FASB Staff Position FAS 141/142-1,* Interaction of FASB Statement No. 141 and No. 142 and EITF Issue No. 04-2*, (nullified) ¶ 3 that stated that mineral rights are tangible assets, now they are accounted for as tangible assets to the extent that this is consistent with their nature.*
[48]*FASB ASC 942-360-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.18).*
[49]*FASB ASC 840-30-45-3 (FASB Statement No. 13, ¶ 13).*
[50]*FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*
[51]*FASB ASC 840-30-50-1 (FASB Statement No. 13, ¶ 16). Entities may show these items within a specific caption.*
[52]*FASB ASC 835-20-50-1 (FASB Statement No. 34, ¶ 21b).*
[53]*Securities and Exchange Commission, Division of Corporate Finance,* Current Issues and Rulemaking Projects*, page 81 (November 14, 2000), ¶ IX.H.4.J.*
[54]*Under FASB ASC 932-235-50-2, 932-235-50-13 (FASB Statement No. 19, ¶¶ 59B, 59M) and FASB Statement No. 69, ¶¶ 7, 18, publicly traded enterprises must disclose these elements as supplementary information. Although these Standards do not explicitly specify whether presentation or disclosure is required, they cross-reference FASB ASC 360-10-501 (APB 12, ¶ 5) that allows this option for depreciable assets. Classification may be within intangible assets to the extent of items that are determined to be intangible assets.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Property, plant, and equipment (*continued*)		– Capitalized costs of oil and gas support equipment and facilities, if not included in unproved properties[55] – Entity's share of an equity method investee's net capitalized costs of oil and gas producing activities and capitalized property acquisition, exploration and development costs[56]	
Less: Accumulated depreciation, depletion, and impairment losses	No, shown net[57]	No, shown net[58] – Accumulated depreciation, in total or by major classes, and depreciation methods used[59] – Accumulated amortization (i.e., depreciation) of assets under capital lease[60] – Accumulated depreciation, depletion, amortization, and valuation allowances related to capitalized costs relating to oil and gas producing activities by (or combinations of) mineral interests in properties, wells and related equipment and facilities, support equipment and facilities, uncompleted wells, equipment and facilities[61]	Yes: Item 14, Accumulated depreciation and depletion

[55] *Under FASB ASC 932-235-50-2, 932-235-50-14 (FASB Statement No. 19, ¶¶ 59B, 59N) and FASB Statement No. 69, ¶¶ 7, 19, publicly traded enterprises must disclose these elements as supplementary information. Although these Standards do not explicitly specify whether presentation or disclosure is required, they cross-reference FASB ASC 360-10-501 (APB 12, ¶ 5) that allows this option for depreciable assets. Classification may be within intangible assets to the extent of items that are determined to be intangible assets.*

[56] *Under FASB ASC 932-235-50-2, 932-235-50-15, 932-235-50-20 (FASB Statement No. 19, ¶¶ 59B, 59O, 59R) and FASB Statement No. 69, ¶¶ 7, 20, 23, publicly traded enterprises must disclose these elements as supplementary information. Although these Standards do not explicitly specify whether presentation or disclosure is required, they cross-reference FASB ASC 360-10-501 (APB 12, ¶ 5) that allows this option for depreciable assets. Classification may be within intangible assets to the extent of items that are determined to be intangible assets.*

[57] *IAS 16, ¶¶ 30, 31.*

[58] *FASB ASC 360-10-35-28 (FASB Statement No. 144, ¶ 14); FASB ASC 310-10-45-4 (APB 12, ¶ 3). According to Table 2-15 of the AICPA ATT 2010 and AICPA ATT 2006, in 2009, 56% of the survey U.S. GAAP companies (58% in 2005 and 54% in 2002) used "accumulated depreciation", while 32%, 31%, and 33%, respectively, "accumulated depreciation and amortization". The remainder was scattered through other terminology.*

[59] *FASB ASC 958-360-35-1 (FASB Statement No. 93, ¶ 5); FASB ASC 360-10-501 (APB 12, ¶ 5).*

[60] *FASB ASC 840-30-45-3 (FASB Statement No. 13, ¶ 13).*

[61] *Under FASB ASC 932-235-50-2, 932-235-50-13 (FASB Statement No. 19, ¶¶ 59B, 59M) and FASB Statement No. 69, ¶¶ 7, 18, publicly traded enterprises must disclose these elements as supplementary information. Although these Standards do not explicitly specify whether presentation or disclosure is required, they cross-reference FASB ASC 360-10-501 (APB 12, ¶ 5) that allows this option for depreciable assets. Classification may be within intangible assets to the extent of items that are determined to be intangible assets.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Intangible assets	– May be subclassified into classes of similar nature and use, such as:[62] • brand names • mastheads and publishing titles • computer software[63] • licenses and franchises • copyrights, patents, and other intellectual property, service and operating rights • recipes, formulae, models, designs and prototypes • intangibles under development • exploration and evaluation assets, to the extent they are presented as intangible assets[64]	– May be segregated into individual items or classes thereof[65] – Intangible assets in total and for any major class, separately for those that are and those that are not subject to amortization[66] – Capitalized renewal or extension costs incurred in the period, by major intangible asset class[67] – Period changes in goodwill, and separately:[68] • beginning gross amount • beginning accumulated impairment losses • goodwill recognized in the period (not in disposal groups classified as held for sale on acquisition) • adjustments from subsequent recognition of deferred tax assets • goodwill included in a disposal group • goodwill (not in a disposal group) derecognized in the period • period impairment losses • period net exchange differences • any other changes • ending gross amount • ending accumulated impairment losses	– May be disaggregated into major classifications, such as:[69] • leaseholds • brand names • noncompete agreements • customer lists • goodwill • For a utility plant of a public utility company, original cost, plant acquisition adjustments, and plant adjustments[70]

[62]*IAS 38, ¶¶ 73, 119. IAS 38 does not specifically explain the manner of disclosure. However, this Exhibit includes classes of intangible assets by analogy with the treatment of IAS 1, ¶ 78(a) relating to tangible assets.*
[63]*Based on IAS 38, ¶ 4, computer software is classified as property, plant, and equipment or as an intangible asset depending on whether the tangible or the intangible element is more important.*
[64]*IFRS 6, ¶ 25.*
[65]*FASB ASC 350-30-45-1 (FASB Statement No. 142, ¶ 42). AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-19 shows the items that are most frequently disclosed by the survey U.S. GAAP companies. In addition to goodwill, they include trademarks, brand names, and copyrights, customer lists and relationships, patents and patent rights, technology, licenses, franchises, and memberships, noncompete covenants, contracts and agreements, and others.*
[66]*FASB ASC 350-30-50-2 (FASB Statement No. 142, ¶¶ 45(a), 45(b)).*
[67]*FASB ASC 350-30-50-2 (FASB Statement No. 142, ¶ 45(d)).*
[68]*FASB ASC 350-20-50-1 (FASB Statement No. 142, ¶ 45(c), as amended by FASB Statement No. 141R, ¶ E27.n).*
[69]*Securities and Exchange Commission, Division of Corporate Finance,* Current Issues and Rulemaking Projects, *page 81 (November 14, 2000), ¶ IX.H.4.J.*
[70]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.13(b)).*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Intangible assets (*continued*)		– Capitalized direct-response advertising costs[71]	
Less: Accumulated amortization and impairment	No, shown net[72]	– Amortization in total and for any major class of amortizable intangible assets[73]	Yes: Item 16
Other assets	– Net defined benefit asset[74,75]	– Overfunded status of defined benefit pension plans and post-retirement plans other than pensions[76] – Noncurrent portion of a lessor's net investment in sales-type and direct financing leases and components thereof[77] – Noncurrent portion of minimum sublease rentals under noncancellable subleases for a lessee[78] – Unearned income on sales-type and direct financing leases[79] – May include other items[80]	• Any amounts in excess of 5% of total assets (this also holds for insurance companies[#])

[71] *FASB ASC 340-20-45-1, 340-20-50-1 (AICPA Statement of Position No. 93-7,* Reporting on Advertising Costs*, ¶¶ 28, 49.d).*
[72] *IAS 36, ¶ 128; IAS 38, ¶¶ 8, 74, 75, 120.*
[73] *FASB ASC 350-30-50-2 (FASB Statement No. 142, ¶ 45.a(1)); FASB ASC 310-10-45-4 (APB 12, ¶ 3).*
[74] *IAS 19 (2011), ¶ 63. However, the standard does not mention separate presentation.*
[75] *Based on accounting practice, entities might show long-term receivables and noncurrent prepaid expenses in other assets or in a separate caption. An example of the former situation is France Telecom, December 2008,* Consolidated balance sheets*, France: France Telecom cited in AICPA IFRS ATT 2009, ¶ 2.27. An example of the latter situation is Sasol Limited, June 2008,* Group statement of financial position*, South Africa: Sasol Limited cited in AICPA IFRS ATT 2009, ¶ 2.26.*
[76] *FASB ASC 715-30-25-1, 715-30-25-2 (FASB Statement No. 87, ¶¶ 35, 36); FASB Statement No. 87, ¶ 87; FASB ASC 715-60-25-1 (FASB Statement No. 106, ¶¶ 44A, 44B); FASB ASC 715-20-50-1 (FASB Statement No. 132(R), ¶ 5(c)); FASB Statement No. 158, ¶¶ 1, 4, B100, B101; FASB ASC 715-20-45-3 (FASB Statement No. 158, ¶ B48).*
[77] *FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*
[78] *FASB ASC 840-30-50-1 (FASB Statement No. 13, ¶ 16). Entities may show these items within a specific caption.*
[79] *FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.i.(d)).*
[80] *Based on accounting practice, the Other assets caption may include miscellaneous items, such as long-term receivables relating to nonordinary situations, such as loans or advances to officers or employees and sale of capital assets, installment notes due after one year, unamortized bond issue costs, machinery rearrangement costs, long-term prepaid expenses and deferred charges, noncurrent deferred tax assets, assets held for sale, and noncurrent restricted cash. This is in part derived from the guidance in FASB ASC 210-10-45-4 (ARB 43, Ch.3A, ¶ 6) that lists items that are excluded from current assets. Although it does not indicate that the Other assets caption must be used, this caption often includes certain of those items that do not found a specific classification. In particular, FASB ASC 210-10-45-4 (ARB 43, Ch.3A, ¶ 6) lists, among others, noncurrent restricted cash or designated for the acquisition of construction of noncurrent assets or the noncurrent portion that is designated to settle long-term debt and sinking funds, long-term receivables relating to nonordinary situations, such as loans or advances to officers or employees and sale of capital assets, cash surrender value of life insurance, long-term*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total noncurrent assets			
Total assets			
Equity and Liabilities			
Current liabilities			
Accounts and notes payable	– Subclassifications of trade and other payables, such as:[81] • trade liabilities • from related parties[82] • others – For small and medium sized-entities, also deferred income and accruals[83]	– For notes payable:[84] • face amount • discount or premium either as a direct deduction from or addition to the face amount or parenthetical explanation, or note disclosure[85*] – Minimum lease payments under capital lease[86] – Amounts due to related parties[87,88]	As part of Item 19, Accounts and notes payable: – Banks for borrowing – Factors or other financial institutions for borrowings – Holders of commercial paper – Related parties[a,89]

prepaid expenses, bonus payment under a long-term lease or other deferred charges, factory rearrangement or removal costs. FASB Implementation Guides, Q&A FinDisc, Illustration of Financial Instruments Disclosures, *Example 1 (superseded) included unamortized premiums in interest rate cap agreements and deferred gains under oil swap agreement under this caption. Table 2-21 of AICPA ATT 2010 and AICPA ATT 2006 lists the main items included in Other noncurrent assets by the survey U.S. GAAP companies: deferred income taxes, prepaid pension costs, software, debt issue costs, segregated cash or securities, derivatives, property held for sale, cash surrender value of life insurance, contract acquisition costs, assets leased to others, estimated insurance recoveries, assets of nonhomogeneous operations, and others. However, a noncurrent receivables caption is often presented. Table 2-18 shows that approximately one fourth of surveyed U.S. GAAP companies presents a caption for noncurrent receivables, including titles such as finance receivables, long-term receivables, notes receivable, insurance receivable, receivables from related parties, and other names.*

[81]*By analogy with IAS 1, ¶ 78(b).*

[82]*IAS 1, ¶ 78(b); IAS 24, ¶ 20. Disclosure of related party transactions may extend to other items in addition to payables and receivables. Information to be displayed or disclosed in the notes also includes transaction amounts, terms and conditions, security, commitments, guarantees, and provisions for doubtful accounts.*

[83]IFRS for SMEs, *¶ 4.11(d).*

[84]*As to trade creditors, Table 2-23 of AICPA ATT 2010 and AICPA ATT 2006 shows that approximately 76–78% of the survey U.S. GAAP companies use an accounts payable caption and 13–16% a trade accounts payable caption.*

[85]*FASB ASC 310-10-457, 835-30-45-1A through 45-4 (APB 21, ¶¶ 16, 20).*

[86]*FASB ASC 840-30-50-1 (FASB Statement No. 13, ¶ 16). Entities may show these items within a specific caption.*

[87]*FASB ASC 850-10-50-1 (FASB Statement No. 57, ¶ 2.d) generically requires financial statements disclosure of amounts due to or from related parties, other than in the ordinary course of business. Disclosure of related party transactions may extend to other items in addition to payables and receivables.*

[88]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19) mention disclosure in the financial statements for unused letters of credit.*

[89]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.19(b)) requires note disclosure of unused letters of credit for short-term financing under this caption and not under commitments and contingent liabilities, with separate indication of those lines supporting commercial paper or similar borrowing arrangements.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other financial liabilities	They may be subclassified as: – Financial liabilities designated as at fair value through profit or loss upon initial recognition – Held-for-trading financial liabilities under IFRS 9 – Financial liabilities measured at amortized cost[90]	[91] – Fair value of financial instruments for which fair value is practicable to be estimated[92]*****	–
Short-term provisions	May be subclassified into classes of similar nature of obligations, uncertainties, and timing of cash outflows, such as:[93] – Provisions for employee benefits[94] – Tax-related – Restructuring – Product warranties – Legal proceedings – Onerous contracts – Environmental and decommissioning – Other provisions	– Underfunded status of defined benefit pension plans and post-retirement plans other than pensions[95] – Certain disclosures required for: • guarantees of indebtedness of others • obligations of commercial banks under stand-by letters of credit • guarantees to repurchase sold or assigned receivables or the related property	–

[90]*IFRS 7, ¶ 8, as amended by IFRS 9.*
[91]*Table 2-22 of AICPA ATT 2010 and AICPA ATT 2006 illustrates the captions most frequently used by the survey U.S. GAAP companies for short-term debt. In 2009, 2005, and 2002, respectively, 49%, 47%, and 54% of companies showed short-term debt. The main captions reported included notes or loans, short-term debt or borrowings, commercial paper, and credit agreements. Table 2-26 illustrates the captions most frequently used by the survey U.S. GAAP companies for current amount of long-term debt. In 2009, 46% of companies (49% in 2005 and 47% in 2002) reported a current portion of long-term debt caption. 31–33% called it current maturities of long-term debt. A minor number of them used terms such as current amount of long-term leases, long-term debt due or payable within one year, current installment of long-term debt, or other titles.*
[92]*FASB ASC 825-10-50-10 (FASB Statement No. 107, ¶ 10).*
[93]*IAS 1, ¶ 78(d); IAS 12, ¶ 88; IAS 19 (2007), ¶ 23; IAS 19 (2011), ¶ 25 ; IAS 37, ¶¶ IN10, 19, 87.*
[94]*IAS 19 (2007), ¶¶ 23and IAS 19 (2011), ¶ 25 do not require specific disclosure for short-term employee benefits. IAS 19 (2007), ¶¶ 54, 118, BC81 and IAS 19 (2011), ¶¶ 63, 133, BC200 require recognition, but does not mention separate presentation of defined benefit plan liability or asset or separation between the current and noncurrent portions. ICAEW 2007 Survey, ¶ 22.4 found out that 14 companies separately presented liabilities or assets for defined benefit plan and similar benefits, and four aggregated them with other provisions.*
[95]*FASB ASC 715-30-25-1, 715-30-25-2 (FASB Statement No. 87, ¶¶ 35, 36; FASB Statement No. 87, ¶ 87; FASB ASC 715-60-25-1 (FASB Statement No. 106, ¶¶ 44A, 44B); FASB ASC 715-20-50-1 (FASB Statement No. 132(R), ¶ 5(c)); FASB Statement No. 158, ¶¶ 1, 4, B100, B101; FASB ASC 715-20-45-3 (FASB Statement No. 158, ¶ B48). Location of employee-related liabilities within current liabilities varies in accounting practice. For example, AICPA ATT 2006, ¶¶ 2.176, 2.177 report cases of a separate caption or location within accrued liabilities.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Short-term provisions (*continued*)		• Other guarantees in scope of FIN 45[96] • Provisions for renegotiation refunds in Federal Government contracts[97]	
Other current liabilities	–	– Taxes currently payable[98] – Others[99]	May be disaggregated if over 5% of current liabilities as: – Accrued payroll – Accrued interest – Current portion of deferred income taxes – Other taxes – Current portion of long-term debt – Other
Liabilities directly associated with long-lived assets to be disposed of by sale	Major classes of liabilities classified as held for sale[100]	Major classes of liabilities of a disposal group classified as held for sale, displayed in their respective categories or in other liabilities[101]	–

[96]*Even if a loss contingency is remote, FASB ASC 450-20-05-3, 460-10-50-2, 460-10-50-3 (FASB Statement No. 5, ¶¶ 4, 12) mention financial statements disclosure of the nature and amount and, if estimable, any recoverable amount, of guarantees of indebtedness of others, obligations of commercial banks under stand-by letters of credit, and guarantees to repurchase sold or assigned receivables or the related property. FASB ASC 460-10-25-3 (FASB Interpretation No. 45, ¶ 9) requires the recognition of a liability for the noncontingent obligation to stand ready arising from certain guarantees, but does not mention separate presentation. Subtopic 460-10 (FASB Interpretation No. 45) requires certain specific disclosures. Among other guarantees, FASB ASC 460-10-15-4, 460-10-55-2 (FASB Interpretation No. 45, ¶¶ 3.a(1), 3.d) include a financial stand-by letter of credit and indirect guarantees of indebtedness of others. FASB ASC 460-10-50-2 (FASB Interpretation No. 45, ¶ 18) explains that indirect guarantees of indebtedness of others are part of those referred to in FASB ASC 460-10-50-2 (FASB Statement No. 5, ¶ 12).*

[97]*FASB ASC 912-405-45-1, 912-405-45-2 (ARB 43, Ch. 11B, ¶¶ 2, 6).*

[98]*FASB ASC 740-10-50-9 (FASB Statement No. 109, ¶ 45a). Although this pronouncement mainly applies to the statement of income, it mentions the financial statements in general.*

[99]*Table 2-27 of AICPA ATT 2010 and AICPA ATT 2006 illustrates the items most frequently included by the survey U.S. GAAP companies in the Other current liabilities caption, such as deferred revenue, liabilities related to discontinued operations and restructuring, accrued interest liability, taxes other than Federal income taxes, warranties, accrued insurance liabilities, deferred income taxes, customer advances and deposits, advertising, derivative liabilities, rebates, dividend liability, environmental liabilities, litigation, billing on uncompleted contracts, royalties, amounts due to affiliated companies, asset retirement obligations, and other items.*

[100]*IFRS 5, ¶ 38.*

[101]*FASB ASC 205-20-45-10, 205-20-50-1 (FASB Statement No. 144, ¶¶ 46, 47(e)). Based on FASB Statement No. 144, ¶ B120, current/noncurrent classification follows the general rule under ARB 43, Ch. 3A.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total current liabilities			
Noncurrent liabilities			
Bonds, mortgages, and other long-term debt	– Amount, timing, and reason for reclassifying in and out of equity a puttable financial instrument classified as an equity instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation and is classified as an equity instrument[102]	May include: – Face amount and interest rate[103] – For notes payable: • face amount • discount or premium either as a direct deduction from or addition to the face amount or parenthetical explanation, or note disclosure[104*] – For each troubled debt restructuring, debtor's disclosure of principal changes in terms and/or major features of settlement[105] – Fair value of financial instruments for which fair value is practicable to be estimated[106*****] – Analysis of minimum lease payments for each of the five subsequent years[107] – Liabilities associated to assets pledged as collateral[108]	– Each issue or type of obligation, including general character, maturity, contingency, priority, and basis of conversion – Significant changes in bonds, mortgages, and similar debt[109]
Other liabilities	[110]	[111]	Required specific items are: – Any amount in excess of 5% of total liabilities

[102]*IAS 32, ¶ 80A, as amended by Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements,* Puttable Financial Instruments and Obligations Arising on Liquidation.
[103]*FASB ASC 835-30-45-2 (APB 21, ¶ 16).*
[104]*FASB ASC 310-10-457, 835-30-45-1A through 45-4 (APB 21, ¶¶ 16, 20).*
[105]*FASB ASC 310-40-50-1 (FASB Statement No. 15, ¶ 25).*
[106]*FASB ASC 825-10-50-10 (FASB Statement No. 107, ¶ 10).*
[107]*FASB ASC 840-30-50-1 (FASB Statement No. 13, ¶ 16). Entities may show these items within a specific caption.*
[108]*FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 17.a(2)).*
[109]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(f)).*
[110]*ICAEW 2007 Survey, ¶ 23.4 argues that some of the survey companies included cash-settled share-based payment transactions liabilities either in provisions or in other liabilities.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term provisions	May be classified into classes of similar nature of obligations, uncertainties, and timing of cash outflows, such as:[112] – Provisions for employee benefits[113] – Tax-related – Restructuring – Product warranties – Legal proceedings – Onerous contracts – Environmental and decommissioning – Other provisions	– Creditor's commitments to lend additional funds to troubled debt restructuring debtors[114] – Certain disclosures required for: • guarantees of indebtedness of others • obligations of commercial banks under a stand-by letters of credit • guarantees to repurchase sold or assigned receivables or the related property – Other guarantees in scope of FIN 45[115]	–
Liability for pension and similar benefits	See long-term provisions above	– Underfunded status of defined benefit pension plans and post-retirement plans other than pensions[116]	–

[111]*Other liabilities is a caption often found in U.S. GAAP practice. FASB Implementation Guides, Q&A FinDisc,* Illustration of Financial Instruments Disclosures, *Example 1 and Example 3 (superseded) included loan commitment deferred fees and deferred losses under oil swap agreement in this caption. Table 2-31 of AICPA ATT 2010 and AICPA ATT 2006 illustrates the items most frequently included by the survey U.S. GAAP companies in the Other noncurrent liabilities caption, such as deferred income taxes, employee liabilities, estimated losses or expenses related to discontinued operations, environmental, insurance, litigation, warranties, or asset retirement obligations, deferred credits (including prepayments and deferred profits on sales), derivative liabilities, mandatorily redeemable preferred stock, and liabilities of nonhomogeneous operations. Sometimes, entities showed minority interest here before FASB Statement No. 160.*

[112]*IAS 1, ¶ 78(d); IAS 12, ¶ 88; IAS 19 (2007), ¶ 23; IAS 19 (2011); IAS 37, ¶¶ IN10, 19, 87.*

[113]*IAS 19 (2007), ¶¶ 54, 118, BC81 and IAS 19 (2011), ¶¶ 63, 133, BC200 require recognition, but do not mention separate presentation of defined benefit plan liability or asset or separation between the current and noncurrent portions. ICAEW 2007 Survey, ¶ 22.4 found out that 14 companies separately presented liabilities or assets for defined benefit plan and similar benefits, and four aggregated them with other provisions. ICAEW 2007 Survey, ¶ 23.4 argues that some of the survey companies included cash-settled share-based payment transaction liabilities either in provisions or in other liabilities.*

[114]*FASB ASC 310-40-50-1 (FASB Statement No. 15, ¶ 40.b).*

[115]*Even if a loss contingency is remote, FASB ASC 450-20-05-3, 460-10-50-2, 460-10-50-3 (FASB Statement No. 5, ¶¶ 4, 12) mention financial statement disclosure of the nature and amount and, if estimable, any recoverable amount, of guarantees of indebtedness of others, obligations of commercial banks under a stand-by letters of credit, and guarantees to repurchase sold or assigned receivables or the related property. FASB ASC 460-10-25-3 (FASB Interpretation No. 45, ¶ 9) requires the recognition of a liability for the noncontingent obligation to stand ready arising from certain guarantees, but does not mention separate presentation. Subtopic 460-10 (FASB Interpretation No. 45), requires certain specific disclosures. Among other guarantees, FASB ASC 460-10-15-4, 460-10-55-2 (FASB Interpretation No. 45, ¶¶ 3.a(1), 3.d) include a financial stand-by letter of credit and indirect guarantees of indebtedness of others. FASB ASC 460-10-50-2 (FASB Interpretation No. 45, ¶ 18) explains that indirect guarantees of indebtedness of others are part of those referred to in FASB ASC 460-10-50-2 (FASB Statement No. 5, ¶ 12).*

[116]*FASB ASC 715-30-25-1, 715-30-25-2 (FASB Statement No. 87, ¶¶ 35, 36; FASB Statement No. 87, ¶ 87; FASB ASC 715-60-25-1 (FASB Statement No. 106, ¶¶ 44A, 44B); FASB ASC 715-20-50-1 (FASB Statement No. 132(R), ¶ 5(c)); FASB Statement No. 158, ¶¶ 1, 4, B100, B101; FASB ASC 715-20-45-3 (FASB Statement No. 158, ¶ B48). It may be found as part of other liabilities.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Deferred credits	–	– Capitalized initial direct costs of direct financing leases[117]	–
Total noncurrent liabilities			
Total liabilities			
Mandatory redeemable preferred stock	–	–	– For each issue: • Number of shares authorized • Number of shares issued or outstanding
Preferred stocks	– As a subclassification of equity capital and reserves: • Any cumulative preference dividends not recognized[118]** – For any type of stock: • number of shares authorized, issued and fully paid, issued but not fully paid • par value per share, or no-par value shares** • reconciliation of period changes in number of shares outstanding** • rights, preferences and restrictions, including dividends and liquidation restrictions**	See Common stock In addition: – Liquidation preferences[119] – Cumulative preferred dividends in arrears, per share and in aggregate – Aggregate or per share amounts at which preferred stock may be called or is subject to redemption through sinking-fund or similar[120]	– For each issue:[121] • title and amount • shares subscribed but unissued • deduction of subscriptions receivable – For each issue: • number of shares authorized • number of shares issued or outstanding • changes in each class of preferred shares for each period****
Common stocks	– As a subclassification of equity capital and reserves, for any type of stock: • number of shares authorized, issued and fully paid, issued but not fully paid • par value per share, or no-par value shares	– For each class of stock: • participation rights, sinking-fund requirements, call prices and dates, conversion or exercise prices or rates and pertinent dates,	– For each class: • the title of the issue • number of shares authorized

[117] *FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.i(c)); FASB Statement No. 98, ¶ 68.*
[118] *IAS 1, ¶ 137 (b).*
[119] *FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 4).*
[120] *FASB ASC 505-10-50-5 (FASB Statement No. 129, ¶ 7).*
[121] *In a note if more than one issue is outstanding, otherwise in the statement of financial position.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Common stocks (*continued*)	• reconciliation of period changes in number of shares outstanding • rights, preferences, and restrictions, including dividends and liquidation restrictions** – Amount, timing, and reason for reclassifying in and out of equity a puttable financial instrument classified as an equity instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation and is classified as an equity instrument[122]	significant terms of contracts to issue additional shares, unusual voting rights, other pertinent rights and privileges of the various securities outstanding[123] • number of shares issued upon actual conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented[124] • Number of shares in which a contingently convertible security is convertible; whether or not and why included in EPS and DEPS; events or changes in circumstances that would make the contingency to be met or change contingency and its terms, significant features on conversion rights and their timing; (alternative) settlement methods upon conversion; terms, relationships, and underlying number of shares of derivative transactions entered in connection with the issuance of contingently convertible securities[125]	• basis of conversion • amount of common shares subscribed but unissued • deduction of subscriptions receivable • changes in each class of common shares for each period**** • warrants or rights outstanding: title and amount of related securities, exercise date, exercise price[126]

[122]*IAS 1, ¶ 80A, as amended by Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements,* Puttable Financial Instruments and Obligations Arising on Liquidation.
[123]*FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 4).*
[124]*FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 5).*
[125]*FASB ASC 505-10-50-6 (FASB Staff Position FAS 129-1, Disclosure Requirements under FASB Statement No. 129 Relating to Contingently Convertible Financial Instruments, ¶ 3).*
[126]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(j)).*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Common stocks (*continued*)		• changes in number of shares of equity securities during at least the latest annual period and any subsequent interim period presented[127***] – For LLCs, amount of each class of members' equity, rights, preferences, and privileges[128]	
Additional paid-in capital and other paid-in capital	– Nature and purpose of each equity reserve** – Amount, timing, and reason for reclassifying in and out of equity a puttable financial instrument classified as an equity instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation and is classified as an equity instrument[129] – Transaction costs deducted from equity[130]	– Own-share lending arrangement deferred issuance costs[131]	–
Retained earnings	– Nature and purpose of each equity reserve[132**] – Adjustments for IFRS first-time adoption[133]	– For LLCs, any separate account for components of members' equity (such as undistributed earnings, earnings available for withdrawal, or unallocated capital)[134] – Aggregate and per share cumulative preferred dividends in arrears[135] – Deficit accumulated during the development stage for development stage enterprises[136]	– As part of other stockholders' equity (Item 30): – Amount of consolidated retained earnings which represents undistributed earnings of 50% or less owned persons accounted for by the equity method – Restrictions due to preferences on involuntary liquidation

[127] *FASB ASC 505-10-50-2 (APB Opinion No. 12, ¶¶ 9–10).*
[128] *FASB ASC 272-10-45-3 (Practice Bulletin No. 14, ¶ 10).*
[129] *IAS 32, ¶ 80A, as amended by Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements*, Puttable Financial Instruments and Obligations Arising on Liquidation.
[130] *IAS 32, ¶ 38.*
[131] *FASB ASC 470-20-25-20A (FASB Accounting Standards Update No. 2009-15*, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*, ¶¶ 7, Amendments to the XBRL Taxonomy).*
[132] *IAS 1, ¶¶ 78(e), 79(b).*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Retained earnings (*continued*)			– Other restrictions on dividends and related sources and provisions – Restrictions on the ability of subsidiaries to transfer funds when their restricted net assets and the parent's equity in equity method investees exceed 25% of consolidated net assets[137] – Retrospective inclusion of dividends declared by a subsidiary after the reporting date[138, 143]
Accumulated other comprehensive income (AOCI)	– Nature and purpose of each equity reserve[139**]	– Accumulated balances for each component of other comprehensive income[141**]	

[133]*Depending on jurisdiction, the adjustments to the opening balance of retained earnings arising from IFRS first-time adoption may require specific line item display. On top of this, special tracing for tax treatment may be necessary. Therefore, even if not required by IFRSs or in jurisdictions that do not impose additional prescriptions on the subject, it would be appropriate to separately identify an account within retained earnings for first-time adoption adjustment and possibly subclassify by type of adjustments.*
[134]*FASB ASC 272-10-50-1 (Practice Bulletin No. 14, ¶ 12).*
[135]*FASB ASC 505-10-20-5 (FASB Statement No. 129, ¶ 7.b); FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶ 19).*
[136]*FASB ASC 915-210-45-1 (FASB Statement No. 7, ¶ 11). IPTF, September 27, 2004, ¶ 3. Disclosure is possible on the face of primary financial statements or in the notes. Item 17 filers are exempted.*
[137]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶¶ 210.4-08(d)(2), 210.4-08(e)).*
[138]*FASB ASC 855-10-S99-1 (SEC Staff Accounting Bulletin, Topic 1-B.3,* Other Matters*). SEC registrants may present those dividends in the statement of financial position with explanation in the notes or, alternatively, add a statement of financial position on a pro forma basis.*
[139]*IAS 1, ¶¶ 77, 78(e) requires subclassification of reserves either in the statement of financial position or in the notes. In addition, IAS 1, ¶ 79(b) requires a description of the nature and purpose of each reserve within equity either in the statement of changes in equity, in the statement of financial position, or in the notes.*
[140]IFRS for SMEs, *¶ 4.11(f).*
[141]*FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26). Presentation in the statement of changes in equity or disclosure in the notes is possible. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-14A (ASU 2011-05) mentions changes in balances of AOCI and not the balances by themselves. Furthermore, it simply refers to financial statements or the notes as opposed to the statement of financial position, the statement of changes in equity or the notes. However, the examples in FASB ASC 220-10-55-15, 220-10-55-16 (ASU 2011-05) consider only the statement of changes in equity and the notes, not the statement of financial position. Table 2-39 of AICPA ATT 2010 and AICPA ATT 2006 illustrates that in 2009, 2005, and 2002 about 5%, 9%, and 8% of the U.S. GAAP companies surveyed, respectively, displayed accumulated balances by component of accumulated other comprehensive income on the face of the statement of financial position. The most frequently displayed components were cumulative translation adjustments, minimum pension liability adjustments, unrealized gains or losses on available-for-sale investments, and changes in fair value of derivatives under cash flow hedges. Table 2-40 shows that 60% of the U.S. GAAP companies surveyed in 2009 (55% in 2005 and 36% in 2002) displayed component balances of accumulated other comprehensive income in the notes, 18%, 15%, and 32%, respectively, in the statement of changes in equity, no more than 2% in the statement of comprehensive income, and 15% in 2009, 16% in 2005, and 19% in 2002 did not present any component. 2–4% had no accumulated other comprehensive income at all.*

(continued)

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accumulated other comprehensive income (AOCI) (*continued*)	– For small and medium-sized entities, items of AOCI that are separately presented in equity[140]	– Accumulated balances for each component of other comprehensive income[141**] – Analysis of period changes in equity adjustment from foreign currency translation, including beginning and ending balances, current-period translation adjustment, current-period gains and losses from intercompany foreign currency transactions that are in substance part of a net investment in a foreign operation, related income taxes for the period, reclassification adjustment[142**]	
Less: Treasury shares and other contra-equity accounts	– Own shares held by the entity or by its subsidiaries or associates and reconciliation of changes in treasury shares[144] – Own shares purchased, sold, issued, or cancelled in connection with share-based payment transactions[145] – Own shares held by an employee benefit trust that is in substance controlled by the issuer[146]	–	–

[142]*FASB ASC 830-30-45-18, 830-30-45-19, 830-30-45-20 (FASB Statement No. 52, ¶¶ 31, 142). An entity may show these amounts in the statement of changes in equity or in a separate statement (hence, including the statement of financial position), or disclose them in the notes.*

[143]*Disclosure of accumulated balances for each component of other comprehensive income is not required under Item 17 of Form 20-F. However, effective for fiscal years ending on or after December 15, 2011, all issuers have to comply with Item 18 rather than Item 17. Furthermore, the SEC Staff clarified that a foreign private issuer that under local GAAP reports items of accumulated other comprehensive income in retained earnings is exempted from reclassifying the components of accumulated other comprehensive income in case this reconstruction is impracticable and it discloses this fact (SEC, International, November 1, 2004, ¶ VI.A; SEC, Release No. 33-8959, ¶ II.E).*

[144]*IAS 1, ¶ 79 requires disclosure either in the statement of financial position or the statement of changes in equity, or in the notes. IAS 32, ¶ 34 permits disclosure of treasury shares either in the statement of financial position or in the notes. IAS 1 (Revised 2005), ¶ 97 permitted note disclosure (as opposed to presentation in the statement of changes in equity) for a reconciliation of ending to beginning carrying amount of each component of equity, therefore indirectly including treasury shares. Now IAS 1 (Revised 2007), ¶ 106 requires this sort of information to be provided in the statement of changes in equity. In addition related party disclosure under IAS 24 is required if own equity instruments are reacquired from related parties.*

Exhibit 3-7 Items that May be Either Separately Presented on the Face of the Statement of Financial Position or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
For all equity accounts	–	Changes in the account at least in the most recent fiscal period and any subsequent interim period presented[147]***	Reconciling balances and changes in each caption of equity and noncontrolling interests for each period presented[148]****
Total equity and liabilities			

[145]*IFRS 2, ¶¶ BC332-BC333; IAS 32, ¶ 4(f)(ii).*
[146]*IFRIC Amendment to SIC-12,* Scope of SIC-12 Consolidation – Special Purpose Entities*, ¶ 15C.*
[147]*FASB ASC 505-10-50-2 (APB Opinion No. 12, ¶¶ 9-10).*
[148]*FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04). This analysis is in a note or separate statement.*

3.5.3 Parenthetical Explanation

The Exhibits mentioned previously state when parenthetical explanation is an option. Those occurrences are marked with an asterisk.

> **Comment:** IFRSs do not specifically treat parenthetical information as a disclosure technique.

3.5.4 Mixed Items

Sometimes accounting pronouncements require presentation on the face of the statement of financial position of some items but do not specifically mention whether a separate line item is necessary. The Exhibits in the chapter do not include those items unless this is clearly understood from the wording of the pronouncement or current practice.

IFRSs examples include gross amount due from/to customers for contract work,[138] lease liabilities,[139] lease receivables,[140] net liability for an employee benefit plan,[141] government grants,[142] and equity and liability component of a compound instrument.[143] Under certain circumstances, an entity might consider such items as additional line items or headings for which IAS 1 requires separate display when relevant. The display of additional items can also result from the application of disaggregation guidance in IAS 1 (see Paragraph 3.5.5 following).[144]

[138] *IAS 1, ¶ 42.*
[139] *IAS 17,* Leases*, ¶ 23.*
[140] *IAS 17, ¶ 36.*
[141] *IAS 19 (2007),* Employee Benefits*, ¶ BC66.*
[142] *IAS 20,* Accounting for Government Grants and Disclosure of Government Assistance*, ¶ 24.*
[143] *IAS 32, ¶¶ 28, 29, AG31.*
[144] *IAS 1, ¶¶ 55–59.*

Exhibit 3-8 Minimum Captions of the Statement of Financial Position of Insurance Companies

Category or Caption[1]	*IFRSs*	*U.S. GAAP*[2]	*SEC Guidance*[3]
Assets:	–	**Assets:**	**Assets:**
Investments	No specialized industry requirement – Also see Investment property below	– Investments – Real estate not used in business and classified as an investment[4]	– Item 1, Investment – other than investments in related parties
Cash	–	– Cash	– Item 2, Cash: • cash or deposit restricted as to withdrawal or usage • compensating balances when cash availability is legally restricted[5]
Securities and indebtedness of related parties	–	–	– Item 3, Securities and indebtedness of related parties:[6] • investment in related parties • indebtedness from related parties
Accrued investment income	–	–	– Item 4, Accrued investment income
Accounts and notes receivable	–	– Receivables other than reinsurance receivables	– Item 5, Accounts and notes receivable
Reinsurance assets	– Reinsurance assets (i.e., assets under reinsurance ceded)[7]	– Reinsurance receivables[8] – Amount recoverable on unasserted claims[9]	– Item 6, Reinsurance recoverable on paid losses

[1]*See general key. The chapter on the statement of financial position includes a listing of insurance enterprises. "–" means that there are no specialized industry separate display requirements.*
[2]*FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120), unless differently stated.*
[3]*FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03) for insurance companies. FASB ASC 944-10-S99-2 (Regulation S-X, ¶ 210.7-02) extends the general rules of Articles 1 to 4 of Regulation S-X to insurance companies.*
[4]*FASB ASC 944-360-25-1 (FASB Statement No. 60, ¶ 52).*
[5]*Based on FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03(a).2) and FASB ASC 210-10-S99 (SEC Staff Accounting Bulletin, Topic 6-H), SEC registrants must segregate compensating balances when cash availability is legally restricted, though related guidance does not explicitly mention separate display. Conversely, an entity must simply provide note disclosure of amounts and terms of compensating balances that do not legally restrict reported cash or that have the purpose of assuring availability of future credit.*
[6]*FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03.2). FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*
[7]*IFRS 4, ¶¶ 14(d), IG20. IFRS 4, ¶¶ 4(f), 37(b) may be construed to require disclosure of reinsurance assets. IFRS 4, ¶ IG20 does not mandate the presentation of a caption for reinsurance assets on the face of the statement of financial position, but it infers that such a presentation would address one of the requirement in IAS 1 for minimum line item display.*
[8]*FASB ASC 944-310-25-2, 944-310-50-2, 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 14, 76, 120); FASB ASC 944-310-45-5 (AICPA Audit and Accounting Guide,* Property and Liability Insurance Companies *(PLI), ¶ 4.34). In property-casualty insurance, reinsurance receivables include receivables for paid claims and claim settlement expenses, estimated amounts receivable from reinsurers for unpaid claims, and claims incurred but not reported. In life insurance, reinsurance receivables include the amount receivable for benefits and expenses paid, the amounts receivable from reinsurers for unpaid benefits, including amounts related to liabilities recognized for future policy benefits. Separate presentation of these components is possible.*
[9]*FASB ASC 944-310-45-6, 944-310-50-2 (FASB Statement No. 113, ¶ 76). An entity may include amounts recoverable from reinsurers on unasserted claims in reinsurance receivables or present it separately.*

Exhibit 3-8 Minimum Captions of the Statement of Financial Position of Insurance Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Reinsurance assets (*continued*)		– Prepaid reinsurance premiums or ceded unearned premiums[10] – Deposit asset under the deposit method of accounting for contracts that do not transfer insurance risk[11]	
Deferred policy acquisition costs	–	– Deferred policy acquisition costs[12] – Deferred sales inducements[13]	– Item 7, Deferred policy acquisition costs
Property, plant, and equipment	–	– Real estate used in enterprise's operations[14]	– Item 8, Property and equipment
Investment property	– Investment property, for which an entity may choose either the fair value model or the cost model, that backs insurance contracts or financial instruments that pay a return linked directly to the fair value of, or returns from such an investment property[15]	– See Investments above	–
Intangible assets	–	–	– Item 9, Title plant
Other assets	– Current tax assets^ – Deferred tax assets^	– Other assets – Real estate acquired in settling insurance claims[16]	– Item 10, Other assets: • real estate acquired in settling claims, shown separately if material
Long-lived assets to be disposed of by sale	Noncurrent assets classified as held for sale^	–	–
Investments in separate accounts	–	– Separate account assets meeting certain conditions[17]	– Item 11, Assets held in separate accounts
Total assets	–	– Total assets	– Item 12, Total Assets

[10]*FASB ASC 944-340-25-1, 944-605-55-11 (FASB Statement No. 113, ¶¶ 14, 120); FASB Statement No. 113, ¶ 77. In property-casualty insurance, prepaid reinsurance premiums include amounts paid to reinsurers for the unexpired portion of reinsured short-duration policies.*
[11]*FASB ASC 340-30-45-1, 340-30-25-4 (AICPA Statement of Position No. 98-7, ¶¶ 9, 17).*
[12]*FASB ASC 944-30-45-1 (FASB Statement No. 60, ¶ 29); FASB ASC 944-605-55-14 (FASB Statement No. 113, ¶ 120); FASB ASC 944-825-45-1, 944-30-45-3 (Practice Bulletin No. 8, ¶ 8).*
[13]*FASB ASC 944-30-45-2 (AICPA Statement of Position No. 03-1, ¶ 37).*
[14]*FASB ASC 944-360-25-1 (FASB Statement No. 60, ¶ 52).*
[15]*IFRS 4, ¶ BC178(c); IAS 1, 54(b); IAS 40, ¶¶ 32A, 32B, 32C. Investment property is a minimum line item under IAS 1, ¶ 54.*
^Minimum line item under IAS 1, ¶ 54.
[16]*FASB ASC 944-360-45-1 (FASB Statement No. 60, ¶ 19). Such a real estate property cannot be classified as an investment.*
[17]*FASB ASC 944-80-45-1 (FASB Statement No. 60, ¶ 54); FASB ASC 944-80-25-3, 944-80-45-2 (AICPA Statement of Position No. 03-1,* Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts, *¶¶ 10, 11); AICPA Statement of Position No. 03-1, ¶ A-3.*

(continued)

Exhibit 3-8 Minimum Captions of the Statement of Financial Position of Insurance Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Liabilities and equity:	–	–	Liabilities and stockholders' equity
Liabilities under insurance contracts and reinsurance contracts issued	–	– Liability for policy benefits (in life insurance) – Unearned premiums (in property-casualty insurance)[18] – Liabilities for claims and claim settlement expenses (in property-casualty insurance) – Policyholders' contract deposits[19] – Under the open year method of accounting for foreign property and liability reinsurance, the open underwriting balance, until earned premiums are reasonably determinable[20] – Deposit liability under the deposit method of accounting for contracts that do not transfer insurance risk[21]	– Item 13, Policy liabilities and accruals: • future policy benefits and losses, claims and loss expenses • unearned premiums • other policy claims and benefits payable
Liability for participating policyholders' funds	–	– Liability for participating policyholders' funds, when limitations exist on distributability of net income from participating contracts to stockholders[22] – Liability for accrual of annual policyholder dividends[23]	– Item 14, Other policyholders' funds
Other liabilities	– Current tax liabilities^ – Deferred tax liabilities^	– Other liabilities	– Item 15, Other liabilities

[18]*FASB Statement No. 113, ¶ 77 refers to FASB Statement No. 60 for separate reporting of the liability for unearned premiums. Actually, FASB Statement No. 60 does not mention separate presentation.*
[19]*FASB ASC 944-605-55-14 (FASB Statement No. 113, ¶ 120).*
[20]*FASB ASC 944-605-25-19 (AICPA Statement of Position No. 92-5, ¶ 15).*
[21]*FASB ASC 340-30-45-1, 340-30-25-4 (AICPA Statement of Position No. 98-7, ¶¶ 9, 17).*
[22]*FASB ASC 944-50-25-2 (FASB Statement No. 60, ¶ 42).*
[23]*FASB ASC 944-50-25-5, AICPA Statement of Position No. 95-1, ¶ 14).*

Exhibit 3-8 Minimum Captions of the Statement of Financial Position of Insurance Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Bonds, mortgages and other debt	–	– Surplus notes[24]	– Item 16, Notes payable, bonds, mortgages and similar obligations, including capitalized leases: • short-term debt • long-term debt, including capitalized leases • each issue or type of obligation, including general character, maturity, contingency, priority, and basis of conversion
Indebtedness to related parties	–	–	– Item 17, Indebtedness to related parties[25]
Liabilities related to separate accounts	–	– Separate account liabilities meeting certain conditions[26]	– Item 18, Liabilities related to separate accounts
Long-term provisions	–	–	– Item 19, Commitments and contingent liabilities
Liabilities directly associated with noncurrent assets classified as held for sale	Liabilities directly associated with noncurrent assets classified as held for saleˆ	–	–
Mandatory redeemable preferred stock	–	–	– Item 20, Preferred stocks subject to mandatory redemption requirements or whose redemption is outside the control of the issuer[27] • see specific items required of all companies
Preferred stocks	–	–	– Item 21, Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer • see specific items required of all companies
Common stocks	–	–	– Item 22, Common stocks • see specific items required of all companies

[24] *FASB ASC 944-470-45-1 (Practice Bulletin No. 15,* Accounting by the Issuer of Surplus Notes*, ¶ 7); Practice Bulletin No. 15, ¶ 27).*

[25] *FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03.17). FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*

[26] *FASB ASC 944-80-45-1 (FASB Statement No. 60, ¶ 54); FASB ASC 944-80-25-3, 944-80-45-2 (AICPA Statement of Position No. 03-1, ¶¶ 10, 11).*

[27] *As part of a separate section as redeemable preferred stocks. For publicly held companies, classification as temporary equity applies if the instrument is outside the scope of Subtopic 480-10 (FASB Statement No. 150).*

(continued)

Exhibit 3-8 Minimum Captions of the Statement of Financial Position of Insurance Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Additional paid-in capital and other paid-in capital	–	–	– As part of Item 23, Other stockholders' equity: • additional paid-in capital • other additional capital
Retained earnings	–	– Reclassification of retained earnings to capital stock and additional paid-in capital as of the date of a distribution-form demutualization	– As part of Item 23, Other stockholders' equity • see specific items required of all companies
Accumulated other comprehensive income (AOCI)	–	– For certain mutual life insurance enterprises:[28] • deduction for the portion of unrealized investment gains and losses attributable to the policyholder dividend obligation • unrealized investment gains and losses • other items of accumulated other comprehensive income	– As part of Item 23, Other stockholders' equity • unrealized appreciation or depreciation of equity securities less applicable deferred income taxes
Noncontrolling interest	–	–	– Item 24, Noncontrolling interests in consolidated subsidiaries
Total equity	–	– Equity	No specialized industry requirement
Total liabilities and equity	–	– Total liabilities and equity	– Item 25, Total liabilities and equity

[28]*FASB ASC 944-805-45-2, AICPA Statement of Position No. 00-3, Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts, ¶ 16); AICPA Statement of Position No. 00-3, ¶ 57.*

Analogous situations exist under U.S. GAAP for certain items, such as issuance cost of notes payable,[145] lessor's investment in a lease,[146] a license agreement for program material accounted for by a broadcaster and a network affiliation agreement.[147] They comprise nonrecourse debt assumed by the buyer presented on the seller's statement of financial position under the deposit method of accounting for sales of real estate,[148] future and forward

[145] *FASB ASC 835-30-45-3 (APB 21,* Interest on Receivables and Payables, *¶ 16).*
[146] *FASB ASC 840-30-25-7, 840-30-45-5, 840-10-55-40, 840-30-55-34 (FASB Statement No. 13,* Accounting for Leases, *¶¶ 18, 47, Appendix D and E).*
[147] *FASB ASC 920-350-45-1, 920-350-45-2 (FASB Statement No. 63,* Financial Reporting by Broadcasters, *¶¶ 3, 9).*
[148] *FASB ASC 360-20-55-20 (FASB Statement No. 66, ¶ 67).*

contracts,[149] certain repurchase and reverse repurchase agreements,[150] and loss contingencies.[151] Other examples are an investment in life insurance,[152] an accrued liability for real and personal property taxes,[153] a provision for renegotiation refunds,[154] a reasonably determinable termination claim in fixed-price war and defense supply contracts.[155]

There are other occurrences where IFRSs do not prescribe presentation or disclosure but simply recognition or separate recognition. However, from the literal wording of the standard it may be clear or inferred that an entity should consider whether to display or disclose the item separately. These cases may include a virtually certain right of reimbursement expenditure to settle a defined benefit plan,[156] a virtually certain right to reimbursement expenditures to settle an obligation,[157] or a net defined benefit pension liability.[158] Further examples comprise embedded derivatives,[159] groups of consumable and bearer biological assets or mature and immature biological assets,[160] decommissioning, restoration, or similar liabilities.[161] Other situations encompass the hedged risk portion of the cumulative change in fair value of a firm commitment designated as a hedged item,[162] and the increase in equity for goods or services received in relation to equity-settled share-based payment transactions.[163]

Under U.S. GAAP, similar occurrences comprise the under- or overfunded status of defined benefit pension plans and post-retirement plans other than pensions,[164] or a separate liability that reflects credit risk that is not part of a beneficial interest obtained by a transferor.[165] Other situations encompass the credit for the deferred gain corresponding to the amount withdrawn in an asset reversion transaction in settling portions of a pension obligation,[166] or the asset or liability corresponding to the difference between market and contractual terms that an

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[149] *FASB Interpretation No. 39, ¶ 1.*
[150] *FASB Interpretation No. 41,* Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, ¶ 1.*
[151] *FASB ASC 450-20-25-2 (FASB Statement No. 5, ¶ 8).*
[152] *FASB ASC 325-30-25-1 (FASB Technical Bulletin FTB 85-4,* Accounting for Purchases of Life Insurances*, ¶ 2).*
[153] *FASB ASC 720-30-45-1 (ARB 43, Ch. 10A, ¶ 16).*
[154] *FASB ASC 912-405-45-2 (ARB 43, Ch.11B, ¶ 6).*
[155] *FASB ASC 912-310-50-1 (ARB 43, Ch.11C, ¶ 4).*
[156] *IAS 19 (2007), ¶ 104A; IAS 19 (2011), ¶ 116.*
[157] *IAS 37,* Provisions, Contingent Liabilities and Contingent Assets*, ¶¶ IN7(b), 53.*
[158] *IAS 19 (2007), ¶¶ 54, 104C, 115, Appendix A; IFRIC 14, ¶ IE7.*
[159] *IAS 39,* Financial Instruments: Recognition and Measurements*, ¶ 11.*
[160] *IAS 41,* Agriculture*, ¶ Footnote (a) to A2.*
[161] *IFRIC 1,* Changes in Existing Decommissioning, Restoration and Similar Liabilities*, ¶ IE7.*
[162] *IAS 39, ¶ 93.*
[163] *IFRS 2,* Share-Based Payment*, ¶ 7.*
[164] *FASB ASC 715-30-25-1, 715-30-25-2 (FASB Statement No. 87, ¶¶ 35, 36; FASB Statement No. 87, ¶ 87; FASB ASC 715-60-25-1 (FASB Statement No. 106,* Employers' Accounting for Postretirement Benefits Other Than Pensions*, ¶¶ 44A, 44B); FASB ASC 715-20-50-1 (FASB Statement No. 132(R),* Employers' Disclosures about Pension and Other Postretirement Benefits*, ¶ 5(c)); FASB Statement No. 158,* Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, ¶¶ 1, 4, B100, B101; FASB ASC 715-20-45-3 (FASB Statement No. 158, ¶ B48).*
[165] *FASB Special Report,* A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, ¶ 68.*
[166] *FASB Statement No. 88,* Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, ¶ 20.*

Exhibit 3-9 Items that May be Either Separately Presented on the Face of the Statements of Financial Position or Disclosed in the Notes by Insurance Enterprises

Category or Caption[1]	*IFRSs*	*U.S. GAAP*[2]	*SEC Guidance*[3]
Assets:			
Investments	[4]	–	– As part of Item 1, Investment – other than investments in related parties: • fixed maturities, and alternate cost or value* • equity securities, and alternate cost or value* • mortgage loans on real estate • investment real estate, and accumulated depreciation and amortization • policy loans • other long-term investments • short-term investments • basis used
Accounts and notes receivable	– Insurer's receivables from agents, brokers and policyholders[5]	– Premium receivable relating to financial guarantee insurance contracts for which premiums are paid over the contract period[6]	– As part of Item 5, Accounts and notes receivable: • receivables from agents and insureds • uncollected premiums • other receivables • any category exceeding 5% of total assets • allowance for doubtful accounts
Reinsurance assets	– May include subclassifications similar to those used for insurance liabilities, such as:[7] • prepaid reinsurance premiums • claims reported • claims incurred but not reported • policy benefits • adjustment for adequacy test • discretionary participation features – Deposit asset under the deposit method of accounting[8]	– In property-casualty insurance, may include subclassifications,[9] such as receivables for: • paid claims • claim settlement expenses • unpaid claims • claims incurred but not reported – In life insurance, may include subclassifications such as receivable for: • benefits and expenses paid • unpaid benefits, including amounts related to liabilities recognized for future policy benefits	–

[1]*See general key. The chapter on the statement of financial position includes a listing of insurance enterprises. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2]*FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120), unless differently stated.*
[3]*FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03) for insurance companies. FASB ASC 944-10-S99-2 Regulation S-X, ¶ 210.7-02) extends the general rules of Articles 1 to 4 of Regulation S-X to insurance companies.*

Exhibit 3-9 Items that May be Either Separately Presented on the Face of the Statements of Financial Position or Disclosed in the Notes by Insurance Enterprises (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Deferred policy acquisition costs	– Deferred acquisition costs relating to assets under insurance contracts and reinsurance contracts issued[10]	– Unamortized deferred policy acquisition costs[11]	–
Property, plant, and equipment	–	–	– As part of Item 8, Property and equipment: • accumulated depreciation and depletion
Intangible assets	– May show[12] value of acquired-in-force insurance contracts	–	–
Other assets	–	–	– As part of Item 10, Other assets: • any amounts in excess of 5% of total assets

[4]*Ineum 2008 Survey, ¶¶ 10.2, 18.8 observed the practice in IFRSs insurance entities to display IFRS 7 classifications of financial instruments in the statement of financial position as opposed to disclosure in the notes.*

[5]*Under IFRS 4, ¶ IG22, an insurer may subclassify insurance receivables either on the face of the statement of financial position or as note disclosure. It may use a specific caption.*

[6]*FASB ASC 944-310-50-3 (FASB Statement No. 163, ¶ 30.a(1)). An entity that does not use a separate line item must illustrate which item includes such an amount.*

[7]*Under IFRS 4, ¶¶ IG22, IG23, an insurer may subclassify insurance liabilities, as well as reinsurance assets, either on the face of the statement of financial position or as note disclosure.*

[8]*IFRS 4, ¶¶ 10, B20; IAS 1, ¶¶ 77, 78(b).*

[9]*FASB ASC 944-310-50-2, 944-310-45-6, 944-605-55-11 (FASB Statement No. 113, ¶¶ 76, Appendix B, Footnote b).*

[10]*IFRS 4, ¶¶ BC116 explains that IFRS 4 does not prescribe a specific treatment for acquisition costs. IFRS 4, ¶ BC119 and IAS 18, ¶ IE14(b)(iii) instead require asset recognition for those acquisition costs that are directly attributable to gaining an investment management contract and, in line with the definition of transaction costs in IAS 39, ¶ 9, are incremental, separately identified, reliably measurably, and probable to recover. Under IFRS 4, ¶ IG23, an insurer should consider whether to present deferred acquisition costs related to assets under insurance contracts or reinsurance contracts issued on the face of the statement of financial position or disclose them in the notes. Arguably, if deferred acquisition costs are presented on the face of the financial statements, intangible assets, the other assets caption or a separate caption, such as deferred expenses, may be used. Ineum 2008 Survey, ¶ 18.4 reports that 40% of surveyed companies presented deferred acquisition costs in a separate line, 40% within the Other assets caption, and 20% as a deduction from insurance reserves.*

[11]*FASB ASC 944-30-50-1 (FASB Statement No. 60, ¶ 60) simply mentions disclosure of deferred acquisition costs in the financial statements of an insurance enterprise. FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ Appendix B) shows a separate caption in the statement of financial position. FASB ASC 944-30-45-2 for unamortized acquisition costs of insurance contracts and FASB ASC 944-30-45-3, 944-825-45-1 (Practice Bulletin No. 8, ¶ 8) for deferred acquisition costs of investment contracts refer to recognition and reporting as an asset, respectively.*

[12]*Under IFRS 4, ¶ IG23, in case of insurance contracts acquired in a business combination or as a transfer of portfolio from another insurer, an insurer may separately recognize an intangible asset for the difference between the fair value of acquired insurance rights and obligations assumed and the liability insurance measured based on the entity's accounting policies for insurance contracts that it issues. An insurer should consider whether to present such asset on the face of the statement of financial position or disclose it in the notes.*

(continued)

Exhibit 3-9 Items that May be Either Separately Presented on the Face of the Statements of Financial Position or Disclosed in the Notes by Insurance Enterprises (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total assets			
Liabilities and equity:			
Liabilities under insurance contracts and reinsurance contracts issued	– May include subclassifications, such as:[13] • liability for unearned premiums • claims reported by policyholders • claims incurred but not reported (IBNR) • provisions arising from liability adequacy tests • provisions for future nonparticipating benefits • payables related to insurance contracts • deduction for estimated salvage property (i.e., noninsurance assets acquired by exercising rights to recoveries) – Deposit liability under the deposit method of accounting[14]	– May include subclassifications, such as liability for unpaid claims and claim adjustment expenses[15] – Carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at fair value[16] – For financial guarantee insurance contracts for which premiums are paid over the contract period:[17] • unearned premium revenue • accretion of the discount on claim liability	–
Liability for participating policyholders' funds	– May include subclassifications, such as:[18] • liabilities relating to discretionary participation features	–	– As part of Item 14, Other policyholders' funds: • funds that exceed 5% of total liabilities

[13]*Under IFRS 4, ¶ IG22, an insurer may subclassify insurance liabilities, as well as reinsurance assets, either on the face of the statement of financial position or as note disclosure.*
[14]*IFRS 4, ¶¶ 10, B20; IAS 1, ¶¶ 77, 78(b).*
[15]*FASB ASC 944-40-50-5 (FASB Statement No. 60, ¶ 60) simply mentions disclosure in the financial statements of an insurance enterprise. Similarly, FASB ASC 944-40-50-3, 944-40-55-7 (AICPA Statement of Position No. 94-5,* Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises*, ¶¶ 11, A.3) require disclosure of the liability for unpaid claims and claim adjustment expenses of insurance enterprises without requiring a special format of disclosure.*
[16]*FASB ASC 944-40-50-5 (FASB Statement No. 60, ¶ 60) simply mentions disclosure in financial statements.*
[17]*FASB ASC 944-310-50-3, 944-40-50-9 (FASB Statement No. 163, ¶¶ 30.a(1), 30.f(2)). An entity that does not use a separate line item must illustrate which item includes such an amount.*
[18]*Under IFRS 4, ¶ IG22, an insurer may subclassify insurance liabilities, as well as reinsurance assets, either on the face of the statement of financial position or as note disclosure.*

Exhibit 3-9 Items that May be Either Separately Presented on the Face of the Statements of Financial Position or Disclosed in the Notes by Insurance Enterprises (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other liabilities	– As a subclassifications of trade and other payables: • insurer's payables to agents, brokers, and policyholders[19]	–	– As part of Item 15, Other liabilities: • any amount in excess of 5% of total liabilities • income taxes payable • deferred income taxes • deferred income taxes applicable to unrealized appreciation of equity securities
Preferred stocks	–	–	– For each issue:[20] • title and amount • shares subscribed but unissued • deduction of subscriptions receivable – For each issue: • number of shares authorized • number of shares issued or outstanding – Changes in each class of preferred shares for each period****
Common stocks	–	– Statutory capital – Statutory surplus – Statutory capital and surplus necessary to satisfy regulatory requirements, if significant[21] – Reclassification of retained earnings to capital stock and additional paid-in capital as of the date of a distribution-form demutualization[22] – A distribution of cash or credits to policyholders in lieu of capital stock as part of a distribution-form demutualization, presented as a direct reduction to the appropriate capital account	– For each class: • the title of the issue • number of shares authorized • basis of conversion • amount of common shares subscribed but unissued • deduction of subscriptions receivable – Changes in each class of common shares for each period****

[19] *Under IFRS 4, ¶ IG22, an insurer may subclassify insurance liabilities either on the face of the statement of financial position or as note disclosure. It may use a specific caption.*
[20] *In a note if more than one issue is outstanding, otherwise in the statement of financial position.*
[21] *FASB ASC 944-505-50-1 (FASB Statement No. 60, ¶ 60) simply mentions disclosure in the financial statements of an insurance enterprise.*
[22] *FASB ASC 944-805-45-4 (AICPA Statement of Position No. 00-3, ¶ 19). However, it does not mention any manner of presentation or disclosure and the respective statement.*

(continued)

Exhibit 3-9 Items that May be Either Separately Presented on the Face of the Statements of Financial Position or Disclosed in the Notes by Insurance Enterprises (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Additional paid-in capital and other paid-in capital	–	See Common stock above, for a demutualization	–
Retained earnings	– Insurance discretionary participation features that are classified as a component of equity[23]**	– Nature of statutory restrictions on the payment of dividends – Retained earnings that is not available for dividend payment to stockholders[24] – Reclassification of retained earnings to capital stock and additional paid-in capital as of the date of a distribution-form demutualization[25]	–
Total liabilities and equity			

[23] *IFRS 4, ¶ IG22.*
[24] *FASB ASC 944-505-50-1 (FASB Statement No. 60, ¶ 60) simply mentions disclosure in the financial statements of an insurance enterprise.*
[25] *FASB ASC 944-805-45-4 (AICPA Statement of Position No. 00-3, ¶ 19). However, it does not mention any manner of presentation or disclosure and the respective statement.*

acquirer at acquisition date recognizes separately from the related operating lease in which the acquiree is the lessor.[167] Additional examples are derivative assets and liabilities,[168] liabilities for asset retirement obligations,[169] or retrospective and contingent commission receivables and payables in retrospective commission or experience refund arrangements under experience-rated insurance contracts.[170]

3.5.5 Disaggregation Guidance

IAS 1 uses the term *disclosure* loosely, to include both note disclosure and presentation.[171] However, in its strict meaning, disclosure is information provided in the note. U.S. practice classifies several means of disclosure other than display in the financial statements: note disclosure, parenthetical explanation, cross-reference among line items, valuation accounts, supplementary information, supporting schedules, and other means of financial reporting.[172]

This paragraph provides a logical framework of disaggregation guidance under IFRSs, as compared to U.S. GAAP and SEC guidance. The topic is broken down into three

[167] *FASB ASC 805-20-25-12, 805-20-30-5 (FASB Statement No. 141(R),* Business Combinations*, ¶¶ A17, A58).*
[168] *FASB ASC 815-10-05-4, 815-10-25-1 (FASB Statement No. 133,* Accounting for Derivative Instruments and Hedging Activities*, ¶¶ 4, 17); FASB Statement No. 149,* Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, ¶ 17.*
[169] *FASB ASC 410-20-25-24 (FASB Statement No. 143,* Accounting for Asset Retirement Obligations*, ¶ 3).*
[170] *FASB ASC 944-605-25-14 (FASB Statement No. 60, ¶ 44).*
[171] *IAS 1, ¶ 48.*
[172] *CON 5, ¶ 9.*

pieces: 1) the general criteria of presentation versus disclosure; 2) the dimensions along which an entity may aggregate or disaggregate assets or liabilities to display or disclosure; and 3) the criteria for determining the appropriate level of aggregation of assets or liabilities. This paragraph does not explain specific rules for disclosure of accounting policies, assumptions, judgments, and estimation uncertainty.

As to the first point, Exhibit 3-18 shows how to determine whether to present an item in the statement of financial position or disclose it in the notes. This general scheme applies to all financial statements, although it has a specific relevance to the statement of financial position. It follows the following five steps.

Planning Point: Firstly, an entity checks if prescriptive guidance exists concerning the presentation of a specific item, mandatory note disclosure, or an elective treatment between the two. IFRSs in fact, as well as Regulation S-X, fix the display of certain items, either as minimum content or as additional prescriptions of specific accounting pronouncements. Although U.S. GAAP has no such general listing, apart from interim reporting of public entities under Subsection 270-10-51-1 (APB 28),[173] much of its literature contains precise display requirements. The Exhibits in Paragraph 3.5.1 previously report a listing of those occurrences. The Exhibits in Paragraph 3.5.2 previously illustrate the circumstances where an entity may opt for presentation or note disclosure. Furthermore, IFRSs, U.S. GAAP, and SEC rules and regulations mandate note disclosure of certain items. Besides specific lines, as a general guideline, under ASR No. 41 an SEC registrant must separately disclose items on the face of the statement of financial position when they equal or exceed 10% of their immediate category or 5% of total assets. Other quantitative thresholds exist in the SEC guidance, as in the case of notes receivable, intangible assets, the other assets, and the other liabilities captions.

Next, if this first step is not conclusive, the entity reviews the general criteria for presentation or note disclosure, as opposed to other means of financial reporting such as management commentary. IFRSs deem information presented in the financial statements or disclosed in the notes necessary to make the financial statements complete and not misleading.[174] Conversely, management commentary and other means of financial reporting complement and supplement financial statements for their better understanding and use.[175] As a watershed under the U.S. Concepts, note disclosure or parenthetical explanation is essential information to augment or elucidate items recognized in the financial statements, in contrast to supplementary information and management discussion and analysis.[176]

As a third step, once it is clear what information must be part of the financial statements, the entity determines whether this warrants presentation as opposed to note disclosure, by considering if such information provides relevance and prevents financial statements from being misleading. Unless a specific pronouncement specifies otherwise, IAS 1 first asks companies to consider presentation on the grounds of relevance for an understanding by the users of financial statements. This holds true for both the statement of financial position and the statement of comprehensive income.[177] If this is not the case, note disclosure becomes the residual solution.[178] Paragraph 3.3.7 includes a discussion on the display of additional headings and subtotals in the statement of financial position. However, even when separate presentation is not justified, disclosure of sufficient material items may be necessary

[173] *FASB ASC 270-10-51-1 (APB 28,* Interim Financial Reporting*, ¶ 30).*
[174] *IFRS 7,* Financial Instruments: Disclosures*, ¶¶ B6, BC45.*
[175] Preface to International Financial Reporting Standards*, ¶ 7; IFRS Practice Statement,* Management Commentary. A Framework for Presentation*, ¶ BC33.*
[176] *CON 5, ¶ 7.*
[177] *IAS 1, ¶¶ 55, 57(a), 85, 86; IAS 38, ¶ 119.*
[178] *IAS 1, ¶ 112(b).*

to achieve relevance and fair presentation.[179] Under Regulation S-X, an SEC registrant must also include any additional material information that would make financial statements misleading if omitted. Regulation S-X reiterates this principle for interim reporting, and financial statements of guarantors and issuers of guaranteed securities already registered or being registered.[180] Form 20-F states the same concept by referencing Exchange Act Rule 12b-20.[181]

Next, the entity applies specific disaggregation guidance (see the following), to determine how much information to make available.

Finally, when even disclosures required by IFRSs are not enough for a full understanding by users, the notes must provide any additional supporting information as necessary.[182]

The second part of the model concerns the dimensions along which an entity may aggregate or disaggregate the presentation or disclosure of assets or liabilities.

Comment: Much of the judgment concerning whether an item or group of items warrants separate presentation refers to the definition of a class of items. Several IFRS pronouncements define the notion of a class of assets or liabilities for the purposes of presentation, disclosure, or measurement. Measurement is relevant here, to the extent that measurement attributes are one of the drivers of the disaggregation guidance, as more fully analyzed below.

Nature and function come out as the fundamental aggregation or disaggregation keys. The IASB Framework mentions subclassifications of assets and liabilities by nature or function, and IAS 1 confirms this view.[183] Under IAS 16, IAS 38, and IAS 36, items of property, plant and equipment, intangible assets, or assets in general form a class when they are similar in nature and the entity employs them for similar uses.[184] IAS 37 permits the combination of disclosures by classes of provisions or contingent liabilities of similar nature and features.[185] Entities may disclose service concession agreements by classes of similar nature of service,[186] as well as arrangements that in substance are not leases by classes of underlying assets of similar nature.[187] For disclosure purposes, IFRS 7 directs an entity to determine classes of financial instruments based on the nature of the information conveyed and the characteristics of the financial instruments, irrespective of classes used for measurement purposes.[188] Somewhat similarly, CON 5 underlines that financial statements aggregate classes of items that

[179] *IAS 1, ¶¶ 15, 112(c).*
[180] *FASB ASC 470-10-S99-1, 205-10-S99-1, 270-10-S99-1 (Regulation S-X, ¶¶ 210.3-10.(i).11(ii), 210.4-01(a), 210.10-01(a)(5)); Regulation S-X, ¶ 210.8-03(b)(1),*
[181] *Form 20-F, General Instructions, C(c).*
[182] *IFRS 7, ¶ IG6; IAS 1, ¶ 17(c).*
[183] *IAS 1, ¶ 30;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.3; IASB Framework, ¶ 48.*
[184] *IAS 16,* Property, Plant and Equipment*, ¶ 37; IAS 36,* Impairment of Assets*, ¶ 127; IAS 38,* Intangible Assets*, ¶¶ 73, 119.*
[185] *IAS 37, ¶ 87.*
[186] *SIC Interpretation No. 29,* Service Concession Arrangements : Disclosures*, ¶ 7.*
[187] *SIC Interpretation No. 27,* Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, ¶ 11.*
[188] *IFRS 7, ¶¶ 6, B1.*

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
Assets:	*Assets:*[b]	*Assets:*[a]	*Assets:*
Loans to members of credit unions	–	– For credit unions:[5] • loans to members, net of allowance for loan losses	–
Cash and cash equivalents	[6]	– Cash and cash equivalents[a,7] • cash and due from banks • Federal funds sold[8] – Material deposits in other institutions[9] – For credit unions:[10] • fully refundable deposits with the National Credit Union Share Insurance Fund	– Item 1, Cash and due from banks • compensating balances when cash availability is legally restricted[11]

[1]*See general key. The chapter on the statement of banks and similar financial institutions. For sake of simplicity, this Exhibit also includes brokers and dealers.*
"–" means that there are no specialized industry separate display requirements.
[2]*This Exhibit simply includes references to specific topics that may affect banks and similar financial institution companies. Any other applicable IFRS requirements that are irrespective of the type of industry may apply. This Exhibit also mentions IAS 30, even though superseded.*
[3]*This Exhibit does not repeat lines applicable to all companies for financial instruments under U.S. GAAP. Conversely, as IFRSs has no specialized guidance for banks and financial institutions, the IFRS columns repeat certain lines required for financial assets and financial liabilities.*
[4]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03) for bank holding companies. FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations. FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1 to 4 of Regulation S-X to bank holding companies.*
[b]*IAS 30 (superseded), ¶ 19.*
[a]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148), unless differently stated.*
[5]*FASB ASC 942-405-55-3, 942-405-55-4 (EITF Issue No. 89-3, ¶¶ Exhibits 89-3A, 89-3B) show this as the first item on the assets section.*
[6]*Under IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1), an entity recognizes nonsegregated cash collateral received as an asset against a payable to the transferor.*
[7]*Under FASB ASC 860-30-25-4 (FASB Statement No. 140, ¶ 15, Footnote 4), an entity recognizes a cash collateral received as proceeds. See below for master netting arrangements.*
[8]*FASB ASC 230-10-20, 942-230-55-2, 942-230-55-4 (FASB Statement No. 95, ¶¶ 9, 147, 148).*
[9]*FASB ASC 942-210-45-4 (AICPA Audit and Accounting Guide, DEP, ¶ 6.11).*
[10]*FASB ASC 942-325-25-3 (AICPA Statement of Position No. 01-6, ¶ 11.a).*
[11]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶, 210.9-03.1(a)) mentions note disclosure of withdrawals and usage restrictions. However, it refers to FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.5-02.1), which requires SEC registrants to segregate compensating balances when cash availability is legally restricted, although it does not explicitly mention separate display. Conversely, an entity must simply provide note disclosure of amounts and terms of compensating balances that do not legally restrict reported cash or that have the purpose of assuring availability of future credit. Also see FASB ASC 210-10-S99 (SEC Staff Accounting Bulletin, Topic 6-H,* Accounting Series Release 148 – Disclosure Of Compensating Balances And Short-Term Borrowing Arrangements*). Under FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(1)(iii)), cash deposits for repurchase agreements are restricted.*

(continued)

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Placements with other banks	–	See cash and due from banks above	– Item 2, Interest-bearing deposits in other banks[12]
Balances with the central bank	–	See cash and cash equivalents above	– Item 3, Federal funds sold and securities purchased under resale agreements or similar arrangements[13] – Securities and other assets arising from reverse repurchase agreements if the aggregate carrying amount exceeds 10% of total assets[14]
Financial assets not held for investment	– As part of financial assets^ – Hedged item gain or loss in a portfolio hedge of interest rate risk[15] – Noncash financial collateral that the transferee has the right to sell or repledge[16]	– Trading securities[17] – Elective accounting policy to offset derivative instruments measured at fair value and a cash collateral receivable or payable arising from such derivative instruments executed with the same counterparty under a master netting arrangement[18]	– Item 4, Trading account assets – Item 5, Other short-term investments
Assets held for investment	– As part of financial assets^	– Investment securities[a] – Combined real estate acquisition, development and construction (ADC) arrangements of financial institutions accounted for as investments in real estate or real estate joint ventures[19]	– Item 6, Investment securities • aggregate market value

[12]*Both U.S. GAAP and IFRSs illustrate net reporting in the statement of cash flows for deposits placed with other financial institutions. This Exhibit places Item 2 in a separate row, because U.S. GAAP and IFRSs show the classification of related cash flows as financing activities.*
[13]*Although U.S. GAAP classifies Federal funds sold into cash and cash equivalents, this Exhibit does not place Item 3 into that caption, because this Item includes resale agreements or similar arrangements. This Exhibit does not place Item 3 into trading and other securities not held for investment, because of the possible alternative classifications in the statement of cash flows under U.S. GAAP (see related chapter). Furthermore, U.S. GAAP shows the classification of cash flows from Federal funds purchased and sold as financing activities.*
[14]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(2)(i)(A)).*
^Minimum line item under IAS 1, ¶ 54.
[15]*IAS 39, ¶ 89A.*
[16]*IFRS 7, ¶ 14; IFRS 9, ¶¶ 3.2.23(a), B3.2.16; IAS 39, ¶¶ 37, AG51, for example including loaned assets, pledged equity instruments, and repurchase receivables.*

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Loans and receivables	[20]	– Receivables held for sale[21] – Credit card receivables[a] – Loans[a] – Unamortized balance of net nonrefundable fees and costs for loan origination, commitment, and others, to be reported as part of the loan balance[22] – Loans and trade receivables not held for sale (i.e., that management has the intent and ability to hold for the foreseeable future or until maturity or payoff), to be presented net of any chargeoffs, allowances for loan losses or doubtful accounts, deferred fees or costs on originated loans, unamortized premiums or discounts on purchased loans[23] – Mortgage loans held for sale[24] – Mortgage loans held for long-term investment – Real estate acquisition, development, and construction (ADC) arrangements of financial institutions accounted for as loans[25]	– Item 7, Loans: • total • allowance for losses • unearned income • foreign loans for each period in which either assets, revenue, income (loss) before income tax expense, or net income (loss) of foreign activities exceed 10% of the corresponding amount[26]

[17]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148). FASB ASC 230-10-45-6 (FASB Statement No. 95, ¶ 10); FASB Statement No. 95, ¶¶ 55, 56, 65; FASB ASC 320-10-45-13 (FASB Statement No. 115, ¶ 117) allow banks and other financial institutions to treat cash flows from instruments carried in trading or investing accounts, that would otherwise qualify as cash and cash equivalents, as operating and investing activities in the statement of cash flows, respectively. In such a case, the entity would exclude such instruments from cash and cash equivalents in the statement of financial position.*
[18]*FASB ASC 815-10-45-5, 815-10-45-6 (FASB Interpretation No. 39, ¶¶ 10, 10A).*
[19]*FASB ASC 310-10-45-15 (Practice Bulletin No. 1,* Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance*, Exhibit I, ADC Arrangement, ¶ 17).*
[20]*ICAEW 2007 Survey, ¶ 17.7 found out that all survey banks separately presented loans and advances from banks and customers.*
[21]*FASB ASC 310-10-45-2 (AICPA Statement of Position No. 01-6, ¶ 13.e). Loans or trade receivables may be presented as aggregate amounts, but receivables held for sale must be in a separate line.*
[22]*FASB ASC 310-20-45-1 (FASB Statement No. 91, ¶ 21); FASB ASC 310-20-50-3 (FASB Implementation Guides – Q&A 91, ¶¶ 59, 63).*
[23]*FASB ASC 310-10-45-2 (AICPA Statement of Position No. 01-6, ¶ 8.a).*
[24]*FASB ASC 948-310-45-1 (FASB Statement No. 65, ¶ 28).*
[25]*FASB ASC 310-10-45-15 (Practice Bulletin No. 1, Appendix I,* ADC Arrangement, *¶ 17).*
[26]*FASB ASC 942-225-S99-1, 942-235-S99-1 (Regulation S-X, ¶¶ 210.9-04.7, 210.9-05).*

(continued)

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Loans and receivables (*continued*)		– Assistance from Federal Financial Institution Regulatory Agencies or in the context of other regulatory-assisted acquisitions[27] – Investments in Federal Home Loan Bank or Federal Reserve Bank stock, not shown within securities[28] – Brokers and dealers may show receivables and payables from unsettled regular-way trades net in a net receivable (or payable) account for unsettled regular-way trades[29]	
Interest, fees and commissions receivables	–	– Interest receivable[a] – Fees and commissions receivable[a]	–
Investments in leases	–	– Investment in direct financing lease[a] – Investment in leveraged lease[30]	–
Property, plant, and equipment	–	– Property, plant, and equipment, net of accumulated depreciation and amortization[31] – Foreclosed and repossessed assets, either separately or in other assets[32]	– Item 8, Premises and equipment
Intangible assets	– Intangible assets^	–	–
Central liquidity facility stock for credit unions	–	– For credit unions:[33] • central liquidity facility stock, at cost	–

[27]*EITF Issue No. 88-19,* FSLIC-Assisted Acquisition of Thrifts *(nullified by FASB Statement No. 141R); FASB ASC 942-10-S50-2, 942-10-S99-5 (SEC Staff Accounting Bulletin, Topic 11-N,* Disclosure of the Impact of Assistance from Federal Financial Institution Regulatory Agencies*). Separate line item presentation extends to several forms of assistance, such as on notes receivable, guaranteed value of loan, land, etc. In addition, entities must explain the nature, extent, and impact of such assistance in Management's Discussion and Analysis.*

[28]*FASB ASC 942-325-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.26).*

[29]*FASB ASC 940-320-45-3 (AICPA Audit and Accounting Guide, BRD, ¶ 4.57).*

[30]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148); FASB ASC 840-30-25-8 (FASB Statement No. 13, ¶ 43); FASB ASC 255-10-55-8 (FASB Statement No. 89, ¶ 103).*

[31]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148); FASB ASC 942-360-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.18).*

[32]*FASB ASC 310-10-45-3 (AICPA Statement of Position No. 01-6, ¶ 13.f). Inclusion of foreclosed or repossessed assets in the Other assets category is possible in conjunction with details in the notes. Separate classification does not apply to inventory and other repossessed assets to be reused in operations.*

[33]*FASB ASC 942-405-55-3, 942-405-55-4 (EITF Issue No. 89-3, ¶¶ Exhibits 89-3A, 89-3B).*

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Bank acceptance receivables	–	– Customers' liabilities on acceptances[34]	– Item 9, Due from customers on acceptances[35]
Other assets	– Current tax assets^ – Deferred tax assets^	–	– Item 10, Other assets
Long-lived assets to be disposed of by sale	Noncurrent assets classified as held for sale^	–	No specialized industry requirement
Total assets	No specialized industry requirement	– Total assets[a]	– Item 11, Total assets
Liabilities and stockholders' equity:	–	–	Liabilities and stockholders' equity
Liabilities	Liabilities:[b]	–	Liabilities:
Member deposit accounts of credit unions (display format # 1)	–	– For credit unions:[36] • member deposit accounts, including members' share accounts (savings accounts), if shown as the first item in the liability and equity section	–
Deposits	–	– Deposits[a] – Overdrafts of accounts with another financial institution that cannot be offset with other accounts with the same financial institution[37]	– Item 12, Deposits, divided into: • noninterest bearing • interest bearing • noninterest bearing and interest bearing deposits in foreign banking offices for each period in which either assets, revenue, income (loss) before income tax expense, or net income (loss) of foreign activities exceed 10% of the corresponding amount[38]

[34] *FASB ASC 942-310-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.41).*
[35] *FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.9) explains that this item includes receivables from customers on unmatured drafts and bills of exchanges that on the reporting date a bank subsidiary does not hold but that it or other banks for its account have accepted. Those that are held by a bank subsidiary are part of loans.*
[36] *FASB ASC 942-405-25-4, 942-405-45-3 (AICPA Statement of Position No. 01-6, ¶ 11.d); FASB ASC 942-405-55-1, 942-405-55-2 (EITF Issue No. 89-3,* Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions).
[37] *FASB ASC 942-305-45-1 (AICPA Statement of Position No. 01-6, ¶ 14.b).*
[38] *FASB ASC 942-225-S99-1, 942-235-S99-1 (Regulation S-X, ¶¶ 210.9-04.12, 210.9-05).*

(continued)

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Short-term borrowings	– As part of financial liabilities^ – Hedged item gain or loss in a portfolio hedge of interest rate risk[39,40]	– Short-term borrowings[a] – Federal funds purchased[a] – Liabilities for securities sold, not yet purchased and resale agreement transactions, e.g., payable under securities loan agreements[41] – Elective accounting policy to offset derivative instruments measured at fair value and a cash collateral receivable or payable arising from such derivative instruments executed with the same counterparty under a master netting arrangement[42] – See classification of borrowings under long-term debt below, if the entity uses a classified statement of financial position – Brokers and dealers may show receivables and payables from unsettled regular-way trades net in a net receivable (or payable) account for unsettled regular-way trades[43]	– Item 13, Short-term borrowing – Aggregate liabilities incurred including accrued interest payable arising from repurchase agreements if the greater of carrying or market value of related securities or other assets sold exceeds 10% of total assets[44]
Bank acceptance liabilities	–	– Bankers' acceptance liability[45]	– Item 14, Bank acceptances outstanding[46]

[39]*IAS 39, ¶ 89A. If the entity uses a classified statement of financial position, classification as current or noncurrent would depend on classification of related financial assets or financial liabilities.*
[40]*ICAEW 2007 Survey, ¶ 17.7 found out that all survey banks separately presented deposits by banks and customers.*
[41]*FASB ASC 860-30-50-1A, 860-30-55-3 (FASB Statement No. 140, ¶¶ 17.a(2), 95); FASB ASC 942-405-25-1 (AICPA Statement of Position No. 01-6, ¶ 10.b); FASB Special Report,* A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, *¶ 116.*
[42]*FASB ASC 815-10-45-5, 815-10-45-6 (FASB Interpretation No. 39, ¶¶ 10, 10A).*
[43]*FASB ASC 940-320-45-3 (AICPA Audit and Accounting Guide, BRD, ¶ 4.57). The statement of financial condition of brokers and dealers is generally unclassified (FASB ASC 940-20-45-1 (AICPA Audit and Accounting Guide, BRD, ¶ 4.06)).*
[44]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶¶ 210.4-08(m)(1)(i)).*
[45]*FASB ASC 942-310-45-1 (AICPA Audit and Accounting Guide, DEP, ¶ 12.41).*
[46]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.14) explains that this item includes unmatured drafts and bills of exchanges that a bank subsidiary or its agent banks have accepted, less those acquired by the bank subsidiary through discount or purchase.*

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Interest payable	–	– Interest payable[a] – For credit unions, interest payable on member deposit accounts[47]	–
Other liabilities	– Current tax liabilities^ – Deferred tax liabilities (as a minimum line items)	– Accrued expenses[a] – Taxes payable[a] – Deferred taxes[a]	– Item 15, Other liabilities
Dividend payable	–	– Dividend payable[a]	–
Long-term debt	–	– Long-term debt[a] – Significant categories of borrowings, if shown as separate lines[48] – Transfers of mortgage accounted for as secured borrowings by the issuing institution, to be classified separately from advances, other notes payable, and subordinated debt[49] – Unearned premiums and unpaid claims on certain credit life and credit accident and health insurance coverage issued to finance customers if receivables are not of related entities[50] – Unpaid claims for property and level term life insurance – Brokers and dealers in securities cannot combine subordinated liabilities with equity[51]	– Item 16, Long-term debt
Provisions	–	– Commitment and contingent liabilities[52]	– Item 17, Commitments and contingent liabilities
Liabilities directly associated with noncurrent assets classified as held for sale	Liabilities directly associated with noncurrent assets classified as held for sale^	–	–

[47] *FASB ASC 942-405-45-4 (AICPA Statement of Position No. 01-6, ¶ 11).*
[48] *FASB ASC 942-10-15-2 (AICPA Statement of Position No. 01-6, ¶ 14.f).*
[49] *FASB ASC 942-470-45-1 (AICPA Statement of Position No. 01-6, ¶ 14.i).*
[50] *FASB ASC 942-210-45-1, 942-210-45-2 (AICPA Statement of Position No. 01-6, ¶¶ 14.J, 14.k).*
[51] *Practice Bulletin No. 15, ¶ 24.*
[52] *FASB ASC 942-405-55-3, 942-405-55-4 (EITF Issue No. 89-3, ¶¶ Exhibits 89-3A, 89-3B).*

(continued)

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Subtotal before member deposits	–	– For credit unions: liabilities excluding savings accounts[53]	–
Member deposit accounts of credit unions (display format # 2)	–	– For credit unions:[54] • member deposit accounts, including members' share accounts (savings accounts), if shown as a separate line within a subtotal for total liabilities	–
Total liabilities	–	– Total liabilities[a]	–
Mandatory redeemable preferred stock	–	[55]	– Item 18, Preferred stocks subject to mandatory redemption requirements or whose redemption is outside the control of the issuer • see required detail for commercial and industrial companies[56]
Shareholders' equity:	–	Shareholders' equity:[a]	No (see general requirements)
Preferred stocks	–	–	– Item 19, Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer • see required detail for commercial and industrial companies[57]

[53] *Under FASB ASC 942-405-55-3, 942-405-55-4 (EITF Issue No. 89-3, ¶¶ Exhibits 89-3A, 89-3B), for credit unions that show members' share accounts (savings accounts) as a separate line within a subtotal for total liabilities.*

[54] *FASB ASC 942-405-25-4, 942-405-45-3 (AICPA Statement of Position No. 01-6, ¶ 11.d); FASB ASC 942-405-55-1, 942-405-55-2 (EITF Issue No. 89-3).*

[55] *Broker-dealers that file statements with the SEC are not eligible to the deferrals of the classification, measurement, and disclosure provisions of Subtopic 480-10 (FASB Statement No. 150) for mandatorily redeemable financial instruments of nonpublic, non-SEC registrant entities made by Section 480-10-65 (FASB Staff Position FAS 150-3) (Faucette, G. A., 2003. 2003 Thirty-First AICPA National Conference on Current SEC Developments. [Online] Washington, DC: SEC. Available at: www.sec.gov/news/speech/spch121103gaf.htm [last accessed: November 29, 2010].*

[56] *FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.18) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.27).*

[57] *FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.19) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.28).*

Exhibit 3-10 Minimum Captions of the Statement of Financial Position of Banks and Similar Financial Institutions (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Common stock	–	– Common stock[a]	– Item 20, Common stocks • see required detail for commercial and industrial companies[58]
Treasury stock	–	– Treasury stock[a]	–
Retained earnings	–	– Retained earnings[a] • substantially restricted[59] • unrestricted – Any general purpose contingency reserve is shown under stockholders' equity[60]	– As part of Item 21, Other stockholders' equity • see required detail for commercial and industrial companies[61]
Noncontrolling interest	–	–	– Item 22, Noncontrolling interests in consolidated subsidiaries
Total shareholders' equity	– For, cooperative banks with net assets that are not classified as equity under IAS 32:[62] • net assets attributable to unitholders	– Total shareholders' equity[a]	No
Total equity and liabilities	–	– Total liabilities and shareholders' equity[a]	– Item 23, Total liabilities and equity

[58]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.20) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.29).*
[59]*FASB ASC 942-405-55-3, 942-405-55-4 (EITF Issue No. 89-3, ¶¶ Exhibits 89-3A, 89-3B).*
[60]*ARB 43, Appendix B, ¶ 8.*
[61]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.21) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.30).*
[62]*IAS 32, ¶¶ BC7, BC8.*

have similar characteristics.[189] Disclosures of classes of financial receivables also reflect risk characteristics.[190] U.S. GAAP requires disclosures about fair value measurements for each major category of assets and liabilities. Entities must put users in a condition to relate those disclosures to the statement of financial position line items. A recent ASU specifies that such disclosures apply to each class of assets and liabilities, defined as a level of disaggregation below the single line items in the statement of financial position.[191] The 2011 revision of

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[189] *CON 5, ¶ 20.*
[190] *FASB ASC 310-10-55-22 (FASB Accounting Standards Update No. 2010-20,* Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.
[191] *FASB ASC 820-10-50-2, 820-10-55-59 (FASB Statement No, 157,* Fair Value Measurements, *¶¶ 32, A32); FASB ASC 825-10-50-28 (FASB Statement No, 159,* The Fair Value Option for Financial Assets and Financial Liabilities, *¶ 18.c); FASB ASC 820-10-50-2A (FASB Accounting Standards Update,* Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements, *¶ 3, BC5, BC6).*

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
Assets:			
Cash and cash equivalents	– Cash[a]	–	–
Placements with other banks	– Placements with other banks[a]	–	–
Balances with the central bank	– Balances with the central bank[a]	–	–
Financial assets not held for investment	– Treasury bills and other bills eligible for rediscounting with the central bank[a] – Government and other securities held for dealing[a] – Other money market placements[a] – Financial assets designated as at fair value through profit or loss upon initial recognition[5] – Financial assets measured at amortized cost – Financial assets mandatorily measured at fair value through profit or loss under IFRS 9	–	[6]

[1]*See general key. The chapter on the statement of banks and similar financial institutions. For sake of simplicity, this Exhibit also includes brokers and dealers.*
"–" means that there are no specialized industry separate display or disclosure requirements.
[2]*This Exhibit simply includes references to specific topics that may affect banks and similar financial institutions. Any other applicable IFRSs requirements that are irrespective of the type of industry may apply. This Exhibit also mentions IAS 30, even though superseded. The IFRS columns repeat some lines required for financial asserts and financial liabilities.*
[3]*This Exhibit does not repeat lines applicable to all companies for financial instruments under U.S. GAAP.*
[4]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03) for bank holding companies. FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations. FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1 to 4 of Regulation S-X to bank holding companies.*
[a]*IAS 30 (superseded), ¶¶ 19, 21, 22, 25.*
[5]*IFRS 7, ¶ 8. ICAEW 2007 Survey, ¶ 17.5 surveyed that under IFRSs banks display hedging derivatives either in separate lines or include them into items at fair value through profit or loss (either within trading items or separately), or in other assets and in other liabilities.*
[6]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.1(a)) for bank holding companies simply mentions separate disclosure of cash restricted as to withdrawal or usage.*

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Assets held for investment	– Investment securities[a] – Financial assets measured at amortized cost[7] – Investments accounted for using the equity method as a minimum line item[8] (see general requirements for all companies) – Financial assets measured at fair value through other comprehensive income[9] – Investment property, as a minimum line item[10] (see general requirements for all companies)	–	–
Loans and receivables	– Loans and advances to customers[a] – Loans and advances to other banks[a]	– Each major category of loans or trade receivables – For loans or trade receivables: • unamortized premium or discounts • net unamortized deferred fees and costs • unearned income[11] • allowance for credit losses and allowance for doubtful accounts[12] – Loans, trade receivables, securities, and financial instruments collateralized for borrowings[13]	– As part of Item 7, Loans; • commercial, financial and agricultural • real estate – construction • real estate – mortgage • installment loans to individuals • lease financing • foreign • any loan category necessary to reflect any unusual risk concentration • other categories if considered a more appropriate presentation • other

[7]*IFRS 7, ¶ 8.*
[8]*IAS 1, ¶ 54.*
[9]*IFRS 7, ¶ 8. According to IAS 39, ¶ AG3, depending on circumstances an entity may account for an equity investment held for strategic purposes either at the equity method under IAS 28 or as a proportionately consolidated or equity method joint venture under IAS 31, or as an investment at fair value through other comprehensive income under IFRS 9 ¶¶ 5.4.1, 5.4.4. In the latter instance, IFRS 7, 8(h) requires either presentation in the statement of financial position or disclosure in the notes.*
[10]*IAS 1, ¶ 54.*
[11]*FASB ASC 310-10-50-4 (AICPA Statement of Position No. 01-6, ¶ 13.e).*
[12]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148); FASB ASC 310-10-50-4 (AICPA Statement of Position No. 01-6, ¶ 13.e).*
[13]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19); FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 17.a(2)); FASB ASC 310-10-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.i). These pronouncements mention disclosure.*

(continued)

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Loans and receivables (*continued*)		– For impaired loans except those measured at fair value or at the lower of cost or fair value as for mortgage banks, by class of financial receivable:[14] • total recorded investment • amount for which allowance for credit losses exists and amount of the allowance • amount with no related allowance • unpaid principal balance	
Property, plant, and equipment	–	– Accumulated depreciation and amortization	–
Other assets	–	–	– As part of Item 10, Other assets: • excess of cost over tangible and identifiable intangible assets acquired (net of amortization) • other intangible assets (net of amortization) • investment in and indebtedness of affiliates and other persons • other real estates • any asset that exceeds 30% of equity • others
Total assets			
Liabilities and stockholders' equity:			
Liabilities:			
Deposits	– Deposits from other banks[a] – Other money market deposits[a] – Certificates of deposit[a] – Amounts owed to other depositors[a] – Deposits obtained through the issue of own certificates of deposits or other negotiable paper[a]	–	–

[14] *FASB ASC 310-10-50-15 (FASB Statement No. 114, ¶ 20(a), as amended by FASB Statement No. 118. Amendments by FASB Accounting Standards Update No. 2010-20,* Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*).*

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Short-term borrowings	– Other borrowed funds[a] – Financial liabilities designated as at fair value through profit or loss upon initial recognition – Held for trading financial liabilities under IFRS 9 – Financial liabilities measured at amortized cost[15]	[16]	– As part of Item 13, Short-term borrowing: • Federal funds purchased and securities sold under agreements to repurchase • commercial paper • other short-term borrowings[17]
Other liabilities	–	–	– As part of Item 15, Other liabilities • income taxes payable • deferred income taxes • indebtedness to affiliates and equity method investees • indebtedness to directors, executive officers, principal equity holders, and significant subsidiaries • accounts payable and accrued expenses
Long-term debt	– Other borrowed funds[a] – Financial liabilities designated as at fair value through profit or loss upon initial recognition – Held-for-trading financial liabilities under IFRS 9 – Financial liabilities measured at amortized cost[18]	– Significant categories of borrowings, if shown as a single line with note disclosure, or by debt's priority (i.e., senior vs. subordinated) with note disclosure[19]	–

[15]*IFRS 7, ¶ 8.*
[16]*FASB ASC 440-10-50-1 (FASB Statement No. 5, ¶¶ 18, 19) mention disclosure in the financial statements of unused letters of credit.*
[17]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.19(b)) requires note disclosure of unused letters of credit for short-term financing under this caption and not under commitments and contingent liabilities, with separate indication of those lines that support commercial paper or similar borrowing arrangements.*
[18]*IFRS 7, ¶ 8.*
[19]*FASB ASC 942-10-15-2 (AICPA Statement of Position No. 01-6, ¶ 14.f).*

(continued)

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Provisions	–	– Creditor's commitments to lend additional funds to troubled debt restructuring debtors[20] – Certain disclosures required for: • guarantees of indebtedness of others • obligations of commercial banks under stand-by letters of credit • guarantees to repurchase sold or assigned receivables or the related property • other guarantees in scope of FIN 45[21]	–
Subtotal before member deposits			
Total liabilities			
Mandatory redeemable preferred stock	–	–	– As part of Item 18, Preferred stocks subject to mandatory redemption requirements or whose redemption is outside the control of the issuer • see required detail for commercial and industrial companies[22]

[20]*FASB ASC 310-40-50-1 (FASB Statement No. 15, ¶ 40.b).*

[21]*Even if the loss contingency is remote, FASB ASC 450-20-05-3, 460-10-50-2, 460-10-50-3 (FASB Statement No. 5, ¶¶ 4, 12) mention financial statements disclosure of the nature and amount and, if estimable, any recoverable amount, of guarantees of indebtedness of others, obligations of commercial banks under stand-by letters of credit, and guarantees to repurchase sold or assigned receivables or the related property. FASB ASC 460-10-25-3 (FASB Interpretation No. 45, ¶ 9) requires the recognition of a liability for the noncontingent obligation to stand ready arising from certain guarantees, but does not mention separate presentation. Subtopic 460-10 (FASB Interpretation No. 45), requires certain specific disclosures. Among other guarantees, FASB ASC 460-10-15-4, 460-10-55-2 (FASB Interpretation No. 45, ¶¶ 3.a(1), 3.d) include a financial stand-by letter of credit and indirect guarantees of indebtedness of others. FASB ASC 460-10-50-2 (FASB Interpretation No. 45, ¶ 18) explains that indirect guarantees of indebtedness of others are part of those referred to in FASB ASC 460-10-50-2 (FASB Statement No. 5, ¶ 12).*

[22]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.18) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.27).*

Exhibit 3-11 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Banks and Similar Financial Institutions or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Shareholders' equity:			
Preferred stocks	–	–	– As part of Item 19, Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer • see required detail for commercial and industrial companies[23]
Common stock	–	–	– As part of Item 20, Common stocks • see required detail for commercial and industrial companies[24]
Retained earnings	–	–	– As part of Item 21, Other stockholders' equity • see required detail for commercial and industrial companies[25]
Total shareholders' equity			
Total equity and liabilities			

[23]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.19) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.28).*
[24]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.20) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.29).*
[25]*FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 210.9-03.21) refers to FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.30).*

IAS 19 draws on risks and liquidity as the disclosure disaggregation keys of defined benefit plans and their assets.[192] Finally, IAS 1 mentions liquidity of assets and timing of liabilities as other dimensions.[193]

The third part of the model is how to determine the level of aggregation of assets or liabilities (i.e., aggregate versus separate presentation and aggregate versus separate disclosure).

Comment: Disaggregation guidance concerns both presentation and disclosure. As to the former, this means that an entity separately presents assets or liabilities individually or as a class. With reference to the latter, it means that the notes separately explain assets or liabilities individually or as a class. The most obvious application of disaggregation guidance is when no accounting standard prescribes presentation and disclosure of an item. However, it also applies when a standard requires presentation and/or disclosure but does not indicate the detail of the breakdown.

[192] *IAS 19 (2011), ¶¶ 138, 142, BC223.*
[193] *IAS 1, ¶ 58.*

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
	–	–	
Assets:			Assets
Investments	– As part of financial assets[5] – Investment property, for which an entity may choose either the fair value model or the cost model, that backs financial instruments that pay a return linked directly to the fair value of, or returns from such an investment property[6]	– Investment in securities, at fair value, with parenthetical disclosure of cost[7*] – Wrapper contracts at fair value, with parenthetical disclosure of cost*[8] – Investments in life settlement contracts by third-party investors measured at fair value, separately from those accounted for under the investment method (either through separate line item(s) or through parenthetical explanation)[9*]	– Item 1, Investment in securities of unaffiliated issuers – Item 2, Investments and advances to affiliates: • controlled companies • other affiliates – Item 3, Investments – other than securities, with display of each major category – Item 4, Total investments Amounts are shown at fair value, with cost parenthetically*

[1]*See general key. The chapter on the statement of financial position includes a listing of investment companies. "–" means that there are no specialized industry separate display requirements.*
[2]*This Exhibit simply includes references to specific topics that may affect investment companies. Any other applicable IFRS requirements that are irrespective of the type of industry may apply. IAS 1, ¶¶ 6, 80 permit the amendment of terminology, as appropriate, especially to investment companies. Notwithstanding that investment companies generally use an unclassified statement of financial position, IAS 32, ¶¶ IE32, IE33 show a classified one. This Exhibit does not show certain minimum line items under IAS 1, ¶ 54 that, if existing, an entity must display, such as property, plant and equipment, investment property, intangible assets, equity method investments, noncurrent assets classified as held for sale, liabilities directly associated with noncurrent assets classified as held for sale, current assets and liabilities, deferred assets and liabilities.*
[3]*FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B), unless differently stated. Investment companies generally use an unclassified statement of assets and liabilities or a statement of net assets; FASB ASC 946-210-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.08).*
[4]*FASB ASC 946-210-S99-1 (Regulation S-X, ¶ 210.6-04) for registered investment companies. FASB ASC 946-10-S99-3 (Regulation S-X, ¶ 210.6-03) extends the general rules of Articles 1 to 4 of Regulation S-X to registered investment companies. Under FASB ASC 946-210-S99-2 (Regulation S-X, ¶ 210.6-05) registered investment companies may use a statement of net assets if investments in securities of unaffiliated issuers amount to not less than 95% of total assets. The statement of net assets shows a single amount for the difference between assets other than investments in securities of unaffiliated issuers (disclosed in a separate schedule) and total liabilities, except amounts due from or to certain related parties. Another line displays net assets, with parenthetical explanation of the number of outstanding shares and net asset value per share.*
[5]*Under IFRSs, venture capital organizations, mutual funds, unit trusts, investment-linked insurance funds, and other investment companies do not apply the equity method of accounting to those associates or jointly controlled entities that they measure at fair value through profit or loss, either by designation or because they are instruments mandatorily measured at fair value under IFRS 9 (IAS 28 (2010), ¶¶ 1, BC9; IAS 31, ¶ 1). Therefore, the company classifies these investments, as well as other financial assets that it carries at fair value through profit or loss, as financial assets under IAS 1, ¶ 54(d).*
[6]*IFRS 4, ¶ BC178(c); IAS 1, 54(b); IAS 40, ¶¶ 32A, 32B, 32C.*
[7]*FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B); FASB ASC 946-210-45-15, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1,* Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans, *¶¶ 8, A1)).*
[8]*Except for investments in an operating company that provides services to the investment company, under U.S. GAAP, an investment company does not use the equity method for a noninvestment company investee FASB ASC 323-10-15-4 (APB 18, ¶ 2); FASB ASC 946-323-45-1, 946-323-45-2 (AICPA Audit and Accounting Guide, INV, ¶¶ 7.04, 7.05).*
[9]*FASB ASC 325-30-45-1 (FASB Staff Position FTB 85-4-1, ¶ 9).*

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Cash	[10]	– Cash[11] – Cash denominated in foreign currencies at fair value, with parenthetical disclosure of acquisition cost*[12] – Exclusion of certain instrument carried in trading or investing accounts[13]	– Item 5, Cash[14]
Receivables	– Noncash financial collateral that the transferee has the right to sell or repledge[15]	– Receivable for investment securities sold[16] – Dividends and interest receivable – Receivable for shares of beneficial interest sold or capital stock sold – Others, such as receivables from related parties, including expense reimbursement receivables from affiliates, variation margin on open futures contracts – Noncash financial collateral that the transferee has the right to sell or repledge[17]	– Item 6, Receivables: • from sales of investments – Subscriptions to capital shares • dividends and interests • directors and officers[18] • others – A material asset pledge[19]

[10]*Under IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1), an entity recognizes nonsegregated cash collateral received as an asset against a payable to the transferor.*

[11]*FASB ASC 946-305-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.23); FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B).*

[12]*Under FASB ASC 860-30-25-4 (FASB Statement No. 140, ¶ 15, Footnote 4), an entity recognizes a cash collateral received as proceeds.*

[13]*FASB ASC 230-10-45-6 (FASB Statement No. 95, ¶ 10); FASB Statement No. 95, ¶¶ 55, 56, 65; FASB ASC 320-10-45-13 (FASB Statement No. 115, ¶ 117) allow investment companies to treat cash flows from instruments carried in investing accounts, that would otherwise qualify as cash and cash equivalents, as investing activities in the statement of cash flows. For investment treatment, they must be part of a larger pool of investments that qualify as investing activities. The entity would exclude such instruments from cash and cash equivalents in the statement of financial position.*

[14]*For registered investment companies, FASB ASC 946-210-S99-1 (Regulation S-X, ¶ 210.6-04.5) requires note disclosure of cash restrictions and compensating balances. However, the SEC Staff specified that restricted cash warrants separate display from cash and cash equivalents on the face of the statement of financial position of all companies (Davine 1996 Speech ¶ E.). Under FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(1)(iii)), cash deposits for repurchase agreements are restricted.*

[15]*IFRS 7, ¶ 14; IFRS 9, ¶¶ 3.2.23(a), B3.2.16; IAS 39, ¶¶ 37, AG51, including for example loaned or pledged securities and other assets, and repurchase receivables.*

[16]*FASB ASC 946-310-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.24); FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B).*

[17]*FASB ASC 860-30-50-1A (FASB Statement No. 140, ¶ 15.a); FASB Special Report, A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, ¶¶ 114, 115.*

[18]*Under FASB ASC 946-210-S99-2 (Regulation S-X, ¶ 210.6-05.2), registered investment companies that present a statement of net assets must also separately state amounts due from officers, directors, controlled persons, or other affiliates. In addition, FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*

[19]*FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J, ¶ Footnote 10) requires the display of a material asset pledge (including nonfinancial assets) on the face of the statement of financial position, even parenthetically.*

(continued)

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Deposits for securities sold short and open option contracts	[20]	–	– Item 7, Deposits for securities sold short and open option contracts: • short sales • open option contracts
Other assets	–	– Deferred organizational expense – Other assets	– Item 8, Other assets: • prepaid and deferred expenses • pension and other special funds • organization expenses • any other significant item
Total Assets	–	Total Assets[21]	– Item 9, Total Assets
Liabilities:	No specialized industry requirement	–	Liabilities
Accounts payable	– As part of financial liabilities[22]	– Accounts payable for investment securities purchased[23] – Accounts payable for capital stock reacquired – Payable to affiliates	– Item 10, Accounts payable and accrued liabilities: • securities sold short (at fair value) • open option contracts written (at fair value) • other purchases of securities • capital shares redeemed • dividends and other distributions on capital shares • any other material liability • others
Deposits for securities loaned	–	– Liabilities for securities sold, not yet purchased and resale agreement transactions, e.g., payable under securities loan agreements[24]	– Item 11, Deposits for securities loaned: • value of securities loaned • nature of collateral received as security for the loan • any cash collateral received

[20] *Under IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1), an entity recognizes a payable to the transferor of cash received as collateral that the entity does not segregate.*

[21] *FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B); FASB ASC 946-210-45-16, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶¶ 9, A1)).*

[22] *IAS 1, ¶ 54(m).*

[23] *FASB ASC 946-405-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.27); FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B).*

[24] *FASB ASC 860-30-50-1A, 860-30-55-3 (FASB Statement No. 140, ¶¶ 17.a(2), 95); FASB ASC 942-405-25-1 (AICPA Statement of Position No. 01-6, ¶ 10.b); FASB Special Report,* A Guide to Implementation of Statement 140 on Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, *¶ 116.*

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Other liabilities	–	– Other liabilities – May also include:[25] • collateral on return of securities loaned • deferred income • dividends and distributions payable – For open-end investment companies, liability for excess costs to distribute their shares[27]	– Item 12, Other liabilities: • payables for investment advisory, management, and service fees • payables to officers and directors, controlled companies, and other affiliates[26]
Notes payable, bonds and similar debt	–	–	– Item 13, Notes payable, bonds and similar debt, subclassified into amount payable within and after one year for: • banks and other financial institutions for borrowings • controlled companies • other affiliates • others
Puttable or mandatorily redeemable instruments classified as liabilities	– Share capital repayable on demand or similar puttable instruments that do not meet the criteria for equity classification under IAS 32[28]	– Shares subject to mandatory redemption that represent the only shares in the entity[29]	–

[25]*However, FASB ASC 946-405-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.34) does not state separate presentation.*

[26]*Under FASB ASC 946-210-S99-2 (Regulation S-X, ¶ 210.6-05.2), registered investment companies that present a statement of net assets must also separately state amounts due to officers, directors, controlled persons, or other affiliates. In addition, FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that entities must display related party transactions (hence also including transactions that are not stated in this Exhibit) on the face of the financial statements.*

[27]*AICPA Audit and Accounting Guide, INV, ¶ 8.35; FASB ASC 946-20-35-3 (AICPA Statement of Position No. 95-3,* Accounting for Certain Distribution Costs of Investment Companies, *¶¶ 7–9).*

[28]*Under IAS 32, ¶¶ IE33, 18, BC7, BC8, this item refers to shares or nonshare puttable instruments that IAS 32 classifies as liability.*

[29]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement No. 150, ¶¶ 19, A6) do not mention investment companies in particular. For all other mandatorily redeemable instruments and other instruments for which it requires liability classification, FASB ASC 480-10-45-1 (FASB Statement No. 150, ¶ 18) does not specifically mention separate presentation. FASB ASC 480-10-65-1 (FASB Staff Position FAS 150-3, ¶ 3) indefinitely delayed the classification, measurement, and disclosure provisions of Subtopic 480-10 (FASB Statement No. 150) for mandatorily redeemable financial instruments of nonpublic, non-SEC registrant entities. For these companies, liability classification holds only for those financial instruments that are mandatorily redeemable on fixed dates for amounts that are either fixed or determinable through an external index. Therefore, shares or interests of a unregistered investment companies would warrant liability classification only if at the reporting date they are irrevocably redeemable at a fixed or determinable amount.*

(continued)

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-term provisions	–	–	– Item 15, Commitments and contingent liabilities
Total liabilities	– Liabilities excluding net assets attributable to unitholders[30]	– Total liabilities[31]	– Item 14, Total liabilities
Net Assets:	–	[32]	– Net Assets
Capital	[33]	– Beneficial interest – No. of shares of $. . . par value outstanding, parenthetical disclosure of amount authorized[34*] – Investment partnerships and other pass-through entities aggregate all elements of equity into partners' capital[35] – Capital reported by each class of shareholders' or partners' interest[36] – A deduction from the general partner's capital account for clawback obligations	– Item 16, Units of capital: • title of each class of capital shares or units • number authorized • number outstanding • amount of outstanding units or shares
Accumulated undistributed income (loss)	–	– Undistributed net investment income – Undistributed net realized gains from investments[a] – Undistributed net realized gains (losses) from foreign currency transactions[a] – Net unrealized appreciation (depreciation) of investments[a] – Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies[a]	– Item 17, Accumulated undistributed income (loss): • accumulated undistributed investment income-net • accumulated undistributed net realized gains (losses) on investment transactions • net unrealized appreciation (depreciation) in value of investments

[30]*IAS 32, ¶¶ IE32, BC7, BC8 use this expression for entities whose net assets do not meet the requirements for equity classification under IAS 32. If the entity adopts a classified statement of financial position, it amends the caption as noncurrent liabilities excluding net assets attributable to unitholders.*
[31]*FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B); FASB ASC 946-210-45-16, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶¶ 9, A1)).*
[32]*Investment companies show only two components of capital: shareholder capital and distributable earnings (FASB ASC 946-20-50-11 (AICPA Audit and Accounting Guide, INV, ¶ 12.36)).*
[33]*IAS 1, ¶¶ 135(a)(ii), 135(d), 136 require entities to disclose the type of any applicable regulatory capital requirements and their compliance with them. IAS 1, ¶¶ 79(a)(v), 80 require the disclosure of restrictions on the distribution of dividends and the repayment of capital for each class of share capital or equity interest.*
[34]*FASB ASC 946-210-45-4 (AICPA Audit and Accounting Guide, INV, ¶ 5.29); FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B).*
[35]*FASB ASC 946-20-50-14 (AICPA Audit and Accounting Guide, INV, ¶ 7.38).*
[36]*AICPA, TIS Section 6910, ¶ 29.*

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Accumulated undistributed income (loss) (*continued*)		– Nonregistered investment partnerships, report cumulative unrealized gains (losses) within the ending balances of each class of shareholders' or partners' interest[37]	
Other elements of capital	– Other components of net assets, such as items of accumulated other comprehensive income, to which equity classification applies under IAS 32 as the entity has no obligation to deliver them to its unitholders[38] – Any difference between the carrying amount of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation that are classified as equity and the fair value of the financial liability at the date of their reclassification[39]	–	– Item 18, Other elements of capital
Noncontrolling interest	[40]	[41]	–

[a]*FASB ASC 946-830-45-4, 946-830-45-36, 946-830-45-37, 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶¶ 34, 35, Appendix B.) An entity may either separately report the foreign currency effect of realized gains or losses from investments into foreign currency transactions or combine it with net realized gains or losses from investments. A company may report unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies separately or combine it with unrealized gains and losses on investments. However, the company must separately report all other realized or unrealized foreign currency gains and losses. Therefore, it must include realized gains or losses on interest and dividends in the realized gain or loss component of net realized gain or loss. It must include all unrealized foreign currency gains and losses other than those on investments in unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies. A note must disclose the accounting policy followed.*

[37]*AICPA, TIS Section 6910, ¶ 29.*

[38]*IAS 32, ¶ IE33. See the chapter on the statement of financial position and its Exhibit for a listing of possible components of equity.*

[39]*IAS 32, ¶ 16F(a).*

[40]*IFRSs do not exempt investment companies from consolidating their investments that meet the definition of a subsidiary (IAS 27 (2010), ¶ 16, IAS 28 (2010), ¶ BC13). IAS 32, ¶ AG29A requires liability classification of noncontrolling interests of puttable financial instruments and similar instruments whose controlling interests are classified as equity.*

[41]*U.S. GAAP, apart from certain exceptions, excludes the consolidation of a noninvestment company by an investment company (FASB ASB 810-10-15-10, 946-810-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.04)). In addition, an investment company that is structured as a master-feeder or fund of funds would ordinarily not consolidate the underlying investee investment companies (FASB ASC 946-205-45-6, 946-210-50-4 (AICPA Audit and Accounting Guide, INV, ¶ 7.07, 7.16)).*

(continued)

Exhibit 3-12 Minimum Captions of the Statement of Assets and Liabilities, Statement of Net Asset, or Statement of Financial Position of Investment Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total Equity or Total Net Assets	– Total equity, for entities whose only shares or interest instruments are classified as equity under IAS 32 and the entity has other components of equity that embody no obligation to deliver to its shareholders[42] – Net assets attributable to unitholders, for entities (mutual funds, unit trusts, etc.) with only shares or interest instruments that are not classified as equity under IAS 32 or with only share capital repayable on demand or similar puttable instruments that do not meet the criteria for equity classification under IAS 32[43] – Memorandum note totalization, for entities with both shares or interest instruments classified as liability under IAS 32 and other components of equity that embody no obligation to deliver assets to its shareholders[44]	– Net asset applicable to shares outstanding • net assets reflecting all investments at fair value • adjustment from fair value to contract value for fully benefit-responsive investment contracts • net assets[45]	– Item 19, Net assets applicable to outstanding units of capital
Net asset value per share	[46]	Net asset value per share for each class of shares[47]	– As part of Item 19: • net asset value per share

[42]*IAS 1, ¶ IG Part I shows a total equity caption, although IAS 1, ¶ 54 does not include it into the minimum content of the statement of financial position.*
[43]*Under IAS 32, ¶¶ IE32, 18, BC7, BC8 this may apply to entities whose net assets do not meet the requirements for equity classification under IAS 32 or whose shares are entirely puttable instruments classified as liabilities under IAS 32. In addition, investment companies are subject to the capital disclosures under IAS 1, ¶¶ 134–136.*
[44]*IAS 32, ¶¶ IE33.*
[45]*FASB ASC 946-210-45-9, 946-210-45-15, 946-210-45-16, 946-210-50-14, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶¶ 1, 8, 9, 11, A1)).*
[46]*IAS 1, ¶¶ 136A(c), 136A(d) require information of the expected cash outflow on redemption or repurchase of puttable financial instruments classified as equity and the computation method used. Under IAS 39, ¶ IG E.2.1 this may translate into disclosing these figures calculated according to redemption requirements of the fund and contrasting them with those calculated under IFRS 9, ¶¶ B5.4.4, B5.4.5 (former IAS 39, ¶¶ AG72, AG73).*
[47]*FASB ASC 946-210-45-4, 946-505-50-1 (AICPA Audit and Accounting Guide, INV, ¶¶ 5.29, 7.39); FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B).*

Exhibit 3-13 Items that May be Either Separately Presented on the Face of the Statements of Assets and Liabilities, Statement of Net Assets, or Statement of Financial Position of Investment Companies or Disclosed in the Notes

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
Assets:			
Investments	– Financial assets measured at fair value through profit or loss:[5] • designated upon initial recognition • mandatorily measured at fair value under IFRS 9	–	–
Receivables	–	– Amounts due from related parties[6]	– As part of Item 6, Receivables • detail of accounts receivable and notes receivable if notes receivable are more than 10% of total receivables
Total Assets			
Liabilities:			
Accounts payable	– Financial liabilities measured at fair value through profit or loss:[7] • designated upon initial recognition • held for trading	– Amounts due to related parties[8]	–

[1]*See general key. The chapter on the statement of financial position includes a listing of investment companies. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2]*This Exhibit simply includes references to specific topics that may affect investment companies. Any other applicable IFRSs requirements that are irrespective of the type of industry may apply. IAS 1, ¶¶ 6, 80 permit the amendment of terminology, as appropriate, especially to investment companies. Notwithstanding investment companies generally use an unclassified statement of financial position, IAS 32, ¶¶ IE32, IE33 show a classified one.*
[3]*FASB ASC 946-830-55-12 (AICPA Statement of Position No. 93-4, ¶ Appendix B), unless differently stated.*
[4]*FASB ASC 946-210-S99-1 (Regulation S-X, ¶ 210.6-04) for registered investment companies. FASB ASC 946-10-S99-3 (Regulation S-X, ¶ 210.6-03) extends the general rules of Articles 1 to 4 of Regulation S-X to registered investment companies. Under FASB ASC 946-210-S99-2 (Regulation S-X, ¶ 210.6-05) registered investment companies may use a statement of net assets if investments in securities of unaffiliated issuers amount to not less than 95% of total assets.*
[5]*IFRS 7, ¶ 8(a); IFRS 9, ¶¶ 4.1.4, 4.1.5.*
[6]*FASB ASC 946-210-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.10) requires either display of details of related-party balances in the statement of net assets or disclosure in the notes.*
[7]*IFRS 7, ¶ 8(e); IFRS 9, ¶¶ 4.2.2, 4.2.1.*
[8]*FASB ASC 946-210-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.10) requires either display of details of related-party balances in the statement of net assets or disclosure in the notes.*

(continued)

Exhibit 3-13 Items that May be Either Separately Presented on the Face of the Statements of Assets and Liabilities, Statement of Net Assets, or Statement of Financial Position of Investment Companies or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Notes payable, bonds and similar debt	– Amount, timing, and reason for reclassifying in and out of equity a puttable financial instrument classified as an equity instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation and is classified as an equity instrument[9]	–	–
Total liabilities			
Net Assets:			
Capital	– See disclosures of treasury shares[10] – Amount, timing, and reason for reclassifying in and out of equity a puttable financial instrument classified as an equity instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets only on liquidation and is classified as an equity instrument[11]	– For each class of shares:[12] • number and value of shares sold • number and value of shares issued in reinvestment of distributions • number and cost of shares reacquired • the net change	–
Total Equity or Total Net Assets			
Net asset value per share			

[9]*IAS 1, ¶ 80A, as amended by Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements,* Puttable Financial Instruments and Obligations Arising on Liquidation.
[10]*Funds that hold repurchased shares in treasury before reselling to investors would show repurchases of own shares and sales of treasury shares. Funds that cancel repurchased shares and issue new ones would issue new shares. IAS 32, ¶ AG36 excludes holdings of own equity on behalf of third parties based on an agency relationship from treasury share presentation in the financial statements. IAS 1, ¶ 136A requires certain disclosures about puttable financial instruments classified as equity. In particular, they include objectives, policies, and processes relating to obligations to repurchase or redeem those instruments.*
[11]*IAS 1, ¶ 80A, as amended by Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements,* Puttable Financial Instruments and Obligations Arising on Liquidation.
[12]*FASB ASC 946-505-50-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.66).*

Exhibit 3-14 Minimum Captions of the Statement of Net Assets Available for Benefits of Employee Benefit Plans

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
	–		
Assets:		**Assets:**[a]	**Plan assets:**
Investments	– Assets suitably classified[5] – Any single investment in excess of 5% of net assets available for benefits or of 5% of any class or type of security – Any investment in the employer	– Plan investments at fair value[a,6] – Detail by type of investment, such as: • U.S. Government securities • corporate bonds and debentures • common stock • mortgages • real estate • insurance contracts[7,b,d,e,f]	– Item 1, Investments in securities of participating employers – Item 2, Investments in securities of unaffiliated issuers • U.S. Government bonds and other obligations • other marketable securities • other securities

[1]*See general key. The chapter on the statement of financial position includes a listing of employee benefit plans. "–" means that there are no specialized industry separate display requirements.*

[2]*This Exhibit simply includes references to specific topics that may affect employee benefit plans. Any other IFRS requirements that are irrespective of the type of industry may apply, as appropriate. IAS 26, ¶¶ 13, 17, 28–31 permit defined benefit plans either to present the actuarial present value of promised retirement benefits as part of the statement of net assets available for benefits and actuarial present value of promised retirement benefits or to disclose such information in the notes. Placement of such information in a separate actuarial report is possible to the extent that this actuarial report accompanies the financial statements and is incorporated by reference by the financial statements.*

[3]*Under FASB ASC 962-205-45-1, 960-20-45-2, 960-205-55-1 (FASB Statement No. 35, ¶¶ 6, 8, 282), defined benefit pension plans may adopt either a separate statement of net assets available for benefits and a statement of accumulated plan benefits, combine the two into a statement of accumulated plan benefits and net assets available for benefits, or disclose actuarial present value of accumulated plan benefits in the notes. Under FASB ASC 965-205-45-2, 965-205-55-6 (AICPA Statement of Position No. 92-6, ¶¶ 20, Exhibit B), health and welfare defined benefit plans may combine information on benefit obligations with those on net assets in a statement of benefit obligations and net assets available for benefits. Alternatively, they may disclose benefit obligations in the notes, use a separate statement, or combine such information with another statement.*

[4]*FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-03) has a statement of financial condition for employee stock purchase, savings, and similar plans. FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-02) extends the general rules of Articles 1 to 4 of Regulation S-X to employee stock purchase, savings and similar plans.*

[a]*For all benefit plans: FASB ASC 960-205-55-1 (FASB Statement No. 35, ¶ Exhibit D-1); FASB ASC 965-205-55-4 (AICPA Statement of Position No. 92-6, ¶ Exhibit A); FASB ASC 960-205-55-2, 956-205-55-8 (AICPA Statement of Position No. 99-2,* Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans, *¶¶ Appendix B Example 1, Appendix C Example 1); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3, ¶ 33).*

[5]*IAS 26, ¶ 35.*

[6]*FASB ASC 965-320-35-1 (AICPA Statement of Position No. 92-6,* Accounting and Reporting by Health and Welfare Benefit Plans, *¶ 25).*

[7]*FASB ASC 960-325-35-1, 960-325-45-1 (FASB Statement No. 35, ¶¶ 11–13).*

[b]*Shown in FASB ASC 960-205-55-1 (FASB Statement No. 35, ¶ Exhibit D-1) for defined benefit pension plans.*

[d]*Shown in FASB ASC 965-205-55-4 (AICPA Statement of Position No. 92-6, ¶ Exhibit A) for health and welfare benefit plans.*

[e]*Shown in FASB ASC 960-205-55-2 (AICPA Statement of Position No. 99-2, ¶ Appendix B Example 1), for defined benefit pension plans with postretirement medical benefit (401(h)) features.*

[f]*Shown in FASB ASC 956-205-55-8 (AICPA Statement of Position No. 99-2, ¶ Appendix C Example 1), for health and welfare benefit plans with postretirement medical benefit (401(h)) features.*

(continued)

Exhibit 3-14 Minimum Captions of the Statement of Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Investments (*continued*)		– For defined contribution pension plans: • participant-directed investments may be shown as a single line, indicating whether at fair value by quoted prices in an active market or determined otherwise[8] • investments in master trusts[9] • Deposit administration contract, at contract value[b] • Total investments[a]	– Item 3, Investments other than securities • each major class Investments are shown at fair value, showing cost parenthetically[10*]
Net assets held in 401(h) account	–	– Net assets held in 401(h) account as a separate line item and outside total investments[11,e,f]	–
Property, plant, and equipment	–	– For defined benefit pension plans, assets used in plan operations, at cost less accumulated depreciation and amortization: • buildings • equipment • furniture and fixtures • leasehold improvements[12]	–

[8]*AICPA Audit and Accounting Guide, EPB, ¶ 3.20; FASB ASC 962-325-45-3, 962-325-45-4 (AICPA Statement of Position No. 99-3,* Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, ¶ 9).*
[9]*FASB ASC 960-30-45-11 (AICPA Audit and Accounting Guide, EBP, ¶ 2.52).*
[10]*FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-02(d)).*
[11]*FASB ASC 965-205-45-8 (AICPA Statement of Position No. 92-6, ¶ 55); FASB ASC 960-30-45-5, 960-205-55-2, 956-205-55-8 (AICPA Statement of Position No. 99-2, ¶¶ 8, Appendix B, Appendix C); AICPA Statement of Position No. 99-2, ¶ 11. Alternatively, health and welfare benefit plans may include 401(h) assets and liabilities in individual line items with note disclosure of the 401(h) amounts.*
[12]*FASB ASC 960-360-35-1 (FASB Statement No. 35, ¶ 14); FASB ASC 962-205-45-5 (AICPA Audit and Accounting Guide, EBP, ¶ 3.46).*
[c]*Shown in FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3, ¶ Appendix B) for defined contribution plans.*

Exhibit 3-14 Minimum Captions of the Statement of Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Receivables	–	– Employees' or participants' contributions[b,f,c,d] – Employer's contribution[c,d,e,f] – Contributions receivable of defined contribution pension plans[13] – Participant loans of defined contribution pension plans classified as notes receivable[14] – State subsidies or Federal grants[15] – Securities sold[b,e] – Accrued interest and dividends[b,d,e,f] – Total receivables[a]	– Item 4, Dividends and interest receivable
Cash	–	– Cash[b,d,e,f]	– Item 5, Cash
Other assets	–	–	– Item 6, Other assets • due from participating employers, their directors, officers and principal holders of equity securities • due from trustees and managers of the plan • other significant amounts
Total assets	–	– Total assets[16,a]	–

[13]*FASB ASC 962-310-45-1 (AICPA Audit and Accounting Guide, EBP, ¶ 3.45).*
[14]*FASB ASC 962-310-45-2 (FASB Accounting Standards Update No. 2010-25, Plan Accounting – Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans, ¶ 5).*
[15]*FASB ASC 960-310-25-1 (FASB Statement No. 35, ¶ 10), for defined benefit pension plans.*
[16]*FASB ASC 962-205-45-2 (AICPA Statement of Position No. 94-4,* Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans, *¶ 15) and FASB ASC 946-210-45-16 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶ 9) require separate presentation of total assets for health and welfare benefit plans and defined-contribution pension plans. See also FASB ASC 946-210-45-15, 946-210-45-16, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶¶ 8, 9, A1).*

(continued)

Exhibit 3-14 Minimum Captions of the Statement of Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Liabilities and Plan Equity:	–	–	Liabilities and Plan Equity:
Liabilities	– Liabilities other than the actuarial present value of promised retirement benefits[17]	Liabilities:[a] – Due to brokers for securities purchased[d,e] – Accounts payable[a] – Accrued expenses, such as for refunds of excess contributions, income taxes payable, other expenses[18,b,c,e] – Accrued investment trustee fees[19] – Amounts related to obligations of 401(h) account, as a single line[20,e] – Total liabilities[21,a]	– Item 7, Liabilities[22] • payables to participating employers • payables to participating employees • any other significant amounts
Net assets available for benefits	• Net assets available for benefits[23]	– Net assets reflecting all investments at fair value[24]	– Item 8, Reserves and other credits • each significant item – Item 9, Plan equity at close of period
Net assets available for benefits (*continued*)		– The sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value[25] – Net assets available for benefits[a]	

[17] *IAS 26, ¶ 35.*
[18] *FASB ASC 962-205-45-4 (AICPA Audit and Accounting Guide, EBP, ¶ 3.48).*
[19] *FASB ASC 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶ Exhibit C).*
[20] *FASB ASC 960-30-45-5, 960-205-55-2 (AICPA Statement of Position No. 99-2, ¶¶ 8, Appendix B).*
[21] *FASB ASC 962-205-45-2 (AICPA Statement of Position No. 94-4, ¶ 15) requires totalization of liabilities for health and welfare benefit plans and defined-contribution pension plans, as well as FASB ASC 946-210-45-15, 946-210-45-16, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94—4-1, ¶¶ 8, 9, A1), and FASB ASC 958-210-45-1 (FASB Statement No. 117, ¶ 10) for not-for-profit organizations.*
[22] *Item 7 also includes payables to participating employers and payables to participating employees. For completeness, this Exhibit lists these two items, although the Exhibit only shows a statement of net assets available for benefits without accumulated plan benefits.*
[23] *IAS 26, ¶¶ 17, 28.*
[24] *FASB ASC 965-20-45-1 (AICPA Statement of Position No. 92-6, ¶ 20); FASB ASC 962-205-45-2 (AICPA Statement of Position No. 94-4, ¶ 15).*
[25] *FASB ASC 965-20-45-2 (AICPA Statement of Position No. 92-6, ¶ 64); FASB ASC 962-205-45-2, 962-205-45-3 (AICPA Statement of Position No. 94-4, ¶ 15); FASB ASC 946-210-45-15, 946-210-45-16, 946-210-55-2 (FASB Staff Position Nos AAG INV-1 and SOP 94-4-1, ¶¶ 8, 9, A1).*

Exhibit 3-15 Items that May be Either Separately Presented on the Face of the Statement of Net Assets Available for Benefits of Employee Benefit Plans or Disclosed in the Notes

Category or Caption[1]	*IFRSs*[2]	*U.S. GAAP*[3]	*SEC Guidance*[4]
Assets:			
Investments	–	– For defined contribution pension plans, nonparticipant-directed investments, indicating whether at fair value by quoted prices in an active market or determined otherwise, and detailed as:[5] • registered investment companies • government securities • common-collective trusts • pooled separate accounts • short-term securities • corporate bonds • common stock • mortgages • real estate – For health and welfare benefit plans:[6] • types of investments, indicating whether at fair value by quoted prices in an active market or determined otherwise • nonparticipant-directed investments, indicating whether at fair value by quoted prices in an active market or determined otherwise, and detailed as: > registered investment entities > government securities > short-term securities > corporate bonds > common stock > mortgages > loans to participant > real estate	–
Net assets held in 401(h) account	–	– For health and welfare benefit plans:[7] • net assets held in 401(h) account if shown within individual line items with note disclosure of the 401(h) amounts	–

(continued)

Exhibit 3-15 Items that May be Either Separately Presented on the Face of the Statement of Net Assets Available for Benefits of Employee Benefit Plans or Disclosed in the Notes (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Liabilities and Plan Equity:			
Net assets available for benefits	–	– For defined contribution pension plans with nonparticipant-directed and non- nonparticipant-directed investment programs: • net assets related to non-nonparticipant-directed programs with detail to identify the types of investments[8]	–

[1] *See general key. The chapter on the statement of financial position includes a listing of employee benefit plans. "–" means that there are no specialized industry separate display or disclosure requirements.*

[2] *This Exhibit simply includes references to specific topics that may affect employee benefit plans. Any other IFRSs requirements that are irrespective of the type of industry may apply, as appropriate. IAS 26, ¶¶ 13, 17, 28–31 permit defined benefit plans either to present the actuarial present value of promised retirement benefits as part of the statement of net assets available for benefits and actuarial present value of promised retirement benefits or to disclose such information in the notes. Placement of such information in a separate actuarial report is possible to the extent that this actuarial report accompanies the financial statements and is incorporated by reference by the financial statements.*

[3] *Under FASB ASC 962-205-45-1, 960-20-45-2, 960-205-55-1 (FASB Statement No. 35, ¶¶ 6, 8, 282), defined benefit pension plans may adopt either a separate statement of net assets available for benefits and a statement of accumulated plan benefits, combine the two into a statement of accumulated plan benefits and net assets available for benefits, or disclose actuarial present value of accumulated plan benefits in the notes. Under FASB ASC 965-205-45-2, 965-205-55-6 (AICPA Statement of Position No. 92-6, ¶¶ 20, Exhibit B), health and welfare defined benefit plans may combine information on benefit obligations with those on net assets in a statement of benefit obligations and net assets available for benefits. Alternatively, they may disclose benefit obligations in the notes, use a separate statement, or combine such information with another statement.*

[4] *FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-03) has a statement of financial condition for employee stock purchase, savings, and similar plans. FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-02) extends the general rules of Articles 1 to 4 of Regulation S-X to employee stock purchase, savings, and similar plans.*

[5] *FASB ASC 962-325-45-5, 962-325-45-6.(AICPA Audit and Accounting Guide, EBP, ¶ 3.39); AICPA Audit and Accounting Guide, EBP, ¶¶ 3.20, 3.35(k),; AICPA Statement of Position No. 99-3,* Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters, *¶¶ 8, 9; FASB ASC 962-310-65-1 (FASB Accounting Standards Update No. 2010-25,* Plan Accounting – Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans, *¶ 5).*

[6] *FASB ASC 965-325-45-1 (AICPA Statement of Position No. 92-6, ¶ 32); 965-325-45-2 (AICPA Statement of Position No. 99-3, ¶ 9).*

[7] *FASB ASC 965-205-45-8 (AICPA Statement of Position No. 92-6, ¶ 55). Alternatively, health and welfare benefit plans may disclose 401(h) assets and liabilities as a separate line item.*

[8] *FASB ASC 962-325-45-8 (AICPA Statement of Position No. 92-6, ¶ 55).*

Exhibit 3-16 Minimum Captions of the Statement of Financial Position of Real Estate Companies

Category or Caption[1]	*IFRSs*	*U.S. GAAP*	*SEC Guidance[2]*
	–		–
Assets:		Assets:[a]	
Cash and cash equivalents	– Cash and cash equivalents^ (no specialized industry requirement)	– Cash[a]	–
Accounts and notes receivable	– As part of trade and other receivables^ – Current portion of receivable for a lessor's net investment in finance leases[3]	– Contracts receivable[a] – Less allowance for contract cancellations[4] – Less unamortized valuation discount[5] – Less profit applicable to future improvements under the installment method[6] – Deduction for gross profit not recognized under the cost recovery method of accounting for real estate sales[7] – For time-sharing transactions:[8] • gross notes receivable • less allowance for uncollectibles • deduction for deferred profit	–
Current tax assets	Current tax assets^ (no specialized industry requirement)	–	–
Inventories	– Inventories^ (no specialized industry requirement)	– Less delayed cost of sales under relative sales value, percentage-of-completion method of accounting for time-sharing transactions[9]	– A material asset pledge[10*]

[1]*See general key.*
"–" means that there are no specialized industry separate display requirements.
[2]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02) for commercial and industrial companies apply (see the related Exhibits), except certain provisions as per FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15).*
[a]*FASB ASC 976-605-55-11 (FASB Statement No. 66, ¶ 95).*
^Minimum line item under IAS 1, ¶ 54.
[3]*IAS 17, ¶ 36. It does not mention separate presentation.*
[4]*FASB ASC 976-310-35-1, 976-605-55-11 (FASB Statement No. 66, ¶¶ 70.b, 71, 95).*
[5]*FASB ASC 976-605-55-3, 976-605-55-7, 976-605-55-11, 976-605-55-14 (FASB Statement No. 66, ¶¶ 91, 93, 95, 97).*
[6]*FASB ASC 360-20-55-11, 976-605-30-2, 976-605-55-13, 976-605-55-14 (FASB Statement No. 66, ¶ 60, 74, 96, 97).*
[7]*FASB ASC 360-20-55-14 (FASB Statement No. 66, ¶ 63).*
[8]*FASB ASC 978-605-25-19, 978-310-35-5, 978-310-45-1, 978-605-55-62 (AICPA Statement of Position No. 04-2, ¶¶ 35, 36, 63, Appendix D).*
[9]*FASB ASC 978-330-35-1, 978-340-25-1, 978-340-25-2, 978-340-25-3, 978-605-55-44, 978-605-55-46 (AICPA Statement of Position No. 04-2, ¶¶ 41, 45-46, Appendix B Example 3, Example 4).*
[10]*FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J, ¶ Footnote 10) requires the display of a material asset pledge (including nonfinancial assets) on the face of the statement of financial position, even parenthetically.*

(continued)

Exhibit 3-16 Minimum Captions of the Statement of Financial Position of Real Estate Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Long-lived assets to be disposed of by sale	– Noncurrent assets classified as held for sale^ (no specialized industry requirement)	–	–
Securities of related parties	– Equity method investment^ (no specialized industry requirement)	–	–
Long-term investments	– Noncurrent portion of receivable for a lessor's net investment in finance leases[11]	– A lessor's investment in a leveraged lease[12]	–
Property, plant, and equipment	– Property, plant, and equipment^ (no specialized industry requirement)	– Land[a] – Operating leases for the lessor, together or near property, plant, and equipment[13] – Deferred investment tax credit, as a deduction[14] – Property owned by a cooperative housing corporation[15]	–
Investment property	– Investment property^ – Lessor's real property subject to operating leases[16]	– Generally classified under PP&E	–
Intangible assets	Intangible assets^ (no specialized industry requirement)	–	–
Deferred tax assets	Deferred tax assets^ (no specialized industry requirement)	–	–
Liabilities and equity:	–	– Liabilities and equity:[a]	–
Accounts and notes payable	– Trade and other payables^ (no specialized industry requirement)	–	–
Other financial liabilities	– Other financial liabilities^ (no specialized industry requirement)	–	–
Current tax liabilities	– Current tax liabilities^ (no specialized industry requirement)	–	–

[11] *IAS 17, ¶ 36. It does not mention separate presentation.*
[12] *FASB ASC 840-30-25-8 (FASB Statement No. 13, ¶ 43); FASB ASC 255-10-55-8 (FASB Statement No. 89, ¶ 103). These pronouncements do not indicate a specific line. Arguably, entities may also use the Other asset caption.*
[13] *FASB ASC 840-20-45-2 (FASB Statement No. 13, ¶ 19).*
[14] *FASB Statement No. 109, ¶¶ 116–117; FASB ASC 740-10-25-45, 740-10-25-46, 740-10-45-27, 740-10-45-28 (APB 2, ¶¶ 13–16); FASB ASC 740-10-50-20 (APB 4, ¶ 11). This is the preferred display method. Alternatively, entities may show deferred tax credit as deferred income. In both cases amortization is over the life of the related asset. The flow-through method, which reduces depreciation and income tax expense, is also acceptable. In any event, an entity must give disclosure of material amounts.*
[15] *FASB ASC 972-360-50-2 (AICPA Audit and Accounting Guide, CIR, ¶ 9.11).*
[16] *IAS 17, ¶ 49; IAS 40, ¶¶ 8(c), 8(d).*

Exhibit 3-16 Minimum Captions of the Statement of Financial Position of Real Estate Companies (*Continued*)

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Deferred credits	–	– Delayed revenue under relative sales value, percentage-of-completion method of accounting for time-sharing transactions[17] – Revenue applicable to future improvements under the percentage-of-completion method or liability for future improvements under the installment method[18] – Cash received from the buyer under deposit method of accounting for time-sharing transactions[19]	–
Liabilities directly associated with long-lived assets to be disposed of by sale	– Liabilities directly associated with noncurrent assets classified as held for sale^ (no specialized industry requirement)	–	–
Deferred income taxes	– Deferred tax liabilities^ (no specialized industry requirement)	– Deferred income taxes[a]	–
– Provisions	Provisions^ (no specialized industry requirement)	–	–
Noncontrolling interest	– Noncontrolling interest^ (no specialized industry requirement)	–	–
Capital stock	– As part of issued capital and reserves of controlling interest^ (no specialized industry requirement)	– Capital stock[a]	–
Retained earnings	As above	– Retained earnings[a] – Fund for major repairs and replacements presented as appropriation of retained earnings by common interest realty association that use nonfund reporting[20]	– For real estate investment trusts:[21] • undistributed income from other than gain or loss on sale of properties • accumulated undistributed net realized gain or loss on sale of properties

[17]*FASB ASC 978-330-35-1, 978-605-55-44, 978-605-55-46 (AICPA Statement of Position No. 04-2, ¶¶ 41, Appendix B Example 3, Example 4).*
[18]*FASB ASC 360-20-55-11, 976-605-30-2, 976-605-30-3, 976-605-55-3, 976-605-55-11, 976-605-55-13, 976-605-55-14 (FASB Statement No. 66, ¶¶ 60, 74, 75, 91, 95, 96, 97).*
[19]*FASB ASC 978-605-20 (AICPA Statement of Position 04-2, ¶ Glossary).*
[20]*FASB ASC 972-205-45-5 (AICPA Audit and Accounting Guide, CIR, ¶ 4.02).*
[21]*FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(2)).*

Exhibit 3-17 Items that May be Either Separately Presented on the Face of the Statement of Financial Position of Real Estate Companies or Disclosed in the Notes

Category or Caption[1]	*IFRSs*	*U.S. GAAP*	*SEC Guidance*[2]
Assets:			
Accounts and notes receivable	–	– Current portion of a lessor's net investment in significant sales-type and direct financing leases, components thereof and analysis[3]	–
Inventories	– Land and other real property intended or held for sale in the ordinary course of business or in the process of construction or development for such sale[4] – Investment properties for which the entity commenced a development with a view to sale, unless they meet the IFRS 5 held-for-sale criteria[5]	–	– Assets mortgaged, pledged or otherwise subject to lien[6]
Property, plant, and equipment	–	– Lessor's property under operating leases and property held for leases, by major classes by nature or function[7]	–
Other assets	–	– Noncurrent portion of a lessor's net investment in sales-type and direct financing leases and components thereof[8] – Unearned income on sales-type and direct financing leases[9]	–
Liabilities and equity:			
Deferred credits	–	• Capitalized initial direct costs of direct financing leases[10]	–

[1]*See general key.*

"–" means that there are no specialized industry separate display or disclosure requirements.

[2]*FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02) for commercial and industrial companies apply (see the related Exhibits), except certain provisions as per FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15).*

[3]*FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*

[4]*IAS 1, ¶ 78(c); IAS 2, ¶¶ 6, 8, 37; IAS 40, ¶ 9(a).*

[5]*IAS 40, ¶¶ 56, 58; IFRS 5, ¶ 5(d). The Exposure Draft,* Improvements to IFRSs *(August 2009) proposed to maintain investment property classification for an asset to be developed for sale, irrespective of the existence of development before the sale, and require separate presentation and disclosures similar to those for the held-for-sale category. The IASB temporarily removed this proposal (IASB Update, March 2010; IFRIC Update, May and July 2010).*

[6]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(b)) requires designation of assets mortgaged, pledged, or otherwise subject to lien either on the face of the financial statements or in the notes; FASB ASC 805-50-S99-1 (SEC Staff Accounting Bulletin, Topic 5-J, ¶ Footnote 10) requires the display of a material asset pledge on the face of the statement of financial position, even parenthetically.*

[7]*FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*

[8]*FASB ASC 840-30-50-04, 840-10-55-47 (FASB Statement No. 13, ¶¶ 23, Appendix D). Entities may show these items within a specific caption.*

[9]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.i.(d)).*

[10]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.i(c)); FASB Statement No. 98, ¶ 68.*

> **Comment:** Meeting the definition and recognition criteria of assets or liabilities is a prerequisite for the separate presentation in the body of the statement of financial position. Net presentation, cross-referencing, or note disclosure might be adequate for valuation accounts and adjunct accounts (such as depreciation, amortization, receivable valuation allowances, discounts, or premiums) which are part of the related assets or liabilities, but not for the assets or liabilities themselves. However, specific pronouncements may provide otherwise, as in the case of debt issue costs under U.S. GAAP.[194]

IAS 1 has a precise disaggregation model (see Exhibit 3-19). It focuses on the materiality of an item or a class of items.[195] Although the consideration of nature and function is irrespective of the size of an item, size is also a facet of materiality and a key element to assess the need for separate presentation of an item or a class of items.[196] The use of different measurement attributes is another factor. IAS 1 requires separate lines for items measured at different measurement bases.[197] An extensive interpretation of IAS 1 would apply this requirement to classes of liabilities as well. Furthermore, IAS 1 requires the disclosure of measurement bases in the summary of significant accounting policies.[198] IAS 38 prohibits the aggregation of intangible assets carried at cost and revaluation models,[199] as IFRS 7 does for financial instruments measured at fair value and those measured at amortized cost. In addition, IFRS 7 requires disclosure of financial assets and financial liabilities grouped by measurement categories so that users may have a better understanding of the effects on amounts recognized.[200] U.S. GAAP has no such general guidance, although this may be inferred from Subtopic 235-10 (APB 22) and CON 5.[201] For certain items with diverse measurement bases, U.S. GAAP requires separate presentation or parenthetical explanation, e.g., for servicing assets and liabilities,[202] or for hybrid financial instruments.[203] Entities must show available-for-sale securities and trading securities separately from securities that are not measured at fair value, such as held-to-maturity securities, either through separate line item(s) or through parenthetical explanation.[204] Section 820-10-50 (FASB Statement No. 157) requires a greater level of disaggregation than line items of assets and liabilities in order to determine, using appropriate judgment, the classes for which to provide fair value measurements.[205] All the above must

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[194] *FASB ASC 835-30-45-3 (APB 21, ¶ 16).*

[195] *IAS 1, ¶¶ 29–31.*

[196] *IAS 1, ¶¶ 57(a), 58; IAS 8, ¶ 5.*

[197] *IAS 1, ¶ 59.*

[198] *IAS 1, ¶¶ 117, 118.*

[199] *IAS 38, ¶ 125.*

[200] *IFRS 7, ¶ 8, B2, BC14.*

[201] *FASB ASC 235-10-50-3 (APB Opinion No. 22,* Disclosure of Accounting Policies*, ¶ 12a); CON 5, ¶ 7a.*

[202] *FASB ASC 860-50-45-1, 860-50-45-2 (FASB Statement No. 140,* Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, ¶ 13B).*

[203] *FASB ASC 815-15-45-1 (FASB Statement No. 133,* Accounting for Derivative Instruments and Hedging Activities*, ¶ 44A).*

[204] *FASB ASC 825-10-45-1, 825-10-45-2 (FASB Statement No. 159, ¶ 15); FASB Statement No. 159, ¶ A29.*

[205] *FASB ASC 820-10-50-2 and 820-10-50-2A then superseded, 820-10-50-2B (FASB Statement No. 157, as amended by FASB Accounting Standards Update No. 2010-06,* Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements *(January 2010) and by Accounting Standards Update No. 2011-4,* Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*).*

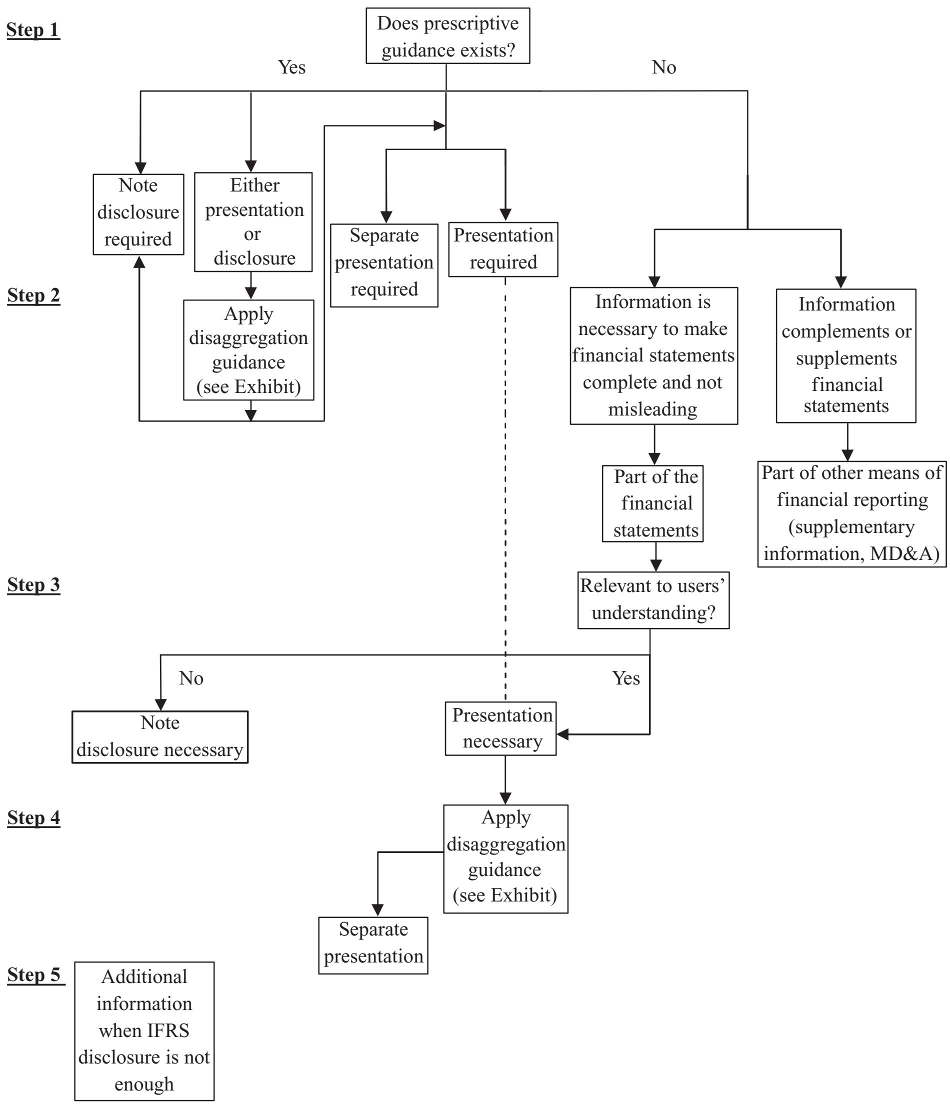

Exhibit 3-18 General Framework Concerning Presentation versus Note Disclosure

conform to a constraint. As IFRS 7 stresses, an entity judges what the right balance between enough detail and usefulness of information must be, without losing the larger picture.[206] Condensation of information in the notes or segregation should be such as not to be an obstacle for the reconciliation to the items displayed in the statement of financial position.[207] As part of the *Financial Statement Presentation Project*, the IASB and the FASB decided to impose the

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[206] *IFRS 7, ¶¶ B3, IG5.*
[207] *IFRS 7, ¶ 6.*

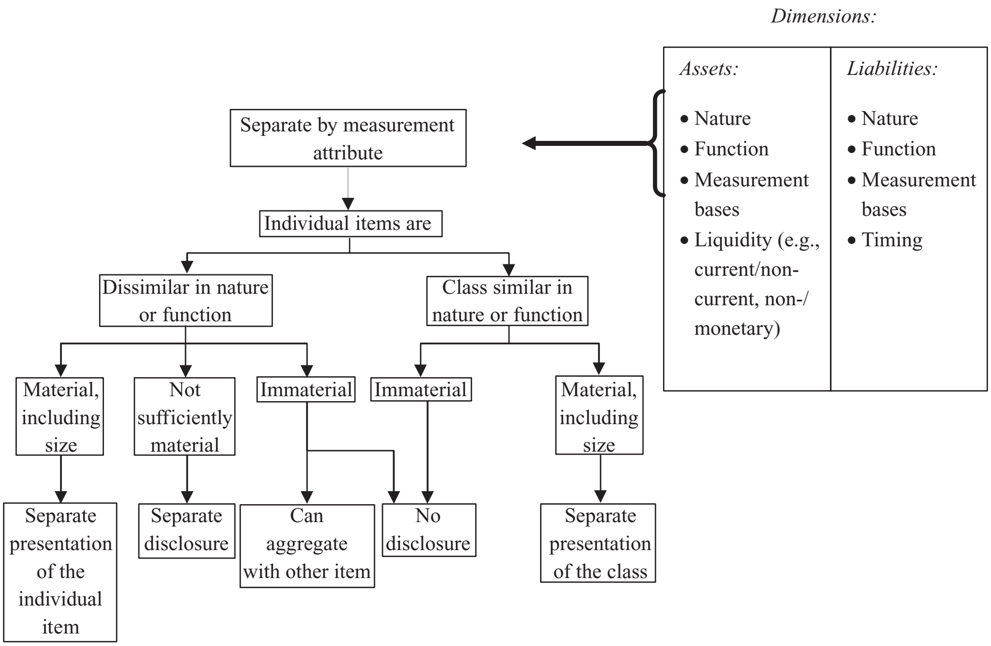

Exhibit 3-19 Disaggregation and Aggregation Guidance

disclosure of measurement attributes as part of the summary of significant accounting policies and the distinction of different measurement bases on the face of the statement of financial position.[208]

The Discussion Paper of the *Financial Statement Presentation Project* initially stated the disaggregation objective of financial statements in terms of usefulness in assessing amount, timing, and uncertainty of future cash flows.[209] The Staff Draft does not repeat this formulation but confirms that relevance to the understanding by users of the financial statements is the trigger of separate presentation. An entity assesses such relevance based on function, nature and measurement attribute of an item or similar items. An entity would aggregate material classes of similar items. Conversely, dissimilar assets or liabilities would warrant individual separate presentation, because they attain to different primary activities of an entity (i.e., functions), respond differently to similar economic events, or reflect different measurement bases. However, disaggregation need not detract from clarity and understandability of financial statements. The FASB considers such disaggregation guidance solid enough to avoid a listing of minimum line items in the statement of financial position.[210]

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[208] *Staff Draft, ¶ 212; DP on Presentation, ¶ 3.19; Minutes of IASB and FASB Meeting, October 2006. [Online] Available at: www.iasb.org [last accessed June 25, 2007].*
[209] *DP on Presentation, ¶ 2.7.*
[210] *Staff Draft, ¶¶ 46–51, 119–121, BC70, BC146.*

The Phase E of the *Conceptual Framework Project* will deal with the boundaries between financial reporting and the financial statements, and between presentation and disclosure.

3.6 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating to IFRS financial statements arising from the issues discussed in this chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraph 3.2.1

An entity should make sure that the title of the statement of financial position selected denotes use of IFRSs;

When a title turns out to be the same under both IFRSs and U.S. GAAP, an entity should state prominently the basis of accounting so as to enhance clarity.

Paragraph 3.3.1

Select the format and form of the statement of financial position;

Decide, also on the grounds of local laws, jurisdictional and company practices, whether to present financial reclassification in management commentary.

Paragraphs 3.3.2 and 3.3.3

Under IFRSs, use a classified statement of financial position, unless specific criteria apply;

Justify the existence of those specific criteria when using either a liquidity classification or a mixed basis;

Reconcile and justify any use of different formats for IFRSs and U.S. GAAP purposes;

Restate retrospectively any change in presentation format;

Orchestrate the weight to give to operating cycle and liquidity through presentation and disclosures.

Paragraph 3.3.4

Understand the IFRSs thresholds for current operating assets and liabilities and other current assets and current liabilities, as compared to U.S. GAAP;

Consider the different definitions of operating cycle in IFRSs and U.S. GAAP;

Understand the format of the statement of financial position that better convey a net working capital or a gross working capital analysis;

Understand how a differing use of a contractual versus an expected date for liabilities may affect working capital analysis under IFRSs versus U.S. GAAP;

Understand the links between operating or financial liabilities and assets that affect the status as current liability under IFRSs versus U.S. GAAP;

Understand when the 12-month convention applies under IFRSs as opposed to under U.S. GAAP.

Paragraph 3.5.5

Review the general criteria of presentation versus disclosure;

Review the dimensions along which an entity may aggregate or disaggregate assets or liabilities to display or disclosure;

Review the criteria for determining the appropriate level of aggregation of assets or liabilities.

OTHER CONTROL POINTS

Paragraphs 3.2.3, 3.5.1, and 3.5.2
Review specific guidance for the statement of financial position of specialized industries.

Paragraph 3.2.4
Be aware of specific requirements for small and medium-sized entities.

Paragraph 3.3.2
Disaggregate or disclose the long-term portion embedded in a single-line item;
Enable the accounting system to generate a classified statement of financial position automatically.

Paragraph 3.3.3
Link time/date coding fields, at the moment an accounting entry is made, to the way the information systems generate liquidity sorting. Do not use subaccounts for this purpose, as this may require lengthy manual and subjective adjustments.

Paragraph 3.3.5
Make short- versus long-term analysis as automatic as possible. Enable the accounting system to display a short-term versus current criterion as a reversible on demand presentation key.

Paragraph 3.3.6
Irrespective of the use of a classified versus an unclassified statement of financial position, check that the sorting order follows the prevailing patterns under IFRSs and U.S. GAAP, respectively.

Paragraph 3.3.7
Review specific totalization requirements under IFRSs, U.S. GAAP, and SEC guidance.

Paragraph 3.4.1
Review different display and disclosure requirements for held-for-sale assets and liabilities under IFRSs as compared with U.S. GAAP.

Paragraph 3.4.2
Review differences between IFRSs and U.S. GAAP concerning offsetting guidance.

Paragraph 3.4.3
Understand how capital and reserves under IFRSs reconcile to U.S. GAAP;
Understand specific display and disclosure requirements for retained earnings.

Paragraph 3.4.4
Understand specific display and disclosure requirements for share premium under IFRSs as compared to additional paid-in capital under U.S. GAAP.

Paragraph 3.4.5
Compare presentation and disclosure of treasury stock under IFRSs and U.S. GAAP.

Paragraphs 3.5.1, 3.5.2, 3.5.3, and 3.5.4
Review minimum content to display in the statement of financial position under IFRSs;
Consider that additional subheadings and line items cannot override the minimum content;
Apply guidance on immaterial items conservatively;
Compare mandatory line items to display in the statement under IFRSs, U.S. GAAP, and SEC guidance;
Review items either to display or to disclose in the notes;
Review items that require or permit parenthetical explanation;
Review requirements applicable to certain specialized industries.

4 DUAL REPORTING FOR THE STATEMENTS OF INCOME

4.1 CHAPTER PREVIEW

This chapter provides ready-made dual reporting tools to assist financial statement preparers in designing the structures of the statements of income under IFRSs, U.S. GAAP, and SEC rules and regulations, as well as to reconcile respective captions and line items.

This chapter first counterpoises the statement of comprehensive income to the income statement, including theoretical and historical background, and analyzes statement variants often found in authorative pronouncements and in accounting practice. In comparing the structures of the income statement according to those sets of standards, it goes through the different aggregations and subtotals to discuss their rationales, current practices, and specific issues. For each topic, it also explains current development under the *Financial Statement Presentation Project*. It continues with the illustration of the differences between an income statement that analyzes expenses by function and one that follows a classification by nature. Finally, it includes Exhibits that provide a listing of line items that an entity must display on the face of the statements of income under IFRSs, U.S. GAAP, and SEC rules and regulations. Other Exhibits illustrate items that an entity may either present in the statements of income or disclose in the notes to the financial statements. A clear picture emerges concerning items whose display is mandatory, those for which note disclosure as opposed to display is an option, and those that allow parenthetical explanation. This chapter focuses on commercial and industrial companies. However, it also mentions requirements applicable to specialized industries, such as banks and financial institutions, investment companies, insurance enterprises, pension and post-retirement plans, real estate, and other industries.

While U.S. GAAP views the statement of comprehensive income as one of the allowed options to display comprehensive income, IFRSs mandate either a single statement of comprehensive income or an income statement and a statement of comprehensive income. ASU 2011-05 aligns U.S. GAAP to IFRSs in this regard. The *Financial Statement Presentation Project* is converging towards a single statement of comprehensive income.

Under U.S. GAAP, entities in certain specialized industries have specific formats of financial statements, a much more limited phenomenon under IFRSs due to narrower industry guidance. While an established tradition on intermediate totalization exists in U.S. practice, profit or loss and comprehensive income are the only aggregations that IFRSs require. Indeed, specific requirements for presentation and note disclosure exist under both sets of standards.

Disaggregation guidance to some extent makes up for the virtual absence of precise rules for sorting order and categorization on the face of the statements of income under both U.S. GAAP and IFRSs. Therefore, an entity must be able to justify a less-than-warranted information detail. On the other hand, it must be aware of risks and constraints arising from characterizing items as operating or nonoperating on the face of the statement under IFRSs, including the repercussions on subtotals qualifying as non-GAAP measures in SEC filings. Unlike U.S. GAAP, IFRSs prohibit an extraordinary items category. The IFRS guidance on material items is much looser than the U.S. GAAP on unusual or frequent items, but not both. IFRSs permit an analysis of expenses by function or by nature. U.S. GAAP generally employs a classification by function, with exceptions in certain sectors. An entity that uses a criterion by nature must be aware of the subtleties and interpretations relating to the required type and detail of disclosures both for IFRSs and for reconciliation to U.S. GAAP purposes in SEC filings.

4.2 DIFFERENT FORMS OF STATEMENTS OF INCOME

4.2.1 The Income Statement versus the Statement of Comprehensive Income

The 2007 Revision of IAS 1, in an effort to converge with U.S. GAAP, introduced the statement of comprehensive income and eliminated the statement of recognized income and expense.[1] Under IFRSs, an entity may use the statement of comprehensive income (i.e., a single statement of comprehensive income) or an income statement and a sort of combined statement of income and comprehensive income (i.e., the statement of comprehensive income). The 2011 amendments to IAS 1 use the term of the *statement of profit or loss and other comprehensive income*, in one or two statements.[2]

> **Comment:** Under IAS 1 (1997), the income statement was a stand-alone statement. After the 2007 revision, it is a disaggregation of the statement of comprehensive income.

U.S. GAAP permits an entity to use a single income statement (in such a case it will display comprehensive income as part of the statement of changes in equity). The entity may also use an income statement and a statement of comprehensive income or a combined statement of income and comprehensive income.[3] However, effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, under U.S. GAAP the statement of changes in equity cannot be used to report comprehensive income any longer.[4]

> **Planning Point:** Under U.S. GAAP prior to ASU 2011-05, these statements are not alternative to the income statement. Instead, as explained in Paragraph 4.2.2 following, the statement of comprehensive income is one of the options for the display of comprehensive income. Therefore, an entity has no

[1] *IAS 1,* Presentation of Financial Statements*, ¶ BC20.*

[2] *IAS 1, ¶ 81; IAS 1, ¶ 81A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income.

[3] *FASB ASC 220-10-45-8 (FASB Statement No. 130,* Reporting Comprehensive Income*, ¶ 22).*

[4] *FASB ASC 220-10-45-8 superseded by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8, BC6.*

Exhibit 4-1 Statements of Comprehensive Income Compared

IFRS	***U.S. GAAP***
Example of Statement of Comprehensive Income (gross of tax example)	***Example of Statement of Comprehensive Income (gross of tax example)***
Pofit for the period	Net income
Other comprehensive income:	Other comprehensive income:
	Specific other comprehensive income Items . . .
Current-period Gain (Loss)	Current-period Gain (Loss)
Reclassification Adjustment	Reclassification Adjustment
. . . . . .	. . . . . .
Income Tax on Specific Items Above	Income tax effects of items included in other comprehensive income
Other comprehensive income for the year, net of tax	Other comprehensive income, net of tax
Total comprehensive income for the year	Comprehensive income
Comprehensive income attributable to:	Less: Comprehensive income attributable to the noncontrolling interest
• *Owners of the parent*	Comprehensive income attributable to the parent
• *Noncontrolling interest*	

Note: The 2011 Amendments to IAS 1 require the separate display of items of other comprehensive income (including related income taxes) that are subject to recycling from those that are not.

obligation to use the statement of comprehensive income, as it can adopt other alternatives. Furthermore, an entity need not report comprehensive income (ASU 2011-05 adds other comprehensive income) if it has net income only and no component of other comprehensive income.[5] Conversely, under IFRSs, either a statement of comprehensive income or its variant is mandatory. In effect, the combined form of this statement is a sort of statement of recognized income and expense, with the conceptual difference that the latter was in a context of equity instead of profit or loss. Paragraph 4.2.4 following expands this concept.

4.2.2 The Single versus the Two-Statement Approach

4.2.2.1 Alternative Statements Under the 2007 Revision of IAS 1, items of income and expense must be presented either in the statement of comprehensive income, or in a separate income statement up to profit or loss and in an additional statement of comprehensive income up to comprehensive income, but in any event not in the statement of changes in equity.[6]

U.S. GAAP also permits a single statement of comprehensive income or an income statement plus a statement of comprehensive income. The latter is also referred to as the (combined) statement of income and comprehensive income or as the (combined) statement of earnings and comprehensive income, recently renamed as *statement of other comprehensive income*.[7] Exhibit 4-1 compares the statement of comprehensive income under IFRSs and U.S. GAAP.

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[5] *FASB ASC 220-10-15-3, 220-10-45-6 moved to 220-10-45-1A by ASU 2011-05 (FASB Statement No. 130, ¶¶ 6, 15).*

[6] *IAS 1, ¶¶ 81, BC53.*

[7] *FASB ASC 220-10-45-1C (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8).*

Exhibit 4-2 U.S. GAAP-Equivalent Design of the Statement of Recognized Income and Expense under IFRSs Prior to the Amendments by the 2007 Revision of IAS 1

IFRS **Example of Statement of Recognized Income and Expense (gross of tax example)**	**U.S. GAAP** **Example of Statement of Comprehensive Income (gross of tax example)**
	Net income
	Other comprehensive income
Specific Income (Expense) Items Recognized Directly in Equity	Specific other comprehensive income Items …
Current-period Gain (Loss)	Current-period Gain (Loss)
Reclassification Adjustment	Reclassification Adjustment
……	……
Income tax on Specific Items Above	Income tax effects of items included in other comprehensive income
Net income (expense) recognized directly in equity	Total other comprehensive income
Profit for the period	
Total recognize income and expense for the period	Comprehensive income
	Comprehensive income attributable to the noncontrolling interest
	Comprehensive income attributable to the parent
Attributable to:	
• *Equity holders of the parent*	
• *Minority interest*	
Effect of changes in accounting policy or correction of errors	
• *Equity holders of the parent*	
• *Minority interest*	

Exhibit 4-2 compares the statement of recognized income and expense under IFRSs, prior to the 2007 amendments made by IAS 1, with the statement of comprehensive income under U.S. GAAP.

Comment: Both the IASB and the FASB stated their preference for a single-statement approach (that is, a single statement of comprehensive income) that is more consistent with the IASB Framework and the U.S. Concepts that do not distinguish between profit or loss (or net income) and comprehensive income (the IASB Framework has no comprehensive income element of financial statements).[8] Furthermore, according to Subsection 220-10-45-10 (FASB Statement No. 130), a single statement approach is more consistent with the clean-surplus concept of income.[9] However, the 2007 Revision of IAS 1 conceived the two-statement approach as a transitional measure pending the postulation of a theory on other comprehensive income and conclusive decisions of the *Financial Statement Presentation Project* about the issue of totalization (line items, categories, subtotals, or totals) in financial statements. Similarly, FASB Statement No. 130 kept both statements, because it considered a single statement of financial performance premature prior to the solution of the conceptual issues on reporting comprehensive income.[10] Furthermore, many prefer this approach to maintain a primary focus on the income statement, and to leave net income as an established measure of performance while comprehensive income would be a measure of change of net assets and not necessarily

8 *FASB ASC 220-10-45-10 (FASB Statement No. 130, ¶ 67); IAS 1, ¶¶ 81, BC51.*
9 *FASB Statement No. 130, ¶ 58; FASB ASC 220-10-45-10 (FASB Statement No. 130, ¶ 67).*
10 *FASB Statement No. 130, ¶ 59.*

performance related. This would remove the focus from the bottom line only. However, a single statement would adhere to the cohesiveness working principle of the *Financial Statement Presentation Project*.[11] In the opinion of many, having two statements of performance (or statements that claim to be so) may be confusing and may undermine comparability.[12]

The *Financial Statement Presentation Project* has been long debating the single versus the two-statement approaches. The Discussion Paper proposes a single statement of comprehensive income with a subtotal of profit or loss or net income and a separate section that displays other comprehensive income with the same prominence as the other sections.[13] The alleged superiority of this approach lies in the fact that it permits the disclosure of net income and comprehensive income in one and the same place.[14] In July 2009, the IASB and the FASB decided to address the single statement in a separate project. In October 2009, they decided to develop a convergent, although separate, guidance. The latest tentative decisions would eliminate the two-statement approach in IAS 1 (i.e., an income statement and a combined statement of income and comprehensive income). Current options available under U.S. GAAP to present comprehensive income would disappear. Therefore, a single statement of comprehensive income (under IFRSs, a statement of profit or loss and other comprehensive income), but divided into two distinct and separate sections for profit or loss and other comprehensive income, would become mandatory. However, the 2011 Amendments to IAS 1 and ASU 2011-05 have not gone so far and the two-statement approach still survives. Under IFRSs, presentation of components of other comprehensive income that, according to current standards, reclassify into profit or loss must be separately presented from those that do not. An entity that adopts the gross-of-tax method of presenting other comprehensive income must separately display income tax related to those two aggregated categories.[15] Due to the difference between the two bodies of standards, the U.S. GAAP approach presents no requirement for distinction of items of other comprehensive income that are recycled from those that are not.

4.2.2.2 Terminology for Comprehensive Income *Comprehensive income* is a well-established term in U.S. GAAP pronouncements. *Total recognized income and expense for the period* has long been a substantially equivalent term under IFRSs. The 2007 revision of IAS 1

[11] *IAS 1, ¶¶ BC50-BC54; FASB/IASB, October 24, 2006. Financial Statement Presentation Project, Agenda Paper 6C/FASB Memorandum 44C,* Measurement; OCI and Recycling; the Statement of Comprehensive Income*, ¶ 76. [Online] FASB/IASB. Available at:* www.iasb.org *[last accessed June 21, 2007]; IASB Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶¶ 62–63. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

[12] *FASB Statement No. 130, ¶ 60; IASB, Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 58. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

[13] *DP on Presentation, ¶ 3.24.*

[14] *IASB Update, April 2005; Financial Accounting Standards Advisory Council, June 2005.* Financial Performance Reporting by Business Enterprises*, Attachment E – Appendix 1, ¶ 5. [Online] FASB. Available at:* www.fasb.org *[last accessed June 21, 2007]; FASB/IASB, October 24, 2006. Financial Statement Presentation Project, Agenda Paper 6C/FASB Memorandum 44C,* Measurement; OCI and Recycling; the Statement of Comprehensive Income*, ¶ 75. [Online] FASB/IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

[15] *IAS 1, ¶ 82A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IASB Update, October 2009.*

uses both the terms *comprehensive income* and *total comprehensive income* and amends IFRSs consistently. Pending the *Joint Conceptual Framework Project*, the IASB Framework does not adopt such terminology as yet. IAS 1 clarifies that such terminology is not mandatory.[16] CON 5 also calls comprehensive income *total nonowner changes in equity*, and opens the way for the use of alternative names in the future.[17] However, Section 220-10-45 (FASB Statement No. 130) prefers *comprehensive income* to *total nonowner changes in equity* because it refers to a concept of income and is more descriptive of a performance measure. Furthermore, the use of such term was a preliminary step in case future standards would ultimately determine its reporting in a statement of financial performance.[18] According to the *AICPA Accounting Trends & Techniques*, virtually all of the U.S. GAAP companies surveyed in 2002–2009 that adopted a statement of comprehensive income or a statement of income and comprehensive income used a title containing the word "comprehensive" – therefore either comprehensive income, or comprehensive loss, or comprehensive income (loss). Few companies used the term "comprehensive earnings" or other title.[19]

Example: In the United Kingdom, FRS 3, *Reporting Financial Performance*, also follows a two-statement approach, as such standard considers it necessary to complement the profit and loss account with a "statement of total recognized gains and losses" (STRGL).

4.2.2.3 The Notion of Equal Prominence IAS 1 states that all financial statements of a complete set of financial statements must have equal prominence.[20] Subsection 220-10-45-8 (FASB Statement No. 130) reports comprehensive income in a statement with equal prominence as other statements that are part of the full set of financial statements.[21]

Comment: The U.S. Concepts directly require information on comprehensive income, as it is an element of the financial statements. U.S. GAAP implements this prescriptively. IFRSs, prior to the 2007 amendments made by IAS 1, have done this indirectly as a part of a statement of changes in equity, by requiring disclosure of items of income and expense that are recognized directly in equity. Currently, comprehensive income derives indirectly from two concepts that do not constitute elements in the IASB Framework, i.e., net income and other comprehensive income.

Achieving the goal of equal prominence may follow at least two different routes. A first way is through a statement of comprehensive income that shows both net income and comprehensive income. A second way (no longer under ASU 2011-05) is by means of the requirement that a combined statement of income and comprehensive income starts with net income.[22] IAS 1 adds that under the two-statement approach the statement of comprehensive income must

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16 *IAS 1, ¶ 8.*
17 *FASB ASC 220-10-45-4 (FASB Statement No. 130, ¶ 10); FASB Statement No. 130, ¶ 74; CON 5, ¶¶ 13, 40, 101.*
18 *FASB Statement No. 130, ¶¶ 72–74.*
19 *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 4-2.*
20 *IAS 1, ¶ 11.*
21 *FASB ASC 220-10-45-8 superseded by ASU 2011-05 (FASB Statement No. 130, ¶ 22).*
22 *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶¶ 22); FASB Statement No. 130, ¶ 99; IAS 1, ¶ 81ABC57.*

immediately follow the separate income statement.[23] ASU 2011-05 inserts this requirement, effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.[24]

> **Comment:** Although both net income and comprehensive income show up in the same statement, under the former approach one (net income) is a component of the other (comprehensive income). In general, the working principle of disaggregation of the *Financial Statement Presentation Project* analyzes this aspect of the issue of prominence.

4.2.2.4 Reconciled Formats U.S. GAAP calls these two layouts "reconciled formats", because comprehensive income is reconciled to net income through other comprehensive income.

> **Planning Point:** In order to have a reconciled format, the statement of changes in equity must permit the totalization of net income and other comprehensive income to arrive at comprehensive income, a fact that Paragraph 6.4.7 following shows is no longer true under the 2007 Revision of IAS 1.[25] From its effective date, ASU 2011-05 no longer permits the presentation of comprehensive income on the face of the statement of changes in equity, which therefore loses its characteristic of reconciled format under U.S. GAAP.

> **Comment:** An issue of the Financial Statement Presentation Project is whether there should be a net income subtotal in the statement of comprehensive income. The long-term goal of the IASB is to present all current period changes in assets and liabilities in one of the functional categories in the statement of comprehensive income to eliminate recycling and substitute the concept of comprehensive income for that of net income.[26] The IASB Staff was initially of the view that the statement of comprehensive income should start with comprehensive operating income inclusive of other comprehensive income, not profit or loss. This intended to facilitate the transition to the IASB long-term goal of having comprehensive income only.[27] The 2011 Amendments to IAS 1 and ASU 2011–05 confirm a subtotal for profit or loss or net income.[28]

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[23] *IAS 1, ¶ 12.*

[24] *FASB ASC 220-10-45-1, as amended by ASU 2011-05.*

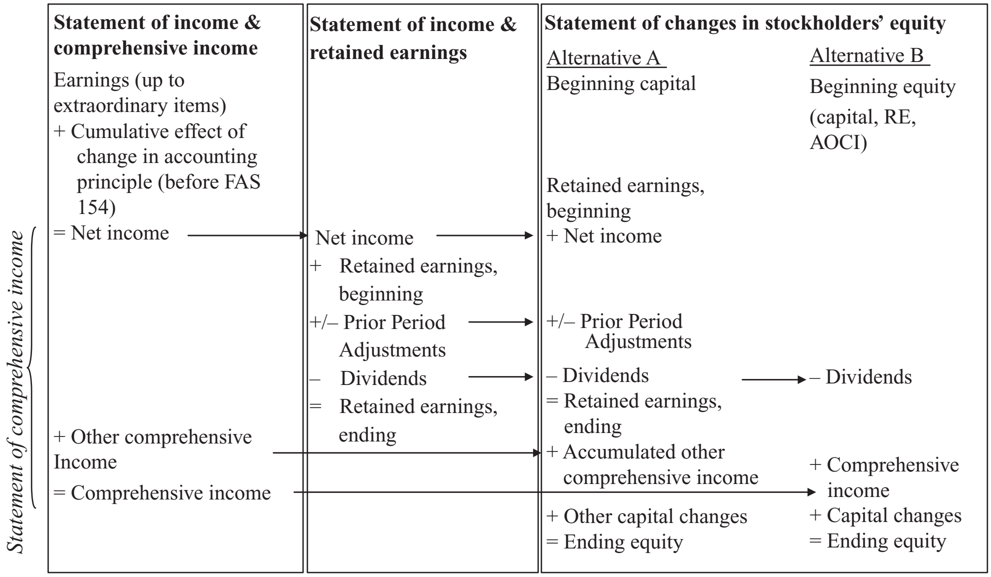
[25] *FASB Statement No. 130, ¶¶ 98–99.*

[26] *IASB, December 14, 2006. Financial Statement Presentation, Project Agenda Paper 15A,* Other Comprehensive Income. *[Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007]; FASB, Memoranda No. 44A-F, IASB Agenda Paper No. 6A-F,* Financial Statement Presentation, *¶ 63. [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007]; FASB/IASB,* Project Updates, Financial Statement Presentation – Joint Project of the IASB and FASB, Updated: January 12, 2007, *¶ 9. [Online] FASB/IASB. Available at: www.fasb.org [last accessed January 16, 2007].*

[27] *IASB, December 14, 2006. Financial Statement Presentation, Agenda Paper No. 15B,* The Statement of Cash Flows, *¶ 45. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

[28] *FASB ASC 220-10-45-1A; IAS 1, ¶ 10A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income.

Exhibit 4-3 Alternative Structures for Presenting Net Income and Comprehensive Income under U.S. GAAP



Note: Alternative B is a model elaborated based on FASB Statement No. 130, no longer maintained in Subtopic 220-10. Under ASU 2011-05, the statement of changes in equity is no longer an option to present comprehensive income.

4.2.3 The Two-Statement Approach Placed in the Context of Display of Comprehensive Income

The single versus two-statement approach is part of the logic of alternative structures for reporting comprehensive income and other comprehensive income. Exhibit 4-3 illustrates the options under U.S. GAAP prior to ASU 2011-05. A specific statement of comprehensive income, a statement of income and comprehensive income, or the statement of changes in equity are allowed as alternatives. Subsection 220-10-45-10 (FASB Statement No. 130) prefers the first two choices.[29] The third option was largely considered as less transparent and less practical. In addition, under Subsection 505-10-50-2 (APB 12) (when both financial position and results of operations are presented) and Regulation S-X, a statement of changes in equity is not mandatory as part of the basic financial statements for an entity that has no item of other comprehensive income, as it can substitute it with a separate statement or note disclosure. However, an entity that chooses the statement of changes in equity to report comprehensive income must include such a statement in the basic financial statements and not as a separate statement or note disclosure.[30] Effective for fiscal years ending after

[29] *FASB ASC 220-10-45-10 (FASB Statement No. 130, ¶ 67).*

[30] *FASB Statement No. 130, ¶¶ 64–65; FASB ASC 505-10-50-2 (APB Opinion No. 12,* Omnibus Opinion – 1967, *¶ 10); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, under U.S. GAAP the statement of changes in equity cannot be used to report comprehensive income any longer.[31] The SEC study on fair value accounting recommends the display of other comprehensive income in a separate statement or in the income statement.[32]

Comment: The 2007 Revision of IAS 1 does not permit a full presentation of comprehensive income in the statement of changes in equity.

Comment: Contrary to the IASB Framework, which has no such distinction, the U.S. Concepts require the display of both net income and comprehensive income as part of the financial statements, not simply disclosure in the notes.[33]

Comment: Despite the FASB preference for a specific statement of comprehensive income or a statement of income and comprehensive income, most U.S. and Japanese[34] companies use the statement of changes in equity to report comprehensive income. According to the *AICPA Accounting Trends & Techniques*, in 2002–2009 approximately 82–83% of the U.S. GAAP companies surveyed that reported comprehensive income did so in the statement of changes in equity, 13–15% in a separate statement of comprehensive income, and the remainder in the combined statement of income and comprehensive income.[35] After some years, the FASB and the IASB acknowledged that the statement of changes in equity had become a general practice.[36]

Comment: The EU Accounting Directives refer to the profit and loss account and the balance sheet, not the statement of changes in equity or the statement of comprehensive income. However, the EU Member States may require or permit additional statements.[37] Some local GAAP in Europe have no such statement of changes in equity, but the notes disclose similar information, usually in the form of a reconciliation schedule.[38] The EC Commission together with the Member

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31 *FASB ASC 220-10-45-8 superseded by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8, BC6.*

32 *United States Securities and Exchange Commission, Office of the Chief Accountant, Division of Corporate Finance, Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting (December 2008), pages 9–10, 204.*

33 *FASB Statement No. 130, ¶ 63; CON 5, ¶ 13.*

34 *Joint International Group on Financial Statement, June 14, 2005.* Presentation*, presentation by Hiroshi Yamada. [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007].*

35 *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 4.1.*

36 *Financial Accounting Standards Advisory Council, June 2005.* Financial Performance Reporting by Business Enterprises*, Attachment E - Appendix 1, ¶ 3(b). [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007].*

37 *Fourth Council Directive 78/660/EEC (25 July 1978), Art. 2.1, Art. 2.6.*

38 *For example, in Italy, OIC – Organismo Italiano di Contabilità, Principio Contabile No. 28,* Il Patrimonio Netto*, ¶ IV.*

States, through their representatives in the Contact Committee, considered a statement of performance acceptable to the extent that it does not conflict with the layouts of the Fourth Directive.[39] Furthermore, under the EU Modernization Directive, Member States may permit or require a statement of performance instead of a profit and loss account, provided it gives at least equivalent information.[40]

Regulation S-X requires the analysis of changes of each caption of stockholders' equity and noncontrolling interests either in the form of a separate reconciling statement of the beginning and ending balances, or in the notes. This analysis also includes comprehensive income and other comprehensive income.[41] Foreign private issuers must present a statement of comprehensive income either under U.S. GAAP or home-country GAAP without reconciliation to U.S. GAAP (although this is encouraged). If they present such a statement under U.S. GAAP, they may use any of the formats under U.S. GAAP.[42]

Comment: Prior to ASU 2011-05, an entity reporting under U.S. GAAP that elects the statement of changes in equity to present comprehensive income is not required to prepare a statement of comprehensive income (i.e., it could prepare an income statement). Conversely, an entity reporting under IFRSs must present both the statement of changes in equity and a statement of income.

4.2.4 The Shift from Equity to Income

So far, the discussion on the single versus the two-statement approach has regarded the context of the statements of income. The previous paragraph enlarged the vision of comprehensive income as a component of equity. This paragraph illustrates the shift in focus that the 2007 Revision of IAS 1 operated in the representation of other comprehensive income. Paragraph 6.4 following analyzes the interaction between these statements and the statement of changes in equity.

Prior to the 2007 amendments to IAS 1, which are effective for annual periods beginning on or after January 1, 2009, an entity could choose to report comprehensive income in the statement of changes in equity (SOCIE) or in the so-called statement of recognized income and expense (SORIE).

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39 *FEE Study, April 1999*. Comparison of the EC Accounting Directives and IASs: A Contribution to International Accounting Developments, *¶ 17. [Online] FEE. Available at:* www.fee.be *[last accessed February 16, 2007].*

40 *Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Council Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC* on the Annual and Consolidated Accounts of Certain Types of Companies, Banks and Other Financial Institutions and Insurance Undertakings *(the "Modernization Directive").*

41 *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

42 *AICPA, 1998.* AICPA International Practices Task Force Meeting Highlights, May 28, 1998, *Washington, DC, AICPA, ¶ XII. [Online] AICPA. Available at:* www.aicpa.org *[last accessed December 24, 2006] (hereinafter IPTF, May 28, 1998); SEC,* Financial Reporting Manual, *¶ 6530.1.*

Comment: The statement of recognized income and expense, for the most part inherited from UK GAAP, was the IFRS equivalent to the U.S. statement of comprehensive income. The SEC Staff regarded both the statement of total recognized gains and losses under UK GAAP and the statement of changes in equity under IFRSs to be consistent with U.S. GAAP.[43] During the *Financial Statement Presentation Project*, the word "recognized" in the title was discarded as recognition is a matter affecting all statements and not just the statement of income and expense. The potential title "total income and expense" was also rejected because it did not sufficiently distinguish components recognized outside profit and loss.[44]

Comment: Actually, under U.S. GAAP, both the statement of comprehensive income and the statement of income and comprehensive income are statements of income, as well as the statement of comprehensive income under IFRSs. However, under IAS 1 (2003) the statement of recognized income and expense was a variant of the statement of changes in equity. Under IFRSs, the change from the statement of recognized income and expense to the statement of comprehensive income has a dramatic meaning that goes beyond presentation, because other comprehensive income is no longer recognized directly in equity.

4.3 CONTEXT OF STATEMENTS

4.3.1 Whether a Statement is Required

Paragraph 4.2 previously explains that a statement of income is mandatory under IFRSs.

U.S. GAAP sanctions the results of operations as being integral to a complete set of financial statements.[45] Results of operations consist of a statement of income and a statement of retained earnings, or a combination of these two statements, such as the statement of income and retained earnings.[46]

Regulation S-X requires statements of income.[47] Form 20-F requires an income statement.[48]

Planning Point: The wording of Form 20-F, both on an annual and interim basis,[49] is compatible with both IAS 1 prior to and after the 2007 release, to include a sort of statement of recognized income and expense (SORIE).[50]

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43 *SEC, International, November 1, 2004, ¶ VI.A.*

44 *IASB, Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 42. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

45 *FASB Statement No. 95,* Statement of Cash Flows*, ¶ 152.*

46 *APB 9, Reporting the Results of Operations, ¶ 7.*

47 *For example, ASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02).*

48 *Form 20-F, Item 8.A.1, 8.A.5.*

49 *Form 20-F, Item 8.A.1, Item 8.A.5.*

50 *IAS 1 (2003), ¶ 96.*

4.3.2 Titles of Statements

For annual periods beginning on or after July 1, 2012, the 2011 Amendments to IAS 1 introduce the titles statement of profit or loss and other comprehensive income, or separate statement of profit or loss and statement presenting comprehensive income.[51] However, both Subsection 220-10-45-4 (FASB Statement No. 130) and IAS 1 allow alternative terminology for the statements of income.[52] U.S. GAAP also uses statement of financial performance and statement of earnings for the income statement.[53] Statement of earnings and comprehensive income and combined statement of income and comprehensive income are synonyms.[54] For fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, ASU 2011-5 introduces the titles continuous statement of comprehensive income, or statement of net income and statement of other comprehensive income.[55] For simplicity, this chapter simply uses the terms income statement and statement of comprehensive income.

Comment: As part of the *Financial Statement Presentation Project*, initially called *Performance Reporting Project*, the IASB initially adopted the U.S. terminology of *comprehensive income* in its 2003 model.[56] Initially, the *Financial Statement Presentation Project* called the combined statement a statement of earnings and comprehensive income.[57] During the initial meetings, the IFRS and U.S. GAAP respective terminologies were used interchangeably until a final decision was taken.[58] Later during the project the IASB rejected this term, on the basis of the inconsistency with the IASB Framework and with IFRSs.[59] However, the 2007 revision of IAS 1 adopted this term, in order to converge with U.S. GAAP and in view of the suggestions of many respondents to the Exposure Draft and the rejection of the alternative terminology of *recognized income and expense*. In fact, there was no justification for mentioning "recognized" in this expression but not in profit or loss or other

[51] *Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, ¶¶ 10, 81A, 139J.*

[52] *FASB ASC 220-10-45-4 (FASB Statement No. 130, ¶ 10); IAS 1, ¶¶ 10, IG1.*

[53] *For example, FASB ASC 944-310-45-1 (FASB Statement No. 60,* Accounting and Reporting by Insurance Enterprises*, ¶ 50); FASB Statement No. 97,* Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, ¶ 58; FASB ASC 740-10-50-17 (FASB Statement No. 109,* Accounting for Income Taxes*, ¶ 49); FASB Statement No. 117, ¶ 164.*

[54] *CON 5, ¶ 30.*

[55] *FASB ASC 220-10-45-1C (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8).*

[56] *Performance Reporting Joint International Group (JIG), January 2005. Agenda Paper 2,* History of the Performance Reporting Project, *Appendix D:* A Summary of the Differences and Similarities Between the FASB's and IASB's Previously Proposed Models for the Statement of Comprehensive Income. *[Online] London: FASB. Available at: www.fasb.org [last accessed June 21, 2007].*

[57] *FASB, May 13, 2005. Minutes of April 21, 2005 Meeting,* Required Financial Statements and Comparative Financial Statements*, ¶ 2. [Online] FASB. Available at: www.iasb.org [last accessed June 21, 2007].*

[58] *IASB, December 2005.* Performance Reporting Project Update*, ¶ 7. [Online] IASB. Available at: www.iasb.org [last accessed April 28, 2006].*

[59] *IASB,* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements*, ¶ BC18 (March 2006); IASB, Meeting, December 14, 2006. Agenda Paper 14,* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 43. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

items that are also recognized in the financial statements.[60] Therefore, this change appears to be a practical solution with no sound technical or theoretical rationale. The 2011 Amendments to IAS 1 introduces the new title of *statement of profit or loss and other comprehensive income*. The rationale is to circumvent the perception of comprehensive income as a superior indicator to profit or loss and concede to the opposition to the use of the comprehensive income terminology.[61] The *Financial Statement Presentation Project* already mentioned such a title as a possible alternative.[62]

The *AICPA Accounting Trends & Techniques* shows that in 2009 48% of U.S. companies surveyed (42% in 2005 and 2002) used a title of income statement that involved the term "operations" (e.g., results of operations), 36% (43% in 2005 and 40% in 2002) the title "income statement", around 14%–16% the word "earnings", and the remaining other expressions.[63] Virtually all of the companies surveyed in 2002–2009 that adopted the statement of comprehensive income or the statement of income and comprehensive income used titles that contained the word "comprehensive" – therefore either comprehensive income, or comprehensive loss, or comprehensive income (loss). Few companies used the term "comprehensive earnings" or other title.[64]

4.3.3 Location of Statements

Unlike U.S. GAAP, IAS 1 requires a company that uses the two-statement approach to place the statement of comprehensive income immediately after the income statement.[65]

According to the *AICPA Accounting Trends & Techniques*, most U.S. GAAP companies present the individual financial statements sequentially in their annual reports. More than half of the companies surveyed in 2002–2009 presented an income statement first and then a statement of financial position, while approximately 37–39% used the reverse order.[66]

4.3.4 Statements of Income in Certain Specialized Industries

Under U.S. GAAP, entities in certain specialized industries have specific formats and titles of statements of income, a much more limited phenomenon under IFRSs due to narrower industry guidance. The IFRS statements of income apply to all industries, unless differently specified.[67] This Book does not deal with any statutory accounting practices.

4.3.4.1 Insurance Companies Under U.S. GAAP, specific income statement, statement of earnings, and statement of operations are suitable to insurance companies. Paragraph 3.2.3.1

[60] *IAS 1, ¶¶ BC19-BC20; IASB Update, December 2006.*
[61] *Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, ¶¶ 10, BC20B; Exposure Draft,* Presentation of Items of Other Comprehensive Income*, ¶ BC21 (May 2010).*
[62] *Staff Draft, ¶ 10.*
[63] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-1.*
[64] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 4-1.*
[65] *IAS 1, ¶ 12.*
[66] *AICPA ATT 2010, ¶¶ 1.36, 1.37; AICPA ATT 2006, ¶¶ 1.37, 1.38.*
[67] *IAS 1, ¶ 4.*

previously lists the types of insurance companies.[68] IFRS 4 applies to insurance contracts.[69] However, this standard does not mention a specific title or format of income statement.

4.3.4.2 Investment Companies Unregistered and registered investment companies present a statement of operations. Paragraph 3.2.3.2 previously lists the types of investment companies.[70]

4.3.4.3 Brokers and Dealers Under U.S. GAAP, both registered and nonpublic brokers-dealers use an income statement.[71]

4.3.4.4 Financial Institutions Under U.S. GAAP, banks and similar financial institutions use a specific income statement. Paragraph 3.2.3.3 previously gives a listing of depository and lending institutions.[72] Under Article 9 of Regulation S-X, bank holding companies use a balance sheet. Subsection 942-10-S99-4 (SAB 11-K) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations.[73] IAS 30 (superseded) used to apply to banks and financial institutions.[74]

Comment: IFRS 7 superseded IAS 30 in the quest for a standard that applies to financial instruments held by a company irrespective of industry.[75] However, the greater the number of countries that adopt IFRSs, the greater number of constituents require specialized industry guidance, as shown by some of the recent Exposure Drafts (e.g., insurance, regulated enterprises). Some Exhibits in Paragraph ?? show how IFRS 7 may be applied to identify items that banks and similar financial institutions, investment companies, and insurance enterprises must disclose.

4.3.4.5 Real Estate Under U.S. GAAP, real estate companies use an income statement.[76] Under Regulation S-X, some specific items apply to real estate investment trusts.[77] Common

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68 *FASB ASC 944-605-45-1 (FASB Statement No. 113,* Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, ¶ 16); FASB ASC 944-10-15-2, 944-310-45-1 (FASB Statement No. 60, ¶¶ 6, 50); FASB ASC 944-605-25-5, 944-20-45-1 (FASB Statement No. 97, ¶¶ 19, 21); FASB ASC 944-40-45-1 (AICPA Statement of Position No. 03-1, ¶ 28); FASB ASC 944-225-S99-1 (Regulation S-X, ¶ 210.7-04).*

69 *IFRS 4, Insurance Contracts, ¶ 2.*

70 *FASB ASC 946-205-45-1 (AICPA Audit and Accounting Guide,* Investment Companies *(INV), ¶ 7.01); FASB ASC 946-225-S99-1 (Regulation S-X, ¶ 210.6-07).*

71 *FASB ASC 940-320-45-4 (AICPA Audit and Accounting Guide, BRD, ¶ 4.40); SEC, August 4, 2003. Relase No. 34-48281,* Broker-Dealer Financial Statement Requirements under Section 17 of the Exchange Act. *[Online] SEC. Available at: www.sec-gov/rules/other/34-48281.htm [last accessed November 26, 2010].*

72 *FASB ASC 942-10-15-2 (AICPA Statement of Position No. 01-6,* Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, ¶ 3-5); FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04).*

73 *FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04); FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*).*

74 *IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions (superseded), ¶¶ 1, 2.*

75 *IFRS 7,* Financial Instruments: Disclosures*, ¶¶ BC6, BC7.*

76 *FASB ASC 976-605-55-11, 976-605-55-13, 976-605-55-14 (FASB Statement No. 66, ¶¶ 95–97).*

77 *FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(1)).*

interest realty associations present a statement of revenues and expenses.[78] Paragraph 3.2.3.5 previously lists examples of these associations.

4.3.4.6 Benefit Plans Under U.S. GAAP, benefit pension plans use a statement of changes in net assets available for benefits. They include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans.[79] Subsection 962-205-S99-1 (Regulation S-X) has a statement of income and changes in plan equity for employee stock purchase, savings, and similar plans.[80] However, this statement for these entities follows a different concept from a traditional income statement. IAS 26 applies to retirement benefit plans, including defined benefit and defined contribution plans. For defined benefit plans, it requires a statement of changes in net assets available for benefits.[81]

4.3.4.7 Health Care Entities Under U.S. GAAP, not-for-profit, business-oriented, and investor-owned health care entities present a statement of operations. They include investor-owned health care entities and not-for-profit, business-oriented entities.[82] This Book treats the specialized industries mentioned above separately, while it includes special notations for other specialized industries, including health care entities, in the general discussion valid for all entities.

Under U.S. GAAP, not-for-profit organizations use other titles under several formats, such as statement of activities, statement of unrestricted revenues, expenses, and other changes in unrestricted net assets, statement of changes in net assets, or statement of operations.[83] As mentioned, not-for-profit entities and governmental organizations fall outside of the scope of this Book.

4.3.5 The Combined Statement of Income and Retained Earnings

Paragraph 6.3.4 following illustrates the statement of retained earnings. Certain U.S. pronouncements mention (or used to mention) a combined statement of income and retained earnings (or earned surplus).[84] Subsection 255-10-55-29 (FASB Statement No. 89) also calls it a statement of earnings and retained earnings.[85] Under APB 9, the statement of income and

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[78] *FASB ASC 972-205-45-6 (AICPA Audit and Accounting Guide,* Common Interest Realty Associations *(CIR), ¶ 4.05).*

[79] *FASB ASC 962-205-45-1, 960-30-45-1, 960-205-45-4 (FASB Statement No. 35, ¶¶ 6, 7, 15, 236); FASB ASC 960-10-05-1 (FASB Statement No. 87, ¶ 7); FASB ASC 965-205-45-1, 965-205-45-3, 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶¶ 20, 23, 39); FASB ASC 962-205-45-6 (AICPA Statement of Position No. 94-4, ¶ 15).*

[80] *FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-04).*

[81] *IAS 26, ¶¶ 13, 34.*

[82] *FASB ASC 954-10-05-2, 954-205-45-1 (AICPA Audit and Accounting, Guide,* Health Care Organizations, *(HCO), ¶¶ 1.02, 1.05).*

[83] *FASB ASC 958-205-45-4 (FASB Statement No. 117, ¶ 6); FASB ASC 825-10-15-7 (FASB Statement No. 159, ¶ 23.a).*

[84] *FASB ASC 255-10-55-53, 255-10-55-54 (FASB Statement No. 89,* Financial Reporting and Changing Prices, *¶ 73); APB 9,* Reporting the Results of Operations, *¶ 7; APB 15,* Earnings per Share, *¶ 92 (superseded); Accounting Principles Board Statement No. 3,* Financial Statements Restated for General Price-Level Changes *(superseded); CON 5,* Recognition and Measurement in Financial Statements of Business Enterprises, *¶ 14.*

[85] *FASB ASC 255-10-55-29 (FASB Statement No. 89, ¶ 53).*

Exhibit 4-4 Sample Combined Statement of Income and Retained Earnings under U.S. GAAP

Net income

Retained earnings, Beginning
  As previously reported
  Prior period adjustments:
    Correction of . . .
  As restated
Deduct dividends:
  Preferred stocks
  Common stocks
Retained earnings, Ending

Per share amounts (No . . .shares):
  Income from continuing operations
  Net income

Elaborated based on APB 9, Exhibit A (then superseded).

the statement of retained earnings together or their combination in the form of a combined statement of income and retained earnings reflect results of operations.[86] FASB Statement No. 95 gives results of operations with the status of a necessary constituent of a complete set of financial statements.[87] Although still considered acceptable, this was a past practice under ARB 43, Ch. 2B (then superseded). It was a way of evidencing the connecting link of income statements of different periods, thus overcoming the periodic nature of accounting income and possibly computing a long-run income or income-earning capacity of a company. On the other hand, this presentation might become misleading in the case where not all income and expenses passed through the income statement. In addition, as such a statement did not end with net income as a bottom line, there was a risk of creating confusion as to whether net income or other metrics measured an entity's performance.[88] Finally, it mixed items of results of operations (flows) with items of financial position (stock). For these reasons, the then superseded APB 19 required an additional statement of changes in financial position when the combined statement of income and retained earnings was used.[89] Exhibit 4-4 illustrates a sample of combined statement of income and retained earnings under U.S. GAAP. One of the options for LLC companies to present changes in members' equity is to combine them with the statement of operations.[90]

Comment: This statement is typical of UK practice. It is not one of the statements within the set of the basic financial statements under IFRSs. Furthermore, mixing income statement items and balance sheet items would diverge from the cohesiveness working principle of the *Financial Statement Presentation Project*.

[86] *APB 9, ¶ 7; CON 5, ¶¶ 24, 30, 33; FASB Current Text, General Standards, F43, ¶ 102.*
[87] *FASB Statement No. 95, ¶ 152.*
[88] *ARB 43, Ch. 2B,* Restatement and Revision of Accounting Research Bulletins, Combined Statement of Income and Earned Surplus*, ¶¶ 1, 3–6 (superseded).*
[89] *APB 19,* Reporting Changes in Financial Position*, ¶ 7 (superseded).*
[90] *FASB ASC 272-10-45-1 (Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships*, ¶ 8).*

The IFRS for small and medium-sized entities permits the use of a statement of income and retained earnings as opposed to a statement of comprehensive income and a statement of changes in equity. Such entities may elect this simplification when no capital transactions, apart from dividends, have affected equity in the reporting periods presented. Therefore, this statement is limited to the display of dividends, corrections of errors, and changes in accounting policy. In particular, in addition to the items of statement of income, IFRS for small and medium-sized entities requires the separate display of dividends declared and paid or payable during the period, restatement of retained earnings for corrections of errors, restatement of retained earnings for changes in accounting policy, and beginning and ending retained earnings.[91]

4.4 STRUCTURE OF THE STATEMENT OF INCOME

4.4.1 Aggregations of Income and Expenses

The IASB Framework sees subclassifications on the face of the financial statements as relevant, especially when based on source of activities (e.g., ordinary versus incidental activities), to assist users of financial reporting in projecting future cash flows.[92] The U.S. Concepts view a balanced trade-off between classifications and aggregations in financial statements as a way of discriminating recognized elements by homogeneous characteristics, such as recurrence, stability, risk, predictability and reliability, with the purpose, again, of facilitating the forecasting of cash flows. Hence, division in components is useful.[93]

Both the IASB Framework and the U.S. Concepts see the detailing of statements of income and their combinations as intermediate measures of performance and of its variability. Examples are gross margin, profit or loss from ordinary activities (under CON 6, income from continuing operations) before or after tax, operating income (CON 6), and profit or loss (IASB Framework), or their derivations, such as return on investment or earnings per share.[94]

IAS 1 permits, even encourages, the customization of terminology, sorting, detailing and the identification of components of financial performance, depending on recurrence, degree of loss or gain probability, predictability, materiality, nature and function of items.[95] However, profit or loss, and comprehensive income (and, from annual periods beginning on or after July 1, 2012, total other comprehensive income) are the only aggregations that it requires.[96]

> **Comment:** IAS 1 simply lists certain items to present on the face of the statement of comprehensive income, without prescribing a sorting order and the categorization of subtotals that may represent logical subclassifications of profit or loss. On the other hand, U.S. GAAP has an established practice on totalization as illustrated in Paragraph 4.4.2 following. However, the captions, their placement, and sorting in the continuing operations section of the statement vary depending on companies, as it is very much the product of accounting and industry practice. Effective for fiscal years ending after

[91] IFRS for SMEs, *¶¶ 3.18, 6.1, 6.4, 6.5.*
[92] The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.3, 4.27; IASB Framework, ¶¶ 48, 72.*
[93] *CON 5, ¶¶ 20, 22, 31, 32; CON 6,* Elements of Financial Statements*, ¶ 76.*
[94] *CON 6, ¶ 77;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ OB16, OB18, 4.28; IASB Framework, ¶¶ 17 (superseded), 73.*
[95] *IAS 1, ¶ 86.*
[96] *Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, ¶¶ 81A; IAS 1, ¶ 82 unamended.*

December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, U.S. GAAP also requires totals and components of net income and other comprehensive income.[97]

Section 958-225-45 (FASB Statement No. 117) acknowledges that not-for-profit organizations may devise several classifications and aggregations on the face of the statement of activities. It permits but does not require intermediate organization-wide totalization of revenues, expenses, gains, or losses. It does not prescribe sorting rules. Actually, it views disaggregation as an additional beneficial feature. However, in order to be able to use an intermediate measure of operations, an entity must show it in a financial statement that at least shows period change in unrestricted net assets. Furthermore, it must disclose the policy concerning such measure of operations in the notes, if not obvious from the statement of activities. Section 958-225-45 reports that business enterprises must show at least net income and income from continuing operations.[98]

In the context of missing or loose guidance on aggregations on the face of the statements of income, practice among IFRSs companies varies. A pan-European survey of 2006 IFRS financial statements came across a widely variable number of other income statement aggregations used, including:[99]

Contribution margin
Gross profit, gross income
Operating income recurring before depreciation and amortization
Profit from operations before nonrecurring items, operating income recurring
Earnings after market value changes
Operating income less financing income and expenses, net operating income, profit or earnings before amortization, depreciation and impairment losses (EBITDA)
Interest and similar income, net interest income
Nonoperating result
Investment income
Profit from continuing operations, profit before minority interests and discontinued operations
Income from continuing operations after taxes
Income from discontinued operations after taxes
Income before taxes and minority interests
Income before minority interests, profit attributable to equity holders of the parent company
Income from ordinary activities
Profit/loss before tax, profit/loss before income tax, income before income taxes, earnings before income taxes, profit before taxation.

[97] *FASB ASC 220-10-45-1A (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8).*

[98] *FASB ASC 958-225-45-10, 958-225-45-12 (FASB Statement No. 117,* Financial Statements of Not-for-Profit Organizations*, ¶ 23); FASB Statement No. 117, ¶¶ 65-68, 113, 105, 116-117; FASB ASC 958-225-55-2 (FASB Statement No. 117, ¶ 118); FASB Statement No. 117, ¶¶ 163-166; FASB ASC 958-225-55-6 (FASB Statement No. 117, ¶ 167).*

[99] *Ineum 2008 Survey, ¶¶ 5.1, 5.2.*

According to a 2006 survey, 75% of French survey companies used different indicators from those shown in the income statement.[100]

Certain jurisdictions tried to provide Implementation Guidance. For example, this is the case of France where the national accounting board, the Conseil National de la Comptabilité (CNC), on October 27, 2004 adopted Recommendation 2004 R 02 on income statement presentation under IFRSs, then recommended by the Autorité des Marchés Financiers – AMF (the French Security Exchange Regulator) to French listed companies.[101]

The *Financial Statement Presentation Project* would require headings and subtotals for each section of the statement of comprehensive income (i.e., business, financing, income tax, and discontinues operations), category (i.e., operating, investing), and subcategory (i.e., operating finance). The entity would ensure the same prominence and consistency of presentation of headings and subtotals across statements, including any other totalization that they may judge useful, although the same sorting is not mandatory.[102]

The following paragraphs analyze aggregations on the face of the income statement, including the dichotomy between operating and nonoperating, continuing and discontinued, ordinary and extraordinary items.

4.4.2 Single versus Multi-Step Format

U.S. GAAP has an established practice in showing the income statement under either the so-called single-step or the multi-step format. In 2009 approximately 85% of surveyed U.S. GAAP companies used the multi-step (83% in 2005 and 74% in 2002), 49% of which (56% in 2005 and 50% in 2002) with a subtotal for gross margin.[103]

Those formats are alternatives for presenting items up to income from continuing operations. As a general pattern, a single-step income statement shows two groups with subtotals: sales and other revenues (i.e., gains and other income) and then costs and expenses. All the surveyed U.S. GAAP companies that used this method display income tax as a separate item.[104]

A multi-step income statement disaggregates income from continuing operations in several subtotals. Firstly, this approach may show, but this is not always the case, a gross profit caption (Paragraph 4.5.2 following). Secondly, it evidences operating and nonoperating items separately, thus sometimes giving rise to an aggregate for income from operations. Nonoperating items may include nonoperating gains and losses (often in separate sections), and other income and expenses, generally including equity income in investees, dividend income and interest income and interest charges.

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[100] *MEDEF 2006 Survey, ¶ Chapter 2.*
[101] *Autorité des Marchés Financiers, AMF Recommendations on Accounting Information Reported in Financial Statements for 2006, ¶ 1.3 (hereinafter AMF 2006).*
[102] *Staff Draft, ¶¶ 112, 129–131, Implementation Guidance Example 10, BC118.*
[103] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-2.*
[104] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-2.*

Planning Point: Interestingly, U.S. GAAP generally has no intermediate classification before and after finance income and charges, which would give a result of financing income. On the contrary, this is a current practice in many countries in continental Europe.

These formats generally apply to commercial and industrial companies. Entities in specialized industry (Subsection 225-10-45-1 (APB 9) mentions investment companies, insurers, and certain not-for-profit organizations[105]) may have specific formats of financial statements. Paragraph 4.3.4 above reports the type of statements used in certain industries. An income statement variant is the so-called two-step format of income statement, which presents other income and expense items apart from operating revenues, expenses, and income. This variation is reported as no longer being used by most financial institutions.[106]

Comment: Certain Exhibits of Paragraph 4.7 following show the statements of income of insurance enterprises. U.S. GAAP and Regulation S-X use net premiums and net investment income aggregates within a single-step format.[107] Other Exhibits of Paragraph 4.7 illustrate the statements of income of banks and similar financial institutions. Here, U.S. GAAP uses a single-step format, while Regulation S-X requires subtotals for net interest income and net interest income after provision for loan losses.[108]

Exhibit 4-5 summarizes and compares the different aggregations of a typical income statement under U.S. GAAP along a multi-step format and IFRSs. It uses the 1997 version of IAS 1 for illustrative purposes, as current IAS 1 has no requirements for totalization other than profit and loss. Exhibit 4-6 illustrates the comparison based on a single-step format.

Comment: The lack of IFRSs guidance on subtotals of results on the face of the income statement may not be construed to affirm that IFRSs have a leaning toward a single-step format.

4.5 AGGREGATIONS AND SUBTOTALS

4.5.1 Gross, Net Sales, and Other Revenues

4.5.1.1 Terminology 44% in 2009, 46% in 2005, and 50% in 2002 of the survey U.S. GAAP companies used the term "net sales" alone or in combination with other terms; 43%, 38%, and 33%, respectively, "revenues"; and approximately 13%, 16%, and 17%, respectively,

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[105] *FASB ASC 225-10-45-1 (APB 9,* Reporting the Results of Operations*, ¶ 6).*

[106] *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, ¶ 76; FASB ASC 420-10-S99-1 (SEC Staff Accounting Bulletin, Topic 5-P.3, Income Statement Presentation of Restructuring Charges, amended by SEC Staff Accounting Bulletin No. 100, Restructuring and Impairment Charges).*

[107] *FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120: Illustration 1, Illustration 2); FASB ASC 944-225-S99-1 (Regulation S-X, ¶ 210.7-04).*

[108] *FASB ASC 942-230-55-4 (FASB Statement No. 95,* Statement of Cash Flows*, ¶ 148); FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04).*

Exhibit 4-5 Subtotals Display in Income Statement under IAS 1 (1993) and Multi-Step Format under U.S. GAAP

U.S. GAAP (Multi-Step Format of Income Statement)	*IAS 1 (1993)*[1]
Net sales	Revenue
Cost of sales	Cost of sales
Gross profit	**Gross profit**
Operating expenses	Operating expenses
	Material items
. . .	. . .
Income from operations	
Gains and losses	
	Results from operating activities (or from operations)[2]
Other revenues and expenses	
Dividend income, finance income and charges (not netted)	Finance cost
Equity income in investees[3]	Share of profits or losses of associates and joint ventures at equity method
Items that are unusual or infrequent, but not both[3]	
Income from continuing operations before tax	**Profit (loss) before tax**
Income tax expense	Income tax expense
Income from continuing operations after tax	**Profit (loss) after tax**
Discontinued operations	Discontinued operations
Income before extraordinary items and cumulative effects of a change in accounting principle	**Results from ordinary activities**
Extraordinary items, net of tax	Extraordinary items[4]
Income before cumulative effects of a change in accounting principle (or earnings)	
Cumulative effects of a change in accounting principle	
Net income	**Net profit or loss for the period**

The purpose of this Exhibit is to illustrate subtotals of profit or loss, not specific line items.
[1]*This Exhibit uses an income statement under IAS 1 (1993) to compare with the multi-step format under U.S. GAAP as profit or loss and comprehensive income are the only aggregations that the current version of IAS 1 requires.*
[2]*Under IFRSs, material items (e.g., under U.S. GAAP, unusual or infrequent items) are part of results from operating activities, if a company chooses to show this aggregate.*
[3]*Alternative locations are often found.*
[4]*Prohibited under current IFRSs.*

"sales" alone or in combination with other terms. Approximately 2–4% combined operating revenues in the same caption of net sales or sales.[109]

4.5.1.2 Minimum Line Items IAS 1 lists revenue as part of the minimum content to display in the statement of comprehensive income.[110] On one hand, IAS 18 defines revenue in terms of *gross* inflows of economic benefits.[111] On the other hand, it measures revenue based on fair value of consideration received or receivable after deducting items, such as trade discounts and volume rebates.[112]

> **Comment:** Arguably, the gross inflows concept in IAS 18 mainly refers to a gross-of-cost concept, and not to items that are ancillary to the sales transaction. This concept is rooted in the IASB Framework and the U.S. concepts (see Paragraph 4.5.5 following).

[109] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-3.*
[110] *IAS 1, ¶ 82(a).*
[111] *IAS 18,* Revenue, *¶ 7.*
[112] *IAS 18, ¶¶ 9, 10.*

Exhibit 4-6 Subtotals Display in Income Statement under IAS 1 and Single-Step Format under U.S. GAAP

U.S. GAAP (Single-Step Format of Income Statement)	*IAS 1*
Sales and other revenue:	
Net sales	Revenue
Other revenue	
Gains	Gains arising from the derecognition of financial assets measured at amortized cost
	Gains from reclassifying financial assets under IFRS 9
Dividend income	
Interest income	
Equity income in investees	Share of profits or losses of associates and joint ventures at equity method
Subtotal	
Cost and expenses:	
Cost of sales	
Operating expenses	
Depreciation and amortization	
Items that are unusual or infrequent, but not both	
Losses	Losses arising from the derecognition of financial assets measured at amortized cost
	Losses from reclassifying financial assets under IFRS 9
Interest expense	Finance costs
Other expenses	
Subtotal	
Income from continuing operations before tax	**Profit (loss) before tax**
Income tax expense	Tax expense
Income from continuing operations after tax	**Profit for the year from continuing operations**
Discontinued operations	Discontinued operations
Income before extraordinary items and cumulative effects of a change in accounting principle	
Extraordinary items, net of tax	
Income before cumulative effects of a change in accounting principle (or earnings)	
Cumulative effects of a change in accounting principle	
Net income	**Profit or loss**

Example: A Swedish foreign private issuer explained to the SEC Staff that it reported net revenue under IFRSs, after deducting sales discounts and sales returns. The SEC Staff requested the company to disclose the accounting policy followed.[113]

4.5.1.3 Presentation of Discounts, Allowances, and Returns Some IFRSs nonauthoritative literature provides some guidance on deductions from gross revenue. For example, IFRIC Update interprets that cash discounts for prompt collections, as estimated at point of sale, reduce revenues.[114]

[113] *SEC IFRS Reviews. Letters by the SEC, August 30, 2006 and November 3, 2006. File No. 0-13722, Comment 9. Reply by the company, September 28, 2006.*

[114] *IFRIC Update, July 2004; IFRIC Update, September 2004.*

Comment: Authoritative IFRSs provide no explicit guidance on whether presentation of revenues on the face of the statements of income can be net of discount, allowances, rebates, commissions, returns, and similar items or must show the gross amount and the deduction for those items shown separately.

Under U.S. practice, the income statement generally includes information about sales discounts, allowances, and returns. Conversely, U.S. Government accounting for the statement of revenues, expenses, and changes in fund net assets or fund equity of proprietary funds requires either presentation of net revenues with disclosure of discounts and allowances or the display of both gross revenues and the deductions for discounts and allowances. Health care entities must report service revenue net of contractual adjustments.[115] In addition, unless they only recognize collectible revenues, they must show the deduction from bad debt as a separate line after patient service revenue and another line for net patient service revenues. This is effective for and within fiscal years beginning after December 15, 2011, and December 15, 2012 for nonpublic entities.[116] Not-for-profit organizations must present gross revenues in their statement of activities.[117] Publicly traded companies that present summarized interim financial data must report sales or gross revenue.[118] Subsection 225-10-S99-2 (Regulation S-X) requires the presentation of net sales and gross revenues. In particular, it requires the presentation of sales of tangible products net of discounts, returns and allowances.[119] Under Subsection 605-15-45-1 (FASB Statement No. 48), estimated returns must reduce revenues reported in the income statement when sales subject to right of return meet the criteria for recognition.[120]

4.5.1.4 Cash Discounts As to cash discounts, U.S. practice has two accounting methods. The gross method first records gross sales and subsequently the discount if payment occurs within the discount period. An accrual for estimated discounts reflects those discounts that fall across the reporting date and for which the entity does not expect punctual payment. Instead, the net method initially records net sales. The discount account is a deduction from net revenue. Then the account "sales discounts forfeited" adjusts for discount not taken because payment occurred after the discount deadline. Again, at year-end an accrual records an adjustment to income for those forfeitures estimated to occur after the reporting date. Entities generally classify the sales discounts forfeited account either as an operating adjustment or as interest revenue. While the gross method stresses discount taken and customer effectiveness, the net method underlines discount forfeited and customer ineffectiveness. The net method is more consistent with measuring revenue based on fair value of consideration received or receivable and accounts receivable at their net realizable value.[121] Both methods, in conjunction with year-end accruals entries, reflect the matching principle of discounts with respective revenues.

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[115] *FASB ASC 954-605-45-2 (AICPA Audit and Accounting Guide, HCO, ¶ 10.26).*

[116] *FASB ASC 954-605-45-4, 954-605-45-5 (FASB Accounting Standards Update No. 2011-07,* Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts for Certain Health Care Entities*).*

[117] *FASB ASC 955-225-45-14, 958-225-45-17 (FASB Statement No. 117, ¶¶ 24, 138).*

[118] *FASB ASC 270-10-50-1 (APB 28,* Interim Financial Reporting*, ¶ 30.a).*

[119] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)(1)).*

[120] *FASB ASC 605-15-45-1 (FASB Statement No. 48,* Revenue Recognition When Right of Return Exists*, ¶ 7).*

[121] *FASB ASC 210-10-50-1 (ARB 43, Ch. 3A,* Restatement and Revision of Accounting Research Bulletins, Working Capital, Current Assets and Current Liabilities*, ¶ 9).*

> **Comment:** IFRSs appear to be compatible with both methods, in their more complete version (i.e., with accruals) as under both of them discounts reduce revenues, although under the net method discounts forfeited do not adjust revenue. A third method of accounting that requires the presentation of cash discounts as financing items does not appear consistent with the few directions found in IFRSs. Certain local GAAPs, for example Italian GAAP, use such a treatment.[122]

Under U.S. GAAP, a vendor recognizes cash rebates or refunds offered to a customer, subject to it achieving a certain revenue target or remaining a customer for a certain period, as a reduction of revenues.[123]

4.5.1.5 Sales, Use, Value Added, Excise, and Similar Taxes IAS 18 prohibits the inclusion of sales collected on behalf of third parties, such as value added taxes, into revenue except excise tax where it does not act as a collecting agent.[124] Conversely, Subsections 605-45-15-2/3 (EITF Issue No. 06-3) gives entities an accounting policy option to present sales, use, value added, excise, and similar taxes assessed by a government authority and imposed on and concurrent with a revenue transaction either as part of both revenue and of costs, in conjunction with disclosure in the notes, or on a net basis excluded from revenues.[125]

4.5.1.6 Presentation of Revenue Gross of Costs Several pronouncements treat gross versus net revenues in terms of recognition principles. For example, Section 605-45-45 (EITF Issue No. 99-19) defines the criteria based on which an entity must report a gross amount of revenues or a net amount as commissions or fees.[126] Subsection 808-10-15-8 (EITF Issue No. 07-1) extends these conclusions to collaborative arrangements to jointly develop and commercialize intellectual property.[127] IFRSs appear to reach similar tentative conclusions.[128] Subsection 605-45-45-23 (EITF Issue No. 01-14) requires characterization of reimbursements charged to customers for out-of-pocket expenses as revenue, and not as reduction of expenses incurred.[129] However, this paragraph does not treat this subject from the standpoint of recognition: it deals with the topic of display in the income statement of gross versus net revenues.

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[122] *OIC – Organismo Italiano di Contabilità,* Documento Interpretativo n.1 del Principio Contabile 12 Classificazione nel Conto economico di Costi e Ricavi, *¶ C17.*

[123] *EITF Issue No. 00-22,* Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future, *¶ 10;* FASB ASC 605-50-25-7 (EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products), *¶ 30).*

[124] *IAS 18, ¶ 8.*

[125] *FASB ASC 605-45-15-2, 605-45-50-3 (EITF Issue No. 06-3,* How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)).

[126] *FASB ASC 605-45-45 (EITF Issue No. 99-19,* Reporting Revenue Gross as a Principal versus Net as an Agent*).*

[127] *FASB ASC 808-10-15-8 (EITF Issue No. 07-1,* Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property*, ¶ 10).*

[128] *IAS 18, ¶¶ 8, IE21; IASB Update, June 2009.*

[129] *FASB ASC 605-45-45-23 (EITF Issue No. 01-14,* Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*).*

Both IFRSs and U.S. GAAP requires presentation of revenue gross of costs, in the meaning that expenses cannot offset sales amounts.[130] Subsection 605-45-45-21 (EITF Issue No. 00-10) prohibits the netting of shipping and handling revenues with shipping and handling costs.[131] Publicly traded companies with significant oil and gas producing activities must disclose gross revenue as part of supplementary information on the results of operations for those activities. Such a figure does not include production or severance taxes (accounted for as costs), royalty payments, and net profits disbursements.[132]

> **Example:** The SEC Staff, in its review of Form 20-F of a Danish foreign private issuer for the fiscal year ended December 31, 2005, challenges a presentation of revenues net of voyage expenses in the U.S. GAAP reconciliation.[133]

4.5.1.7 Other Operating Revenues and Other Income Companies may sometimes have operating revenues other than net sales.

> **Comment:** A U.S. GAAP income statement often includes a caption for other revenues and gains. This generally includes interest and dividend income, equity income in equity method investees, and gains on sales or disposal of fixed assets. Those are generally nonoperating items. Therefore, this has little to do with operating revenues as intended in this paragraph.

Although IAS 1 does not report subtotals in the structure of the statements of income, it reports an "other income" caption in several examples. The standard does not clarify the nature of this heading. It shows it below revenues in an income statement classification by nature (see Paragraph 4.6.1 following), while it places it after gross profit and before operating expenses in a classification by function.[134] Therefore, this item appears to refer to other operating revenues as opposed to nonoperating income. However, IFRS 1 illustrates changes in value of financial assets carries at fair value through profit or loss in that caption.[135] IAS 20 also acknowledges such a heading.[136] As part of a statement of income classified by nature, IAS 1 illustrates a line for changes in finished goods and work in progress as part of revenues[137] (see Paragraph 4.6.2 following). Under Subsection 225-10-S99-2 (Regulation S-X), commercial and industrial companies include operating revenues in the net sales and gross revenue caption.[138] Subsection 942-225-S99-1 (Regulation S-X) requires bank holding companies to display a caption for other income that comprises both operating items, such as fee and commission

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[130] *IAS 1, ¶ 34.*

[131] *FASB ASC 605-45-45-21 (EITF Issue No. 00-10,* Accounting for Shipping and Handling Fees and Costs*, ¶ 7).*

[132] *FASB ASC 932-235-50-24 (FASB Statement No. 19,* Financial Accounting and Reporting by Oil and Gas Producing Companies, *¶ 59T; FASB Statement No. 69,* Disclosures about Oil and Gas Producing Activities, *¶ 25).*

[133] *SEC IFRS Reviews. Letters by the SEC, December 29, 2006 and February 12, 2007. File No. 000-49650, Comment 1.*

[134] *IAS 1, ¶¶ 102, 103, IG6.*

[135] *IFRS 1, ¶ IG63.*

[136] *IAS 20,* Accounting for Government Grants and Disclosure of Government Assistance*, ¶ 29.*

[137] *IAS 1, ¶ 102.*

[138] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03(b)(1)).*

income, and other items, such as equity-income in investees and gains or losses on their disposal.[139] Conversely, U.S. GAAP shows these elements separately.[140] Subsection 225-10-50-3 (FASB Statement No. 89) mentions net sales and other operating revenues as part of five-year summaries supplementary information to annual financial statements.[141] Subsections 605-45-45-13 and 605-45-45-14 (EITF Issue No. 02-16), under certain circumstances, classify cash consideration that a reseller receives from a supplier for assets delivered or services rendered as revenue or other income (i.e., other revenue).[142]

4.5.2 Gross Profit

4.5.2.1 Terminology Gross profit is net sales (and, generally, other operating revenue) minus cost of sales. ATB 2 suggested the use of expressions such as *gross margin* or *gross profit on sales* as opposed to *gross profit*.[143]

4.5.2.2 Link with the Functional Classification Gross profit derives from a functional classification of the income statement (see Paragraph I.A.1 below). A gross profit aggregation is typically found, although not necessarily, in a statement of income under U.S. GAAP along the multi-step format (Paragraph I.A.2 above). Out of the 85% of surveyed U.S. GAAP companies that in 2009 used a multi-step income statement (83% in 2005 and 74% in 2002), 58% reported a caption for gross margin (56% in 2005 and 50% in 2002).[144]

4.5.2.3 Presentation of a Gross Profit Caption Subsection 225-10-S99-2 (Regulation S-X) requires commercial and industrial companies to present an item for costs and expenses applicable to sales and revenues (i.e., cost of sales), but has no explicit subtotal for gross profit.[145] Summarized financial information for significant unconsolidated subsidiaries and 50% or less owned persons includes the reporting of gross profit.[146] Subsection 225-10-S99-2 (Regulation S-X) requires note disclosure of gross profit for a significant equity investee on an interim basis.[147] Under Form 20-F, summarized footnote disclosure of proportionately consolidated joint ventures include gross profit.[148] Regulation S-K requires gross profit as part of selected quarterly financial data.[149] Companies operating in an industry where there is no practice of reporting gross profit, such as banking and insurance, should adapt quarterly financial data to what is most appropriate in their sectors.[150]

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139 *FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04.13).*
140 *FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148).*
141 *FASB ASC 225-10-50-3 (FASB Statement No. 89, ¶ 7.a).*
142 *FASB ASC 605-45-45-13, 605-45-45-14 (EITF Issue No. 02-16,* Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, *¶¶ 4, 5).*
143 *Accounting Terminology Bulletin No. 2,* Proceeds, Revenue, Income, Profit, and Earnings *(superseded), ¶ 10.*
144 *AICPA AYY 2010 and AICPA ATT 2006, ¶ Table 3-2.*
145 *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03(b)(2)).*
146 *Regulation S-X, ¶ 210.1-02(bb)(ii); FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(g)).*
147 *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.8-03(b)(3)); FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10.01(b)(1)); SEC,* Financial Reporting Manual*, ¶ 2420.8.*
148 *Form 20-F, Item 17(c)(2)(vii); SEC,* Financial Reporting Manual*, ¶ 6540.4.a.*
149 *Regulation S-K, ¶ Item 302(a)(1).*
150 *SEC Staff Accounting Bulletin, Topic 6-G.1.a,* Accounting Series Releases 177 And 286-Relating To Amendments To Form 10-Q, Regulation S-K, and Regulation S-X Regarding Interim Financial Reporting.

IFRSs do not require the presentation of a gross profit caption, although foreseen in the IASB Framework, but requires at least a cost of sales line in an income statement classified by function, or as a note disclosure if the entity elects to illustrate such analysis in the notes.[151] However, IAS 1, IAS 7, IFRS 1, and IFRS 5 show a gross profit caption in the illustrative examples and Implementation Guidance of an income statement classified by function, as typical of this method.[152] One of the permitted statement formats under the EC Fourth European Directive also includes a gross profit aggregate on the face of the income statement.[153]

The SEC Staff clarifies that an entity that excludes depreciation, depletion, and amortization from cost of sales must label it as exclusive of those items separately shown. However, entities must avoid an aggregate of income before depreciation, depletion, and amortization. Consequently, in general, they should not present any gross margin under such circumstances.[154] Furthermore, Subsection 330-10-30-8 (ARB 43), as IAS 2, requires absorption costing for inventories, a method that includes part of depreciation, depletion, and amortization into cost of goods sold.[155]

Example: In its review of the Form 20-F of a French foreign private issuer filing under IFRSs, the SEC Staff was against excluding depreciation and amortization from gross operating margin and placing them in other operating expenses.[156]

Example: The SEC Staff, in its review of Form 20-F of a Danish foreign private issuer for the fiscal year ended December 31, 2005, challenged a presentation of gross profit that set shipping activities apart from depreciation and other expenses, also considering that U.S. GAAP shipping companies usually do not display gross profit in the income statement. The company explained that it supplemented IFRSs with guidance from Danish GAAP and laws that required the presentation of a gross profit exclusive of depreciation.[157]

Under the installment method of accounting for real estate sales, Section 360-20-55 (FASB Statement No. 66) requires either display or note disclosure of deferred gross profit in the

[151] *IAS 1, ¶ 103;* The Conceptual Framework for Financial Reporting 2010*, ¶ 4.28; IASB Framework, ¶ 73.*

[152] *IFRS 1, IG Example 11; IFRS 5,* Non-current Assets Held for Sale and Discontinued Operations*, ¶ IG Example 11; IAS 1, ¶¶ 103, IG6; IAS 7, ¶ IEA3.*

[153] *Fourth Council Directive 78/660/EEC (25 July 1978), Art. 25.*

[154] *FASB ASC 225-10-S99-6 (SEC Staff Accounting Bulletin, Topic 7-D,* Income Before Depreciation*); FASB ASC 225-10-S99-8 (SEC Staff Accounting Bulletin, Topic 11-B,* Depreciation and Depletion Excluded from Cost Of Sales*); SEC, Division of Corporate Finance, Carnall, W., et al., December 2009.* SEC Staff Review of Common Financial Reporting Issues Facing Small Issuers. *SEC (hereinafter Carnall 2009).*

[155] *FASB ASC 330-10-30-30-8 (ARB 43, Ch. 4, ¶ 5); IAS 2,* Inventories*, ¶ 12.*

[156] *SEC IFRS Reviews. Letter by the SEC, February 15, 2007. File No. 001-14712, Comment 1. Reply by the company, March 20, 2007.*

[157] *SEC IFRS Reviews. Letters by the SEC, December 29, 2006 and February 12, 2007. File No. 000-49650, Comment 2. Reply by the company, January 25, 2007.*

period of sale, and separately of recognized gross profit (or revenue and cost of sales) during the years in which profit is earned. Under the cost recovery method, the income statement must separately show unrecognized gross profit in the period of sale, and earned gross profit during the following years.[158]

Approximately 41–42% of the survey U.S. GAAP companies that adopted a single caption to show cost of sales (86% of the population, 89% in 2002) used this term in 2002–2009, 17–18% elected the expression cost of goods sold, 12–13% cost of products sold, 6% cost of revenues, and 19% other captions.[159]

Finally, the *Financial Statement Presentation Project* shows cost of sales, but not necessarily gross profit, in the examples of the operating category of the statement of comprehensive income under a functional classification.[160]

4.5.2.4 Inclusion in Cost of Sales Certain pronouncements have specific requirements regarding inclusion of certain items into cost of sales. Paragraph 4.6.2 goes into detail about elements, presentation, and disclosure of cost of goods sold under a classification of the income statement by function and by nature. U.S. GAAP does not require separate presentation of a provision for anticipated losses on construction contracts, unless material or unusual or infrequent. However, in such a case it is part of cost of sales.[161] Under Subsection 605-45-50-2 (EITF Issue No. 00-10), whether or not to include shipping and handling costs in cost of sales is an accounting policy.[162] Under Subsection 605-50-45-3 (EITF Issue No. 01-9), the cost of a free product or service provided at point of sale of another product or service is part of cost of sales.[163] As it can be hardly distinguished whether inventory markdowns are associated with a business restructuring, they generally go into cost of sales.[164]

4.5.3 Results of Operating Activities

4.5.3.1 Subtotal for Reporting Operating Income The 1997 version of IAS 1 indicated an income statement subtotal for results of (or profit from) operating activities (or profit from operations),[165] a fact that the subsequent version deleted. That aggregate excluded finance costs and a parent's share of equity income in investees accounted for at equity method. However, the illustrative examples in IAS 32 still show profit from operating activities.[166]

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[158] *FASB ASC 360-20-55-10, 360-20-55-14, 976-605-55-13 (FASB Statement No. 66,* Accounting for Sales of Real Estate*, ¶¶ 59, 63, 96).*
[159] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-5.*
[160] *Staff Draft, ¶ IG8.*
[161] *FASB ASC 605-35-45-1 (AICPA Statement of Position No. 81-1,* Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, ¶ 88).*
[162] *FASB ASC 605-45-50-2 (EITF Issue No. 00-10, ¶ 6).*
[163] *FASB ASC 605-50-45-3 (EITF Issue No. 01-9, ¶ 10).*
[164] *FASB ASC 420-10-S99-3 (EITF Issue No. 96-9, Classification of Inventory Markdowns and Other Costs Associated with a Restructuring).*
[165] *IAS 1 (1997),* Presentation of Financial Statements*, ¶¶ 75(b), 80, 82, Appendix A.*
[166] *IAS 32, Financial Instruments: Presentation, ¶¶ IE32, IE33.*

Planning Point: Results of operating activities roughly correspond to income from operations (or operating income) under U.S. GAAP, an item sometimes reported in a multi-step income statement (Paragraph 4.4.2 previously), to distinguish operating items from nonoperating ones. For commercial and industrial companies Subsection 225-10-S99-2 (Regulation S-X) has no intermediate operating income subtotal.[167] It is worth noticing that under U.S. GAAP, "results of operations" is a generic term used as a synonym of net income, not income from operations.[168] However, certain pronouncements sometimes use such a word to mean comprehensive income.[169] *Results of operations* is also the technical meaning of the use of the statement of income and the statement of retained earnings together or their combination in the form of a combined statement of income and retained earnings.[170] IFRSs do not adopt such a term.

4.5.3.2 Practice of Reporting Operating Income A pan-European survey of 2006 IFRS financial statements found extended use of alternative terminology for operating profit, such as *profit/loss from operations*, *result from operating activities*, *profit/loss before financial items*, *operating income*, *income from operations*, *operating result*, *operating earnings*, and *operating income*. Survey companies also called profit or loss for the period *profit (loss) of the period*, *net profit/loss for the year*, *profit for the period*, *net income*, and *income after taxes*.[171]

Comment: IAS 1 discontinued the practice of reporting operating income by not finding a suitable definition of operating activities and pending conclusions of the *Performance Reporting Project* (then renamed *Financial Statement Presentation Project*). However, as indicated in Paragraph 4.5.4, IAS 7 defines operating activities. By contrast, the SEC Staff indicated that operating versus nonoperating nature generally derives from the related activity that is the source of income or expenses.[172] The traditional main argument against presenting operating income is that company may intentionally exclude certain items to achieve a desired result.[173] Similar concerns arise in the case of the SEC prohibition to present a caption of income from continuing operations before restructuring charge (see Paragraph 4.5.6 following). Furthermore, the IASB regarded the notion of operating activities as too discretionary to spell out what it should comprise, also considering that companies would anyway customize subtotals, sometimes under the requirements of national laws.[174] Therefore, IAS 1 chooses not to prohibit an entity from showing this, similar, or other components, provided the company does not make arbitrary exclusions of items that would ordinarily be held as operating, thus detracting from the comparability of financial statements. Compliance with industry practices is not an excuse.[175] U.S. GAAP does not arrive at these extreme consequences, also considering a longstanding practice of multi-step income statement. CON 6 sees operating income as a legitimate intermediate measure of

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[167] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03).*
[168] *For example: FASB ASC 225-10-45-1 (APB 9, ¶¶ 6, 7) and FASB ASC 810-10-10-1 (ARB 51,* Consolidated Financial Statements, *¶ 1).*
[169] *For example, FASB ASC 715-20-50-1 (FASB Statement No. 132(R),* Employers' Disclosures about Pension and Other Postretirement Benefits, *¶ 5).*
[170] *APB 9, ¶ 7; CON 5, ¶¶ 24, 30, 33.*
[171] *Ineum 2008 Survey, ¶¶ 5.1, 5.2.*
[172] *Carnall 2009.*
[173] *IASB Update, December 2002; IFRIC Update, February 2003; IASB Update, November 2004.*
[174] *IASB Update, December 2004.*
[175] *IAS 1, ¶¶ BC55, BC56.*

performance.[176] However, Subtopic 958-225 (FASB Statement No. 117) also reports the difficulty of defining operating activities in a nonarbitrary manner for both business and nonprofit organizations. In order to be able to use an intermediate measure of operations, a not-for-profit organization must show it in a financial statement that at least shows period change in unrestricted net assets. Furthermore, it must disclose the policy concerning such measure of operations in the notes, if this appears not to be obvious from the statement of activities.[177] Paragraph 4.5.4 expands on the difference between operating and nonoperating items.

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that the exclusion of an investment income loss from the 2008 operating profit of an insurance company did not comply with IAS 1. That loss represented the difference between the actual short-term and expected long-term investment returns during the period. The enforcer contended that long- versus short-term returns is not a concept of operating versus nonoperating activities.[178]

4.5.3.3 Pros and Cons This and the following paragraphs discuss the pros and cons of a subtotal for operating income. Firstly, nonoperating items are an initial element that may discriminate income from current operations (or operating income) from profit or loss before tax (or, under U.S. GAAP, income from continuing operations) (see Paragraph 4.5.4 for a discussion). The following paragraph deals with issues related to unusual or infrequent items and non-GAAP measures.

4.5.3.4 The Effect of Unusual or Infrequent Items Secondly, IAS 1 objects to the argument of unusual or infrequent items (see Paragraph 4.5.7 following) being a distinguishing feature between income from current operations or results of operating activities and profit or loss before tax. IAS 1 states inventory write-downs, restructuring and relocation expenses, irregular, infrequent, or unusual items as examples that an entity should not exclude if it shows results of operating activities. The fact the omission conforms to the practice of an industry would be not an acceptable ground.[179]

Planning Point: In a multi-step income statement under U.S. GAAP, unusual or infrequent items are included in income from continuing operations but their location may change depending on companies. They generally follow recurring revenue and expenses, often as the last or one of the last sections of income from continuing operations. They are generally not part of income from operations. This is not always the case. For example, an entity needs not separately present a provision for anticipated losses on construction contracts, unless material or unusual or infrequent. However, in such a case it is part of cost of sales.[180] U.S. practice shows that the boundary between unusual or infrequent items that entities include in operating income and those that they exclude is subjective

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[176] *CON 5, ¶ 77.*

[177] *FASB ASC 958-225-45-10, 958-225-45-12 (FASB Statement No. 117, ¶ 23); FASB Statement No. 117, ¶¶ 65-68, 113, 163, 164; FASB ASC 958-225-55-6 (FASB Statement No. 117, ¶ 167).*

[178] *Committee of European Securities Regulators (CESR), 2010. CESR/10-834,* 8th Extract from EECS's Database of Enforcement, *Paris: CESR, ¶ Decision ref. EECS/0610-12. [Online] CESR. Available at:* www.cesr.eu *[last accessed July 20, 2010].*

[179] *IAS 1, ¶ BC56.*

[180] *FASB ASC 605-35-45-1 (AICPA Statement of Position No. 81-1, ¶ 88).*

and not codified. Conversely, under IFRSs the so-called material items must be part of income from operations or operating income.[181] For the sake of completeness, it is worth mentioning that FASB Interpretation No. 18 uses ordinary income with a specialized meaning relating to income taxes on an interim basis, by adding unusual or infrequent items back to income or loss from continuing operations.[182]

The following examples focus on the debate regarding the exclusion of unusual or infrequent items from subtotals of operating income. They also illustrate that intermediate subtotals may arise from local requirements, as in the case of France and the UK. The Consob (the Italian securities regulator) also required listed companies to disclose material unusual and/or atypical transactions and material nonrecurring transactions and their impact in the notes.[183]

Example: Certain French foreign private issuers informed the SEC Staff, within its review of their Forms 20-F containing financial statements prepared for the first time based on IFRSs, that displaying income from current operations, current results of operating activities, or current operating income was a common practice for French listed companies reporting under EU-IFRSs. Income from current operations differed from results of operating activities because of the exclusion of other operating income and expenses. These items consisted of highly material unusual, abnormal, or infrequent items likely to distort current results. They had to be separately disclosed to assist users in predicting future performance. Such a subtotal was in line with a recommendation issued by the Conseil National de la Compatibilité – CNC (the French standard setting body)[184] and a communication issued on September 20, 2005 by the Autorité des Marchés Financiers – AMF (the French Security Exchange Regulator) to French listed companies. The SEC Staff challenged that the title of the subtotal should not be misleading, the company's policy for defining the excluded items, and that the subtotal had to be clearly set or refer to terms defined at Standards level, so that users would understand the difference with other subtotals, such as gross operating margin and operating income. The SEC Staff maintained that a recurring item (e.g., restructuring costs, employee profit sharing expense, or impairment of goodwill or of long-lived assets) could not be unusual or infrequent. One company sustained that this determination should include an assessment of the materiality of the item and its degree of change across periods. Another point was whether a newly presented item but one that is expected to recur in the future (such as share-based payments) might qualify for exclusion from the subtotal in the year of inception (as opposed to simply disclosure or warning for noncomparability). Finally, an item that is excluded from current operating income in an income statement by nature would not be expected to be attributable to operating income in a functional income statement (e.g., for the U.S. GAAP reconciliation in Form 20-F).[185]

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181 *IAS 1, ¶ BC57.*

182 *FASB ASC 740-270-20 (FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, an interpretation of APN Opinion No. 28, ¶ 5).*

183 *Consob, Comunicazione N. DEM/6064293 dated July 28, 2006.*

184 *Conseil national de la Compatibilité, October 2004.* Recommandation N° 2004-R.02 relative au Format du Compte de Résultat, Tableau des Flux de Trésorerie et Tableau de Variation des Capitaux Propres, des Entreprises sous Référentiel Comptable International*, cited in: Response by the company to the SEC, January 12, 2007. File No. 001-32139, Comment 4. [Online] SEC. Available at: www.sec.gov/divisions/corpfin/ifrs_reviews [last accessed January 7, 2008]; AMF 2006, ¶ 1.3.*

185 *SEC IFRS Reviews. Letters by the SEC, June 8, 2006, July 13, 1006, and August 2, 2006. File No. 001-11130, Comment 1. Reply by the company, June 22, 2006, July 24, 1006, and August 3, 2006. Letters by the SEC, February 15, 2007. File No. 001-14712, Comment 1. Letters by the SEC, September 20, 2006. Comment 2. Reply by the company, March 20, 2007 and October 20, 2006. Letters by the SEC, December 29, 2006. File No. 1-15218, Comment 4.*

4.5.3.5 The Impact on Non-GAAP Measures Much of the argument against reporting a subtotal for results of operating activities is related to the so-called "non-GAAP measures".

> **Comment:** Unlike SEC guidance, IFRSs has no detailed guidance on non-GAAP measures. On one hand, IAS 1 requires additional disclosures when IFRS requirements are insufficient to provide an understanding of the impact of transactions and events on the accounts.[186] On the other hand, IAS 1 does not require but permits the disclosure of results of operating activities or a similar line item, provided that operating items are not excluded even if irregular, infrequent, unusual, or noncash items.[187] The SEC Staff interprets this flexibility in IFRSs restrictively for foreign private issuers, in the sense that IFRS would not preclude additional captions and subtotals that are not non-GAAP measures, provided they are consistent with IFRSs, not misleading or inconsistent with IAS 1, and their purpose and usefulness are justified.[188]

With specific reference to the separate segregation of exceptional items under UK GAAP, in a meeting of the AICPA International Practices Task Force[189] the SEC Staff indicated that it would require the following disclosures. The entity must explain the nature of the excluded items and their exceptional nature. The U.S. GAAP note must present a condensed income statement under either UK GAAP or U.S. GAAP, with level of detail as per Rule 10-01 of Regulation S-X. If that reformatted statement follows U.S. GAAP, the audited financial statements must include the most directly comparable U.S. GAAP financial measure and a reconciliation of the differences. However, in a subsequent meeting, the SEC Staff indicated that the approach to such disclosures should not be assumed to be applicable for companies adopting IFRSs.[190]

Under Regulation S-K, a non-GAAP measure required or expressly permitted by the foreign standard setter that establishes GAAP used in the registrant's primary financial statements filed with the SEC is exempt from the prohibition on non-GAAP measures.[191] If that measure is exempt, the registrant must state this fact and explain in its audited financial statements why such a measure provides useful information to investors and any additional purposes for its use. Entities cannot present measures not expressly permitted on the face of the financial statements.[192] By contrast, the French Autorité des Marchés Financiers allows an entity to present non-GAAP measures on the face of the statement provided it gives appropriate titles used consistently throughout the financial statements, complemented by explanation in the notes, and facilitates reconciliation with segment reporting.[193]

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[186] *IAS 1, ¶ 17(c).*
[187] *IAS 1, ¶¶ BC55–BC56.*
[188] *IPTF November 22, 2005.*
[189] *AICPA, 2003.* AICPA International Practices Task Force Meeting Highlights, November 25, 2003, *Washington, DC, AICPA, ¶ 8. [Online] AICPA. Available at:* www.aicpa.org *[last accessed December 24, 2006] (hereinafter IPTF, November 25, 2003).*
[190] *IPTF, September 27, 2004, ¶ 4(b).*
[191] *Regulation S-K, ¶ 229.10(e)(5).*
[192] *Regulation S-K, ¶¶ 229.10(e)(ii)(C), 229.10(e)(5); U.S. Securities and Exchange Commission Staff, June 13, 2003.* Frequently Asked Questions Regarding the Use of Non-GAAP Financial Measures, *Washington, DC: SEC, ¶ Question 28 (hereinafter SEC FAQ on Non-GAAP).*
[193] *AMF 2006, ¶ 1.2.*

Comment: Even though IAS 1 allows additional items and subtotals, it does not permit keeping an operating item out of results of operating activities or a similar subtotal. This turns that subtotal into a measure not expressly permitted by IFRSs and therefore it becomes a non-GAAP measure for the purpose of SEC filings.

Example: A British foreign private issuers informed the SEC Staff, within its review of the Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, that UK GAAP required an aggregate for operating income. It invoked the concession under IAS 8 to use GAAPs based on conceptual framework similar to the IASB Framework in selecting accounting policies when specific IFRSs guidance is missing. However, in that case, a subtotal for operating profit before restructuring charge and before U.S. regulatory settlement did not qualify as an expressly permitted measure under IFRSs.[194]

Example: A British foreign private issuers contended to the SEC Staff that IAS 1 places this regulation against splitting results of operating in its Basis for Conclusion. Therefore such directions should not override the disaggregation guidance of IAS 1,[195] at least to the extent that an intermediate subtotal is relevant to an understanding of an entity's financial performance and its title is clear and does not overlap with operating income.[196] In other situations, certain foreign private issuers had to amend the title of intermediate operating income subtotals.[197] However, in response to a New Zeeland foreign private issuer the SEC Staff interpreted the Basis for Conclusion of IAS 1 literally in asserting that the mere fact of excluding operating items from the results of operating activities would be misleading and would undermine comparability.[198]

4.5.3.6 Exclusion of Depreciation and Amortization The same treatment explained above applies to subtotals that exclude depreciation and amortization under UK GAAP in an income statement classified by nature. However, aside from this case, the SEC Staff clarified that it would object to the exclusion of depreciation, amortization, changes in estimates of accrued liabilities, or other recurring items from profit from operating activities under IFRSs. A caption for operating income before these items or for operating income before amortization and taxes is not acceptable.[199] Moreover, the SEC Staff clarified that under U.S. GAAP and IFRSs a subtotal cannot exclude depreciation and depletion in an income statement classified by function, also because this would place too much emphasis on cash flow.[200] Paragraph 4.6.2 following explains the labeling of cost of sales that excludes depreciation, depletion and amortization. IAS 1 also objects to the exclusion of depreciation and amortization from

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[194] *SEC IFRS Reviews. Letters by the SEC, September 26, 2006 and January 9, 2007. File No. 1-13908, Comment 1 and Comment 5. Reply by the company, October 20, 2006 and January 24, 2007.*
[195] *IAS 1, ¶¶ 85, 86.*
[196] *SEC IFRS Reviews. Reply by the company to the SEC, February 2, 2007. File No. 001-14958, Comment 2.*
[197] *For example, SEC IFRS Reviews, reply by the company to the SEC, June 13, 2007. File No. 001-31368, Comment 2.*
[198] *SEC IFRS Reviews. Letter by the SEC, May 2, 2007. File No. 1-10798, Comment 1.*
[199] *SEC, International, November 1, 2004, ¶ Appendix B,* Income Statement and Balance Sheet Presentation.
[200] *FASB ASC 225-10-S99-6 (SEC Staff Accounting Bulletin, Topic 7-D); FASB ASC 225-10-S99-8 (SEC Staff Accounting Bulletin, Topic 11-B); IPTF, November 25, 2003, ¶ 8.*

a total of results of operating activities, if presented. When a functional classification is used, it requires note disclosure of depreciation and amortization, as well as employee benefits expense.[201] Subsection 360-10-50-1 (APB 12) requires either presentation or disclosure of total depreciation expense for the period.[202]

4.5.3.7 New Developments The *Financial Statement Presentation Project* proposes to present operating activities separately from investing activities within the business section of the financial statements. In particular, the statement of comprehensive income would report a subtotal for income from operating activities, renamed in the Staff Draft to indicate that it comes before operating finance activities. When added to income from investing activities, it would give income from business activities, to differentiate from income from financing activities. The Staff Draft proposes a definition and examples of operating activities.[203] The Project has been long discussing the distinction between operating activities and financial activities on the face of the financial statements and whether or not and which of these sections should prevail over the other. This would parallel the finance theory whereby operating decisions generally disconnect from financing decisions and would assist users in a better understanding of the capital structure and the associate cost of the capital of a company. A principle initially emerging as part of the Project was that a performance statement should make it possible to distinguish the return on total capital employed from the return on equity.[204]

4.5.4 Operating Income versus Other Revenue and Expenses

4.5.4.1 Items that are Not Operating Under a U.S. GAAP multi-step or a two-step income statement (Paragraph 4.4.2 previously), items that are presented below operating income may comprise certain other expenses and other revenues. They may consist of gains and losses, often in a separate section (see Paragraph 4.5.5 following), other income and expenses, often including equity income in investees, dividend income and interest income and charges (treated in Paragraph 4.5.8 following). CON 6 also distinguishes gains and losses depending on their operating (e.g., write-downs to lower-of-cost-or-market value) or nonoperating nature (e.g., casualty losses).[205] Paragraph 4.5.6 following treats business restructuring charges in particular.

4.5.4.2 The Concept of Operating Activities IAS 1 does not define operating activities.[206] IAS 7 defines them both affirmatively as principal revenue-producing activities and, residually, as activities that are neither investing nor financial.[207] Under U.S. GAAP, FASB Statement No. 117 also reports on the difficulty in defining operating activities in a nonarbitrary manner for both business and nonprofit organizations. However, it acknowledges that business enterprises may distinguish nonoperating from operating items on the face of the income statement. Subsection 932-360-40-4 (FASB Statement No. 19) for oil and gas companies

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[201] *IAS 1, ¶¶ 104, BC56.*
[202] *FASB ASC 360-10-50-1 (APB 12,* Omnibus Opinion – 1967*, ¶ 5).*
[203] *DP on Presentation, ¶¶ S4(a), 2.19(a), 2.50(b); Staff Draft, ¶¶ 71, 73, 150.*
[204] *FASB Task Force on Financial Performance Reporting by Business Enterprises, Discussion Paper,* Classification of Items of Comprehensive Income*, page 10 (June 2002)) Available at: www.fasb.org [last accessed June 21, 2007].*
[205] *CON 6, ¶ 86.*
[206] *IAS 1, ¶ BC55.*
[207] *IAS 7, ¶¶ 6, 14.*

distinguishes between an operating interest (that carries operating rights and responsibility) and a nonoperating interest.[208] The SEC Staff indicated that the determination of operating versus nonoperating nature generally derives from the activity that is source of the income or expenses.[209]

Comment: A not-for-profit organization may devise several classifications and aggregations on the face of the statement of activities. However, in order to be able to use an intermediate measure of operations, an entity must display it in a financial statement that at least shows period change in unrestricted net assets. Furthermore, it must disclose the policy concerning such measure of operations in the notes, if not obvious from the statement of activities. For nonprofit organizations, intermediate classifications may have several meanings.[210] For example, investment returns may discriminate operating and nonoperating nature based on realization, budgetary designations, whether arising from trading or other securities, or other keys.[211]

4.5.4.3 The Hybrid Nature of Other Expenses and Other Income There is a basic misunderstanding on other expenses and other income.

Planning Point: A company may be tempted to set criteria to enucleate operating items on noncore, nonrecurring, noncash, or other basis. This would find easy opposition from standard-setters and regulators. In particular, as explained in Paragraph 4.5.3, under IFRSs an entity that opts for presenting results from operating activities must be sure that no items that would ordinarily be considered operating are excluded from that subtotal. That company must have a strong justification for such aggregate, including an accounting policy and a nonmisleading title for that subtotal. Typically, as explained in that paragraph, it would be difficult to justify why some operating items do not fall into operating income and are instead included in other revenues or other expenses. Paragraph 4.5.3 previously cites some examples.

A second criterion may focus on a distinction between operating and other operating activities that is to a large extent derived from the definition of gains and losses, which are incidental to an entity's principal operations, although their classification may vary. Paragraph 4.5.5 following expands on this.

Thirdly, a U.S. GAAP income statement often includes a caption for other revenues and gains. This generally includes interest and dividend income, equity income in equity method investees, and gains on sales or disposal of fixed assets. Those items are generally nonoperating items, although not always. Similarly but not explicitly, IAS 7 connotes investment income as a nonoperating item.[212]

Finally, other income sometimes means other revenues (especially under IFRSs). As there is a basic difference between revenue and gains (see Paragraph 4.5.5 following), this expression may be confusing.

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[208] *FASB ASC 932-360-40-4 (FASB Statement No. 19, ¶ 42).*

[209] *Carnall 2009.*

[210] *FASB ASC 958-225-45-10, 958-225-45-12 (FASB Statement No. 117, ¶ 23); FASB Statement No. 117, ¶¶ 65-68, 113, 105, 116-117; FASB ASC 958-225-55-2 (FASB Statement No. 117, ¶ 118); FASB Statement No. 117, ¶¶ 163-166; FASB ASC 958-225-55-6 (FASB Statement No. 117, ¶ 167).*

[211] *FASB ASC 958-320-55-5 (FASB Statement No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, ¶ 102).*

[212] *IAS 7,* Statement of Cash Flows*, ¶ IE.D.*

For example, although IAS 1 does not require subtotals in the structure of the statements of income, it reports an "other income" caption in several examples. The standard does not clarify the nature of this heading. It shows it below revenues in an income statement classification by nature (see Paragraph 4.6.1), while after gross profit and before operating expenses in a classification by function.[213] Therefore, this item appears to refer to other operating revenues as opposed to nonoperating income. However, IFRS 1 illustrates changes in value of financial assets carries at fair value through profit or loss in that caption.[214] IAS 20 also acknowledges such a heading.[215] By contrast, Subsection 225-10-S99-2 (Regulation S-X) is clearer regarding commercial and industrial companies. They include operating revenues in the net sales and gross revenue caption. They report operating expenses attributable to those revenues into a revenue-related cost and expenses caption. A specific caption collects any other operating costs and expenses not included there. Ideally, its location is after gross profit. However, nonoperating income and nonoperating expenses are separate captions.[216]

4.5.4.4 Income in Equity Method Investees Income in equity method investees is a specific case.

Planning Point: U.S. GAAP practice generally includes income in equity method investees into income from continuing operations, but after income from operations, if presented. It is often part of the other income and expenses section. Subsection 225-10-S99-2 (Regulation S-X)[217] presents this item after income from continuing operations before tax, but permits alternative locations. Bank holding companies show it in other income.[118] The SEC Staff took the view that in the circumstances in which an investor regards an equity investee as integral to its operations, it could include this line within operating income.[219] The *AICPA Accounting Trends & Techniques* indicates that in 2005 the survey U.S. GAAP companies reported equity income in investees within gains in 148 cases and within losses in 28 occurrences. In 39 episodes, companies reported this item after income from continuing operations.[220] IAS 1 requires a specific line item for equity income in investees (associates and joint ventures).[221] IAS 1 (1993) included it in profit or loss before tax. The Implementation Guidance of IAS 1 and IFRS 5 shows share of profit of associates located after finance costs.[222] IAS 7 connotes investment income as a nonoperating item.[223] *IFRS Accounting Trends & Techniques* illustrates that certain companies use such a classification.[224] However, it also reports on a British company that

[213] *IAS 1, ¶¶ 102, 103, IG6.*
[214] *IFRS 1, ¶ IG63.*
[215] *IAS 20, ¶ 29.*
[216] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03(b)(1); 210.5-03(b)(2); 210.5-03(b)(3); 210.5-03(b)(7); 210.5-03(b)(9)).*
[217] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03.12).*
[218] *FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04.13(f)).*
[219] *AICPA, SEC Regulations Committee, 2003*. Joint Meeting with SEC Staff, March 11, 2003. *Washington, DC, AICPA, ¶ XI.B. Available at: www.aicpa.org [last accessed July 9, 2010] (hereinafter SEC Regulations Committee, March 11, 2003).*
[220] *AICPA ATT 2006, ¶¶ Tables 3-4, 3-7, 3-17.*
[221] *IAS 1, ¶ 82(c).*
[222] *IFRS 5, Example 11; IAS 1, ¶ IG6.*
[223] *IAS 7, ¶ IE.D.*
[224] *AICPA IFRS ATT 2009, ¶¶ 3.154, 3.226, 3.227, 3.252, 3.253.*

classifies equity earnings from investees within total revenues in an income statement by nature and of two British companies and a French company that report this item before operating profit. Another company reports it after operating income but before finance costs.[225] This classification dilemma does not arise for jointly controlled entities accounted for at proportionate consolidation method. Notably, income statement classification is a remarkable factor in the push of many multinational companies to maintain proportionate consolidation as an alternative to the equity method under IFRSs, as the former method increases consolidated operating margins.

4.5.4.5 Items for which Presentation Outside Operating Income is Prohibited Certain accounting pronouncements list certain items for which they prohibit presentation outside operating income. Under U.S. GAAP, impairment losses of held and used long-lived assets or asset groups are part of income from continuing operations (and of income from operations, if presented). Note disclosure is an option. Impairment losses and gains or losses on disposal of held-for-sale long-lived assets or disposal groups are also subject to the same presentation requirement, unless related to assets or disposal groups that give rise to discontinued operations. Here, note disclosure is not an option.[226] Rather, Rule 5-03 of Regulation S-X does not require separate presentation of other impairment losses. Subsection 605-10-S99-1 (SAB 13-B) reports a gain or loss on sale of assets in the Other general expenses caption.[227] Regulation S-X requires real estate investment trusts to present an aggregate for income or loss before gain or loss on sale of properties, extraordinary items and cumulative effects of accounting changes and, separately, gain or loss on sale of properties (net of taxes). These two lines are between income after discontinued operations and extraordinary items. Therefore, gains or losses on disposal not arising from discontinued operations come after income from discontinued operations.[228] IFRS 5 expands this inclusion into continuing operations to any gain or loss on the remeasurement on held-for-sale assets or disposal groups and adjustment of an asset that loses its status as held for sale, but it does not mention separate presentation or disclosure.[229] In describing gains and losses on disposal of noncurrent assets, IAS 1 refers to both operating and investment assets.[230] *IFRS Accounting Trends & Techniques* shows examples of companies that, depending on the items, report gains or losses on disposal of property, plant, and equipment or intangible assets as operating items,[231] as well as companies that show them after operating income.[232] Approximately 37% of European survey companies included gains or losses on disposal of assets as a separate item in their 2006 income statements and around 17% did so for impairment charges.[233]

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[225] *AICPA IFRS ATT 2009, ¶¶ 3.26, 3.155, 3.157, 3.224, 3.229.*

[226] *FASB ASC 360-10-45-4, 360-10-45-5, 360-10-50-2 (FASB Statement No. 144,* Accounting for the Impairment or Disposal of Long-Lived Assets, *¶¶ 25, 26, 45); FASB Statement No. 144, ¶ B116.*

[227] *FASB ASC 605-10-S99-1 (SEC Staff Accounting Bulletin, Topic 13-B,* Revenue Recognition Disclosures, *¶ Footnote 68).*

[228] *FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(1)); SEC,* Financial Reporting Manual, *¶ 2355.1.*

[229] *IFRS 5, ¶¶ 28, 37.*

[230] *IAS 1, ¶ 34(a).*

[231] *AICPA IFRS ATT 2009, ¶¶ 3.316, 3.317.*

[232] *AICPA IFRS ATT 2009, ¶¶ 3.314, 3.315.*

[233] *Ineum 2008 Survey, ¶ Table 37.*

> **Example:** In a different situation, the SEC Staff, in its review of its Form 20-F for the fiscal year ended December 31, 2005 of an Italian foreign private issuer, rejected the classification of an impairment of a consolidated subsidiary as a financial item, on the basis that IAS 32 and IAS 39 scope out interests in subsidiaries. However, it stated that it would not object to a classification outside of an operating income subtotal.[234]

Under U.S. GAAP, separate presentation of costs associated with an exit or disposal activity but unrelated to discontinued operations is possible, but not as extraordinary items. They must be included in income from operations, if presented.[235] Entities must separately present amortization and impairment losses of intangible assets within continuing operations. Impairment of goodwill not associated with discontinued operations also goes within income from continuing operations and operating income, if presented.[236] IAS 1 prior to the 2007 revision required separate presentation of an impairment of property, plant, and equipment in a by-nature classification, while it showed it within the appropriate functions in a functional classification.[237] Under U.S. GAAP, operating income must report environmental remediation costs and related recoveries from third parties.[238] Under Subtopic 410-20 (FASB Statement No. 143), an entity must classify accretion expense on an asset retirement obligation as a separate operating item, and not as interest expense as this does not come from a financing transaction.[239] Under Subsection 718-10-25-23 (EITF Topic D-83), payroll taxes relating to stock option exercise are operating expenses.[240] Under Subsection 980-10-S99-1 (SAB 10-D), a utility company must include the cost of power obtained under long-term purchase contracts with public utility districts, cooperatives, or other organizations as part of operating expenses.[241] The annual fee imposed on pharmaceutical manufacturers by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act is an operating expense.[242] U.S. GAAP requires that insurance companies either disclose or separately present realized gains and losses on unhedged investments in other income within operating income.[243]

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[234] *SEC IFRS Reviews. Letter by the SEC February 6, 2007. File No. 333-12334, Comment 1.*

[235] *FASC ASC 420-10-45-2, 420-10-45-3 (FASB Statement No. 146,* Accounting for Costs Associated with Exit or Disposal Activities*, ¶¶ 18, B53).*

[236] *FASB ASC 350-30-45-2, 350-20-45-5 (FASB Statement No. 142,* Goodwill and Other Intangible Assets*, ¶¶ 42, 43); FASB Statement No. 142, ¶¶ B183, B184.*

[237] *IAS 1 (2005), ¶ IG 4.*

[238] *FASB ASC 410-30-45-4 (AICPA Statement of Position No. 96-1,* Environmental Remediation Liabilities*, ¶ 149); EITF Issue No. 01-13,* Income Statement Display of Business Interruption Insurance Recoveries*, ¶ 3.*

[239] *FASB ASC 410-20-45-1, 410-20-35-5 (FASB Statement No. 143,* Accounting for Asset Retirement Obligations*, ¶ 14); FASB Statement No. 143, ¶ B57.*

[240] *FASB ASC 718-10-25-23 (EITF Topic No. D-83,* Accounting for Payroll Taxes Associated with Stock Option Exercises*).*

[241] *FASB ASC 980-10-S99-1 (SEC Staff Accounting Bulletin, Topic 10-D,* Long-Term Contracts For Purchase Of Electric Power*).*

[242] *FASB ASC 720-50-45-1 (FASB Accounting Standards Update No. 2010-27,* Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers*, ¶ 2.*

[243] *FASB ASC 944-310-45-1, 944-310-45-2 (FASB Statement No. 60, ¶ 50); FASB Statement No. 97, ¶¶ 28, 73, 74.*

4.5.4.6 Items for which Presentation in Other Income or Expenses is Permitted In other situations, accounting pronouncements permit the display of certain items in other income or expenses. Insurance companies classify depreciation and other real estate operating costs as expenses of investment or operating nature depending on the categorization of related real estate.[244] Air carriers must report Federal assistance received as direct compensation under the Air Transportation Safety and System Stabilization Act, enacted because of the September 11, 2001 terrorist attacks, as a line in other nonoperating income or as a credit in operating expenses other than cost of sales.[245] A separate item of other income or expense must report the net capitalization during a period or the net capitalized allowable costs recovered in the period under phase-in plans.[246] Other income or a reduction of interest expense reflects the financing cost capitalized for rate-making purposes by regulated enterprises in a specific item.[247] An entity classifies litigation settlements as operating or nonoperating depending on the nature of the underlying activity.[248] Paragraph 4.5.6 treats business restructuring charges in particular. Finally, for those nonprofit organizations that separate investment return into operating and nonoperating components, Subtopic 958-320 (FASB Statement No. 124) requires reconciliation to overall return as well as information on the related policy.[249]

4.5.5 Gains and Losses

4.5.5.1 Whether Gains and Losses are Elements of the Financial Statements The IASB Framework includes gains and losses into the notion of income and expenses, respectively, and not as separate elements of financial statements because it considers them as not being different in nature. IAS 1 concurs in assimilating gains and losses to income and expenses.[250] By contrast, CON 5 considers gains and losses as two specific elements of financial statements.[251]

> **Comment:** Of course, the term "loss" also refers to the bottom line of the income statement, i.e., profit or loss or net income or net loss.[252]

4.5.5.2 Relationship with the Ordinary Activities Under the IASB Framework, the relationship with the ordinary activities of an entity is not a definition element of gains and losses.

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[244] *FASB ASC 944-360-45-2 (FASB Statement No. 60, ¶ 52).*
[245] *EITF Issue No. 01-10,* Accounting for the Impact of the Terrorist Attacks of September 11, 2001*, ¶ 17.*
[246] *FASB ASC 980-340-45-1 (FASB Statement No. 92,* Regulated Enterprises – Accounting for Phase-in Plans, an amendment of FASB Statement No. 71*, ¶ 10).*
[247] *FASB ASC 980-835-45-1 (FASB Statement No. 71,* Accounting for the Effects of Certain Types of Regulation*, ¶ 15).*
[248] *Carnall 2009.*
[249] *FASB ASC 958-320-50-1, 958-320-55-7 (FASB Statement No. 124, ¶¶ 14.b, 100–103).*
[250] *IAS 1, ¶¶ 9, 109;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.30, 4.34; IASB Framework, ¶¶ 75,79.*
[251] *CON 5, ¶ 1.*
[252] *The Conceptual Framework for Financial Reporting 2010, ¶ 4.60; IASB Framework, ¶ 105.*

Somewhat differently, IFRSs connote them as incidental to the main revenue-generating activities.[253] Likewise, the U.S. Concepts regard gains and losses as arising from incidental or peripheral transactions or from events and circumstances that are beyond the control of the entity. It further distinguishes them based on sources, i.e., whether they arise from exchanges with third parties (e.g., disposal of assets), nonreciprocal transfers (e.g., fines), changes in prices of held assets or liabilities (e.g., write down to lower-of-cost-or-market value), or other external events (e.g., a natural disaster). Finally, they may be operating or nonoperating in nature (e.g., casualty losses).[254]

4.5.5.3 The Roles of Realizability and Earning Process The IASB Framework does not associate gains and losses with the concept of realizability or earning process at a different grade than for revenues and expenses, although most of the unrealized profits reported in other comprehensive income are gains or losses.[255] CON 5 notes that the earning process is less relevant for gains than for revenues.[256] It adds that items of other comprehensive income and cumulative accounting adjustments (i.e., cumulative effect of a change in accounting policy) are gains or losses.[257]

4.5.5.4 Net Reporting Both the IASB Framework and CON 6 regard reporting gains or losses net of associated expenses as adequate.[258] Subtopic 958-225-45 (FASB Statement No. 117) permits not-for-profit organizations to report gains or losses net. A not-for-profit organization must report gross amounts of revenues and expenses from special events and other fund-raising activities if they are ongoing major or central activities, while it can report net amounts if they are peripheral or incidental activities.[259] IAS 1 theorizes two specific situations in which offsetting is suitable. The first case is when a gain or loss net of related expenses is the outcome of a single transaction, such as for gains or losses on disposal of assets: showing related expenses separately would not reflect the substance of the transaction. Gain or loss on reimbursement under a warranty agreement net of related expenditures is another example. The second type is the condensation of individually immaterial like transactions, such as foreign currency transaction gains or losses, or gains or losses on the same class of financial instruments. This is a simplified accounting treatment.[260] However, there are certain exceptions to net reporting of gains and losses.[261]

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[253] *IAS 1, ¶ 34; IAS 18, ¶ Objective;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.30, 4.34; IASB Framework, ¶¶ 75,79.*

[254] *CON 5, ¶ 38; CON 6, ¶¶ 82–87, 217–218.*

[255] *IAS 1, ¶¶ 7, 93;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.31, 4.35, 4.63; IASB Framework, ¶¶ 76, 80, 108.*

[256] *CON 5, ¶ 83.b.*

[257] *CON 5, ¶¶ 42, 43, Footnote 41.*

[258] *CON 6, ¶ 87;* The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.31, 4.35; IASB Framework, ¶¶ 76, 80.*

[259] *FASB ASC 958-225-45-14, 958-225-45-15, 958-225-45-17 (FASB Statement No. 117, ¶¶ 24, 25, 138); AICPA Audit and Accounting Guide,* Not-for-Profit Organizations, *(NPO) ¶ 13.21.*

[260] *IAS 1, ¶¶ 34, 35; IAS 16,* Property, Plant and Equipment, *¶ 71; IAS 38,* Intangible Assets, *¶ 113; IAS 40,* Investment Property, *¶ 69.*

[261] *An example is the treatment of realized gains and losses on physically settled derivative contracts (EITF Issue No. 03-11, Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3).*

> **Comment:** Paragraph 4.5.8 elucidates the prohibition against netting interest expenses and interest revenue. Conversely, IFRS 7 requires presentation or note disclosures of net gains or net losses for each measuring category of financial assets and financial liabilities, respectively.[262] IFRS 7 requires other disclosures of gains and losses.

4.5.5.5 Main Items The *AICPA Accounting Trends & Techniques* indicates the main items most frequently included in gains by U.S. GAAP companies in 2002–2009 are interest income for about one third of the occurrences (29% in 2009), gains on sale of assets for about 20% (14% in 2009), and equity income in investees for approximately 10%–13%. In 2009 changes in value of derivatives account for 18% of gains. The remainder includes gains on foreign currency transactions, changes in liability accruals, dividend income, royalty, franchise and license fees, litigation settlement, insurance recoveries, rentals, and debt extinguishment. Surprisingly, amortization is the most frequent item included in the loss section. Other items of losses include restructuring of operations, write-downs, foreign currency transactions, debt extinguishment, sales of assets, impairment of intangibles, litigation settlements, change in fair value of derivatives, and other items.[263]

4.5.5.6 Location of Gains and Losses The location of gains and losses is undefined and often confusion.

> **Planning Point:** Current IAS 1 does not specify the location of gains and losses.[264] However, IAS 1 (1993) did not list gains and losses among the items excluded from operating activities. Thus, results of operating activities were arguably after gains and losses. Under U.S. GAAP, income from operations, when reported, generally comes before gains and losses. If this aggregate is not shown, gains and losses may have a separate section or be mixed together with other revenues and other expenses. There are exceptions, though. For example, Paragraph 4.5.4 mentions the mixed classification of gains and losses on disposal of long-lived assets. However, practice is quite diverse.

4.5.5.7 Separate Presentation The IASB and the U.S. conceptual frameworks consider the distinction between gains and losses and income (revenues, under CON 6) and expenses in the statement of comprehensive income as customary and positive for decision-making, whether per categories or condensed. The IASB Framework highlights the utility of separate presentation of gains and losses.[265] IAS 1 requires separate presentation of material gains or losses.[266]

After the elimination of the tainting rules of IAS 39 for held-to-maturity financial instruments by IFRS 9, IAS 1 specifically requires separate display of gains or losses on derecognition

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[262] *IFRS 7, ¶¶ 20(a), BC33.*
[263] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Tables 3-4 and 3-7.*
[264] *IAS 1, ¶ 9(d).*
[265] *CON 6, ¶¶ 64, 89;* The Conceptual Framework for Financial Reporting 2010, *¶¶ 4.31, 4.35; IASB Framework, ¶¶ 76, 80.*
[266] *IAS 1, ¶ 35.*

of financial assets carried at amortized cost, and those arising from the reclassification of a financial asset to the fair value model.[267]

> **Planning Point:** IAS 1 shows them as specific line items. Therefore, although IAS 1 leaves an entity free to determine headings, subheadings and line items, they are not part of the finance costs item of a statement of income. This may not be obvious. However, this would not prevent a subtotal for finance results that includes these items and finance costs, provided the single lines appear in the statement.

Under IFRSs, an entity must also separately present gains or losses on remeasurement of a puttable instrument that are significant in explaining performance.[268]

> **Comment:** IFRSs do not clarify whether or not these gains and losses are included in the finance costs item of a statement of income.

IAS 16 and IAS 38 mandate that a gain or loss on derecognition of a tangible or intangible asset must be distinguished from revenue: in fact, the recurrence features and the cash flow projection implications of gains differ from those of revenue. However, unlike Subsection 605-10-S99-1 (SAB 13-B),[269] these standards do not command separate display.[270] In accounting for hyperinflation, IAS 29 prescribes separate disclosure of gain or loss on the net monetary position, although it does not indicate its location in a statement of income.[271] Under IFRIC 19, an entity separately presents in the statement of comprehensive income or discloses in the notes a gain or loss from extinguishing a financial liability, or a part thereof, with equity instruments.[272]

U.S. GAAP recommends separate identification of certain gains or losses in the income statement, such as for example a substantial and unusual lower-of-cost-or-market loss.[273] Under certain circumstances, it requires separate display of a material accrued net loss on firm, uncanceled, and unhedged purchase commitments,[274] and a gain or loss on early extinguishment of debt that is not classified as an extraordinary item.[275] In other occasions, either presentation in the income statement or disclosure in the notes is possible, such as for example for foreign currency transaction gains and losses,[276] and realized gains and losses on unhedged investments for insurance companies.[277] Exhibits of Paragraph 4.7 following report the list of items that must be presented on the face of the statement of comprehensive income and

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[267] *IFRS 9,* Financial Instruments*, ¶ BC52; IAS 1, ¶¶ 82(aa), 82(ca).*
[268] *IAS 32, ¶ 41.*
[269] *FASB ASC 605-10-S99-1 (SEC Staff Accounting Bulletin, Topic 13-B, ¶ Footnote 68).*
[270] *IAS 16, ¶¶ 68, BC35; IAS 38, ¶ 113.*
[271] *IAS 29, ¶ 9.*
[272] *IFRIC 19, Financial Reporting in Hyperinflationary Economies, ¶¶ 11, BC32.*
[273] *FASB ASC 330-10-50-2 (ARB 43, Ch. 4,* Restatement and Revision of Accounting Research Bulletins, Inventory Pricing*, ¶ 14).*
[274] *FASB ASC 330-10-35-17 (ARB 43, Ch. 4, ¶ 17).*
[275] *FASB ASC 470-50-40-2 (APB 26,* Early Extinguishment of Debt*, ¶ 20).*
[276] *FASB ASC 830-20-45-1 (FASB Statement No. 52,* Foreign Currency Translation*, ¶ 30).*
[277] *FASB ASC 944-310-45-1 (FASB Statement No. 60, ¶ 50); FASB Statement No. 97, ¶¶ 28, 73, 74.*

those that may also be disclosed in the notes. show that U.S. GAAP and SEC guidance have stricter presentation requirements of gains and losses, including realized versus unrealized components, for investment companies than IFRSs.

> **Comment:** The statement of comprehensive income generally separately presents components of other comprehensive income. Above Exhibits also list them in detail.

Paragraph 4.5.4 previously explains the location of gain or loss on sale of property for real estate investment trusts under Regulation S-X.

4.5.6 Business Restructuring Charges

U.S. GAAP does not prescribe a specific format to show restructuring gains or losses. Companies should consider the most appropriate mode in line with Subtopic 225-20-45 (APB 30). Occurrences of restructuring charges may comprise gains or losses on sale of equipment, write-downs of assets, employee severance costs, and relocation of facilities.[278] Under FASB Statement No. 144, impairment losses, gains or losses on disposal of held-for-sale long-lived assets that are unrelated to a component of the entity (hence, would not give rise to discontinued operations) are part of income from continuing operations (and of income from operations, if presented), irrespective of whether or not they are restructuring charges.[279] Under Subsection 360-10-45-5 (FASB Statement No. 146), the costs of an exit plan fall into income from continuing operations. Separate presentation of costs associated with an exit or disposal activity is possible, but not as extraordinary items.[280] As it can be hardly distinguished whether inventory markdowns are associated with a business restructuring, they generally go into cost of sales.[281]

Public companies should report restructuring charges that are not part of discontinued operations into income from continuing operations. SAB 5-P.3, then amended by SAB 100, argued that public companies could not display an aggregate of income from operations before restructuring charge. In fact, an intermediate subtotal between income from continuing operations and discontinuing operations is prohibited. An entity must display them separately if material. Although the specific classification within income from continuing operations depends on circumstances, it considered them as operating items insofar as they are related to activities that produce operating income and expenses. It asserted that under a two-step format of income statement, classification in operating income or other income and expenses depended on which of the two have included the revenues and expenses related to the activities that originated those gains or losses. Gains or losses on disposal of assets or portions of a business segment, when not an integral part of the restructuring, are not considered to be restructuring charges, as this term was used in SAB 5-P.3.[282]

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[278] *EITF Issue No. 86-22,* Display of Business Restructuring Provisions in the Income Statement.

[279] *FASB ASC 360-10-45-5 (FASB Statement No. 144, ¶ 45); FASB Statement No. 144, ¶ B116.*

[280] *FASB ASC 420-10-45-3 (Statement No. 146, ¶¶ 18, B53).*

[281] *FASB ASC 420-10-S99-3 (EITF Issue No. 96-9).*

[282] *EITF Issue No. 86-22; EITF Issue No. 87-4,* Restructurings of Operations: Implications of SEC Staff Accounting Bulletin No. 67*; FASB ASC 420-10-S99-2 (SEC Staff Accounting Bulletin, Topic 5-P.3, amended by SEC Staff Accounting Bulletin No. 100).*

IAS 1 specifically mentions restructuring charges as material items that warrant either separate presentation or note disclosure.[283] However, only approximately 12% of European survey companies included restructuring or reorganization costs as a separate item in their 2006 income statements.[284]

> **Example:** In response to the SEC Staff's review of its Form 20-F for the year ended December 31, 2005, a French foreign private issuer filing under IFRSs explained that it chose to show a specific line for restructuring charges because of their materiality in the context of a crisis of the telecom market.[285]

The Basis for Conclusions of IAS 1 regards the exclusion of restructuring charge from results of operations as inappropriate.[286] The SEC Staff strictly evaluates this point in its reviews.[287]

> **Example:** In its review of Form 20-F of a French foreign private issuer using IFRSs, the SEC Staff claimed against excluding restructuring charges and gains or losses on disposal of assets, items that are recurring in nature, from a measure of operating income and placing them in other expenses.[288]

Paragraph 4.5.3 previously explains the disclosures required when a standard-setter of the foreign jurisdiction of the registrant requires or expressly permits the disclosure of a would-be non-GAAP measure. In particular, the SEC Staff took the view that a UK entity may separately disclose an item or subtotal for restructuring charge under IFRSs to the extent UK GAAP requires or expressly permits it and the entity discloses this fact.[289]

4.5.7 Unusual or Infrequent Items

4.5.7.1 The Meaning of Unusual or Infrequent U.S. GAAP has a precise guidance for items that are unusual or infrequent, but not both. Paragraph 4.5.12 explains the meaning of "unusual" and of "infrequent". Those items differ from extraordinary items as the latter are both unusual and infrequent.

4.5.7.2 Presentation of Unusual or Infrequent Items Entities must separately present unusual or infrequent items, on a gross-of-tax basis, within income from continuing operations, reporting each individually material item in separate line items or in the notes and aggregating

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283 *IAS 1, ¶ 98.*
284 *Ineum 2008 Survey, ¶ Table 37.*
285 *SEC IFRS Reviews. Letter by the SEC June 8, 2006. File No. 001-11130, Comment 1. Reply by the company, June 22, 2006.*
286 *IAS 1, ¶ BC56.*
287 *IPTF November 22, 2005,¶ 3.*
288 *SEC IFRS Reviews. Letter by the SEC, February 15, 2007. File No. 001-14712, Comment 1. Reply by the company, March 20, 2007.*
289 *Regulation S-K, ¶ 229.10.(e)(5).*

items that are not material on an individual basis.[290] As an exception, public utilities in the scope of FASB Statement No. 71 must separately present net-of-tax amounts for material estimated refunds to customers related to prior period revenue in the first period in which they accomplish the conditions for accrual.[291]

For interim information, Subsection 270-10-45-11A (APB 28) requires separate reporting of items that are both unusual and infrequent but do not qualify them as extraordinary items, to the extent they are material in relation to the interim operating results.

> **Comment:** This reference to items that are both unusual and infrequent but do not qualify as extraordinary items is inconsistent with the definition of both unusual or infrequent items and extraordinary items in Subtopic 225-20-45 (APB 30).

Subsection 270-10-45-11A (APB 28) forbids prorating unusual or infrequent items in interim reporting.[292] A publicly traded company that presents summarized interim financial information must disclose them. Its annual report or the notes to the annual financial statements must illustrate unusual or infrequent items that occurred in the fourth quarter of the year, if it does not report financial data for that quarter.[293]

4.5.7.3 Occurrences of Unusual or Infrequent Items U.S. GAAP pronouncements mention some situations that may originate unusual or infrequent items, such as a material sale or purchase of tax benefits through tax leases,[294] losses and costs arising from the September 11, 2001 terrorist attacks,[295] a natural disaster not expected to re-occur,[296] and a material write-off of intangible assets.[297] Under Subsection 980-360-S99-2 (SAB 10-E), a loss from abandonment or disallowance of an electric public utility plant qualifies as unusual or infrequent item, if material.[298] Moreover, U.S. GAAP literature excludes treatment as extraordinary items in certain cases (see Paragraph 4.5.12 following), a fact that does not bar consideration as unusual or infrequent items.

In addition, U.S. GAAP has some items that are linked in some ways to the notion of unusual events, although not necessarily technically labeled as unusual or infrequent items.

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[290] *FASB ASC 225-20-45-2, 225-20-45-16 (APB 30,* Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, ¶¶ 20, 26).*

[291] *FASB ASC 980-605-50-1, 980-250-55-5 (FASB Statement No. 71, ¶¶ 19, 47); FASB Statement No. 71, ¶ 108.*

[292] *FASB ASC 270-10-45-11A (APB 28, ¶ 21).*

[293] *FASB ASC 270-10-50-1, 270-10-50-2 (APB 28, ¶¶ 30, 31).*

[294] *FASB Technical Bulletin No. 82-1,* Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases*, ¶ 6.*

[295] *EITF Issue No. 01-10, ¶ 6.*

[296] *AICPA, Technical Practice Aid No. 5400.05,* Accounting and Disclosures Guidance for Losses from Natural Disasters – Nongovernmental Entities*, ¶¶ 1, 5.*

[297] *FASB Statement No. 135,* Rescission of FASB Statement No. 75 and Technical Corrections*, ¶ 20.b.*

[298] *EITF Topic No. D-5,* Extraordinary Treatment Related to Abandoned Nuclear Power Plants*; FASB ASC 980-360-S99-2 (SEC Staff Accounting Bulletin, Topic 10-E,* Classification of Charges for Abandonments and Disallowances*, ¶ Footnote 4).*

Subsection 330-10-50-2 (ARB 43, Ch. 4) encourages an entity to present a lower-of-cost-or-market loss on inventory that is substantial and unusual separately from cost of goods sold.[299] A gain arising from the receipt of stock from the conversion of a mutual insurance company into a stock enterprise is part of income from continuing operations[300] and may represent an unusual or infrequent item. An entity must separately report a gain or loss on noninduced extinguishment of debt not occurring in the context of a troubled debt restructuring or on conversion of debt to equity securities pursuant to the original terms of the debt.[301] FASB Statement No. 88 requires disclosure of a gain or loss from a settlement or curtailment of a defined benefit pension plan, and the cost of termination benefits and the nature of the event although it does not specify that they must be separately presented.[302] An entity must determine the appropriate classification under Subtopic 225-20-45 (APB 30) of a gain or loss from an involuntary conversion of a nonmonetary asset to monetary asset.[303] Finally, a defined benefit pension plan must disclose unusual or infrequent events or transactions that occur before the issue of the financial statements but after the latest benefit information date if they may have a considerable impact on the plan's payment capacity.[304]

Unusual or infrequent items are named as "exceptional" items under some other GAAP. IAS 8 (1977) also used the term "unusual" for extraordinary items.[305]

4.5.7.4 Unusual or Infrequent in the IASB Framework The IASB Framework viewed separate presentation of unusual, abnormal, and infrequent items as enhancing the forecasting ability of users of financial statements.[306] The Common Conceptual Framework does not reiterate this consideration.

Comment: The IASB Framework did not distinguish between extraordinary and unusual or infrequent items. Arguably, the fact that it referred to items that are unusual *and* infrequent as opposed to items that are unusual *or* infrequent did not have a technical connotation.

4.5.7.5 Material Items under IFRSs versus Unusual or Infrequent Items By contrast, IFRSs do not use the expression "unusual or infrequently occurring items". On the other hand, IAS 1 requires separate information of the nature and amount of material items of income or expense either in the statements of income or in the notes. It states as examples

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299 *FASB ASC 330-10-50-2 (ARB 43, Ch. 4, ¶ 14).*

300 *FASB ASC 325-30-40-1 (EITF Issue No. 99-4,* Accounting for Stock Received from the Demutualization or a Mutual Insurance Company*).*

301 *APB 29,* Accounting for Nonmonetary Transactions*, ¶ 2; FASB ASC 845-10-30-3 (APB 29, ¶ 20); FASB ASC 470-50-15-3 (FASB Technical Bulletin No. 80-1,* Early Extinguishment of Debt through Exchange for Common or Preferred Stock*, ¶ 4).*

302 *FASB Statement No. 88,* Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, ¶ 48.*

303 *FASB Interpretation No. 30,* Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets, an interpretation of APB Opinion No. 29*, ¶ 4.*

304 *FASB ASC 960-205-50-1 (FASB Statement No. 35,* Accounting and Reporting by Defined Benefit Pension Plans*, ¶¶ 28.i, 267).*

305 *IAS 8 (1977) (superseded), Unusual and Prior Period Items and Changes in Accounting Policies, ¶¶ 8, 9.*

306 *IASB Framework, ¶ 28 (superseded).*

write-downs of inventories and of tangible assets and their reversal; restructuring provisions and their reversal; disposal of tangible assets or of investments; litigation settlements; and other reversal of provisions.[307] Furthermore, IAS 1 permits, even encourages, the customization of terminology, sorting, detailing and the identification of components of financial performance, depending on recurrence, probability of loss or gain, predictability, materiality, nature and function of items.[308]

> **Example:** A British foreign private issuer, in reply to the review of its Form 20-F for the fiscal year ended June 30, 2006 containing financial statements prepared for the first time on the basis of IFRSs, explained to the SEC Staff that unusual items comprised unusual, abnormal, infrequent, but nonextraordinary items. It supported its case for separate display based on the focus of the IASB Framework on separate presentation (as mentioned above), and on the IAS 1 guidance about separate disclosure of material items and disaggregation on the face of the statement of comprehensive income.[309]

> **Comment:** IAS 1 still includes discontinued operations into this list of material items. However, discontinued operations (Paragraph 4.5.10) are already part of the minimum presentation content of the statements of income,[310] with a specific accounting. IAS 8 (1993), before the issuance of IAS 35, *Discontinuing Operations* (superseded by IFRS 5), included them as part of extraordinary items.[311]

> **Comment:** Although the examples in IAS 1 may be typical of unusual or infrequent items, it is not so univocal that those material items correspond to the unusual or infrequent items category under U.S. GAAP. The Basis for Conclusions of IAS 1 discusses material items in the context of extraordinary items, seemingly as a mechanism somehow available to surrogate separate presentation that is no longer possible for those items.[312] It is to be noted that IAS 8 (1977) used the term "unusual" for extraordinary items, while the fact of being abnormal or infrequent did not qualify items as unusual (that is, extraordinary).[313]

4.5.7.6 Placement in or out of Operating Activities IAS 1 specifies that an entity that reports results of operating activities, must take such unusual items in that aggregate (see Paragraph 4.5.3 previously). IAS 1 stresses that irregular, infrequent, or unusual items are operating items.[314] Paragraph 4.5.3.4 previously deals with the debate regarding the exclusion of unusual or infrequent items from subtotals of operating income.

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[307] *IAS 1, ¶¶ 97–98.*
[308] *IAS 1, ¶ 86.*
[309] *SEC IFRS Reviews. Letter by the SEC, February 27, 2007. File No. 1-10691. Reply by the company, March 14, 2007, Comment 4.*
[310] *IAS 1, ¶ 82.*
[311] *IAS 8 (1993), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (superseded), ¶ Footnote 1 to Appendix A.*
[312] *IAS 1, ¶ BC64.*
[313] *IAS 8 (1977) (superseded), ¶¶ 8, 9.*
[314] *IAS 1, ¶ BC56.*

4.5.7.7 Interaction with Non-GAAP Measures For the purpose of SEC filings, a not-expressly-permitted subtotal, as per the meaning of this expression under Regulation S-K (see Paragraph 4.5.3 previously), that excludes items that are nonrecurring, unusual, or infrequent qualifies as a non-GAAP measure. Income smoothing is not a reason for removing such items from a subtotal, especially if they are reasonably likely to recur within two years or did so within the prior two years. Otherwise, such an adjustment may be permissible under the facts and circumstances. Management must expect that it is probable that those items fade or become immaterial in a definite short-term horizon, provide at least an equal-prominence presentation and reconciliation to the most directly comparable financial U.S. GAAP measure, and provide certain disclosures. It must explain the usefulness of the measure and related substantive reasons, its use of the non-GAAP measure to conduct or evaluate business, the economic raison d'être for such a measure, and any material limitations and compensating procedures.[315]

Example: In its review of the Form 20-F of a French foreign private issuer using IFRSs, the SEC Staff opposed excluding restructuring charges and gains or losses on disposal of assets, items that are recurring in nature, from a measure of operating income and placing them in other operating expenses. However, the main dispute was not on the unusual or infrequent items argument, but against the policy asserted by the company that other operating expenses comprised nonrecurring items.[316]

Example: The SEC Staff, in its review of its Form 20-F for the fiscal year ended December 31, 2005 of an Italian foreign private issuer, considered impairment of a consolidated subsidiary as a material item under IAS 1, given its significance and unique nature. However, it stated that it would not object to a classification outside of an operating income subtotal.[317]

4.5.7.8 Presentation of Material Items IAS 8 (1997) required separate presentation of especially relevant items as to size, nature, or incidence.[318]

4.5.7.9 Specific Disclosures Additional disclosure requirements exist. IFRS 4 illustrates separate disclosure of unusual claim expenses or developments for an insurance entity.[319] In interim reporting, IAS 34 requires presentation or disclosure of items that are unusual because of nature, amount, or incidence.[320]

4.5.7.10 New Developments As part of the *Financial Statement Presentation Project*, the FASB and the IASB initially denied separate presentation of those items, to avoid manipulation of subtotals.[321] The Discussion Paper presented a possible memo column in the reconciliation schedule for unusual or infrequently occurring events or transactions, with explanation in the

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[315] *Regulation S-K, ¶¶ 229.10(e)(i), 229.10(e)(ii)(B); SEC FAQ on Non-GAAP, ¶ Question 8.*
[316] *SEC IFRS Reviews. Letter by the SEC, February 15, 2007. File No. 001-14712, Comment 1. Reply by the company, March 20, 2007).*
[317] *SEC IFRS Reviews. Letter by the SEC February 6, 2007. File No. 333-12334, Comment 1.*
[318] *IAS 8 (1997) (superseded), ¶ 16.*
[319] *IFRS 4, ¶ IG59.*
[320] *IAS 34,* Interim Financial Reporting, *¶ 16A(c).*
[321] *IASB Update, May 2002.*

notes. The benefit in terms of information content would be that they are less persistent and more subjective than other items. In the examples provided, the Discussion Paper stated impairment of goodwill and a share-based compensation to officers that is infrequent in relation to the company's experience.[322] However, as the reconciliation schedule would not be required any longer, the Staff Draft now returns to considering their indication to the users of financial statements so important as to warrant separate display, when material. It would subdivide them in the appropriate sections, categories, or subcategories of the statement of comprehensive income, with description in the notes. The Staff Draft defines the term "unusual" as highly abnormal, with a no more-than-incidental relation to ordinary and typical activities of the entity.[323]

4.5.8 Finance Results

4.5.8.1 Undefined Terms This paragraph discusses the scope of presentation of finance results in the statements of income. IAS 1 requires separate presentation of finance costs.[324] However, IAS 1 does not define finance costs.

> **Comment:** IAS 23 defines borrowing costs, while Subsection 835-20-20 (FASB Statement No. 34) refers to interest costs. Their scope is for capitalization purposes, but not for recognition as finance items and presentation in the income statement. Both notions of borrowing and interest costs comprise explicit and implied interest expense, amortization of discounts and premiums and issue costs of related debt, and finance charges on finance (under U.S. GAAP, capital) leases. Under Subsection 815-25-35-14 (EITF Issue No. 99-9), in case of a fair value hedge of fixed interest rate debt, capitalizable interest costs include the amortization of the adjustment of the debt arising from gains and losses on the effective portion of the derivative instrument, to the extent of the amount recognized as interest expense during the capitalization period.[325] IAS 23 includes exchange differences that are an adjustment to the interest cost of foreign currency borrowings. IAS 38 adds the interest implicit in nonordinary deferred payment terms of intangible assets.[326] IFRIC 12 adjoins borrowing costs incurred by a concession operator that recognizes its contractual right as an intangible asset.[327] Unwinding of discount on provisions and on a decommissioning liability is not part of borrowing costs for capitalization purposes. However, IFRIC 1 explicitly includes the latter component in finance costs.[328] Therefore, the term borrowing costs has different scopes when treated for capitalization or presentation purposes. All this adds up to the ambiguity of the term *finance costs* and, as discussed below, is not so clear whether it comprises income components.

4.5.8.2 Interest Revenue and Interest Expense IAS 18 requires the disclosure of interest revenue.[329] Under IFRS 7, for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss, an entity has an option between presentation of total

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[322] *DP on Presentation, ¶¶ 4.48–4.50, A23.*
[323] *Staff Draft, ¶¶ 155, Appendix A, BC169, BC170; IASB Update, April 2010*
[324] *IAS 1, ¶ 82(b).*
[325] *FASB ASC 835-20-20 (FASB Statement No. 34,* Capitalization of Interest Cost*, ¶¶ 1, 2); FASB ASC 815-25-35-14 (EITF Issue No. 99-9,* Effect on Derivative Gains and Losses on the Capitalization of Interest*); IAS 23,* Borrowing Costs*, ¶ 6.*
[326] *IAS 38, ¶ 32.*
[327] *IFRIC 12,* Service Concession Arrangements*, ¶ 22.*
[328] *IAS 37,* Provisions, Contingent Liabilities and Contingent Assets*, ¶¶ IN6, 60; IFRIC 1,* Changes in Existing Decommissioning, Restoration and Similar Liabilities*, ¶¶ 8, BC26, BC27.*
[329] *IAS 18, ¶ 35(b)(iii).*

interest income and total interest expense in the statement of comprehensive income or disclosure in the notes.[330] Netting interest revenue and interest expenses in a statement of income would imply a nonpermitted offsetting, unless the face of the statement separately indicates both elements.[331] IFRS 1 illustrates separate lines for finance income and finance costs.[332]

Example: In its review of Form 20-F for the fiscal year ended December 31, 2005 of an Italian and two French foreign private issuers, the SEC Staff challenged the net presentation of finance costs and exchange gains and losses under IFRSs.[333] It also asked another French foreign private issuer to revise future filings to separately present interest expense and interest income under U.S. GAAP.[334]

Planning Point: In May 2008, the IASB amended IFRS 7 to delete the reference to interest revenue as a component of finance costs.[335] Therefore, one option is that a line of the statement of income includes finance charges only with interest revenue separately presented or included in other lines and disclosed in the notes. Alternatively, the finance costs caption is a subtotal of finance income and expenses separately indicated in the statement. The illustrative examples of IFRIC 12 show an income statement with a line for finance income and one for borrowing costs.[336] Similarly, for segment reporting, under IFRS 8 an entity must state interest revenue separately from interest expense, unless it bases internal decision-making on net interest revenue and segment notes make this clear.[337] IAS 1 only mentions finance costs. In this case, the term *finance costs* is questionable. The logical interpretation would appear that *finance costs* mean *finance results*. However, the Basis for Conclusions of the 2011 revision of IAS 19 clarifies that by that term the IASB really means separate presentation of finance costs and not of finance income.[338] Interestingly, IFRSs and U.S. GAAP generally have no intermediate aggregate for financial results, which may be an important indicator for certain companies. However, this is a current practice in many countries in continental Europe.

Undoubtedly, for commercial and industrial companies, Subsection 225-10-S99-2 (Regulation S-X) requires separate presentation of nonoperating income (including, in part, dividend income and interest on securities) from interest expense and amortization of debt discount.[339] Of course, segregation between interest expense and interest income is mandatory for bank holding companies under Subsection 942-255-S99-1 (Regulation S-X).[340]

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[330] *IFRS 7, ¶ 20(b).*

[331] *IFRS 7, ¶ IG13; IFRIC Update, October 2004; IASB Update, November 2006; IFRIC Update, November 2006.*

[332] *IFRS 1, ¶ IG63.*

[333] *SEC IFRS Reviews. Letter by the SEC, December 22, 2006. File No. 001-10230, Comment 6. Letter by the SEC, September 12, 2006. File No. 1-15218, Comment 8. Letter by the SEC, September 25, 2006. File No. 1-15248, Comment 10.*

[334] *SEC IFRS Reviews. Letter by the SEC, December 1, 2006. File No. 001-32139, Comment 32.*

[335] *Improvements to IFRSs, Amendments to IFRS 7,* Financial Instruments: Disclosures, *¶ IG13 (May 2008).*

[336] *IFRIC 12, ¶¶ IE9, IE37.*

[337] *IFRS 8, Operating Segments, ¶ 23.*

[338] *IAS 19 (2011), ¶ BC202(a).*

[339] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03.7, 210.5-03.8). FASB ASC 835-30-45-3 (APB 21,* Interest on Receivables and Payables, *¶ 16) also presents amortization of debt discounts or premiums as interest expense, although it does not mandate separate presentation or disclosure.*

[340] *FASB ASC 942-255-S99-1 (Regulation S-X, ¶ 210.9-04).*

> **Comment:** IAS 1 places the analysis by nature and by function (see Paragraph 4.6) as a detail of expenses at profit or loss level, not operating income. Arguably, a financial attribute can meet both a classification by nature and by function. However, the IAS 1 illustration of the two classifications of the income statement does not show finance costs.[341]

The IASB's Exposure Draft on impairment of financial instruments proposes to delete the interest income and expense disclosure requirement from IFRS 7. It would introduce a new format of presentation of interest revenue and interest expense that relate to financial assets and financial liabilities carried at amortized cost, including the impact on interest revenue or interest expense of qualifying hedging relationships. The total amount would be broken down on the face of the statement of comprehensive income into a gross amount, minus the initial expected credit losses, giving a net amount subtotal, plus gains or minus losses deriving from changes in estimates related to those financial assets and financial liabilities.[342]

Under IFRS 7, a company must present interest income on financial assets written down for impairment or disclose it in the notes.[343] Subtopic 310-10 (FASB Statement No. 114) requires either presentation or note disclosure of interest income on impaired loans and of the portion of it computed along a cash-basis method, but does not indicate any specific line item to use.[344]

An entity that reclassifies financial assets at amortized cost under IFRS 9 because of a change in the related business model must disclose the recognized interest income or expense each period until derecognition.[345] In addition, a company must present or disclose net gains or net losses on amortized cost financial assets and amortized cost financial liabilities, respectively.[346]

4.5.8.3 Gains and Losses on Financial Instruments After the elimination of the tainting rules of IAS 39 for held-to-maturity financial instruments by IFRS 9, IAS 1 specifically requires separate display of gains or losses on derecognition of financial assets carried at amortized cost, and those arising from the reclassification of a financial asset to the fair value model.[347]

> **Comment:** IAS 1 shows them as specific line items. Therefore, although IAS 1 leaves an entity free to determine headings, subheadings, and line items, they are not part of the finance costs item of a statement of income. This may not be obvious. However, that does not prevent a subtotal for finance results that includes these items and finance costs, provided the single lines appear in the statement.

An entity must also separately present gains or losses on remeasurement of a puttable instrument that are significant in explaining performance.[348]

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[341] *IAS 1, ¶¶ 99, 102, 103.*
[342] *IASB, Exposure Draft,* Financial Instruments: Amortized Cost and Impairment*, ¶¶ 13, B18, C1 (November 2009).*
[343] *IFRS 7, ¶ 20(d).*
[344] *FASB ASC 310-10-35-39, 310-10-50-15 (FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15, ¶¶ 17, 20(c)).*
[345] *IFRS 7, ¶ 12C.*
[346] *IFRS 7, ¶¶ 20(a)(vi), 20(a)(vii).*
[347] *IFRS 9, ¶ BC52; IAS 1, ¶¶ 82(aa), 82(ca).*
[348] *IAS 32, ¶ 41.*

> **Comment:** IFRSs do not clarify whether or not these gains and losses are included in the finance costs item of a statement of income.

IFRS 7 mandates either presentation or note disclosure of net gains or net losses on financial assets and on financial liabilities carried at fair value through profit or loss, with specific indication of those related to instruments so designated upon initial recognition.[349] The notes must give detail of the composition of net gains or net losses, such as interest and dividend income on financial instruments carried at fair value through profit or loss.[350] IAS 18 also requires the disclosure of dividend income.[351] Subsection 942-225-S99-1 (Regulation S-X) requires bank holding companies to separately present interest on investment securities, dividends on investment securities, and trading account interest.[352] In 2005, almost all survey European banks reported trading income on the face of the income statement. The others detailed the components of gains or losses on items carried at fair value through profit or loss in the notes. Some banks reported trading interest income within interest income. Survey European banks either presented dividend income in the income statement or disclosed it in the notes.[353] They reported gains and losses on hedging derivatives in either trading profit, results from nontrading activities, results from financial instruments at fair value through profit or loss, or operating income.[354]

> **Comment:** Unlike interest revenue and interest expense, IFRS 7 requires presentation or note disclosures of gains or losses on a net basis for each measuring category of financial assets and financial liabilities, respectively.[355] This is in line with net presentation of gains and losses related to a group of similar transactions under IAS 1, as explained in Paragraph 4.5.5. However, material gains and losses require separate display.[356] Exhibits of Paragraph 4.7 show that U.S. GAAP and SEC guidance have stricter presentation requirements of gains and losses, including realized versus unrealized components, for investment companies than IFRSs.

> **Comment:** Only net gains and losses on financial assets or liabilities measured at fair value through profit or loss may commingle an interest or dividend component with a capital gain or loss. The notes must disclose any interest or dividend. By contrast, an entity must separately present or disclose interest revenue, interest expense, net gains, or net losses on financial assets or financial liabilities carried at amortized cost.[357]

4.5.8.4 Dividends Classified as an Expense IAS 32 gives an entity the alternative to present dividends classified as an expense either separately or within interest expenses.[358] The latter pattern is the preferred option when there is a tax impact.[359] An illustrative example of

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[349] *IFRS 7, ¶¶ 20(a)(i), 20(a)(v).*
[350] *IFRS 7, ¶¶ B5(e), BC34.*
[351] *IAS 18, ¶ 35(b)(iv).*
[352] *FASB ASC 942-225-S99-1 (Regulation S-X, ¶¶ 210.9-04.2, 210.9-04.3).*
[353] *ICAEW 2007 Survey, ¶ 17.7.*
[354] *ICAEW 2007 Survey, ¶ 17.5.*
[355] *IFRS 7, ¶¶ 20(a), BC33.*
[356] *IAS 1, ¶ 35.*
[357] *IFRS 7, ¶¶ 20(a), B5(e), BC34.*
[358] *IAS 32, ¶ 40.*
[359] *IAS 32, ¶ 40.*

this Standard relating to an entity whose equity instruments are classified as liabilities shows such an item as a separate entry within finance costs.[360]

> **Comment:** Under IAS 32, interest expense classification applies to unpaid dividends accruing to the redemption value of a financial instrument that is entirely classed as a liability.[361] Arguably, the literal wording of this provision does not intend to exclude the separate display option.

4.5.8.5 Gains or Losses on Equity Instruments IFRS 7 requires either presentation or note disclosure of gains or losses on equity instruments carried at fair value through other comprehensive income and note disclosure of cumulative gains or losses on their disposal.[362]

> **Planning Point:** U.S. GAAP avoids reporting a disposal of an equity method investee as a discontinued operation.[363] IAS 28 and Subsection 323-10-35-35 (APB 18) do not explain whether a gain or loss on disposal of shares in an associate or of an unconsolidated entity that is not classified as a discontinued operation calls for operating or nonoperating (e.g., financing) classification. IFRS 7 and Subsection 320-10-15-7 (FASB Statement No. 115) do not apply to an investment in an associate that is not measured at fair value.[364] For bank holding companies, Subsection 942-225-S99-1 (Regulation S-X) shows it in other income.[365] In theory, there should be consistency between classification of a gain or loss on disposal of an associate and presentation of equity income in an equity method investee. Paragraph 4.5.4.4 discusses the latter. On one hand, IAS 1 requires separate presentation or note disclosure of material disposal of investments within material items, which are part of results of operations.[366] On the other hand, the Implementation Guidance of IAS 1 and IFRS 5 show share of profit of associates within nonoperating items, i.e., after (but, in any case, not within) finance costs.[367] Therefore, IFRSs appear to have a contradiction concerning the location of equity income in associates and gains and losses on their disposal.

> **Example:** The SEC Staff, in its review of its Form 20-F for the fiscal year ended December 31, 2005 of a French foreign private issuer, requested clarification of the classification of gains on disposal of shares. The company explained that it classified them as operating expenses when referred to consolidated or proportionally consolidated companies not classified as discontinued operations, and as finance cost when referred to associates.[368]

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[360] *IAS 32, ¶¶ IE32, IE33.*
[361] *IAS 32, ¶ AG37.*
[362] *IFRS 7, ¶¶ 11B, 20(a)(viii).*
[363] *FASB Implementation Guides, Q&A 131,* Segment Information: Guidance on Applying Statement 131, *¶ 5.*
[364] *FASB ASC 320-10-15-7 (FASB Statement No. 115,* Accounting for Certain Investments in Debt and Equity Securities*, ¶ 4); FASB ASC 323-10-35-35 (APB 18,* The Equity Method of Accounting for Investments in Common Stock*, ¶ 19(l)); IFRS 7, ¶ 3(a); IAS 28 (2010),* Investments in Associates*, ¶¶ IN5, 1.*
[365] *FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04.13(g)).*
[366] *IAS 1, ¶¶ 98, BC56.*
[367] *IFRS 5, ¶ Example 11; IAS 1, ¶ IG6.*
[368] *SEC IFRS Reviews. Letter by the SEC, June 8, 2006. File No. 001-11130, Comment 1; Reply by the company, June 22, 2006.*

> **Example:** In a different situation, the SEC Staff, in its review of its Form 20-F for the fiscal year ended December 31, 2005 of an Italian foreign private issuer, rejected the classification of an impairment of a consolidated subsidiary as a financial item, on the basis that IAS 32 and IAS 39 scope out interests in subsidiaries.[369]

Paragraph 4.5.1.4 previously includes a discussion on whether cash discounts are a financing item.

4.5.8.6 Unwinding of Discount Under IAS 32, interest expense category also covers the unwinding of discount on the liability component of a compound financial interest.[370] IFRS 7 specifies that finance costs in the statement of income may also include those arising from nonfinancial liabilities.[371] Under IAS 18, interest revenue includes the time value of money from discounting the future receipts of an arrangement that effectively constitutes a financing transaction.[372]

Subtopic 310-10 (FASB Statement No. 114, as amended by FASB Statement No. 118) does not mandate the method a creditor must choose to report the change in present value that is due to passage of time on an impaired loan carried on a discounted basis. It requires presentation or disclosure of interest income and the portion that an entity recognizes under a cash-basis method, and information on the policy used. The methods required prior to amendments by FASB Statement No. 118, i.e., inclusion either into interest income with specific disclosure or into bad-debt expense, are still among the possible options.[373] For bank holding companies, Subsection 942-225-S99-1 (Regulation S-X) requires that accretion of discounts on loans be included in the interest and fees on loan caption of the income statement.[374]

> **Comment:** IFRS 9 and IAS 39 do not provide guidance on unwinding of discount on impairment of financial assets. After impairment, the newly determined interest income is computed at the rate used for impairment calculation,[375] therefore it may contain such a component relating to passage of time. In 2005 IFRS financial statements, most of the survey European banks included unwinding of discount on impaired loans under interest income without disclosing it.[376]

Conversely, IAS 36 does not recognize a reversal of an impairment of assets simply due to unwinding of discount when no change in recoverable amount assumptions has occurred. However, a recognized reversal of impairment may include the unwinding of discount,[377] hence arguably that component is not reported under finance cost. Conversely, Subsection

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[369] *SEC IFRS Reviews. Letter by the SEC, February 6, 2007. File No. 333-12334, Comment 1.*
[370] *IAS 32, ¶ AG37.*
[371] *IFRS 7, ¶ IG13.*
[372] *IAS 18, ¶ 11.*
[373] *FASB ASC 310-10-45-5, 310-10-50-15, 310-10-50-19 (FASB Statement No. 114, ¶¶ 17, 20(b), 20(c), 59, 60, as amended by FASB Statement No. 118; FASB Statement No. 118,* Accounting by Creditors for Impairment of a Loan, Income Recognition and Disclosures, *¶¶ 3, 4, 9, 14, 16).*
[374] *FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04.1).*
[375] *IFRS 9, ¶ 5.2.2; IAS 39,* Financial Instruments: Recognition and Measurements, *¶ AG93.*
[376] *ICAEW 2007 Survey, ¶ 17.6.*
[377] *IAS 36,* Impairment of Assets, *¶¶ 116, BCZ186.*

360-10-35-20 (FASB Statement No. 144) prohibits restoration of an impairment loss of held-and-used assets.[378]

Under IAS 37, finance costs include the unwinding of the discount relating to a provision measured at present value.[379] Similarly, under IFRIC 1 the unwinding of the discount on a decommissioning, restoration, or similar liability is part of finance costs.[380] Conversely, under FASB Statement No. 143, an entity must classify accretion expense on an asset retirement obligation as a separate operating item. It does not require its qualification as interest expense taking account that it does not come from a financing transaction.[381] Under Subsection 420-10-35-4 (FASB Statement No. 146), a similar treatment applies to the accretion expense of a liability related to an exit or disposal activity.[382]

Example: *IFRS Accounting Trends & Techniques* reports on a company from The Netherlands that includes unwinding of discount on provisions within finance costs.[383]

Under IFRS 4, insurance entities should consider the presentation or disclosure of accreted interest of discounted insurance liabilities; however, the Standard does not specify the related line item of the statement of comprehensive income.[384]

Under IFRS 5, finance costs include the unwinding of the discount of the costs to sell (used as part of measuring a noncurrent asset or disposal group classified as held for sale), in the limited circumstances in which costs to sell are discounted.[385] Subsection 360-10-35-38 (FASB Statement No. 144) also acknowledges that the case of discounting costs to sell may arise, however it does not explain the accounting for the unwinding of the discount.[386]

Finally, the 2011 revision of IAS 19 defines net interest cost on the net defined benefit liability or asset as a function of passage of time. However, it avoids requiring a classification of the net interest component of defined benefit plans as finance costs, also on the grounds that is would require a reconsideration of the classification of other interest amounts related to the passage of time in other standards.[387]

4.5.8.7 Capitalized Financing Costs Under U.S. GAAP, other income or a reduction of interest expense reflects the financing cost capitalized for rate-making purposes by regulated enterprises as a specific item.[388] Electric utility companies show the current-period amount of

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[378] *FASB ASC 360-10-35-20 (FASB Statement No. 144, ¶ 15); FASB Statement No. 144, ¶ B53.*
[379] *IAS 37, ¶¶ IN6, 60.*
[380] *IFRIC 1, ¶ 8.*
[381] *FASB ASC 410-20-45-41, 410-20-35-5, 835-20-15-7 (FASB Statement No. 143, ¶ 14); FASB Statement No. 143, ¶ B57.*
[382] *FASB ASC 420-10-35-4 (Statement No. 146, ¶¶ 6, Footnote 6).*
[383] *AICPA IFRS ATT 2009, ¶ 3.154.*
[384] *IFRS 4, ¶ IG26(d)(i).*
[385] *IFRS 5, ¶ 17.*
[386] *FASB ASC 360-10-35-38 (FASB Statement No. 144, ¶ 35).*
[387] *IAS 19 (2011), ¶¶ 8, BC77, BC202(b).*
[388] *FASB ASC 980-835-45-1 (FASB Statement No. 71, ¶ 15).*

interest expenses capitalized on construction work in progress financed through a construction intermediary as either a separate line or part of interest expense.[389]

4.5.8.8 Foreign Exchange Transaction Gains or Losses U.S. GAAP requires either presentation or note disclosure of foreign exchange transaction gains or losses in the income statement.[390] Both Subsection 830-20-45-3 (FASB Statement No. 52) and IAS 21 do not provide guidance on how to present foreign exchange transaction gains or losses in the statement of comprehensive income.[391] U.S. GAAP companies generally report them within gains and losses.[392] In 2005, only 62% of surveyed European banks reported a specific line item in the IFRS income statement.[393] Approximately 16% of European survey companies included currency exchange gains or losses as a separate item in their 2006 IFRSs income statements.[394]

When the reporting currency (presentation currency, under IFRSs) is the functional currency, both Subsection 830-740-45-1 (FASB Statement No. 109) and IAS 12 leave an entity with the option to present exchange differences on deferred foreign tax liabilities or assets within deferred tax expense or income, to the extent that the entity regards this location as more valuable to readers of financial statements.[395]

4.5.8.9 Tax Penalties Under FASB Statement No. 109, an entity need not separate interest and penalties assessed on income tax deficiencies from income tax expense.[396] Under Subsection 740-10-45-25 (FIN 48), an entity may present interest on underpayment of income taxes in either income taxes or interest expenses.[397]

4.5.8.10 Interest Costs and Remeasurement of a Cash-Settled Share-Based Payment Liability Under IFRS 2, the fair value change due to the remeasurement of a cash-settled share-based payment liability at each reporting period between grant and settlement date and at the date of settlement affects profit or loss. Presentation or note disclosure of such an effect is optional.[398] However, IFRS 2 does not indicate the suitable caption of the statement of comprehensive income.

4.5.8.11 Interest on Defined Benefit Plans IAS 19 (2007) does not take any position as to whether an entity can separately present interest cost as well as the expected return on plan assets of a defined benefit plan or must embed them in net periodic costs. IAS 19 (2011) maintains this position with reference to current service cost and net interest on the net defined benefit liability or asset. However, an entity must identify the specific amounts of each component and illustrate the location of the respective line items of the statement

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[389] *FASB ASC SEC 980-810-S99-2 (Staff Accounting Bulletin, Topic 10-A, Financing By Electric Utility Companies Through Use Of Construction Intermediaries).*

[390] *FASB ASC 830-20-45-1 (FASB Statement No. 52, ¶ 30).*

[391] *FASB ASC 830-20-45-3 (FASB Statement No. 109, ¶ 230); IAS 21,* The Effects of Changes in Foreign Exchange Rates*, ¶ 52(a).*

[392] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Tables 3-4 and 3-7.*

[393] *ICAEW 2007 Survey, ¶ 17.7.*

[394] *Ineum 2008 Survey, ¶ Table 37.*

[395] *FASB ASC 830-740-45-1 (FASB Statement No. 109, ¶ 230); IAS 12, ¶ 78.*

[396] *FASB Statement No. 109, ¶ 148.*

[397] *FASB ASC 740-10-45-25 (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, ¶ 19).*

[398] *IFRS 2,* Share-Based Payment*, ¶¶ 30, BC253, BC255.*

of comprehensive income.[399] A survey of European financial statements for 2005 reports that 40% of surveyed companies split those components as finance items.[400] Another study in 2006 found that 57% of surveyed companies reported expected return on plan assets as an operating item, 36% as finance income, and the remainder did not detail the policy used.[401] Under U.S. GAAP, return on plan assets and interest cost of defined benefit and other post-retirement plans are generally included in the net benefit cost, although acknowledged as financial items.[402] U.S. GAAP does not require disaggregation of items of net benefit cost.[403]

Example: A British and an Irish foreign private issuers explained to the SEC Staff, in its review of Forms 20-F for the fiscal year ended December 31, 2005, that they presented interest on defined benefit plans (and one of them expected return on plan assets) within finance costs under IFRSs and in operating profit under U.S. GAAP.[404]

Example: *IFRS Accounting Trends & Techniques* reports an income statement by a British company that classifies net finance income relating to pension and other post-retirement benefits separately after finance costs. Another British company classifies expected return on plan assets into investment income. A company from The Netherlands reports expected return on plan assets and interest costs into finance revenues and charges, respectively. A French company reports discounting costs on termination benefits as a finance item.[405]

The IASB's Exposure Draft on defined benefit plans proposed to take net interest on the net defined benefit liability or asset into finance costs, with the option to break it down into interest income on plan assets, interest cost on the defined benefit obligation and the effect of the net benefit asset limit. Such a net interest approach is a practical expedient to measure the effect of the passage of time, but only on both the defined benefit obligation and plan assets.[406] However, the 2011 revision of IAS 19 considered a classification into finance costs as beyond the scope of the amendments.[407]

4.5.8.12 Lease Finance Income or Expense IAS 17 does not explain presentation of lease finance income or expense. It simply reminds companies to consider separate disclosure

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399 *IAS 19 (2011),* Employee Benefits*, ¶¶ 134, 141, BC201, BC202(b); IAS 19 (2007), ¶¶ 61, 119, 120A(g).*
400 *ICAEW 2007 Survey, ¶ Table 22.2.*
401 *Ineum 2008 Survey, ¶¶ 13, 13.6.*
402 *FASB ASC 715-30-35-4 (FASB Statement No. 87,* Employers' Accounting for Pensions*, ¶ 20.b); FASB Statement No. 87, ¶ 91; FASB ASC 715-60-35-9 (FASB Statement No. 106,* Employers' Accounting for Postretirement Benefits Other Than Pensions *¶ 46.b); FASB Statement No. 106, ¶ 275.*
403 *FASB Statement No. 87, ¶ 93; FASB ASC 715-20-50-1 (FASB Statement No. 132R, ¶ 5.h); FASB Statement No. 132R, ¶¶ A33–A35.*
404 *SEC IFRS Reviews. Reply by the company to the SEC, January 31, 2007. File No. 333-109672, Comment 9. Reply by the company to the SEC, January 17, 2007. File No. 1-32846, Comment 15.*
405 *AICPA IFRS ATT 2009, ¶¶ 3.26, 3.154, 3.155, 3.157.*
406 *IASB, Exposure Draft,* Defined Benefit Plans, Proposed Amendments to IAS 19*, ¶¶ 119A, 119C, BC18, BC23–BC32 (April 2010).*
407 *IAS 19 (2011), ¶ BC202(a).*

guidance in IAS 1 for sales and leaseback transactions.[408] U.S. GAAP does not require separate presentation of interest expense related to assets leased under a capital lease, although that component should be recorded as such. Lease interest expense is part of the amount of total interest costs incurred for which Subsection 835-20-50-1 (FASB Statement No. 34) requires disclosure.[409] As a tentative decision of the *Leases project*, the financing component of lease contracts would warrant separate presentation or disclosure.[410]

Example: *IFRS Accounting Trends & Techniques* reports an income statement by a company from The Netherlands where finance costs include interest payable under finance lease and hire purchase contracts.[411]

4.5.8.13 New Developments The *Financial Statement Presentation Project* would see a subcategory of operating finance activities or financing arising from operating activities to take account of some of these items. They would include the accretion of a liability,[412] interest expense on lease,[413] interest costs and expected return of plan assets of postemployment benefits (after an initial tentative decision to present the net periodic costs in one category, most likely operating).[414] Foreign exchange transaction gains or losses would take the same section, category, or subcategory as the originating asset or liability.[415]

4.5.9 Income from Continuing Operations

4.5.9.1 Reporting Income from Continuing Operations Income from continuing operations is a customary component in a statement of income under U.S. GAAP and Subsection 944-225-S99-1 (Regulation S-X).[416] FASB Statement No. 117 reports that business enterprises must show at least net income and income from continuing operations.[417] Such a component excludes discontinued operations, extraordinary items, and certain cumulative effects of accounting changes accounted for at current method. Under Section 255-10-20 (FASB Statement No. 89), it also leaves out translation adjustments, purchasing power gains and losses on monetary items, and changes in the current cost of nonmonetary items.[418] Health care organizations also report a similar aggregate.[419] They label this as a performance indicator,

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[408] *IAS 17,* Leases*, ¶ 66.*
[409] *FASB ASC 840-30-35-6 (FASB Statement No. 13,* Accounting for Leases*, ¶ 12); FASB Statement No. 34, ¶ 2; FASB ASC 835-20-50-1 (FASB Statement No. 34, ¶ 21); FASB ASC 840-30-45-3 (FASB Statement No. 71, ¶ 43); FASB Statement No. 71, ¶ 98.*
[410] *IASB Update, March 2010.*
[411] *AICPA IFRS ATT 2009, ¶ 3.154.*
[412] *Staff Draft, ¶¶ 75(c), 78; IASB Update, February 2010.*
[413] *Staff Draft, ¶¶ IG3, IG7.*
[414] *Staff Draft, ¶¶ 77, IG3, IG7; DP on Presentation, ¶¶ 2.45, 2.46.*
[415] *Staff Draft, ¶ BC165.*
[416] *FASB ASC 220-10-45-7 (FASB Statement No. 130, ¶ 16); FASB Statement No. 130, ¶¶ 84–85; CON 5, ¶ 31; CON 6, ¶ 76; FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03.13); FASB ASC 944-225-S99-1 (Regulation S-X, ¶ 210.7-04.11).*
[417] *FASB Statement No. 117, ¶ 164.*
[418] *FASB ASC 255-10-20 (FASB Statement No. 89, ¶ 44).*
[419] *FASB ASC 825-10-15-7 (FASB Statement No. 159,* The Fair Value Option for Financial Assets and Financial Liabilities*, ¶ Footnote 7).*

such as revenues over expenses, revenues and gains over expenses and losses, earned income, or performance earnings.[420]

For commercial and industrial companies Regulation S-X reports such an income on a before tax basis, and the income taxes caption before income pick up in equity method investees.[421] Regulation S-K and Form 20-F include income from continuing operations into the minimum content of selected financial data.[422] The SEC Staff affirmed that in case home-country GAAP does not cover this aggregate, a foreign private issuer must determine the equivalent figure under U.S. GAAP in selected financial data.[423] Income or loss from continuing operations is part of the minimum content of summarized financial data[424] and summarized interim income statement information[425] of significant equity method investees. It is also an indicator in pro forma condensed income statement.[426] Finally, five-year summary of selected financial data presented as supplementary information on the effects of changing prices under FASB Statement No. 89 comprises income from continuing operations.[427]

47% of U.S. GAAP survey companies in 2005 and 37% in 2002 showed this aggregate on the face of the income statement.[428]

Planning Point: IFRSs do not define profit or loss for the year from continuing operations. Unlike U.S. GAAP, this expression is not part of IFRSs practice. IAS 33 uses it for earnings per share from continuing operations attributable to the equity holders of the parent.[429] Furthermore, under both U.S. GAAP and IFRSs, income (profit or loss) from continuing operations available to common shareholders is the control number in determining dilutive potential common shares for diluted earnings per share computation.[430] The Implementation Guidance of IAS 1 shows subtotals for profit before tax and for profit for the year from continuing operations.[431] Its 1997 version also showed an amount for profit after tax,[432] which preceded minority interest (at that time treated as a deduction to arrive at profit or loss) and roughly corresponded to income from continuing operations after tax under U.S. GAAP. IFRS 5 uses such an expression, mainly to distinguish it from discontinued operations.[433] This seems more a concession to convergence with U.S. GAAP. The IASB discards a subtotal for income from ordinary activities on the basis that this term is undefined (see Paragraph 4.5.11 following).[434] A similar justification should hold here.

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[420] *FASB ASC 954-225-45-4 (AICPA Audit and Accounting Guide, HCO, ¶ 10.20).*
[421] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03.10, 210.5-03.11).*
[422] *Regulation S-K, Instruction 2 to ¶ 229.301; Form 20-F, Item 3.A.2.*
[423] *IPTF, May 3, 2001, ¶ VII,* Selected Financial Data.
[424] *Regulation S-X, ¶ 210.1-02(bb)(ii); FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(g)).*
[425] *Regulation S-X, ¶ 210.8-03(b)(3); FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10.01(b)(1)); SEC,* Financial Reporting Manual, *¶ 2420.8.*
[426] *Regulation S-X, ¶ 210.11-02(b)(5).*
[427] *FASB Statement No. 89, ¶ Appendix A.7.*
[428] *IFRS 1, ¶ IG Example 11; IFRS 5, ¶ IG Example 11; IAS 1, ¶¶ 103, IG6; IAS 7, ¶ IEA3.*
[429] *IAS 33,* Earnings per Share*, ¶¶ 9, 30.*
[430] *FASB ASC 260-10-45-18 (FASB Statement No. 128, ¶ 15); IAS 33, ¶ 42.*
[431] *IAS 1, ¶ IG6.*
[432] *IAS 1 (1997), ¶ Appendix A.*
[433] *IFRS 5, ¶¶ 28, 33(b), 33(d), 36, 37, IG Example 11.*
[434] *IAS 1, ¶ BC55.*

4.5.9.2 Titles of the Aggregate Under U.S. GAAP, this caption changes name depending on the items that follow. For example, an entity that only has discontinued operations and not extraordinary items may generally use the standard title,[435] as it is obvious that discontinued operations distinguish themselves from continuing ones. If it only has extraordinary items, it will adopt the title *income before extraordinary items*. An entity that only has extraordinary items and cumulative effect of accounting changes recognized at current method would use the name *income before extraordinary items and cumulative effect of changes in accounting principles*.[436]

4.5.9.3 Prohibition of Subaggregates Neither U.S. GAAP nor Regulation S-X accepts an intermediate aggregate between continuing and discontinued operations.[437] However, Subsection 225-10-S99-2 (FASB Statement No. 13) illustrates a subtotal for income before taxes and investment tax credit in the accounting for leveraged leases.[438] Subsection 974-10-S99-1 (Regulation S-X) requires real estate investment trusts to present an aggregate for income or loss before gain or loss on sale of property, extraordinary items and cumulative effects of accounting changes and, separately, gain or loss on sale of property (net of taxes). These two lines are between income after discontinued operations and extraordinary items. Therefore, gains or losses on disposal not arising from discontinued operations come after income from discontinued operations. However, those entities include those gains or losses in income from continuing operations to compute earnings per share.[439]

4.5.9.4 Items that Must be Included in Income from Continuing Operations U.S. GAAP has some affirmative guidance for inclusion in or exclusion of certain items from income from continuing operations. Paragraph 4.5.4 previously mentions gains or losses on disposal and impairment losses of held and used long-lived assets; gains or losses on disposal and impairment losses of long-lived assets or disposal groups that are held for sale but that are not discontinued operations; and costs associated with an exit or disposal activity. Paragraph 4.5.6 previously illustrates the presentation of business restructuring charges not associated with discontinued operations. In addition, amortization expenses and impairment losses of intangible assets, including goodwill, have a location within income from continuing operations.[440] A gain or loss from a readjustment of the net investment in a leveraged lease,[441] as well as rental costs associated with operating leases incurred during a construction period[442] also go there. As mentioned in Paragraph 4.5.7 previously, unusual or infrequent items are part of such an aggregate.[443] Enacted changes in tax laws or rates on deferred taxes as

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[435] *FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43); CON 5, ¶ 34.*

[436] *FASB Statement No. 128,* Earnings per Share*, ¶ Footnote 4; FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ Footnote 24).*

[437] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03.13, 210.5-03.14); FASB ASC 420-10-S99-1 (SEC Staff Accounting Bulletin, Topic 5-P.3, amended by SEC Staff Accounting Bulletin No. 100).*

[438] *FASB Statement No. 13, Appendix E, Schedule 4.*

[439] *FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(1)); SEC,* Financial Reporting Manual*, ¶ 2355.1.*

[440] *FASB Statement No. 142, ¶¶ 42–43.*

[441] *FASB ASC 840-30-35-40 (FASB Statement No. 13, ¶ 46); FASB Staff Position FAS 13-2,* Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*, ¶ A1.a.*

[442] *FASB ASC 840-20-45-1 (FASB Staff Position FAS 13-1,* Accounting for Rental Costs Incurred during a Construction Period*, ¶ 6).*

[443] *FASB ASC 225-20-45-16 (APB 30, ¶ 26).*

well as changes in status of an entity also affect it.[444] Income from continuing operations includes a gain or loss from a curtailment of a defined benefit pension plan directly arising from the disposal of a component that is not a discontinued operation.[445] A gain from the receipt of stock due to the conversion of a mutual insurance company into a stock enterprise goes into income from continuing operations.[446] Losses and costs incurred because of the September 11, 2001 terrorist attacks warrant continuing operations treatment.[447] Insurance enterprises that demutualize or form a mutual insurance holding company must present direct incremental costs as a single line within continuing operations.[448]

4.5.9.5 Attribution to Controlling Interest U.S. GAAP requires a parent that has partially owned subsidiaries to either present the portion of income from continuing operations attributable to the parent company in the consolidated income statement or disclose it in the notes. IFRS 5 requires the presentation of income from continuing operations and income from discontinued operations attributable to the owners of the parent on the face of the statements of income (i.e., the income statement or the statement of comprehensive income) or their disclosure in the notes. The entity must configure the portion attributable to noncontrolling interests as an allocation of results, not a deduction as expense.[449]

4.5.9.6 New Developments The *Financial Statement Presentation Project* has taken on the issue of whether to show a subtotal for income (or profit) from continuing operations.[450] The Discussion Paper would define it as the sum of the business and financing sections. It would not require a separate presentation of this subtotal, leaving entities the option to do so as part of the disaggregation guidance.[451]

4.5.10 Discontinued Operations

4.5.10.1 Separate Presentation Under U.S. GAAP, Regulation S-X, and IFRSs, discontinued operations must be a separate section from income from continuing operations (under U.S. GAAP and Regulation S-X, preceding extraordinary items).[452] In fact, enucleating results that will not be repeated for a long time is deemed to assist financial statement users in projecting cash flows.[453] Health care entities must also report discontinued operations separately from the performance indicator.[454] Under IFRS 5, an entity that presents an income statement

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[444] *FASB ASC 740-10-45-15, 740-10-45-19 (FASB Statement No. 109, ¶¶ 27, 28).*

[445] *FASB Statement No. 88, ¶ C39; FASB ASC 715-30-55-195 (FASB Implementation Guides – Q&A 88,* A Guide to Implementation of Statement 88 on Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers*, ¶ 39); FASB Implementation Guides – Q&A FASB Staff Position FAS 158-1, ¶ C39.*

[446] *FASB ASC 325-30-40-1 (EITF Issue No. 99-4).*

[447] *EITF Issue No. 01-10, ¶ 6.*

[448] *FASB ASC 944-805-45-3 (AICPA Statement of Position No. 00-3, Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts, ¶ 18), AICPA Statement of Position No. 00-3, ¶ 62.*

[449] *FASB ASC 810-10-50-1A, 810-10-55-4J (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160,* Noncontrolling Interests in Consolidated Financial Statements*); IFRS 5, ¶ 33(d).*

[450] *IASB Update, April 2004.*

[451] *DP on Presentation, ¶ 3.36.*

[452] *FASB ASC 220-10-45-7 (FASB Statement No. 130, ¶ 16); FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43); FASB ASC 225-10-S99-2, 944-225-S99-1 (Regulation S-X, ¶¶ 210.5-03(b).15, 210.7-04.13); IFRS 5, ¶¶ 33(b), 33A.*

[453] *FASB Statement No. 144, ¶ B101; IFRS 5, ¶ BC62.*

[454] *FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guide, HCO, ¶ 10.21).*

(as opposed to the single statement of comprehensive income) must display discontinued operations in that statement.[455]

> **Comment:** IAS 1 still includes discontinued operations into the list of material items to present in the statement of comprehensive income or disclose in the notes.[456] However, discontinued operations are already part of the minimum presentation content of the statements of income,[457] with a specific accounting. IAS 8 (1993), before the issuance of IAS 35, *Discontinuing Operations* (superseded by IFRS 5), included them as part of extraordinary items.[458]

4.5.10.2 Manner of Presentation Under IFRS 5, entities must present at least a single line on the face of a statement of income as an after-tax figure for discontinued operations. The Standard considers this sufficient in the light of the short horizon involved with future cash flows. Conversely, Subsection 205-20-45-3 (FASB Statement No. 144) mandates display of at least two figures: results of operations of discontinued operations and the post-tax total.[459]

> **Comment:** The illustration in Subsection 205-20-45-3 (FASB Statement No. 144) shows four amounts, the two mentioned above, a line for the related income tax expense or benefit, and parenthetical explanation of gain or loss on disposal.

4.5.10.3 Further Analysis and Disclosure of Discontinued Operations Under IFRS 5, an entity can show the details in the statement or disclose them in the notes, including a gain or a loss on discontinuance, the results from the ordinary activities of the discontinued operations, and the income tax effects of each of these two components. IFRS 5 does not require such an analysis for subsidiaries classified as held for sale on acquisition. Furthermore, IFRS 5 breaks down results from the ordinary activities of the discontinued operations into revenue, expenses, and pre-tax profit or loss.[460] U.S. GAAP simply requires note disclosure of revenue and pre-tax profit or loss.[461]

> **Example:** The SEC Staff, in its review of Form 20-F for the fiscal year ended December 31, 2005 of an Australian foreign private issuer containing financial statements prepared for the first time based on IFRSs, required note disclosure of loss on disposal. In fact, the entity had combined it in a single line under IFRSs with the loss from operations of discontinued operations, but IFRS 5 requires note disclosure in this case.[462]

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455 *IFRS 5, ¶ 33A.*
456 *IAS 1, ¶ 98.*
457 *IAS 1, ¶ 82.*
458 *IAS 8 (1993), superseded, ¶ Footnote 1 to Appendix A.*
459 *FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43); IFRS 5, ¶ 33(a); IAS 1, ¶ 82(ea), as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010), ¶ 82(e).*
460 *FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43); CON 5, ¶ 34; IFRS 5, ¶¶ 33, BC76; IAS 12, ¶ 81(h).*
461 *FASB ASC 205-20-50-1 (FASB Statement No. 144, ¶ 47.c).*
462 *SEC IFRS Reviews. Letter by the SEC, December 5, 2006. File No. 000-31212, Comment 11. Reply by the company, February 21, 2007.*

Under IFRS 5, the notes must indicate the income statement location of impairment losses on the initial and subsequent remeasurement to fair value less costs to sell of the component that is a discontinued operation, gains from any reversal of impairment, and gains or losses on disposal, if not shown separately.[463]

> **Comment:** Subtopic 205-20 (FASB Statement No. 144) has a similar provision, but its language is not clear on the level of detail of the disclosure. Literally, it mentions both the gain or loss for the entire set of these elements and the gain or loss on disposal. It appears to use *gain and loss on disposal* both in a narrow meaning and in a larger sense of the aggregate of write-down to fair value less costs to sell, any reversal, plus gain and loss from disposal. It also shows parenthetical explanation of gain and loss on disposal within results of operations of discontinued operations, which does not appear to be so technically correct.[464] IFRS 5, unlike IAS 12, does not use the expression *gains or losses on discontinuance*. By this term, IAS 12 appears to refer to the entire set of those gains and losses.[465]

4.5.10.4 Terminology IFRSs use different terminology from U.S. GAAP concerning discontinued operations.

> **Comment:** IFRS 5, unlike IAS 12, does not use the expression *results from the ordinary activities*, but *profit or loss of discontinued operations*. Instead, Subsection 205-20-45-3 (FASB Statement No. 144) refers to *results of operations of a discontinued component* (named under CON 5 as *income from operating a discontinued segment*), while it names the total post-tax results as *results of discontinued operations*. The Implementation Guidance of IFRS 5 calls the latter *profit for the period from discontinued operation*.[466]

4.5.10.5 Adjustments to Discontinued Operations Finally, current period adjustments to items of prior-period discontinued operations may call for separate classification, with disclosure of the nature and amount of each adjustment. This occurs when those items entail a direct relationship with the discontinued operations, either as a resolution of contingencies arising from them prior to disposal or pursuant to the terms of the disposal (e.g., purchase price adjustments, indemnifications, or resolution of seller's obligations), or as a settlement of employee benefit plan obligations directly related to the disposal.[467] Apart from certain exceptions, Subsection 205-20-45-5 (FASB Statement No. 144) adds that the latter case presumes that the settlement has occurred within one year of the disposal and has a verifiable cause-and-effect relationship with it. Otherwise, they are part of income from continuing operations.[468] The SEC Staff interpreted that to account for those adjustments as discontinued

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[463] *IFRS 5, ¶ 41 (c); IAS 12,* Income Taxes, *¶ 81(h).*

[464] *FASB ASC 360-10-35-40, 205-20-45-3, 205-20-50-1 (FASB Statement No. 144, ¶¶ 37, 43, 47(b)); IFRS 5, ¶¶ 20–24, 41(c).*

[465] *IAS 12, ¶ 81(h).*

[466] *FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43); CON 5, ¶ 34; IFRS 5, ¶ Implementation Guidance, Example 11; IAS 12, ¶ 81(h).*

[467] *FASB ASC 205-20-45-4, 205-20-45-5 (FASB Statement No. 144, ¶ 44); IFRS 5, ¶ 35.*

[468] *FASB ASC 205-20-45-5 (FASB Statement No. 144, ¶¶ 44(c), Footnote 25); FASB Statement No. 88, ¶¶ C37, C39; FASB Staff Position No. FAS 158-1,* Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*, ¶¶ C37, C39; IFRS 5, ¶ 35.*

operations new information about past events must have been made available before the disposal date.[469]

4.5.10.6 Attribution to Controlling and Noncontrolling Interests IFRSs require that an investor separately disclose its share of discontinued operations of an associate or joint venture accounted for at the equity method.[470] Subtopic 810-10 (ARB 51) directs a parent that has partially owned subsidiaries to either present the portion of discontinued operations attributable to the parent company in the consolidated income statement or disclose it in the notes. IFRS 5 requires the presentation of income from discontinued operations attributable to the owners of the parent on the face of the statements of income (i.e., the income statement or the statement of comprehensive income) or its disclosure in the notes. The entity must configure the portion attributable to noncontrolling interests as an allocation of results, not a deduction as expense.[471] The Implementation Guidance of IFRS 5 also shows the portion of discontinued operations attributable to noncontrolling interests.[472]

Example: The SEC Staff, in its review of Form 20-F filed under IFRSs for the fiscal year ended December 31, 2005 of a French foreign private issuer, rejected a presentation of discontinued operations net of noncontrolling interests.[473]

4.5.10.7 Items Included in Discontinued Operations U.S. GAAP specifically mentions some items that may fall in discontinued operations. They may include impairment of goodwill, as well as exit or disposal costs to the extent they are associated with a discontinued operation.[474] An entity must classify a loss from a curtailment of a defined benefit pension plan in discontinued operations to the extent it recognizes it on a component that meets the requirements for discontinued operations. Reclassification into discontinued operations as comparative information may occur when the component subsequently meets the criteria for discontinued operations.[475] Health care and other nonprofit organizations may so classify unrealized gains or losses on discontinued operations items on which they elected the fair value option under Subsection 825-10-15-7 (FASB Statement No. 159).[476] An entity must allocate interest expense to discontinued operations, with reference to debt that the buyer assumes and debt that the seller agrees to pay as part of the disposal transaction. Apportionment of other consolidated interest expenses that are not directly attributable to other operations of the entity is an option.[477] Recently, the IASB and the FASB tentatively decided that the fact that

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[469] *FASB ASC 205-20-S99-2 (SEC Staff Accounting Bulletin, Topic 5-Z.5, Classification and Disclosure of Contingencies Relating to Discontinued Operations).*

[470] *IAS 1, ¶ 82(h); IAS 28 (2010), ¶¶ 11, 19A, 39; IAS 31,* Interests in Joint Ventures, *¶ 45B.*

[471] *FASB ASC 810-10-50-1A, 810-10-55-4J (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160,* Noncontrolling Interests in Consolidated Financial Statements*); IFRS 5, ¶ 33(d).*

[472] *IFRS 5, ¶ Implementation Guidance, Example 11.*

[473] *SEC IFRS Reviews. Letter by the SEC, June 4, 2007. File No. 1-15248, Comment 1.*

[474] *FASB ASC 350-20-45-3, 420-10-45-3 (FASB Statement No. 142, ¶ 43); FASB ASC FASB Statement No. 146, ¶ 18).*

[475] *FASB Statement No. 88, ¶ C39.*

[476] *FASB ASC 825-10-15-7 (FASB Statement No. 159, ¶ 23(b)).*

[477] *FASB ASC 205-20-45-8 (EITF Issue No. 87-24,* Allocation of Interest to Discontinued Operations*).*

an item of other comprehensive income relates to discontinued operations warrants separate presentation, likely into discontinued operations.[478]

A difference between home-country GAAP and U.S. GAAP in operations that qualify as discontinued may be a case of a rather pervasive impact that forces a foreign private issuer to supplement the standard reconciliation to U.S. GAAP under Form 20-F with a reconciling column. A condensed income statement may need to follow the level of detail of Regulation S-X, Rule 10-01. Disclosure under U.S. GAAP for discontinued operations may be required in case of fundamental differences in notes. Even an Item 17 filer must present major classes of assets and liabilities classified as held for sale.[479]

4.5.10.8 Different Classification under IFRSs and U.S. GAAP Below are some examples of situations that may lead to different classification under the two bodies of standards.

Example: A foreign private issuer from the Netherlands explained to the SEC Staff, in response to its review of Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time based on IFRSs, that interests in certain entities qualified as discontinued operations under U.S. GAAP but not under IFRSs. In fact, although they had clearly distinguishable operations and cash flows, they did not represent a major line of business or geographical area, were not part of a coordinated disposal plan, nor were subsidiaries acquired exclusively for resale.[480]

Example: An Italian foreign private issuer explained to the SEC Staff, in response to its review of Form 20-F with IFRS first-time financial statements for the fiscal year ended December 31, 2005, that an operation classified as discontinued under IFRSs was not considered as such under U.S. GAAP. In fact, the issuer expected future significant continuing cash flows through active involvement with the component disposed of.[481]

Example: A British foreign private issuer explained to the SEC Staff, in response to its review of Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time based on IFRSs, that an operation was classified as discontinued under IFRSs but not under U.S. GAAP. The reason was that the transaction was subject to shareholders' approval. Pending this within the relevant deadline, the Board of Directors did not have authority to commit to the plan to sell, as required under U.S. GAAP.[482]

[478] *IASB Update, July 2009; IASB Update, March 11, 2010.*

[479] *SEC, International, November 1, 2004, ¶ VI.B,* Business Combinations: Discontinued Operations under US GAAP versus Home-country GAAP.

[480] *Response by the company to the SEC, April 26, 2007. File No. 0-22628, Comment 2 and 10. Response by the company to the SEC, February 15, 2007. Comment 10 and 18. [Online] SEC. Available at: www.sec.gov/divisions/corpfin/ifrs_reviews [last accessed January 7, 2008].*

[481] *Response by the company to the SEC, January 30, 2007. File No. 1-14970, Comment 15. [Online] SEC. Available at: www.sec.gov/divisions/corpfin/ifrs_reviews [last accessed January 7, 2008].*

[482] *SEC IFRS Reviews. Reply by the company to the SEC, January 10, 2007. File No. 1-15206, Comment 14.*

For the purpose of selected financial data under Form 20-F, the SEC Staff affirmed that in case home-country GAAP has no continuing and discontinued operations aggregates, the foreign private issuer must anyway determine the equivalent figure for continuing operations under U.S. GAAP.[483]

4.5.10.9 New Developments The *Financial Statement Presentation Project* reiterates the presentation of discontinued operations in a separate section of the statement of comprehensive income. It leaves the way open for disclosing applicable income taxes as per current IFRSs and U.S. GAAP. The statement of financial position and the statement of cash flows would also have a discontinued operations section.[484] The ED on discontinued operations would substitute disclosure of revenue and expenses with information on impairments, interest, depreciation, amortization, and any other major income and expense items.[485]

4.5.11 Results from Ordinary Activities

4.5.11.1 Evolution under IFRSs The IASB Framework acknowledges the customary practice of identifying items from ordinary activities.[486] IAS 1 (1997) also included a subtotal for results (or profit or loss, or net profit) from ordinary activities.[487] In 2002, IFRSs banned extraordinary items, which become worthless as a component.[488]

> **Comment:** Although IAS 1 deleted an aggregate for results from ordinary activities, IAS 12 still maintains an item of tax expense or income related to profit or loss from ordinary activities, as well as profit or loss from the ordinary activities of a discontinued operation.[489]

> **Comment:** The IASB Framework had two notions of ordinary activities. The first, as stated, focuses on the distinction with extraordinary activities, as well as with unusual, abnormal, and infrequent items.[490] The Common Conceptual Framework does not reiterate this comment. The second view is limited to the difference between revenues and expenses (i.e., arising from ordinary activities) and gains and losses (not necessarily arising from ordinary activities).[491] Paragraph 4.5.5 discusses gains and losses.

4.5.11.2 Titles under U.S. GAAP Under U.S. GAAP, an income statement reports a subtotal of income (loss) before extraordinary items, when those items exist. Under APB 9 and APB 30, income or loss before extraordinary items is pertinent to usual or typical business

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[483] *Form 20-F, Item 3.A.2; IPTF, May 3, 2001, ¶ VII,* Selected Financial Data.
[484] *DP on Presentation, ¶¶ 2.20, 2.21, 2.37, 2.38, 3.70; Staff Draft, ¶¶ 62, 99.*
[485] *Exposure Draft,* Discontinued Operations*, ¶ 33 (September 2008).*
[486] The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.27, 4.28; IASB Framework, ¶¶ 72, 73.*
[487] *IAS 1 (1997), ¶¶ 75(f), Appendix A.*
[488] *IAS 1, ¶¶ BC60, BC61.*
[489] *IAS 12, ¶¶ 77, 77A, 81(h)(ii).*
[490] The Conceptual Framework for Financial Reporting 2010*, ¶ 4.28; IASB Framework, ¶¶ 28 (superseded), 72.*
[491] The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.29, 4.30, 4.33, 4.34: IASB Framework, ¶¶ 74, 75, 78, 79.*

operations.[492] It becomes *income (loss) before extraordinary items and cumulative effects of changes in accounting principles* when the income statement reports these adjustments.[493] Section 250-10-45 (FASB Statement No. 154) and IAS 8 now account for the cumulative effects of a change in accounting principle retrospectively. In rare cases, however, determining the cumulative effect of a change in accounting principle may be impracticable. Section 250-10-45 (FASB Statement No. 154) does not allow reporting a voluntary change in accounting principle the income statement any longer (see Paragraph 4.5.14 following).[494] Regulation S-K requires income before extraordinary items and cumulative effect of a change in accounting principles as part of selected quarterly financial data.[495]

4.5.12 Extraordinary Items

4.5.12.1 Evolution under IFRSs As mentioned, the IASB Framework considered that the presentation of unusual, abnormal, and infrequent items enhances the forecasting ability.[496] However, this general consideration did not specifically distinguish between extraordinary and unusual or infrequent items. IAS 8 (1977) used the term "unusual" for extraordinary items and underlined that some countries denote them as "special" items. It specified that the fact of being abnormal or infrequent was not sufficient for such a characterization.[497] APB 9 also uses "special" as a synonym for extraordinary.[498] IAS 8 (1993) required separate presentation of at least a total of extraordinary items and defined them as infrequent or irregular events or transactions. Entities could show them either gross or net of tax.[499] IAS 1 now proscribes extraordinary items both in a statement of income or in the notes, as it sees them as the product of arbitrary allocation of normal business risk (the 1993 version of IAS 1 limited itself to saying that it expected them to be rare). Furthermore, the Standard reiterates the consideration of its 1993 version that nature and function, as opposed to frequency, are the features that qualify for presentation, and takes this to the extreme consequence of deleting extraordinary items.[500] As an outcome, restructuring costs are not extraordinary any longer.[501]

4.5.12.2 Separate Presentation under U.S. GAAP Under U.S. GAAP, the statements of income of commercial and industrial companies (and other companies, unless specialized industry guidance provides otherwise) must separately present extraordinary items within net income or loss.[502] Subsection 225-10-45-1 (APB 9) refers to certain specialized industries, such as investment companies, as having specific format of financial statements.[503] If practicable, an entity must display each individual item distinctly with detail of its nature, provided

[492] *APB 9, ¶ 15; APB 30, ¶ 5.*
[493] *FASB ASC 225-20-45-10 (APB 30, ¶ 11); CON 5, ¶ 34.*
[494] *FASB ASC 250-10-45-7 (FASB Statement No. 154,* Accounting Changes and Error Corrections*, ¶ 9); FASB Statement No. 154, ¶ B12.*
[495] *Regulation S-K, ¶ Item 302(a)(1).*
[496] *IASB Framework, ¶ 28 (superseded).*
[497] *IAS 8 (1977) (superseded), ¶¶ 8, 9.*
[498] *APB 9, ¶ 12.*
[499] *IAS 1 (1997), superseded, ¶¶ 36(c), 75(g); IAS 1 (2009), ¶ BC60; IAS 8 (1993), superseded, ¶¶ 6, 10(b), 11–15.*
[500] *IAS 1, ¶¶ 87, BC60-BC64.*
[501] *IASB Update, May 2002.*
[502] *FASB ASC 220-10-45-7 (FASB Statement No. 130, ¶ 16); FASB ASC 225-10-45-1 (APB 9, ¶ 6); FASB ASC 225-20-45-11 (APB 30, ¶ 11).*
[503] *FASB ASC 225-10-45-1 (APB 9, ¶ 6).*

it is individually material or it is so in conjunction with other items arising from the same single event. Otherwise, note disclosure of the single items may be an option.[504] The display of extraordinary items is net of tax, with either parenthetical explanation or note disclosure of income taxes.[505] Separate presentation as extraordinary items extends to current period adjustments of extraordinary items recognized in prior periods, unless they consist of corrections of errors, with specific disclosure of year of origin, nature, and amount.[506] Subsection 250-10-45-28 (APB 9) requires that, in the presence of extraordinary items, historical summaries of financial data also report them along this established format.[507] An investor reports its share, if material, of the extraordinary items of an equity method investee as such.[508] Health care entities and not-for-profit organizations, if not exempted, also present extraordinary items separately.[509] Finally, for interim information, Subsection 225-20-50-4 (APB 28) requires separate reporting of extraordinary items. It forbids their prorating in interim reporting.[510] Publicly traded companies that present summarized interim financial information must disclose them. In addition, their annual report or the notes to their annual financial statements must illustrate extraordinary items that occurred in the fourth quarter of the year, when they do not report financial data for that quarter.[511]

The *AICPA Accounting Trends & Techniques* records that in 2009 and 2005 no more than 1% of surveyed U.S. GAAP companies reported extraordinary items, against 7% in 2002. Debt extinguishments represented most items in 2002 and none in 2005 and beyond.[512]

4.5.12.3 Criteria for Extraordinary Items Subtopic 225-20-45 (APB 30) sets forth the criteria for defining items as extraordinary: they must be both unusual and infrequent. Therefore, extraordinary items are different from unusual or infrequent events or transactions (see Paragraph 4.5.7 previously). Although management judgment is necessary and the consideration of the context of the specific entity's environment and characteristics is determinant, clear evidence of such characteristics must exist. Unusual refers to events or transactions of a highly abnormal nature and no-more-than-incidental to an entity's normal and characteristic business. Unusual does not stand for beyond control. A transaction or event plausibly estimated to reappear in the foreseeable future would likely not be considered infrequent.[513]

> **Comment:** Thus, the concept of infrequent under U.S. GAAP is more rigorous[514] than the notion of nonrecurring that some entities use to enucleate items and create non-GAAP measures.

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[504] *APB 9, ¶ 3; FASB ASC 225-20-45-9 (APB 9, ¶ 17); APB 30, ¶ 10; FASB ASC 220-20-45-3 (APB 30, ¶ 24).*
[505] *FASB ASC 225-20-45-10 (APB 30, ¶ 11).*
[506] *FASB ASC 225-20-45-13 (APB 30, ¶ 25).*
[507] *FASB ASC 250-10-45-28 (APB 9, ¶ 27).*
[508] *FASB ASC 323-10-45-2 (APB 18, ¶ 19.d).*
[509] *FASB Statement No. 117, ¶ 7; FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guides, HCO, ¶¶ 4.10, 10.21).*
[510] *FASB ASC 225-20-50-4 (APB 28, ¶ 21).*
[511] *FASB ASC 270-10-50-1, 270-10-50-2 (APB 28, ¶¶ 30, 31).*
[512] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-18.*
[513] *FASB ASC 225-20-45-1, 225-20-45-2, 225-20-55-1, 225-20-55-2 (APB 30, ¶¶ 19, 20, 21, 22).*
[514] *FASB Statement No. 16,* Prior Period Adjustments*, ¶ 36.*

4.5.12.4 Items that are Generally Extraordinary The SEC Staff interprets that the FASB literature generally specifies the situations in which extraordinary treatment applies.[515] Firstly, U.S. GAAP lists certain items that are generally extraordinary items. APB 9 assents to the extraordinary nature of certain long-established items, such as gains or losses from unusual sale of assets not in the ordinary course of business and not object of resale business, or not usually insured losses.[516]

4.5.12.5 Items that are Always Extraordinary Secondly, certain items override the definition criteria and are always extraordinary, such as the gain or loss from discontinuing the application of FASB Statement No. 71 to all or part of the operations of a regulated enterprise.[517] Authoritative literature cites other cases, not commented here because of their past or transitory nature.[518]

4.5.12.6 Items that May be Extraordinary Thirdly, the determination of whether extraordinary treatment is appropriate may be more complex in other situations. An entity must make a determination on whether or not business interruption insurance recoveries meet the criteria of extraordinary items under Subtopic 225-20-45 (APB 30), and disclose in which captions of the income statement it included them.[519] The tax benefit due to the realization of a tax loss carryforward or carryback recorded in a previous year gives rise to an extraordinary item to the extent that the source of income in the current year comes from extraordinary items. This rule does not apply to those deductible taxable differences and carryforwards arising from a business combination that is an acquisition or to those allocated to equity.[520] A debtor's gain on restructuring debt and a gain or loss from extinguishment or modification of debt are no longer mandatorily extraordinary and are instead subject to determination under Subtopic 225-20-45 (APB 30).[521] The nature of catastrophic losses must also be determined.[522] An entity must establish the appropriate classification under Subtopic 225-20-45 (APB 30) of a gain or loss from an involuntary conversion of a nonmonetary asset to monetary asset.[523] As another instance, the SEC Staff took the view that the nonrecurring cost of an employee compensation plan offered by a government shareholder in a single reporting period as part of a privatization may qualify as an extraordinary item.[524]

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[515] *FASB ASC 980-360-S99-2 (SEC Staff Accounting Bulletin, Topic 10-E, Footnote 5).*

[516] *FASB Statement No. 135, ¶ 20.b; APB 9, ¶ 15.*

[517] *FASB ASC 980-20-40-4, 980-20-50-2 (FASB Statement No. 101, ¶¶ 6, 9, 10, 31); FASB ASC 225-20-45-8 (APB 30, ¶ 20(2)).*

[518] *FASB Technical Bulletin No. 85-1,* Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock; *FASB ASC 930-715-45-1 (EITF Issue No. 92-13,* Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992).

[519] *FASB ASC 225-30-45-1 (EITF Issue No. 01-13, ¶ 7).*

[520] *FASB ASC 740-20-45-3, 740-10-55-38 (FASB Statement No. 109, ¶¶ 37, 245).*

[521] *FASB Statement No. 145,* Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, *¶¶ 7.a, 7.b; EITF Issue No. 90-19,* Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*; EITF Issue No. 91-2,* Debtor's Accounting for Forfeiture of Real Estate Subject to a Nonrecourse Mortgage*; EITF Issue No. 96-19,* Debtor's Accounting for a Modification or Exchange of Debt Instruments.

[522] *EITF Issue No. 01-10, ¶ 5.*

[523] *FASB ASC 605-40-45-1 (FASB Interpretation No. 30, ¶ 4).*

[524] *SEC, International, November 1, 2004, ¶ XII.D,* Issuance of Government-owned Shares to Employees.

4.5.12.7 Items that are Not Extraordinary Finally, Subsection 225-20-45-5 (APB 30) precludes certain items from being extraordinary, including impairment of receivables, impairment of inventories, equipment leased to others, foreign exchange translation gains or losses, and intangible assets and deferred research and development costs. Such items may be extraordinary under rare circumstances in which they are clearly both unusual and infrequent, provided they directly arise from a significant casualty, expropriation, or application of a new legal norm.[525] Disqualified occurrences also comprise gains or losses on disposal or abandonment of owner-used tangible assets, losses arising from a strike, changes in long-term contract accruals,[526] and costs for exit or disposal activities.[527]

> **Comment:** By contrast, IAS 1 classifies some of these items when material, namely write-downs of inventories, and impairment and gains or losses on sale of tangible assets as items to separately present in the statement of comprehensive income or disclose in the notes.[528]

Gains or losses on disposal of component of an entity are part of discontinued operations (Paragraph 4.5.10 previously) under any circumstances.[529]

> **Comment:** IAS 1 still includes discontinued operations into the list of material items to separately present in the statement of comprehensive income or disclose in the notes.[530] However, discontinued operations are part of the minimum presentation content of the statements of income,[531] with their own specific accounting. IAS 8 (1993), before the issuance of IAS 35, *Discontinuing Operations* (superseded by IFRS 5), included them as part of extraordinary items.[532]

Several U.S. GAAP pronouncements preclude certain items from extraordinary classification. They encompass the adjusting of income tax expense for the undistributed earnings of subsidiaries that a parent foresees as remitted in the future;[533] income tax expense on a reduction in policyholders' surplus losses for life insurance enterprises;[534] and losses from accounts receivable from a company in bankruptcy proceedings.[535] They also include the cost of asbestos removal[536] and a material refund to customers related to revenue of a previous year

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[525] *FASB ASC 225-20-45-5 (APB 30, ¶ 24); FASB ASC 225-20-55-3, 225-20-55-4 (AICPA Interpretation, AIN-APB 30,* Reporting the Results of Operations: Accounting Interpretation of APB Opinion No. 30*, ¶ 1) illustrates examples that do qualify and others that do not qualify.*

[526] *FASB ASC 225-20-45-4 (APB 30, ¶ 23).*

[527] *FASB ASC 420-10-45-3 (FASB Statement No. 146, ¶ B53).*

[528] *IAS 1, ¶ 98.*

[529] *FASB ASC 360-10-05-5 (FASB Statement No. 144, ¶ 2); FASB ASC 225-20-45-3 (APB 30, ¶ 24).*

[530] *IAS 1, ¶ 98.*

[531] *IAS 1, ¶ 82.*

[532] *IAS 8 (1993), superseded, ¶ Footnote 1 to Appendix A.*

[533] *FASB ASC 740-30-45-2, 740-30-45-3 (APB 23,* Accounting for Income Taxes – Special Areas*, ¶¶ 12, 13).*

[534] *FASB ASC 944-740-25-3 (FASB Statement No. 60, ¶ 59).*

[535] *FASB ASC 225-20-55-4 (AICPA Accounting Interpretation AIN-APB 9,* Reporting the Results of Operations: Unofficial Accounting Interpretations of APB Opinion No. 9*, ¶ 1).*

[536] *FASB ASC 410-30-45-6 (EITF Issue No. 89-13,* Accounting for the Cost of Asbestos Removal*).*

and shown as a separate line net of taxes by public utilities.[537] A debtor's expense for the fair value of the consideration transferred in excess of the original conversion terms upon an induced conversion of debt,[538] as well as a discount that is recognized as interest expense for the amount remaining unamortized at the date of conversion of a convertible instrument with beneficial conversion features are not extraordinary in nature.[539] An excess interest accrued on increasing-rate debt paid prior to maturity adjusts interest expense and not extraordinary items.[540] An accrual for income taxes on reductions in the bad debt reserve of stock and mutual savings and loan associations and mutual savings banks is not an extraordinary item.[541] Direct incremental costs incurred by insurance enterprises to demutualize or form a mutual insurance holding company are not extraordinary items.[542] A gain or loss from settlements or curtailments of a defined benefit pension plan or the cost of termination benefits normally does not meet the criteria in Subtopic 225-20-45 (APB 30) for extraordinary items,[543] nor does a gain arising from the receipt of stock from the conversion of a mutual insurance company into a stock enterprise.[544] The cost to defend against a takeover attempt or incurred as part of a standstill agreement is not an extraordinary item,[545] nor is a write-off of unamortized deferred costs arising from a modification to or an exchange of line-of-credit or revolving-debt arrangements.[546] Extraordinary items classification does not apply to the recycling of other comprehensive income related to a cash flow hedge of debt upon extinguishment or of a forecasted debt transaction that occurs and where the debt is extinguished.[547] Losses and costs incurred because of the September 11, 2001 terrorist attacks do not warrant an extraordinary treatment,[548] nor do losses from abandonment of a nuclear plant or an electric public utility plant.[549] The same is true of proceeds from a settlement of a lawsuit with the Federal Government.[550] Certain unamortized costs of interstate operating rights of motor carriers are no longer extraordinary.[551] Costs and recoveries related to an environmental remediation

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537 *FASB ASC 980-605-50-1 (FASB Statement No. 71, ¶ 19).*

538 *FASB ASC 470-20-45-2 (FASB Statement No. 84,* Induced Conversions of Convertible Debt*, ¶ 3).*

539 *FASB ASC 470-20-45-1, 470-20-40-1 (EITF Issue No. 98-5,* Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*; EITF Issue No. 00-27,* Application of Issue No. 98-5 to Certain Convertible Instruments*, ¶ 21); EITF Issue No. 08-4,* Transition Guidance for Conforming Changes to Issue No. 98-5*;*

540 *FASB ASC 470-10-45-8 (EITF Issue No. 86-15,* Increasing-Rate Debt*).*

541 *FASB ASC 942-740-25-1 (FASB Statement No. 109, ¶ 31; APB 23, ¶ 23).*

542 *FASB ASC 944-805-45-3 (AICPA Statement of Position No. 00-3, ¶ 18); AICPA Statement of Position No. 00-3, ¶ 62.*

543 *FASB Statement No. 88, ¶¶ 48, C63, C64; FASB ASC 715-20-45-4, 715-30-55-192 (FASB Implementation Guides - Q&A 88, ¶¶ 63, 64); FASB Implementation Guides - Q&A FASB Staff Position FAS 158-1, ¶¶ 63, 64.*

544 *FASB ASC 325-30-40-1 (EITF Issue No. 99-4).*

545 *FASB ASC 225-20-55-4 (FASB Technical Bulletin No. 85-6,* Accounting for a Purchase of Treasury Shares and Costs Incurred in Defending against a Takeover Attempt*, ¶ 6).*

546 *FASB ASC 470-50-45-2, 470-50-40-21c (EITF Issue No. 98-14,* Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements*).*

547 *FASB ASC 815-30-35-44 (EITF Issue No. 00-9,* Classification of a Gain or Loss from a Hedge of Debt That Is Extinguished*).*

548 *EITF Issue No. 01-10, ¶ 6.*

549 *EITF Topic No. D-5; FASB ASC 980-360-S99-2 (SEC Staff Accounting Bulletin, Topic 10-E).*

550 *EITF Topic No. D-78, Accounting for Supervisory Goodwill Litigation Awards or Settlements.*

551 *FASB Statement No. 145, ¶ 6; FASB Statement No. 44,* Accounting for Intangible Assets of Motor Carriers *(superseded), ¶ 6.*

liability are not extraordinary.[552] Finally, FASB Statement No. 141R amended APB 30 to delete the characterization of a gain from a bargain purchase in a business combination as extraordinary. It simply requests recognition in earnings (in profit or loss, under IFRS 3). Now, as IFRS 3, it requires information on the income statement line item that comprises such a gain.[553] Paragraph 4.5.6 previously explains the classification of business restructuring charges. Authoritative literature cites other cases, not commented here because of their past or transitory nature.[554]

4.5.12.8 Attribution to Controlling Interest Subsection 810-10-50-1A (ARB 51) requires a parent that has partially owned subsidiaries to either present the portion of extraordinary items attributable to the parent company in the consolidated income statement or disclose it in the notes.[555]

4.5.12.9 New Developments The Discussion Paper of the *Financial Statement Presentation Project* did not comment on extraordinary items. The Staff Draft would now prohibit the presentation of extraordinary items. Discussion in the notes as opposed to designation as extraordinary would suffice. However, it would ban this term even in the notes.[556] The difficulties of setting a boundary that sufficiently protected against malpractices also led to such a decision.

4.5.13 Earnings

4.5.13.1 Emphasis on Financial Performance CON 1 (superseded) emphasized information about financial performance evidenced by earnings and its components as the primary focus of financial reporting.[557] CON 5 clearly underlines that earnings are the primary measure of performance during a period. However, the common conceptual framework eliminates this emphasis on the primary focus of financial reporting.[558]

> **Comment:** Much of the accounting definition and recognition of earnings relate to measuring performance and to the recognition criteria of revenues, gains, expenses, and losses.[559] In business language, *earnings* commonly denote "performance", without a specific technical accounting reference.

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[552] *FASB ASC 410-30-45-3 (AICPA Statement of Position No. 96-1, ¶ 148).*

[553] *FASB ASC 805-30-25-2, 805-30-50-1 (FASB Statement No. 141R,* Business Combinations*, ¶¶ 36, 68(o)); FASB Statement No. 141R, ¶ E10; IFRS 3,* Business Combinations*, ¶¶ 34, B64(n).*

[554] *FASB ASC 942-740-25-1 (APB 23, ¶ 23); EITF Issue No. 86-36,* Invasion of a Defeasance Trust; EITF Issue No. 87-8, Tax Reform Act of 1986. Issues Related to the Alternative Minimum Tax; *EITF Issue No. 87-22,* Prepayments to the Secondary Reserve of the FSLIC; *EITF Topic No. D-47,* Accounting for the Refund of Bank Insurance Fund and Savings Association Insurance Fund Premiums.

[555] *FASB ASC 810-10-50-1A (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160).*

[556] *Staff Draft, ¶¶ 156, BC168.*

[557] *CON 1,* Objectives of Financial Reporting by Business Enterprises *(superseded), ¶¶ 43, 55.*

[558] *CON 8,* Conceptual Framework for Financial Reporting, Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information, *¶ BC1.32;* The Conceptual Framework for Financial Reporting 2010, *¶ BC1.32.*

[559] *CON 1,* Objectives of Financial Reporting by Business Enterprises, *(superseded) ¶ 43; CON 5, ¶¶ 33–34, 36.*

4.5.13.2 Technical Meaning of Earnings In this sense, under U.S. GAAP *earnings* have a technical connotation. CON 5 defines them as net income for the period minus the cumulative effects of a change in accounting principle that are recognized in the current period.[560] In fact, CON 5 defines *earnings* as a measure of period performance that excludes items that do not relate to the current period, as the difference between asset inflows and outflows associated to cash-to-cash cycles that are completed or substantially completed during the period.[561]

Contrary to U.S. GAAP, IFRSs do not generally use the term *earnings*, apart from technical terminology, such as earnings per share, and have no such intermediate component of performance.

4.5.13.3 Evolution under U.S. GAAP Under CON 3, now superseded, *earnings* was an undefined term that was reserved for possible subcomponents of comprehensive income,[562] while the term "comprehensive income" in CON 3 had the same meaning as measure of performance that CON 1 and other U.S. Concepts give to *earnings*.[563] CON 5 expected that the notion of earnings would be subject to future evolution, also as a consequence of the debate on the concept of clean-surplus. However, in practice, different terminology, such as net income or profit or loss, is in practice synonymous with earnings.[564]

Comment: Earnings lost most of its significance after the issuance of FASB Statement No. 154, which generally shows the cumulative effect of changes in accounting policies as restatement of retained earnings.

4.5.13.4 Other Meanings of Earnings *Earnings* present mixed meanings. ATB 1 mentioned the use of *earnings* with reference to service operations as opposed to *profits* for manufacturing and mercantile industries.[565] *Earnings* may also be found in a context of management accountability and stewardship,[566] terminology now replaced by efficient and effective use of resources by management.[567] Furthermore, the term *earnings* has a specific connotation in relation to investor relations, especially to announcements to financial analysts and financial markets, as a preview of yet-to-be-published financial results, hence a basis for the formation of expectations and a starting point for analysis as opposed to a final measure of performance.[568] Business language often mentions earnings with reference to practices of "earnings management". This connotation has a relationship with the "quality of earnings" and the information value of the classification of an item into earnings versus other

[560] *CON 5, ¶¶ 34, 36, 42.*
[561] *CON 5, ¶¶ 34-36. Similarly, Accounting Terminology Bulletin No. 2 (superseded), ¶ 11.*
[562] *CON 3,* Elements of Financial Statements of Business Enterprises, *¶58.*
[563] *CON 1 (superseded), ¶¶ 42, Footnote 1, 43; CON 5, Footnote 7; CON 6, Footnote 1 and ¶ 2.*
[564] *FASB Statement No. 130, ¶ 81; CON 5, ¶¶ 33, 35, 101; Accounting Terminology Bulletin No. 2 (superseded), ¶ 11; SEC FAQ on Non-GAAP, ¶ Question 14.*
[565] *Accounting Terminology Bulletin No. 1, (superseded)* Review and Resume, *¶ 30.*
[566] *CON 1 (superseded), ¶ 51; IASB, February 20, 2007.* Conceptual Framework Project, *Minutes of Meeting, ¶ 46(d). [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*
[567] *CON 8, ¶ BC1.28;* The Conceptual Framework for Financial Reporting 2010, *¶ BC1.28.*
[568] *Performance Reporting Joint International Group (JIG), Agenda Paper 2,* History of the Performance Reporting Project, *¶ 29(i), London (January 2005) Available at: www.fasb.org [last accessed June 21, 2007].*

comprehensive income in terms of different quality of data, in the sense of greater accuracy, stability, realization, lower volatility, lower risk, etc. Finally, under Regulation S-K, earnings have a specialized meaning for the calculation of earnings to fixed charges ratio for registering debt securities.[569]

4.5.14 Cumulative Effect of a Change in Accounting Principle

4.5.14.1 The Retrospective Approach Both U.S. GAAP and IFRSs now account for changes in accounting principles retrospectively. FASB Statement No. 154 largely converged with the retrospective application provisions of IAS 8.

> **Comment:** "Accounting policies" under IFRSs correspond to "accounting principles" under U.S. GAAP.

The retrospective approach currently requires showing the cumulative effect of the change in the opening balance of retained earnings and (under IFRSs) or (under U.S. GAAP) other components of equity as appropriate, as of the earliest period presented. Current and future periods apply the newly adopted accounting principle. The opening balance of assets and liabilities as of the earliest period presented must also be affected as appropriate. The illustrations given by both pronouncements also show the restatement of the income statement of comparative periods.[570] Under U.S. GAAP, an investor reports its share, if material, of the retrospective adjustments of an equity method investee as such.[571] IAS 8 also requires the adjustment of other comparative amounts disclosed for each period presented, including historical summaries of financial data. Subsection 250-10-45-28 (APB 9) simply recommends restatement of historical summaries of financial data.[572] Paragraph 6.4.4 following explains the impact of retrospective accounting adjustments on the statement of changes in equity.

4.5.14.2 Current Effects of Historical Evolution IAS 8 is effective for annual periods beginning on or after January 1, 2005. It permitted earlier application.[573] The 1993 release of IAS 8 used to prescribe a retroactive approach to changes in accounting policies and corrections of errors as the "benchmark treatment" but allowed a prospective approach as the "alternative method". FASB Statement No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier application permitted.[574] It also adopts a retrospective approach. Prior to FASB Statement No. 154, APB 20 required retroactive treatment only in certain situations, while the so-called "current method" (also known as "cumulative-effect" or "catch-up" method) was the general rule.[575]

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[569] *Regulation S-K, Instruction 1(C) to ¶ 229.503(d).*
[570] *FASB ASC 250-10-45-5, 250-10-55-11 (FASB Statement No. 154, ¶¶ 7, A7); APB9, ¶ 18; IAS 8,* Accounting Policies, Changes in Accounting Estimates and Errors, *¶¶ 22, IG Example 2.*
[571] *FASB ASC 323-10-45-2 (APB 18, ¶ 19.d).*
[572] *FASB ASC 250-10-45-28 (APB 9, ¶ 27).*
[573] *IAS 8, ¶ 54.*
[574] *FASB ASC 250-10-15-4 (FASB Statement No. 154, ¶ 27).*
[575] *CON 5, ¶ Footnote 20.*

Comment: Therefore, in general, unless otherwise required by a specific pronouncement and except for specific situations where the retroactive method was required under U.S. GAAP, changes in accounting principles and corrections of errors made in 2005 are likely to be on a retroactive basis under IFRSs and on a catch-up basis under U.S. GAAP. Thereafter, they are both likely to be on a retroactive method. It would be more common to find a catch-up approach used under both U.S. GAAP and IASs for accounting changes made before 2005.

However, Section 250-10-45 (FASB Statement No. 154) now clarifies that under no circumstances must the cumulative effect of a voluntary change in accounting principle affect the income statement.[576]

Comment: This does not exclude transitional provisions of a specific pronouncement imposing an accounting similar to the current method. Furthermore, Subsection 250-10-S99-3 (SAB 5-F) does not allow an adjustment of beginning retained earnings without restating prior periods' financial statements. An entity that does not restate because the cumulative effect is immaterial must include the impact in current period net income, but not in a specific line.[577]

Under the current method, a change in accounting principle used to affect the income statement, which placed an aggregate for income before cumulative effects of a change in accounting principle after extraordinary items and before net income. Regulation S-X also requires a caption for cumulative effects of changes in accounting principles, but not an income or loss subtotal.[578] Pro forma information of income before extraordinary items and net income was required on the face of the income statement for all periods presented. Few circumstances required a retroactive approach, as the case of a change from LIFO to another inventory method, a change in method of accounting for long-term contracts, or a change to or from the full cost method for exploration costs in the extractive industries. Retrospective application also comprised a change from retirement-replacement-betterment accounting to depreciation accounting, any change by a closely held company that for the first time issued financial statements for the purpose of obtaining additional equity capital, effecting a business combination, or registering securities, and a change that was required by an authorative pronouncement that had no transitional provisions.[579] APB 20 did not explicitly require retrospective application for the latter but this was the general practice.

Comment: The "current method" was similar to the then superseded alternative treatment allowed by IAS 8, which presented the cumulative effect of a change in accounting policy as of the beginning of the current period in the income statement. However, this was different from the allowed alternative treatment for correction of errors because the alternative treatment did not use a single line.

[576] *FASB ASC 250-10-45-6, 250-10-45-7 (FASB Statement No. 154, ¶¶ 8, 9); FASB Statement No. 154, ¶¶ B12, C19; IAS 8, ¶¶ 24, 25.*

[577] *FASB ASC 250-10-S99-3 (SEC Staff Accounting Bulletin, Topic 5-F,* Accounting Changes Not Retroactively Applied Due to Immateriality*).*

[578] *FASB ASC 225-10-S99-2, 944-225-S99-1, 942-225-S99-1 (Regulation S-X, ¶¶ 210.5-03.18, 210.7-04.16, 210.9-04.19).*

[579] *FASB Statement No. 73,* Reporting a Change in Accounting for Railroad Track Structures*, ¶ 2; FASB Statement No. 106, ¶ Footnote 31; APB 20, ¶¶ 27, 29; CON 5, ¶ 34.*

Pro forma information had to be shown, if practicable. According to the "current method" under APB 20, actual and pro forma amounts for the current period differed because pro forma calculation did not include the cumulative-type effect of the change. Pro forma income before extraordinary items and net income also included indirect effects. Now, Subtopic 250-10 (FASB Statement No. 154) measures retrospective application of a change in accounting principle to the direct effects of the change, including related tax implications and any impairment adjustments. It recognizes any indirect effects in the period of the accounting change. In such a period, both the amount recognized and the portion that is attributable to each prior period presented must be disclosed in aggregate and per share amounts.[580] Contrary to U.S. GAAP, IAS 8 does not make a distinction between the direct and indirect effects of a change in accounting policy.

4.5.14.3 Impracticability Exception Both Subtopic 250-10 (FASB Statement No. 154) and IAS 8 now have an impracticability exception to the retrospective accounting for a change in accounting principle. When it is impracticable to determine the cumulative effect at the beginning of the current period, they apply the new accounting principle prospectively from the earliest date practicable. If it is impracticable to determine the period-specific effects, the cumulative-type adjustment affects the beginning balance of retained earnings of the first feasible period. Previously, under U.S. GAAP, if the cumulative effect could not be determined or reasonably estimated in the cases in which APB 20 required retrospective application, an entity had to show the effect of changes on the current income statement and reasons given in the notes.

Comment: The impracticability exception is not necessarily equivalent to prospective application. In fact, impracticability of determining the period-specific effects on comparative information for one or more prior periods presented is a limited retrospective application.[581] Instead, prospective application pertains to when even the cumulative effect as of the beginning of the current period is undeterminable, as in that case no form of retrospective application is possible. Therefore, prospective application under the previous version of IAS 8 would only have corresponded to this particular case of the current impracticability exception. However, it is evident that although the income statement does not report a line for cumulative impact, some of those cumulative effects may anyway be included in profit or loss under the impracticability exception. For example, if the beginning balance of inventories is at FIFO and the ending balance follows another method, the part of the change included in current cost of sales may include amounts related to prior periods.

4.5.15 Net Income or Profit or Loss

IFRSs use the term "profit or loss" as U.S. GAAP uses "net income" or "net loss", although IAS 1 clarifies that other terms, such as net income, are acceptable.[582] ATB 2 suggested the use of *income* as opposed to *profit*.[583] The IASB Framework and IFRSs generally use the term "income" for revenues and gains.[584]

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[580] *FASB ASC 250-10-20, 250-10-50-1 (FASB Statement No. 154, ¶¶ 2g, 2i, 17); FASB Statement No. 154, ¶ B33; APB 20, ¶ Footnote 6 to ¶ 19.*

[581] *FASB Statement No. 154, ¶ B11.*

[582] *IAS 1, ¶ 8.*

[583] *Accounting Terminology Bulletin No. 2, (superseded) ¶ 10.*

[584] The Conceptual Framework for Financial Reporting 2010*, ¶ 4.29; IASB Framework, ¶ 74; IAS 1, ¶¶ 7, 9.*

Comment: The IASB Framework uses the terms "profit" or "profits" as the difference between income (i.e., revenues and gains) and expenses. In particular, profit is a function of the capital maintenance theory adopted.[585] In that context, it uses profit in a sense similar to comprehensive income, therefore including both net income recognized in the income statement and other items of income and expenses recognized outside the income statement.

Comment: Interestingly, the Exposure Draft on presentation of other comprehensive income showed illustrative statements that use net income and profit for the year interchangeably.[586] The 2011 Amendments to IAS 1 use the term *profit or loss*.

Under U.S. GAAP, agricultural cooperatives use the terminology of earnings for net income, or substitutes such as margins, net proceeds, or savings.[587] Under U.S. GAAP, "results of operations" is a generic term used as a synonym for net income.[588] However, it may be found to mean comprehensive income,[589] and sometimes revenues and income from continuing operations.[590] *Results of operations* is also the technical meaning of the use of the statement of income and the statement of retained earnings together or their combination in the form of a combined statement of income and retained earnings.[591] IFRSs do not adopt such a term.

4.5.16 Other Comprehensive Income in the Statements of Income

This paragraph illustrates presentation and main disclosure requirements for other comprehensive income with reference to the statement of other comprehensive income and related notes. Nonetheless, it mentions some aspects of the statement of the financial position to place the discussion in the right context. Paragraph 6.6.1 following includes a discussion on related requirements in the statement of changes in equity and respective notes.

4.5.16.1 Minimum Line Items or Disclosures Exhibit 4-8 to Exhibit 4-19 list items of other comprehensive income that an entity must show on the face of the statement of comprehensive income and those that it can alternatively disclose in the notes. Exhibit 4-7 reports a general key to those Exhibits.

With regard to recurring fair value measurements subsequent to initial recognition of assets and liabilities using significant unobservable inputs (Level 3 of the fair value hierarchy), FASB Statement No. 157 requires segregation of total gains or losses for the period that

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[585] The Conceptual Framework for Financial Reporting 2010, *¶¶ 4.58; IASB Framework, ¶ 103.*
[586] *Exposure Draft,* Presentation of Items of Other Comprehensive Income, *¶ IG5 (May 2010).*
[587] *FASB ASC 905-205-45-1 (AICPA Statement of Position No. 85-3,* Accounting by Agricultural Producers and Agricultural Cooperatives, *¶ 14).*
[588] *For example: FASB ASC 225-10-15-3 (APB 9, ¶ 6); APB 9, ¶ 7 and FASB ASC 810-10-10-1 (ARB 51, ¶ 1).*
[589] *For example: FASB ASC 715-20-50-1 (FASB Statement No. 132(R), ¶ 5).*
[590] *FASB Statement No. 141(R), ¶ B426.*
[591] *APB 9, ¶ 7; CON 5, ¶¶ 24, 30, 33.*

Exhibit 4-7 General Key to the Exhibits Relating to Items of the Statements of Income

Occurrences mentioned are based on requirements in accounting pronouncements, although they should not be construed as being exclusive. However, the Exhibits may report some nonpromulgated practice in their footnotes. Presentation of other items on the face of the statement may be customary according to current accounting practice. The reconciliation would be adapted to an entity's specific circumstances. The fact that there is no specific separate display or disclosure requirement for a certain item does not mean that entities may not present that item in the financial statements or disclose it in the notes depending on the specific case. Furthermore, under IFRSs and U.S. GAAP an entity may show additional content based on the relevant disaggregation guidance. The Exhibits do not report any items for which accounting pronouncements do not specify any statement or for which they simply require note disclosures.

The categories shown in the first column are based on a classification that accommodates U.S. GAAP, IFRSs, and SEC requirements, with a terminology that is sometimes adapted to reflect common features, and therefore must not be intended to be prescriptive. The Exhibits do not indicate whether companies should present items as headings, captions, line items, or subclassifications, as this depends on the specific circumstances, unless indicated by a specific accounting pronouncement. IFRSs do not mandate subtotals on the face of the statement of comprehensive income other than profit or loss and comprehensive income. When the column relating to SEC guidance indicates that there is no specific separate display requirement, this means that no requirement in addition to what is stated in U.S. GAAP for nonpublic entities exists. Form 20-F refers to Regulation S-X for the presentation of financial information in a registration statement or report (Form 20-F, General Instruction B(d)). For SEC registrants this column is in addition to what is reported in the U.S. GAAP column. The Exhibits do not report items prescribed by transitional provisions. The Exhibits do not include any statutory accounting practices. For the sake of completeness, the Exhibits may include some reference to not-for-profit organizations and not-for-profit business-oriented health care entities. Finally, the Exhibits do not report items prescribed by transitional provisions. The Exhibits mainly follow a classification of expenses by function. Under IFRSs, a structure by nature is possible. The U.S. GAAP column reflects a multi-step statement under U.S. GAAP. Where not otherwise referenced, location of items is based on accounting practice.

The Exhibits refer to the statement of comprehensive income and report a subtotal for profit or loss (under U.S. GAAP, net income) and a total for comprehensive income. To the extent that an entity is permitted to and presents an income statement (i.e., under ASU 2011-05, a statement of net income or, under the 2011 Amendments to IAS 1, a separate statement of profit or loss) the part of the Exhibits up to such a subtotal is illustrative of the minimum content of the income statement. To the extent that an entity uses a single statement of comprehensive income (i.e., under ASU 2011-05, a continuous statement of comprehensive income or, under the 2011 Amendments to IAS 1, a statement of profit or loss and other comprehensive income) or is permitted to and presents a second statement of comprehensive income (i.e., a statement of income and comprehensive income, or a statement or earnings and comprehensive income, now under ASU 2011-05 called a statement of other comprehensive income and under the 2011 Amendments to IAS 1 called a statement presenting comprehensive income), the part of the Exhibits from profit or loss to comprehensive income is illustrative of the minimum content of that statement. Under ASU 2011-05, the statement of changes in equity is no longer an option to display comprehensive income and other comprehensive income. This is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

When the Exhibits refer to a certain specialized industry, please refer to the chapter on the statement of financial position for a listing of the types of companies in such an industry. The Exhibits do not report items that are common to both specialized industries and other industries, because they have already been shown in the Exhibits applicable to commercial, industrial, and most other companies. Any other applicable requirements that are irrespective of the type of industry may apply. The expression "no specialized industry requirement" means that accounting pronouncements for a certain specialized industry do not mandate any specific presentation or disclosure apart from that required of all companies as shown in that Exhibit. When the Exhibit indicates a specific item under specialized industry accounting pronouncements, display or disclosure of additional requirements may still be needed based on general requirements for all types of industries. In the column that refers to the SEC guidance "no specialized industry requirement" indicates that there is no requirement in addition to that already stated in the column relating to U.S. GAAP, as applicable. The Exhibits relating to items that an entity may either present on the face of the statement of financial position or disclose in the notes omit items with no specialized industry requirement under all sets of standards.

* *Parenthetical explanation is an option.*

are recognized in earnings and in other comprehensive income.[592] Similar disclosures are contained in IFRS 13 and the March 2009 Amendment to IFRS 7.[593]

4.5.16.2 Classification by Nature Both U.S. GAAP and IFRSs require classification of items of other comprehensive income by nature in the statement that shows other comprehensive income.[594]

4.5.16.3 Components of Other Comprehensive Income U.S. GAAP provides an inventory of items of other comprehensive income, from existing pronouncements on the subject.[595] Health care entities must also report items of other comprehensive income separately from the performance indicator, which is an equivalent of income from continuing operations for business entities.[596] IAS 1 lists components of other comprehensive income, such as currency translation adjustment, changes in revaluation surplus, and actuarial gains and losses on defined benefit plans when an entity elects their recognition in the statement of comprehensive income (prior to the 2011 revision of IAS 19), or remeasurements of defined benefit plans under IAS 19 (2011). Other comprehensive income also comprises unrealized gains or losses on available-for-sale financial assets (prior to IFRS 9) and unrealized gains and losses on hedging instruments in a cash flow hedge.[597] Items that have recently been added include gains and losses from investments in equity instruments measured at fair value through other comprehensive income[598] and changes in the fair value of a financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of the liability, unless this creates or enlarges an accounting mismatch.[599] IAS 12 distinguished items of other comprehensive income from items that are recognized directly in equity, such as retrospective application of a change in accounting policies, correction of an error, and the equity component of a compound financial instrument.[600]

> **Planning Point:** This listing is not comprehensive, as other items are part of other comprehensive income under IFRSs (or, better, several variants of the items mentioned exist). Therefore, this list might be misleading as part of a definition if taken as exclusive.

According to the *AICPA Accounting Trends & Techniques*, cumulative translation adjustment accounted for approximately 31% in 2009 and 33% in 2005 of the components of other comprehensive income that were disclosed by the U.S. GAAP companies surveyed, minimum

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[592] *FASB ASC 820-10-50-1, 820-10-50-2, 820-10-50-3, 820-10-55-62, 820-10-55-63 (FASB Statement No. 157, ¶¶ 32, A35), as amended by FASB ASU No. 2010-06 and by ASU No. 2011-04.*

[593] *IFRS 13, ¶ 93(f); Amendments to IFRS 7 Financial Instruments,* Improving Disclosures about Financial Instruments*, ¶ 27B(d) (March 2009), deleted by IFRS 13.*

[594] *FASB ASC 220-10-45-13 moved to 220-10-45-1C (FASB Statement No. 130, ¶¶ 14, 17); IAS 1, ¶ 82A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010), ¶ 82(g).*

[595] *FASB ASC 220-10-55-2 (FASB Statement No. 130, ¶¶ 17, 39), moved to FASB ASC 220-10-45-10A by ASU 2011-05.*

[596] *FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guide, HCO, ¶ 10.21).*

[597] *IAS 1, ¶ 7.*

[598] *IFRS 9,* Financial Instruments*, ¶ C12 (November 2009).*

[599] *IFRS 9, ¶ 5.7.7.*

[600] *IAS 12, ¶ 62A.*

pension liability for approximately 27% in 2005 and defined benefit post-retirement plan adjustments for 30% in 2009, changes in fair value of derivatives for approximately 22%, and unrealized gains or losses on certain investments for approximately 17–18%.[601]

4.5.16.4 New Developments in Presentation Under the 2011 Amendments to IAS 1, the continuous statement of profit or loss and other comprehensive income or the statement presenting comprehensive income must show a total for other comprehensive income and a total for comprehensive income and a line item for each of its components. Companies must segregate items of other comprehensive income that are subject to reclassification to profit or loss from those that are not. Due to the difference between the two bodies of standards, ASU 2011-05 has no requirement for the distinction of items of other comprehensive income that are recycled from those that are not.[602] Under the *Financial Statement Presentation Project*, the statement of comprehensive income would indicate the type of activity (i.e., operating, investing, financing, or discontinued operations) to which each item of other comprehensive income does or will relate, except for foreign currency translation adjustment on a consolidated subsidiary or, under IFRSs before IFRS 11, on a proportionately consolidated joint venture.[603]

4.5.16.5 Foreign Currency Adjustment Subsection 830-30-45-12 (FASB Statement No. 52) and Subsection 220-10-45-10A (FASB Statement No. 130, as amended by ASU 2011-05) display the current portion of foreign currency translation adjustment in other comprehensive income in the statement that shows comprehensive income. Items include gains or losses on foreign currency transactions designated as and effective economic hedges of a net investment in a foreign entity and gains or losses on intercompany foreign currency transaction that are in substance part of a net investment in a foreign operation.[604] IAS 21 generically mentions disclosure for the statement of comprehensive income, while separate presentation of cumulative translation adjustment in a separate component of equity comes in the statement of financial position.[605] IFRSs call translation adjustment "gains or losses arising from translating the financial statements of a foreign operation", or "net exchange difference recognized in other comprehensive income and accumulated in a separate component of equity", or "(cumulative) translation differences".[606]

The *Financial Statement Presentation Project* has been discussing accumulated foreign currency translation adjustment. It has evidenced it as having both some of the characteristics that have been associated with other comprehensive income as well as other attributes that would not be typical of such a category, for example being nonexceptional, indeed a recurring and operating item. In particular, translation adjustment may comprise large and volatile unrealized holding gains or losses, which are related to market value change and relatively beyond control of management (although geographical areas of presence and hedging strategies may

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[601] *AICPA ATT 2010 and AICPA ATT 2006, ¶¶ Table 4-3.*

[602] *FASB ASC 220-10-45-1A (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8); Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, ¶ 81A.*

[603] *DP on Presentation, ¶ 3.25; Staff Draft, ¶¶ 104, 139, 151, 162.*

[604] *FASB ASC 830-20-35-3(a), 830-20-35-3(b) (FASB Statement No. 52, ¶ 20); FASB ASC 220-10-55-2 moved to 220-10-45-10A, (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05).*

[605] *FASB ASC 830-30-45-12 (FASB Statement No. 52, ¶ 13); IAS 21, ¶¶ 39(c), 41, 52(b).*

[606] *IFRS 1, ¶ D13; IAS 1, ¶ 7; IAS 21, ¶ 52(b).*

be selected).[607] As to the categorization working principle, foreign currency translation adjustment poses the particular issue that while on parent- or investor-only financial statements it may be classified in the same category as that of the equity method investee to which it relates, on consolidated financial statements there is no single asset or liability to which it may be associated. This would open to the alternatives of either allocating it to several categories in case of consolidated subsidiaries or proportionately consolidated joint ventures (likely a costly, cumbersome, and relatively arbitrary process), or presenting it in the category which represents the predominant characteristic of the underlying investment. Alternatively, it would be presented in the operating category, or in an "other business profit income" or equivalent category, as a separate section. The category where the investment was prior to consolidation or where it is displayed in the parent's separate financial statements could be another option. Consistency with the net investment concept would dictate no allocation, because only net assets are exposed to foreign currency risk. Finally, the issue of allocating foreign currency translation has an impact in defining whether there should be a separate section for other comprehensive income in the financial statements.[608] Based on the Discussion Paper and Staff Draft of the *Financial Statement Presentation Project*, identification of the sections of categories would not be required for foreign currency translation adjustment on a consolidated subsidiary (or a proportionately consolidated joint venture under IFRSs before IFRS 11). Conversely, allocation of gain or loss on remeasurement of the financial statements of an entity into its functional currency would follow the same sections or categories as the underlying assets and liabilities.[609] An additional issue has been whether to allocate the impact of recycling into various categories. An approach would be to display the foreign currency translation in an "acquisitions and disposals" section that is recycled on disposal of the net investment. This is related to the concept of "integrated basket transactions", of which the sale or liquidation of an investment in a consolidated subsidiary, proportionately consolidated jointly controlled entity (not of equity method investments) would be an example. The concept of basket transactions includes both the acquisition and the disposal of multiple assets or a combination of assets and liabilities. If the disposal meets the definition of a component of an entity, the note would also give disclosures about discontinued operations.[610]

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[607] *IASB/FASB, Financial Statement Presentation Project, Agenda Paper 3,* Categorization in a Statement of Earnings and Comprehensive Income*, ¶ 51 (June 2005); Performance Reporting Joint International Group (JIG) on Performance Reporting, European CFO Task Force, Presentation by Guido Kerkhoff (June 14–15, 2005) Available at: www.fasb.org [last accessed June 21, 2007].*

[608] *FASB Memorandum No. 50A-D,* Financial Statement Presentation - Disaggregating Changes in Assets and Liabilities, Presentation of Other Comprehensive Income Items, and Cash Equivalents*, ¶¶ 71, 72, 74, 77 (March 27, 2007) Available at: www.fasb.org [last accessed June 21, 2007]; IASB, Financial Statement Presentation Project, Agenda Paper 15A,* Other Comprehensive Income*, ¶¶ 21, 23, 24 (December 14, 2006) Available at: www.iasb.org [last accessed June 21, 2007]; IASB, Financial Statement Presentation Project, Agenda Paper 9B,* Other Comprehensive Income Presentation*, ¶¶ 28, 31, 36, 37, 41 (March 22, 2007) Available at: www.iasb.org [last accessed June 21, 2007]; IASB, Financial Statement Presentation, Agenda Paper 3B,* Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities*, ¶¶ 41, 43 (June 19, 2007) Available at: www.iasb.org [last accessed June 21, 2007].*

[609] *DP on Presentation, ¶¶ 3.25, 3.40, 3.63, 3.68, 3.69; Staff Draft, ¶¶ 138, 139, BC162, BC165–BC167.*

[610] *Financial Statement Presentation Project, Agenda Paper 9B,* Other Comprehensive Income Presentation*, ¶ 34 (March 22, 2007) Available at: www.iasb.org [last accessed June 21, 2007]; IASB, Financial Statement Presentation Project, Agenda Paper 3A,* Basket Transactions and Foreign Currency Translation Adjustments*, ¶¶ 3, 44–45 (June 19, 2007) Available at: www.iasb.org [last accessed June 21, 2007].*

4.5.16.6 Net Investment Hedges FASB Statement No. 133 used to include the component of other comprehensive income referred to the effective portion of a gain or loss on net investment hedges into cumulative translation adjustment.[611]

> **Comment:** IAS 39 does not state whether an entity should display the component of other comprehensive income referred to the effective portion of a gain or loss on net investment hedges separately from translation differences. IFRIC 16 confirms that the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment is included with the foreign exchange differences arising on translation and that the reclassification adjustment comes from the foreign currency translation reserve. However, the amount that is reclassified in respect of cumulative gain or loss on the hedging instrument that was determined to be an effective hedge under IAS 39 is logically different from the amount that is reclassified in respect of exchange differences on the net investment in that foreign operation in accordance with IAS 21. This standard requires presentation of the latter cumulative amount in a separate component of equity in the statement of financial position. IAS 39 requires the identification of the effective hedge for recognition purpose.[612]

FASB Statement No. 161 amends FASB Statement No. 133 to require, among other disclosures, tabular-format information about fair value amounts and the line item(s) in the statement of financial position of derivative and nonderivative instruments that are designated and qualify as hedging instruments of foreign currency exposure of a net investment in a foreign operation. An entity must separately present asset and liability instruments, segregated by hedging and no-hedging designations, and by type of derivative contract. For both cash flow and net investment hedges and by type of derivative contract, it must also separately display gains and losses reported in other comprehensive income on derivative hedging instruments. It must segregate the effective portion of gains and losses on derivative instruments recognized in other comprehensive income in the current period, the amount reclassified into earnings during the current period, and the ineffective portion, and the portion excluded from the assessment of hedge effectiveness.[613] IFRS 7 requires the disclosure, among others, of each type of hedge, the hedge risk, the financial instruments designated as hedging instruments, and their fair values at the reporting date. For net investment hedges, an entity must also disclose the ineffectiveness recognized in profit or loss.[614] Except for the ineffectiveness of net investment hedges, IAS 32 contained similar disclosures.

4.5.16.7 Cash Flow Hedges Contrary to IAS 39, Subtopics 815-10 and 815-30 (FASB Statement No. 133) require a separate presentation of the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments within other comprehensive income. The statement of financial position or the statement of changes in equity or the notes where the components of accumulated other comprehensive income are disclosed must also include the beginning and ending accumulated derivative gain or loss, the net gain or loss that arises in the period, and respective net reclassification

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[611] *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, ¶ 45(c) (superseded).*
[612] *IAS 39, ¶ 102(a); IFRIC 16, ¶¶ 3, 16-17, BC33–BC34.*
[613] *FASB Statement No. 161,* Disclosures about Derivative Instruments and Hedging Activities*, ¶ 3.*
[614] *IFRS 7, ¶¶ 22–24.*

adjustments.[615] In addition to the information mentioned above, Subsection 815-30-50-1 (FASB Statement No. 133) requires the disclosure, among others things, of which transactions or events would trigger recycling, the estimated net amount that is expected to be recycled in the following 12 months, and the amount that has been recycled because of the probability that the forecasted transaction would not occur.[616] Among other disclosures, for cash flow hedges IFRS 7 requires information on the amount recognized in other comprehensive income during the period, reclassification adjustments of the period, with statement of comprehensive income line item detail, the ineffective portion, in what period the cash flows are expected to occur, and when they are expected to affect profit or loss.[617]

The *Financial Statement Presentation Project* has discussed different views for presentation of cash flow hedging. One approach is to relate gains and losses to the section, category, or subcategory of the statement of comprehensive income that corresponds to that of the asset or liability that originates the cash flows to hedge. Another way is to link them to the section, category, or subcategory that will be affected by the forecast transaction when it occurs.[618] The Discussion Paper and the Staff Draft of the *Financial Statement Presentation Project* have selected this approach.[619] Based on a contrasting approach, the hedging instrument would be in the section of the statement of financial position that corresponds to the classification of gains or losses in the statement of comprehensive income.[620] Another option discussed was to create specific categories relating to both the operating and financing sections in the statement of comprehensive income.[621] The IASB and the FASB *Financial Instruments Project* will pursue a review of hedge accounting.

4.5.16.8 Available-for-Sale Financial Assets Subtopic 320-10 (FASB Statement No. 115) simply requires the disclosure of the aggregate fair value of available-for-sale securities, and total gains (or total losses), by major security type, for securities with net gain (or net loss) in accumulated other comprehensive income. However, Subtopic 220-10 (FASB Statement No. 130, as amended by FASB Statement No. 158 and ASU 2011-05) shows those items on the face of the statement of comprehensive income. This extends to unrealized gains and losses on transfer of held-to-maturity debt securities to the available-for-sale category.[622] It also requires proceeds from sale, realized gross gains and losses recycled to earnings, gross gains and gross losses from transfer into the trading category, disclosure of whether specific identification, average cost or other basis is used to determine the sale and transfer amount of a security, and

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[615] *FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05); FASB ASC 815-10-50-4C, 815-30-45-1, 815-30-50-2 (FASB Statement No. 133, ¶¶ 44C(b), 46, 47).*

[616] *FASB ASC 815-30-50-1 (FASB Statement No. 133, ¶ 45(b)).*

[617] *IFRS 7, ¶¶ 23, 24(b).*

[618] *IASB, Financial Statement Presentation Project, Agenda Paper 9A,* Implications of Scope Change*, ¶ 14 (June 19, 2008) Available at: www.iasb.org [last accessed July 28, 2008].*

[619] *DP on Presentation, ¶ 3.39; Staff Draft, ¶¶ 103, 104.*

[620] *IASB, Financial Statement Presentation Project, Agenda Paper 15A,* Other Comprehensive Income*, ¶ 26 (December 14, 2006).*

[621] *IASB Update, July 2002.*

[622] *FASB ASC 320-10-45-1, 320-10-35-10(c), 320-10-50-2 (FASB Statement No. 115, ¶¶ 15, 17, 19); FASB ASC 220-10-55-2 moved to 220-10-45-10A 220-10-55-5, 220-10-55-7, 220-10-55-8 (FASB Statement No. 130, ¶¶ 17, 130, 131, as amended by ASU 2011-05).*

the amount in net unrealized holding gain or loss arising in the period.[623] An entity must also disclose contractual maturities of available-for-sale debt securities, the net carrying amount of securities transferred from the held-to-maturity category, and the circumstances for the transfer, as these are supposed to be rare.[624] Under IFRS 7 prior to amendments by IFRS 9, an entity has to disclose net gains or net losses on available-for-sale financial assets either on the face of the statement of comprehensive income or in the notes, separately showing current-period amounts and reclassification adjustments. It also has to describe the criteria used for designating financial assets as available-for-sale. As part of the market risk disclosures, the sensitivity analysis of equity to each type of market risk to which the entity is exposed at the reporting date also has to include the impact of available-for-sale financial assets.[625] Of course, under both sets of standards, such disclosures are in addition to those generally required for other comprehensive income.

If an IFRSs first-time adopter that under previous GAAP used to measure certain investments at fair value and classify the change in fair value outside profit or loss reclassifies those financial assets as available-for-sale on initial application of IAS 39 (prior to IFRS 9), it has to recognize the pre-IAS 39 revaluation gain in a separate component of equity.[626]

Comment: The 2007 Revision of IAS 1 did not amend this "separate component of equity" to other comprehensive income. The December 2009 version of IFRSs maintains this terminology. Hence, an entity arguably must display it separately from other comprehensive income that is accumulated after the initial adoption of IAS 39. According to a different opinion, the pre-IAS 39 component would be accounted in the same equity reserve.[627] In any case, in the pre-IFRS 9 accounting, subsequent reclassifications to profit or loss on derecognition or impairment apply to both components of equity. IFRS 9 amends IFRS 1 to consider a reclassification to instruments at fair value through other comprehensive income. In such a case a subsequent derecognition does not determine a reclassification adjustment but simply an elective transfer to a different caption in equity.[628]

The *Financial Statement Presentation Project* has discussed how to display gains and losses on available-for-sale financial assets. It considered separate line items for realized and unrealized gains and losses in the investment income category. Alternatively, the cohesiveness principle would lead to classifying gains and losses in the same category as that of the related security on the face of the statement of financial position (for nonfinancial institutions, generally, financing or investing categories). Finally, fair value changes in financial instruments would be candidates for inclusion in the "remeasurement" classification in the financial statements.[629]

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[623] *FASB ASC 320-10-50-9 (FASB Statement No. 115, ¶¶ 21(a)–(d)).*

[624] *FASB ASC 320-10-50-2, 320-10-50-3 (FASB Statement No. 115, ¶ 20); FASB ASC 320-10-50-10 (FASB Statement No. 115, ¶ 22); FASB Statement No. 115, ¶ 85.*

[625] *IFRS 7, ¶¶ 20(a)(ii) (deleted by IFRS 9), 40(a), B5(b) (deleted by IFRS 9), B27 (amended by IFRS 9).*

[626] *IFRS 1, ¶ IG59.*

[627] *ABI – Associazione Bancaria Italiana, Soluzioni IAS No. 16 (March 10, 2006).*

[628] *IFRS 1, ¶ IG59 (amended by IFRS 9).*

[629] *Performance Reporting Joint International Group (JIG), January 2005. Agenda Paper 2,* History of the Performance Reporting Project*, ¶ 22 London. [Online] FASB. Available at:* www.fasb.org *[last accessed June 21, 2007]; FASB/IASB, October 24, 2006. Financial Statement Presentation Project, Agenda Paper 6C/FASB Memorandum 44C,* Measurement; OCI and Recycling; the Statement of Comprehensive Income*, ¶ 41. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007];*

After IFRS 9, which eliminated available-for-sale financial assets, the topic remains with U.S. GAAP only. The Staff Draft keeps unrealized gains or losses on available-for-sale securities in the other comprehensive income section of the statement of comprehensive income and labels them as operating activities.[630]

4.5.16.9 Other-than-Temporary Impairment of Available-for-Sale and Held-to-Maturity Securities In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2.[631] In the context of the financial markets crisis, it follows the Emergency Economic Stabilization Act and the SEC study on mark-to-market accounting in late 2008.[632] An entity must recognize the amount of the total other-than-temporary impairment for an available-for-sale or held-to-maturity debt security related to the credit loss in earnings, while the amount of the total other-than-temporary impairment related to all other factors in other comprehensive income, net of applicable taxes. The statement that reports the components of accumulated other comprehensive income (i.e., the statement of financial position or the statement of changes in equity) or the notes must separately disclose the amounts related to held-to-maturity and available-for-sale securities for which the entity has recognized a portion of the other-than-temporary impairment in earnings. The statement of earnings (i.e., the income statement or the statement of comprehensive income) must show the current period net impairment loss recognized in earnings as the difference between total other-than-temporary impairment loss and the portion recognized in other comprehensive income. These formats of presentation also apply to equity available-for-sale securities. The FSP supplements some of the disclosures required by FASB Statement No. 115 and also introduces new ones, including a tabular rollforward of the credit losses recognized in earnings. The FSP is effective for interim and annual periods ending after June 15, 2009. It applies to existing and new investments held as of the beginning of the interim period in which the entity adopts it. Restatement of comparative information is not mandated.

On March 20, 2009, the IASB published a request for views on certain FASB Proposed FSP, including Proposed FSP No. FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (then FSP FAS 115-2 and FAS 124-2 and FSP EITF 99-20-1).[633] On April 24, 2009, the IASB announced a detailed six-month timetable for publishing a proposed replacement of IAS 39. In particular, the IASB did not give an immediate response to the new requirements about impairment, in order to avoid piecemeal changes in a field where U.S. GAAP and IFRSs approaches and models differ. The IASB decided to reconsider impairment requirements as part of the comprehensive revision

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IASB, Financial Statement Presentation Project, Agenda Paper 15A, Other Comprehensive Income*, ¶¶ 11, 25 (December 14, 2006).*

[630] *Staff Draft, ¶ IG32.*

[631] *FASB Staff Position No. FAS 115-2 and FAS 124-2,* Recognition and Presentation of Other-Than-Temporary Impairments*, ¶¶ 18, 20–22, 28–33, 35–37.*

[632] *United States Securities and Exchange Commission, Office of the Chief Accountant, Division of Corporate Finance, December 2008.* Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting. *SEC.*

[633] *IASB,* Request for Views on Proposed FASB Amendments on Fair Value Measurement and Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities *(March 2009).*

of IAS 39.[634] As a further step, in November 2009 the IASB issued IFRS 9 and the Exposure Draft, *Financial Instruments: Amortized Costs and Impairment*.

4.5.16.10 Other Comprehensive Income of an Associate or Joint Venture Under IAS 1 and IAS 28, an investor in an associate or a venturer in a joint venture accounted for at equity method adjusts its carrying amount of the investment for its share (after tax and minority interest) of the changes in the investee's other comprehensive income. It displays its share of the changes in the investee's other comprehensive income in its consolidated statement of comprehensive income.[635]

> **Comment:** In this way, the investment in an associate also reflects the investor's proportionate interest in the changes in fair value of the associate's items of property, plant and equipment (under IFRSs), or other items with fair value changes recognized in other comprehensive income.

Under IAS 1, the investor separately presents its proportionate share of an equity method investee's other comprehensive income in the statement of comprehensive income.[636] Similar treatment applies to a venturer's proportionate share of the other comprehensive income of a joint-controlled entity accounted for at equity method.[637] Subtopic 323-10 (FASB Statement No. 130) also requires display of the investor's share of an investee's equity adjustments of other comprehensive income, but it permits the combination with the investor's other comprehensive income items.[638] A similar treatment applies under U.S. GAAP for changes in an equity method investee's other comprehensive income arising from unrealized holding gains or losses on its investments in debt and equity securities (e.g., available-for-sale securities).[639] Similarly, when consolidated financial statements include a less-than-wholly-owned subsidiary that holds available-for-sale investments, the parent must adjust consolidated other comprehensive income against noncontrolling interest at the same time the subsidiary recognizes changes in value of its available-for-sale investments in other comprehensive income. This entry records the noncontrolling interest's share of the subsidiary's other comprehensive income and related changes.[640] Likewise, under IAS 27, noncontrolling interests include their proportionate share of each component of other comprehensive income.[641]

4.5.16.11 Step Acquisitions If a company that holds an available-for-sale equity investment subsequently obtains control of this investee (i.e., a business combination achieved in stages), the accumulated other comprehensive income is reclassified into profit or loss as if it

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[634] *IASB, April 24, 2009*. IASB Sets out Timetable for IAS 39 Replacement and Its Conclusions on FASB FSPs, *[Online] IASB. Available at: www.iasb.org [last accessed April 29, 2009].*

[635] *IAS 1, ¶ 82(h); IAS 28 (2010), ¶¶ 11, 27, 39.*

[636] *IAS 1, ¶ 82(g) and (h).*

[637] *IASB Update, June 2007, page 7.*

[638] *FASB ASC 323-10-35-18, 323-10-45-3 (FASB Statement No. 130, ¶¶ 121–122).*

[639] *FASB Technical Bulletin No. 79-19,* Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee, *¶ 6.*

[640] *FASB ASC 320-10-S99-2 (EITF Topic No. D-41,* Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of FASB Statement No. 115*, as amended by FASB Accounting Standards Update No. 2010-04,* Accounting for Various Topics, Technical Corrections to SEC Paragraphs*, ¶ 9 (January 2010)).*

[641] *IAS 27 (2010), Consolidated and Separate Financial Statements, ¶ 28.*

were a disposal of the previously held equity interest. This is because, although the investment is not sold, on consolidation the investment account is derecognized from the consolidated financial statements, as happens when an available-for-sale security is derecognized.[642] Of course, IFRS 9 does not contemplate this situation for available-for-sale financial assets any longer. The acquirer must disclose the amounts reclassified, and in which line item of the statement of comprehensive income it recognizes the gain or loss.[643]

4.5.16.12 Revaluation Surplus For each class of tangible and intangible assets, IFRSs require the disclosure of the beginning and ending revaluation surplus, its increases and decreases, the amount recognized and reversed during the period in other comprehensive income and in profit or loss, and any restrictions on the distribution of the balance to shareholders. IFRSs require separate presentation in equity of cumulative revaluation surplus.[644] The SEC Staff clarified that a foreign private issuer can maintain a revaluation surplus in accordance with IFRSs or other home country GAAP in the statement of other comprehensive income under Item 17 or Item 18 of Form 20-F.[645]

In the *Financial Statement Presentation Project*, revaluation surplus would be classified in the operating income category of the statement of comprehensive income or, less likely, in the investing category, although "other gains and losses" section was proposed.[646] Finally, the Discussion Paper illustrates it as part of the other comprehensive income category with reference to the operating category.[647]

4.5.16.13 Changes in Estimate of a Decommissioning, Restoration, or Similar Liability Any change in revaluation surplus arising from a change in estimate of a decommissioning, restoration or similar liability associated to a long-lived asset carried at revaluation model must be separately identified and disclosed on the face of the statement of comprehensive income (under the pre-2007 Revision of IAS 1, in the statement of changes in equity).[648]

4.5.16.14 Defined Benefit Plans Under U.S. GAAP, separately for pension plans and other post-retirement benefit plans, the notes must disclose (including comparative information) other comprehensive income, detailed into net gain or loss and net prior service cost or credit, broken down into current-period amounts, reclassification adjustment, and reclassification adjustment of the net transition asset or obligation. The disclosure must include the breakdown of accumulated other comprehensive income by net gain or loss, net prior service cost or credit, and net transition asset or obligation. With the same detail, the note must give information on the amount of accumulated other comprehensive income expected to be

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[642] *FASB ASC 805-10-25-10 (FASB Statement No. 141(R), ¶ 48); FASB Statement No. 141(R), ¶ B388; IFRS 3, ¶¶ 42 (amended by IFRS 9), BC389, DO11.*

[643] *IFRS 3, ¶ B64(p).*

[644] *IFRS 1, ¶ IG10; IAS 16, ¶¶ 39, 40, 73, 77; IAS 36, ¶¶ 126, 128; IAS 38, ¶¶ 85, 86.*

[645] *SEC, International, November 1, 2004, ¶ VI.A.*

[646] *Performance Reporting Joint International Group (JIG), January 2005. Agenda Paper 2,* History of the Performance Reporting Project, *¶ 25, London. [Online] FASB. Available at:* www.fasb.org *[last accessed June 21, 2007]; IASB, December 14, 2006. Financial Statement Presentation Project, Agenda Paper 15A,* Other Comprehensive Income, *¶ 29. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

[647] *DP on Presentation, ¶ A8.*

[648] *IFRIC 1, ¶¶ 6(d), BC29.*

recycled over the next fiscal year.[649] However, FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, as amended by ASU 2011-05) lists these components as part of the items of other comprehensive income to be presented. Section 220-10-55 (FASB Statement No. 130 as amended by FASB Statement No. 158) shows those current period items of other comprehensive income and reclassification adjustments on the face of the statement of comprehensive income and those items of accumulated other comprehensive income on the face of the statement of changes in equity.[650] FASB Statement No. 158 resulted from a project that the FASB added to its agenda in November 2005 for a comprehensive reconsideration of the accounting for post-retirement benefits. Under ASU 2011-05, the statement of changes in equity is no longer an option for reporting comprehensive income. For not-for-profit organizations, U.S. GAAP permits separate line(s) or note disclosure of other comprehensive income and reclassification adjustments for pension plans and other post-retirement benefit plans. Not-for-profit organizations must show items within changes in unrestricted net assets. Health care organizations must show items of other comprehensive income for pension plans and other post-retirement benefit plans apart from expenses and outside a performance indicator of operations, which is an equivalent of income from continuing operations for business entities.[651] An SEC registrant must consider whether disclosure of the expected periods of recycling of items recognized in other comprehensive income is necessary in Management's Discussion and Analysis.[652]

Under IAS 19 prior to the 2011 revision, a company can entirely recognize actuarial gains and losses and any adjustments arising from the asset ceiling (which does not exist under U.S. GAAP) in other comprehensive income in the period of occurrence. To make this election, an entity must apply this pattern to all of its defined benefit plans, and all of its actuarial gains and losses and any asset ceiling limit adjustments. Before the amendments made by the 2007 Revision of IAS 1, this election was made directly in the statement of recognized income and expense only, with the consequence that showing all items of income and expense that directly affected equity in the statement of changes in equity was no longer an option.[653]

Example: The SEC, in its review of Form 20-F of a French foreign private issuer for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, challenged the presentation in the statement of changes in equity and not in the statement of recognized income and expense. The company had elected to recognize actuarial gains and losses outside profit and loss as permitted by IAS 19.[654]

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[649] *FASB ASC 715-20-50-1, 715-20-50-5, 958-715-50-1, 715-20-55-17 (FASB Statement No. 132R, ¶¶ 5.i, 5.ii, 5.s., 8.h, 8.hh, 8.n, 10A, 10B, 10C, 10D, C3); FASB Statement No. 158,* Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, ¶¶ 7.a, 7.b, 7.d.*

[650] *FASB ASC 220-10-55-7, 220-10-55-8 (FASB Statement No. 130, ¶ 131, as amended by FASB Statement No. 158).*

[651] *FASB Statement No. 158, ¶¶ 8.c, 8.d, 10.a, 10.b, B77; AICPA Audit and Accounting Guide, HCO.*

[652] *Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.J. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: February 5, 2007].*

[653] *IAS 19 (2007), ¶¶ 93A–93C.*

[654] *SEC IFRS Reviews. Letter by the SEC, September 25, 2006. File No. 1-15248, Comment 13. Reply by the company, December 19, 2006.*

> **Comment:** After the amendments made by the 2007 Revision of IAS 1, the statement of comprehensive income has a different meaning and is no longer a format that is alternative to the statement of changes in equity. Therefore, in this new meaning, the election translates into direct recognition in other comprehensive income in the statement of comprehensive income.[655]

An entity that makes this election must immediately transfer those gains or losses to retained earnings. Therefore, there is no recycling.[656] An entity must disclose, in addition to the other information required for defined benefit plans, its accounting policy for recognizing actuarial gains and losses, the amount recognized in other comprehensive income for actuarial gains and losses and for the effect of the asset ceiling limit, and the aggregate amount recognized in cumulative other comprehensive income.[657]

> **Example:** The SEC, in its review of Form 20-F of a French foreign private issuer for the fiscal year ended December 31, 2005 requested disclosures on accumulated other comprehensive income, as information on other comprehensive income of the period was not sufficient to comply with IAS 19. The company had elected to recognize actuarial gains and losses outside profit and loss as permitted by IAS 19.[658]

The IASB added a project to its agenda in July 2006 for a review of postemployment benefit accounting. The project initially proposed possible alternatives for recognition and presentation of gains and losses into profit or loss; or the cost of service into profit or loss and other items into other comprehensive income; or the cost of service, interest costs, and imputed income on assets into profit or loss and all remeasurements into other comprehensive income.[659] Under the 2011 revision of IAS 19, effective for financial years beginning on or after January 1, 2013, other comprehensive income includes the remeasurements of the net defined benefit liability or assets (this does not apply to other long-term employee benefits). Such remeasurements include actuarial gains and losses. It also comprises any difference between actual return on plan assets and changes in the effect of the asset ceiling and the net interest cost on the net defined benefit liability or asset that is instead accounted for in the income statement. Conversely, unlike prior service costs under U.S. GAAP, remeasurements accounted for in other comprehensive income exclude past service costs. Therefore, under Revised IAS 19, the previous option to recognize actuarial gains and losses in other comprehensive income with immediate direct transfer to retained earnings is no longer valid. Furthermore, the previous option of faster recognition in profit or loss is no longer an option. Unlike U.S. GAAP, these remeasurements are not subject to reclassification adjustments. However, an entity may want to transfer this part of other comprehensive income to other components of equity, while, under the previous version of IAS 19, transfer to retained earnings was mandatory. An entity must explain the composition of the remeasurements component of other comprehensive income.[660]

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[655] *IAS 1, ¶ A16.*
[656] *IAS 19 (2007), ¶ 93D.*
[657] *IAS 19 (2007), ¶¶ 120A(a), 120A(h), 120A(i).*
[658] *SEC IFRS Reviews. Letter by the SEC, February 14, 2007. File No. 1-15248, Comment 35.*
[659] *IASB Insight, Q1/Q2, 2008.*
[660] *IAS 19 (2011), ¶¶ IN6(i)(ii), 120(c), 122, 127, 141, 154, 172, BC65(c), B66(c), BC88, BC93, BC100, BCC276.*

During the *Financial Statement Presentation Project*, actuarial gains and losses have also been candidates for inclusion in the "remeasurement" classification in the financial statements and pension service cost in the nonremeasurement classification. Actuarial gains, losses, prior service costs, and credits would be classified in the operating income category or other gains and losses category. Pension obligations have also been proposed for the financing section. Commenters noted that accounting for pensions and other post-retirement benefits do not lend themselves to line item cohesiveness.[661]

4.5.16.15 Equity Instruments Designated as at Fair Value through Other Comprehensive Income IFRS 9 amends the definition of other comprehensive income in IAS 1[662] to add a new category of other comprehensive income relating to investments in equity instruments that are not held for trading and that are not part of a hedging relationship. It eliminates the previous category of available-for-sale financial assets and introduces the new category of investment in equity instruments designated as at fair value through other comprehensive income. Either the statement of comprehensive income or the notes must disclose net gains or net losses on financial assets measured at fair value through other comprehensive income. IFRS 7, as amended, also requires the disclosure of any reclassification of other comprehensive income to other components of equity and related rationale, cumulative gain or loss on disposal, including the reasons for disposing of the investments and their fair value at that date.[663] On IFRS first-time adoption, any previously existing cumulative gains or losses that under previous GAAP an entity had recognized outside profit or loss in respect of an equity instrument that on initial application of IFRS 9 it classifies at fair value through other comprehensive income remain in a separate component of equity. Subsequent changes in other comprehensive income are summed up in that component.[664]

4.5.16.16 Own Credit Risk Based on the October 2010 version of IFRS 9, other comprehensive income includes changes in the fair value of a financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of the liability, unless this creates or enlarges an accounting mismatch.[665]

4.5.17 Noncontrolling Interest

This paragraph focuses on noncontrolling interest in the statement of comprehensive income. Nonetheless, it mentions some aspects of the statement of the financial position to place the discussion in the right context.

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[661] *FASB/IASB. October 24, 2006. Financial Statement Presentation Project, Agenda Paper 6C/FASB Memorandum 44C,* Measurement; OCI and Recycling; the Statement of Comprehensive Income, *¶ 29. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007]; FASB/IASB, October 4, 2006.* Summary of the September 15, 2006 Financial Statement Presentation Joint International Group Meeting, *¶¶ 7-8; IASB, December 14, 2006. Financial Statement Presentation Project, Agenda Paper 15A,* Other Comprehensive Income, *¶¶ 10, 27; FASB, March 21, 2007. Memoranda No. 50A-D,* Financial Statement Presentation—Disaggregating Changes in Assets and Liabilities, Presentation of Other Comprehensive Income Items, and Cash Equivalents, *¶ 3; DP on Presentation, ¶ 4.34; Staff Draft, ¶ IG13.*

[662] *IFRS 9, ¶ C12 (November 2009).*

[663] *IFRS 7, ¶¶ 8, 11A, 11B, 20(a)(viii) as amended by IFRS 9, ¶ C8 (November 2009).*

[664] *IFRS 1, ¶ IG59 (as amended by IFRS 9).*

[665] *IFRS 9,* Financial Instruments, *¶ 5.7.7 (October 2010).*

From a presentation standpoint, U.S. entities have long shown noncontrolling interest as a deduction in the income statement, that is, an expense, to arrive at net income. An SEC registrant must present "net income attributable to the noncontrolling interest" in the income statement after net income or loss.[666] According to the *AICPA Accounting Trends & Techniques*, in 2005 U.S. GAAP companies reported noncontrolling interest after income from continuing operations in 110 cases and included it in losses in 57 occurrences.[667]

U.S. GAAP companies are used to exposing noncontrolling interest separately in the statement of financial position, generally not as part of stockholders' equity, but under noncurrent liabilities or other liabilities. SEC registrants must report an item for noncontrolling interests in the statement of financial position. They have ordinarily displayed it as "mezzanine", that is a caption between the long-term debt section and the equity section and before redeemable preferred stock. Recently, Regulation S-X changed the position to a line after other stockholders' equity. In fact, the SEC Staff took the view that registrants must abide by the presentation requirements of FASB Statement No. 160.[668] Furthermore, the SEC announced that classification as liability is no longer acceptable.[669] The minority interest related to preferred stock and the applicable dividend requirements, if the preferred stock is material in relation to the consolidated stockholders' equity, presume separate indication in a note.[670] In 2005, the *AICPA Accounting Trends & Techniques* records 173 occurrences of display in other noncurrent liabilities among U.S. GAAP companies.[671]

Comment: Before the Business Combination Project (added to the FASB agenda in 1996) the FASB had deliberated noncontrolling interests issues as part of the *Consolidations Project* (added to the FASB agenda in 1982), the Discussion Memorandum, *Consolidation Policy and Procedures* (1991), and the *Financial Instruments Project* (added to the FASB agenda in 1986). One of the objectives of the *Financial Instruments with Characteristics of Equity Project* – former *Financial Instruments: Liabilities and Equity Project* was also to eliminate the classification of minority interest as mezzanine.

As part of the *Business Combination Project*, Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160), now requires that net income and comprehensive income that are attributed to the parent and to the noncontrolling interest be separately displayed and that noncontrolling interests be clearly and separately presented within consolidated equity, but separate from the parent's equity.[672]

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[666] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b).19).*
[667] *AICPA ATT 2006, ¶¶ Tables 3-7, 3-17.*
[668] *SEC Regulations Committee, April 9, 2008, ¶ Discussion Document A, 4.*
[669] *FASB ASC 480-10-S99-3A (Revised SEC Staff Announcement, EITF Abstract, Topic No. D-98,* Classification and Measurement of Redeemable Securities*, ¶ 38, as amended by FASB Accounting Standards Update No. 2009-4,* Accounting for Redeemable Equity Instruments, Amendment to Section 480-10-S99*, ¶ 4).*
[670] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.31); FASB ASC 944-210-S99-1 (Regulation S-X, ¶ 210.7-03.24); FASB ASC 942-210-S99-1 (Regulation S-X, ¶ 201.9-03.22).*
[671] *AICPA ATT 2006, ¶ Table 2-31.*
[672] *FASB ASC 810-10-45-16, 810-10-45-20, 810-10-50-1A (ARB 51, as amended by FASB Statement No. 160 and FASB Statement No.141(R), ¶¶ 26, 30, 38).*

Comment: However, in the way Subsection 805-10-55-4 (FASB Statement No. 160) illustrates it, this new consolidated income statement[673] is similar to current practice, as net income still deducts net income attributable to the noncontrolling interests to arrive at net income attributable to the parent.

IAS 22 (superseded) permitted the entity concept of consolidation as an allowed alternative to the benchmark treatment, which used to be along the parent-company concept. Consistently, the 1997 version of IAS 1 and the 2000 version of IAS 27 used a sort of "mezzanine" presentation of minority interest on the balance sheet, between liabilities and consolidated equity. IFRS 3 superseded IAS 22 and determined noncontrolling interest to be the minority's share times the fair value of the acquiree's identifiable net assets. Finally, the 2003 and 2005 versions of IAS 1 and IAS 27 treated it as part of equity in the statement of financial position, separately from controlling interests, and in the income statement as allocation of profit or loss (as opposed to a deduction as an expense), as IFRS confirms.[674] Now IFRSs require to determine and present the portions of profit or loss and total comprehensive income that are attributable to noncontrolling interests.[675] IFRS 10 adds that the entities must also allocate each item of other comprehensive income.[676] U.S. GAAP also requires the display of amounts of net income and comprehensive income that are attributable to noncontrolling interests on the face of the income statement or the statement of comprehensive income. Noncontrolling interest are displayed as allocation of those total amounts and not as an expense item. Allocations hold even if noncontrolling interest ends up with a deficit balance.[677] Section 810-10-65 (FASB Statement No. 160) also amends Subsection 220-10-45-5 (FASB Statement No. 130) to require the display of comprehensive income attributed to controlling and noncontrolling interests on the face of the statement that presents comprehensive income, and ASU 2011-05 amends it to include net income in this distinction.[678] In the year of adoption of FASB Statement No. 160 an entity must disclose pro forma consolidated net income attributable to the parent and pro forma earnings per share as computed previously under ARB 51, if significantly different.[679]

Example: In its review of Form 20-F for the year ended December 31, 2005 of a foreign private issuer from The Netherlands filing under IFRSs, the SEC challenged the mezzanine presentation of minority interest.[680]

[673] *FASB ASC 805-10-55-4 (FASB Statement No. 141(R), ¶ A4); FASB Statement No. 160, ¶ A4, A5. In fact, FASB Statement No. 141(R), ¶ B36 reports that the new requirement is believed not to change current practice.*

[674] *IFRS 10, ¶ 22; IAS 1 (Revised 2005), ¶¶ 82, BC19.*

[675] *IAS 1, ¶¶ 54, 82, 83; IAS 27 (2010), ¶¶ 27–28.*

[676] *IFRS 10, ¶ B94.*

[677] *FASB ASC 810-10-50-1A, 810-10-55-4J, 810-10-55-4K (ARB 51, ¶¶ 38(a), A4, A5, as amended by FASB Statement No. 160).*

[678] *FASB ASC 220-10-45-5 (FASB Statement No. 130, ¶ 14, as amended by FASB Statement No. 160, ¶ C9, then amended by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8).*

[679] *FASB ASC 810-10-65-1 (FASB Statement No. 160, ¶ 6); FASB Statement No. 160, ¶ B74.*

[680] *SEC IFRS Reviews. Letter by the SEC, October 3, 2006. File No. 0-17444, Comment 1.*

Example: In its Form 20-F for the year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, a British foreign private issuer presented a reconciliation between profit for the year under UK GAAP (that under IFRSs includes noncontrolling interest) and the profit for the year attributable to the controlling shareholders.[681]

Comment: The Implementation Guidance of IAS 1 also shows the attribution of profit or loss to controlling and noncontrolling interests on the face of both the income statement and the statement of comprehensive income. Instead, it does not show the attribution of each component of other comprehensive income, but only of total comprehensive income. Arguably, the requirement in IAS 27 in this sense refers to consolidation procedures. Conversely, ARB 51, as amended, shows this attribution only in the income statement.[682]

Planning Point: The illustrative examples in IAS 1 show the attribution of profit or loss to controlling and noncontrolling interests located under profit or loss in the separate statement of profit or loss, while under comprehensive income on the face of the statement of profit or loss and other comprehensive income. Conversely, ASU 2011-05 shows the attribution of net income to controlling and noncontrolling interests located under net income both when the separate statement of net income or the continuous statement of comprehensive income are used.[683]

Under both U.S. GAAP and IFRSs, either the income statement (U.S. GAAP) or the statement of comprehensive income (IFRSs) or the notes must disclose the part of income from continuing operations, discontinued operations, and extraordinary items (U.S. GAAP only) attributed to the parent.[684]

IAS 27 (R) and FASB Statement No. 160 are effective, respectively, for fiscal years beginning on or after July 1, 2009, and for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. FASB Statement No. 160 prohibits earlier application, while IAS 27 (R) permits it, provided the entity also applies IFRS 3 (R). It requires prospective application as of the beginning of the year of first application. FASB Statement No. 160 requires retrospective reclassification of noncontrolling interest, but IAS 27 (R) does not permit restating the attribution of total comprehensive income to the owners of the parent and to the noncontrolling interests. A first-time adopter cannot restate, unless it applies IFRS 3 retrospectively to past business combinations. FASB Statement No. 141 (R) and IFRS 3 (R) apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 or

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[681] *SEC IFRS Reviews. Letter by the SEC, September 28, 2006. File No. 000-25670, Comment 54. Reply by the company, October 30, 2006.*

[682] *FASB ASC 810-10-55-AJ, 810-10-55-AK (ARB 51, ¶¶ A4, A5, as amended by FASB Statement No. 160).*

[683] *FASB ASC 220-10-55-7, 220-10-55-8, 220-10-55-9, as amended by ASU 2011-05; IAS 1, ¶¶ IG5, IG5A as amended by 2011 Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income.

[684] *FASB ASC 810-10-50-1A (ARB 51, as amended, ¶ 38(b)); IFRS 5, as amended by IAS 27 (2008), ¶ 33(d).*

July 1, 2009, respectively. Under both, assets and liabilities of previous business combinations cannot be retrospectively adjusted. FASB Statement No. 141 (R) prohibits earlier application. IFRS 3 permits earlier application only for an annual reporting period that begins on or after 30 June 2007.[685]

The SEC Staff considers the separate presentation of income or loss applicable to common stock on the face of the consolidated income statement appropriate in case of a material difference (or more than 10%) between that figure and reported net income or loss or when it is indicative of significant trends or other qualitative considerations. Its presentation is mandatory when the entity adopts a single statement of income and comprehensive income. The reconciliation between net income and income available to common stock may be presented below comprehensive income.[686] The computational note in the definition of "significant subsidiary" in Regulation S-X[687] refers to income from continuing operations net of minority interest.[688]

Comment: As a related issue, FASB Statement No. 160[689] has confirmed (and the revisions of IFRS 3 and IAS 27 have not amended) the way income for continuing operations available to common shareholders and net income have been computed under current practice. Entities must adjust them for minority interest to calculate earnings per share based on the consolidated financial statements.[690]

4.6 ANALYSIS OF EXPENSES

4.6.1 Function versus Nature of Expenses

4.6.1.1 Types of Classifications under IFRSs IAS 1 allows two types of classification of expenses affecting profit or loss: one by nature (e.g., labor cost, depreciation and amortization, etc.) and another by function (e.g., cost of sales administrative expenses, selling expenses, etc.). The latter, also known as cost of sales method, requires at least the separate display of cost of sales (i.e., cost of goods sold in the case of manufacturing company). Reliability and greater relevance are the factors that should inform the choice. The Standard encourages the display of one of the two keys of analysis in the statements of income, although note disclosure is an option. Such expense analyses are supposed to discriminate items in terms of frequency, gain or loss potential and predictability.[691] These classification keys do not apply to items of other comprehensive income, as under both IFRSs and U.S. GAAP they follow a classification by nature.[692]

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[685] *FASB ASC 805-10-65-1 (FASB Statement No. 141(R), ¶¶ 74–75); IFRS 3 R, ¶¶ 64–65; IAS 27 (2010), ¶¶ 44–45, A2.*
[686] *FASB ASC 225-10-S99-5 (SEC Staff Accounting Bulletin, Topic 6-B,* Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable To Common Stock*).*
[687] *Regulation S-X, ¶ 210.1-02(w)(3).*
[688] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)).*
[689] *FASB Statement No. 160, ¶ C8.*
[690] *FASB Statement No. 128, ¶¶ 140–141; IAS 33, ¶ A1.*
[691] *IAS 1, ¶¶ 99–105.*
[692] *FASB ASC 220-10-45-13 moved to 220-10-45-1C by ASU 2011-05 (FASB Statement No. 130, ¶ 17); IAS 1, ¶ 7.*

A 2005 research on IFRS financial statements in Europe showed that over 40% of the survey companies used a classification by function and over 36% by nature on the face of the income statement. One company used a mixed presentation. Banks, insurance companies, and other financial institutions adopting specific formats represented approximately 33% of the population.[693] Another pan-European survey of 2006 financial statements found that approximately 53% of nonfinancial companies preferred a function classification and around 45% a by-nature format, while the remainder used a mixed model.[694] *IFRS Accounting Trends & Techniques* illustrates that 54% of surveyed companies report expenses by function. Financial institutions and insurance entities reported by nature, amounting to a total of 11%.[695]

4.6.1.2 Compatibility with the Fourth European Directive Both function and nature classifications are compatible with the Fourth European Directive. In fact, apart from extraordinary items (no longer permitted under IFRSs), the Directive requires lines by nature for raw material and consumables, other external changes, staff costs, value adjustments, other operating charges, interest payable, and similar charges. Alternatively, it identifies functions as costs in costs of sales, distribution costs, administrative expenses, value adjustments, and interest payable.[696]

4.6.1.3 Pros and Cons The two types of classifications have several pros and cons.

Planning Point: IAS 1 argues that the classification by function may be more relevant, although the classification by nature is simpler and less affected by arbitrary allocations.

Actually, the function method is typical of Anglo-Saxon countries, as opposed to certain other jurisdictions. A European survey found that in 2006 Spain, Italy, and Portugal predominantly used the nature classification; UK, Ireland, and Northern countries primarily adopted a function classification, and other jurisdictions positioned themselves somewhere in between.[697]

The function classification derives from the single method of cost accounting, while general accounting directly establishes a subdivision by nature. For its degree of certainty and verification (in many jurisdictions, the general ledger is subject to legal bookkeeping regimes), civil law countries generally require a classification by nature.

The nature of expenses is relevant for analysis by tax authorities in those jurisdictions. Typically, a cost of sales analysis is relevant to management reporting and control.[698] Financial analysts employ both models in external analysis.

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[693] *ICAEW 2007 Survey, ¶ Table 13.1.*

[694] *Ineum 2008 Survey, ¶¶ 5, 5.3.*

[695] *AICPA IFRS ATT 2009, ¶ Table 3-1.*

[696] *Fédération des Experts Comptables Européens, 2000. FEE Study, 2000. To What Extent Can Options in International Accounting Standards be Used for Consolidated Accounts under the EC Accounting Directives?, Bruxelles: FEE, ¶ 13. [Online] FEE. Available at: www.fee.be [last accessed February 16, 2007].*

[697] *Ineum 2008 Survey, ¶ Table 34.*

[698] *Financial Accounting Standards Advisory Council, Minutes of Meeting, June 22, 2006, ¶ 27 (June 2006) Available at: www.fasb.org [last accessed June 21, 2007].*

IAS 1 mentions, with no explanation, that both approaches give insights on cost variability.[699] A division of expenses by nature gives an indication on whether they are primarily fixed or variable. On the other hand, operating expenses are generally fixed, and cost of sales includes both variable and fixed components.

While a by-function disaggregation permits the computation of gross margin[700] and many financial ratios, value-of-production and value added analyses, i.e., study of operations based on total revenue, margin generated on external purchases and services, and their derivations (e.g., for make-or-buy and outsourcing decisions), are possible through a classification by nature. It is not by chance that Anglo-Saxon countries typically do not pursue this type of analysis.

The Discussion Paper of the *Financial Statement Presentation Project* acknowledges that certain service industries, such as banking, utilities, and healthcare, tend to use an approach by nature.[701] In fact, the above-mentioned European survey highlights that utilities, followed by travel and leisure, largely use a nature classification while the automobile and parts sector adopts a functional classification.[702]

Several analysts have observed too high a level of aggregation of the function classification.[703] Of all the merits of the by-nature method, probably the most important is that it enables a cash flow forecasting where items are not commingled within functions, and discriminates cash from noncash items. This is why IAS 1 requires at least note disclosure by nature, especially highlighting depreciation and amortization (noncash items) and employee benefits (mostly fixed cost and recurring, depending on jurisdictional legal framework).[704] Interestingly, the 2011 revision of IAS 19 points out the complexity of a functional classification among the reasons for not requiring specific line items to present the components of employee benefit plan cost.[705]

Planning Point: Although IAS 1 does not report subtotals in the structure of the statements of income, it makes examples that show an "other income" caption. It shows it below revenues in an income statement classification by nature and after gross profit and before operating expenses in a classification by function.[706]

4.6.1.4 Main Items in the Two Types of Classifications A pan-European study showed that almost all survey companies displayed cost of goods sold and administrative and general expenses in their income statement by function. 85% of surveyed companies used a caption for selling and administrative expenses and 66% for research and development. In a classification by nature, all companies presented captions for personnel costs and for depreciation

[699] *IAS 1, ¶ 105.*
[700] *IASB Meeting, September 19, 2006, Agenda Paper 9,* Application of Working Principles*, ¶ 99, (September 2006) Available at: www.iasb.org [last accessed June 21, 2007].*
[701] *DP on Presentation, ¶ 3.52.*
[702] *Ineum 2008 Survey, ¶ Table 34.*
[703] *Performance Reporting Joint International Group (JIG), Agenda Paper 2,* History of the Performance Reporting Project*, ¶ Part 3.29.J, London (January 2005) Available at: www.fasb.org [last accessed June 21, 2007]; IASB Meeting, September 19, 2006, Agenda Paper 9,* Application of Working Principles*, ¶ 99, (September 2006) Available at: www.iasb.org [last accessed June 21, 2007].*
[704] *IAS 1, ¶ 105; Staff Draft, ¶ 149; Joint International Group (JIG), September 15, 2006. Financial Statement Presentation, Agenda Paper 8,* Net Income, Other Comprehensive Income, and Recycling*, ¶ 3. [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007].*
[705] *IAS 19 (2011), ¶ BC202(b).*
[706] *IAS 1, ¶¶ 102, 103, IG6.*

and amortization, 84% for purchase expenses, and 60% for inventory variation. Other most frequently shown items encompass rents and leases, advertising and promotion, maintenance and repair, insurance, transport and travel, marketing expenses, and other items.[707]

The *AICPA Accounting Trends & Techniques* illustrates which expense items other than cost of sales are most used by U.S. GAAP companies: several combination of captions for selling, general and administrative; interest, research and development and similar; advertising, warranty, and other items.[708]

4.6.1.5 Comparison with U.S. GAAP Presentation of expense by function generally prevails under U.S. GAAP for commercial and industrial companies.

> **Planning Point:** A multi-step format generally has cost of sales item and expenses by function. However, as Exhibit 4-6 shows, a single-step income statement under U.S. GAAP (Paragraph 4.4.2 previously) generally includes a cost of sales item and expenses by function, but it may have items by nature, such as depreciation and amortization.

4.6.1.6 SEC Guidance Subsection 225-10-S99-2 (Regulation S-X) has an income statement for commercial and industrial companies based on a classification by function.[709] Nonetheless, Regulation S-X solicits information on the nature of transactions relating to nonoperating expenses and nonoperating income either on the face of the income statement or in the notes.[710] As illustrated in Paragraph 4.3.4 previously, other types of entities have their own specific format of income statement. Registered investment companies must disclose the nature of transactions relating to other income.[711]

> **Comment:** Because of the peculiarity of those businesses, their income statement mainly reflects the function of their operations and sometimes might well contain elements of nature derivation.

The SEC Staff took the view that under Regulation S-X a classification by nature, as well as the use of a combination of classification by nature and function, or the use of inconsistent nature or function criteria between expenses and revenues are inappropriate.[712] Paragraph I.A.3 below expands on mixed classification models.

Item 17 of Form 20 requires a reconciliation of net income and material variations of items that affect it.[713] In particular, income statement classification differences are part of the disclosures of Item 18 of Form 20-F.[714] The SEC Staff views functional classifications under IFRSs

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[707] *Ineum 2008 Survey, ¶¶ Tables 35 and 36.*
[708] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-6.*
[709] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03).*
[710] *FASB ASC 225-10-S99-2 (Regulation S-X, ¶¶ 210.5-03.7, 210.5-03.9).*
[711] *FASB ASC 946-225-S99-1 (Regulation S-X, ¶ 210.6-07.4).*
[712] *AICPA, SEC Regulations Committee, 2006.* Joint Meeting with SEC Staff, June 20, 2006*, Washington, DC, AICPA, ¶ III.K. Available at: www.aicpa.org [last accessed July 9, 2010] (hereinafter SEC Regulations Committee, June 20, 2006).*
[713] *Form 20-F, Item 17(c)(i).*
[714] *SEC, Financial Reporting Manual, ¶ 6520.*

and U.S. GAAP as equivalent and therefore does not expect the analysis of expenses to differ.[715] A foreign private issuer that adopts a classification by nature under IFRSs and that reconciles to U.S. GAAP in Form 20-F under Item 17 or Item 18 must include in the U.S. GAAP reconciliation information by function to an extent that it is substantially equivalent to information requested under U.S. GAAP and Regulation S-X. Generally, a U.S. GAAP income statement is not necessarily required, to the extent that the reconciliation or notes compute the differences on pre-tax income, or operating income in more significant cases. Under certain circumstances, however, a supplemental local GAAP income statement by function may be adequate.[716] As the SEC Staff affirmed in some review letters, IFRSs foreign private issuers that reconcile to U.S. GAAP and that present an income statement by nature may need to restate their income statement by function under U.S. GAAP and Regulation S-X. In fact, Form 20-F refers to Regulation S-X regarding disclosures.[717] If the IFRSs primary income statement is classified by nature, Operating and Financial Review and Prospects in Form 20-F should comment in line with that format. A comment on an income statement restated by function according to U.S. GAAP would be supplementary.[718]

Planning Point: Paragraph 4.3.5 previously discusses issues relating to the presentation of depreciation, depletion, and amortization in the income statement, mainly with reference to the issue of operating income. As mentioned, both Subsection 360-10-50-1 (APB 12) and IAS 1 require information on total depreciation.[719] These items may be problematic when shown on the face of the statements of income, as they reflect a classification by nature. An entity must make sure to observe overall consistency of classification throughout the statement.

4.6.1.7 New Developments The Discussion Paper of the *Financial Statement Presentation Project* defines functions as primary activities of an entity, and nature as the distinguishing factor that determines the same reaction to similar economic events. Examples of functions include selling goods or providing services, research and development, manufacturing, marketing, business development, and administration. It would first require disaggregation by function within each category of the statement of comprehensive income and then subclassification by nature either in the statement or in the notes, depending on which mode better aligns this to the other statements. As an exception, the first disaggregation key may be by nature to the extent this better assists in projecting cash flows. This rationale may also justify the separate display of an item as opposed to using either of the two models, e.g., management presents an item outside a functional subcategory because it regards it as unrelated to that function. Examples may include gains on disposal of a tangible asset, losses on sale of receivables, inventory write-downs, employee termination benefits, impairments of

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[715] *AICPA, 2000.* AICPA International Practices Task Force Meeting Highlights, November 21, 2000*, Washington, DC, AICPA, ¶ III.2. [Online] AICPA. Available at: www.aicpa.org [last accessed July 9, 2010].*

[716] *U SEC, International, November 1, 2004, ¶ Appendix B,* Income Statement and Balance Sheet Presentation*; IPTF, May 3, 2001, ¶ VI.*

[717] *Form 20-F, Item 17(b), Item 18(b); Regulation S-X, ¶ 210.5-03; SEC IFRS Reviews. Letter by the SEC, March 22, 2007. File No. 000-31054, Comment 4; Letter by the SEC, December 21, 2006. File No. 1-13882, Comment 6.*

[718] *Form 20-F, Instruction 2 to Item 5; SEC IFRS Reviews. Letter by the SEC, December 19, 2006. File No. 001-10230, Comment 3.*

[719] *FASB ASC 360-10-50-1 (APB 12, ¶ 5); IAS 1, ¶¶ 102, 104, IG6; IAS 16, ¶ 75(a).*

long-lived assets, or impairment loss on goodwill.[720] The Staff Draft substantially confirms the conclusions of the Discussion Paper, with slight differences. For U.S. GAAP only, a disaggregation by nature would be required on a segment-by-segment basis for an entity that presents segment reporting. An aggregate reconciliation of nature to functions, if function is the key used in the statement of comprehensive income, would be needed in the notes (or, for U.S. GAAP only, by segment if the entity presents segment reporting). That note should group information by nature by the same functions used on the face of the statement.[721]

Planning Point: A notable difference with current requirements in IAS 1 is that a classification key, ordinarily by function, would have to appear on the face of the statement of comprehensive income, with no note disclosure option. Secondly, both classifications by function and nature on the face of the statement would be possible. Thirdly, irrespective of whether presented in the statement or disclosed in the notes, information by nature would normally be a subclassification of functions. However, the exact detail of those disaggregation is at the discretion of preparers. This may lead to a lack of comparability among companies, especially in a classification by function that is more subjective.[722] Finally, the Staff Draft of the *Financial Statement Presentation Project* refers to classification by nature or function of income and expenses, not only expenses as in current IAS 1.[723]

4.6.2 Analysis of Cost of Goods Sold

IAS 2 requires disclosure about inventories expensed in the period, and explains how to provide such information under a classification by nature and one by function.[724]

4.6.2.1 Analysis of Inventories Expensed in the Period under a Classification by Nature

In the former case, a classification by nature of inventories expensed in the period must arrange expenses for raw materials and consumables, labor cost, and other costs included in goods produced, minus the net period change in inventories (ending balance less beginning balance) in order to get the equivalent of cost of goods sold under a functional classification.[725] A pan-European study showed that 60% of surveyed companies displayed inventory variation in their income statement by nature.[726]

Comment: Actually, there may be two interpretations. The first leads to a sort of reconciliation of cost of goods sold to beginning and ending balances of inventories. In such a case, the analysis includes purchase expenses for material-related items. Based on a second view, the net amount of cost of raw materials and consumables recognized as expenses would suffice (as opposed to purchase expenses less the net change in those of such items that are capitalized in inventories). IAS 1 illustrates a net amount for raw materials and consumables used.[727]

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[720] *DP on Presentation, ¶¶ 3.42, 3.50; IFRIC Update, October 2004*

[721] *Staff Draft, ¶¶ 141, 144–146.*

[722] *FASB Small Business Advisory Committee, June 2006. Minutes of Meeting, June 21, 2006, ¶ 32. [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007]; IASB, September 2006. Meeting, September 19, 2006, Agenda Paper 9,* Application of Working Principles*, ¶ 99. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

[723] *Staff Draft, ¶ 140.*

[724] *IAS 2, ¶ 36(d).*

[725] *IAS 2, ¶ 39.*

[726] *Ineum 2008 Survey, ¶ Table 35.*

[727] *IAS 1, ¶ 102.*

Planning Point: IAS 2 discusses the analysis by nature in the context of inventories expensed in the period. The IAS 1 illustration of an income statement by nature does the same but at the level of profit before tax.[728] It spells out the changes in finished goods and work in progress as part of revenues, and raw materials and consumables used as part of costs. This type of location is typical of a value-of-production and value added analysis of the income statement. In addition, as IAS 2 requires absorption costing for inventories,[729] the lines for depreciation and amortization, employee benefits, and other expenses in that Illustration must reflect the total amount incurred, not the amounts expensed because changes in inventories include the respective portions capitalized in inventories. However, IAS 1 refers to depreciation and amortization expense,[730] which arguably does not mean "expensed". Irrespective of the type of classification, IAS 16 requires disclosure of depreciation incurred.[731]

Planning Point: IAS 1 leaves an entity the option of a classification by function or nature and between presentation and disclosure. However, IAS 2 in any case requires disclosure (i.e., in a broader sense, either display or note disclosure) of inventories recognized as an expense in the period.[732] Somebody construes this to require note disclosure of cost of goods sold even in the case where an entity presents an income statement by nature.

4.6.2.2 Analysis of Inventories Expensed in the Period under a Classification by Function The second situation is when an entity elects to present an analysis of expenses by function. IAS 2 refers to inventories expensed in the period as cost of goods sold.[733] IAS 1 at a minimum requires an amount of cost of sales separately from other expenses when an entity presents an analysis of expenses by function on the face of the statement. However, an entity may elect to disclose such analysis in the notes. IAS 1 does not discuss any additionnal detail of that line.[734] However, it requires note disclosure of the nature of expenses, especially depreciation, amortization, and employee benefits expense.[735] By contrast, Subsection 360-10-50-1 (APB 12) in any case requires either presentation or disclosure of total depreciation expense for the period.[736] IAS 2 goes on to explain the composition of cost of goods sold under a functional classification as cost of inventories sold, unallocated production overheads, abnormal production costs, and any distribution costs allocated to cost of goods sold.[737]

Comment: However, IAS 2 is not explicit on whether an entity must spell out this level of detail in a functional classification. The Basis for Conclusions of IAS 2 appears to favor the requirement of this detail.[738]

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728 *IAS 1, ¶ 102.*
729 *IAS 2, ¶ 12.*
730 *IAS 1, ¶¶ 102, 104.*
731 *IAS 16, ¶ 75(a).*
732 *IAS 2, ¶ 36(d).*
733 *IAS 2, ¶ 38.*
734 *IAS 1, ¶ 103.*
735 *IAS 1, ¶ 104.*
736 *FASB ASC 360-10-50-1 (APB 12, ¶ 5).*
737 *IAS 2, ¶ 38.*
738 *IAS 2, ¶¶ BC22, BC23.*

Planning Point: Furthermore, the IAS 1 requirement to disclose the nature of expenses is general for all expenses, and arguably applies to those included into cost of sales.[739] As both Subsection 330-10-30-8 (ARB 43) and IAS 2 require absorption costing for inventories,[740] the portion of such items that is included in inventories would not be identifiable under a functional classification without additional disclosure, such as information about depreciation expense under Subsection 360-10-50-1 (APB 12). However, as noted above, IAS 1 appears to require disclosure of depreciation incurred, not expensed. By contrast, as to the level of detail of the cost of sales caption, approximately 86% of surveyed U.S. GAAP companies in 2009 and in 2005 and 89% in 2002 used a single caption for this aggregate. The remainder disaggregated it in subelements.[741]

Example: In its review of its Form 20-F for the fiscal year ended December 31, 2005 of a Swedish foreign private issuer, the SEC Staff requested the indication of material items, including employee benefit expenses and depreciation, included in cost of goods sold.[742]

Comment: Whether or not the detail by nature of inventories expensed in the period in IAS 2 gives an indirect indication of the note disclosures by nature that an entity should provide on cost of goods sold when it presents an income statement by function is controversial. As a development, the Staff Draft on *Financial Statement Presentation Project* shows a detail by nature of cost of goods sold that goes deeply into materials, compensation and pension expenses, depreciation and overheads, distribution costs, change in inventory, and losses on inventory.[743]

Example: In the review of Form 20-F mentioned above, the company contended (and the SEC Staff revised its comment accordingly) that disclosure of change in inventories was not required as it could not be allocated other than to cost of sales.[744]

4.6.2.3 Items Included in Cost of Goods Sold Under IAS 2 and U.S. GAAP, abnormal spoilage and other production costs (e.g., freight and handling costs) are period costs.[745] Subsection 330-10-50-2 (ARB 43, Ch. 4) encourages separate display outside cost of goods sold when the lower-of-cost-or-market rule results in substantial and unusual losses.[746] Under U.S. GAAP, companies may opt, as an accounting policy, to display significant shipping and handling costs related to shipping and handling billed to customers outside cost of sales, with note disclosure of the amounts and income statement line items.[747] Cost of sales

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[739] *IAS 1, ¶ 104.*
[740] *FASB ASC 330-10-30-30-8 (ARB 34, Ch. 4, ¶ 5); IAS 2, ¶ 12.*
[741] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 3-5.*
[742] *SEC IFRS Reviews. Letter by the SEC, January 12, 2007 and November 3, 2006. File No. 0-13722, Comment 1. Letter by the SEC, August 30, 2006. Comment 5.*
[743] *Staff Draft, ¶ IG7.*
[744] *SEC IFRS Reviews. Reply by the Company, December 4, 2006. File No. 0-13722.*
[745] *FASB Statement No. 151,* Inventory Costs, *¶ 2; IAS 2, ¶ 16(a).*
[746] *FASB ASC 330-10-50-2 (ARB 43, Ch. 4, ¶ 14).*
[747] *FASB ASC 605-45-50-2 (EITF Issue No. 00-10, ¶ 6).*

includes amortization of capitalized software costs that the entity markets to others.[748] As it can be hardly distinguished whether inventory markdowns are associated with a business restructuring, they generally go into cost of sales.[749] U.S. GAAP does not require separate presentation of a provision for anticipated losses on construction contracts, unless material or unusual or infrequent. However, in such a case it is part of cost of sales.[750] Subsection 330-10-S99-3 (SAB 11-F) requires either parenthetical explanation or note disclosure of LIFO liquidations.[751]

Paragraph d above illustrates the gross method and net method of accounting for cash discounts under U.S. GAAP. Under IFRSs, trade discounts, purchase rebates (except those that are a direct refund of selling expenses), and cash discounts for prompt payment generally reduce the costs of purchases or the cost of inventories.[752]

Comment: This treatment may differ from certain local GAAP. For example, Italian GAAP requires the presentation of cash discounts as financing items.[753]

4.6.2.4 Classification of Inventories Included in Cost of Goods Sold An issue is whether information about types of inventories included in cost of goods sold is warranted. On one hand, IAS 2 highlights the usefulness of information about changes in each subclassification of inventories.[754] On the other hand, IAS 1 only lists items, such as cost of labor and depreciation, that are subject to allocation to cost of goods sold and operating expenses, and for which therefore a need for disclosure is evident. Enforcement decisions are controversial, as shown in the following examples.

Example: In its review of Form 20-F for the fiscal year ended December 31, 2005 of a French foreign private issuer, the SEC Staff requested that note disclosure of the amount of inventories expensed included the breakdown by finished goods, work in progress, raw materials, and consumables used. Furthermore, the SEC Staff referred to the illustration of an income statement by nature in IAS 1 regarding the level of detail needed.[755] In another enforcement decision, the SEC Staff accepted the argument of a Swedish foreign private issuer that IAS 1 would not require disclosure of change in inventory and consumption of raw materials as such costs are entirely included in cost of goods sold.[756]

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[748] *FASB Implementation Guides, Q&A 86,* Computer Software: Guidance on Applying Statement 86*, ¶ 17.*

[749] *FASB ASC 420-10-S99-3 (EITF Issue No. 96-9).*

[750] *FASB ASC 605-35-45-1 (AICPA Statement of Position No. 81-1, ¶ 88).*

[751] *FASB ASC 330-10-S99-3 (SEC Staff Accounting Bulletin, Topic 11-F,* LIFO Liquidations*).*

[752] *IAS 2, ¶ 11; IFRIC Update, November 2004; IFRIC Update, December 2004.*

[753] *OIC – Organismo Italiano di Contabilità, Documento Interpretativo n.1 del Principio Contabile 12 Classificazione nel Conto Economico di Costi e Ricavi, ¶ C16.*

[754] *IAS 2, ¶ 37.*

[755] *SEC IFRS Reviews. Letter by the SEC, September 12, 2006. File No. 1-15218, Comment 9. Letter by the SEC, December 29, 2006. Comment 5.*

[756] *SEC IFRS Reviews. Reply by the company to the SEC, December 4, 2006. File No. 0-13722, Comment 1.*

4.6.3 Function/Nature Mixed Model

In a review letter, the SEC Staff regarded Paragraphs 99 and 105 of IAS 1 as requiring an entity to choose either a nature or a function classification, not a mixed model.[757] It expressed a similar conclusion with reference to Regulation S-X.[758] IFRIC Update appears to reason along the same line.[759]

Example: In its review of Form 20-F for the year ended December 31, 2005 of a foreign private issuer from The Netherlands, the SEC Staff challenged a by-nature display of an item that was described as being material in a functional income statement, on the basis that IAS does not permit a mixed function/nature presentation.[760]

Conversely, the French Autorité des Marchés Financiers (AMF) believes that IAS 1 does not prohibit a mixed presentation.[761]

Planning Point: A conflict may arise between a classification by function and the IAS 1 requirements to disclose a material item either in the statement of comprehensive income or in the notes.[762] Although the Standard does not take it to this extreme consequence, a line item presented by nature in a functional income statement would result in a mixed presentation. A similar inconsistency may arise with reference to material restructuring charges (Paragraph 4.5.6 previously), depreciation, and amortization (Paragraph 4.6.1 previously)

Example: The SEC Staff challenged the mixed approach used by a French foreign private issuer in its Form 20-F for the year ended December 31, 2005. However, as the company explained, a specific line for restructuring charges was permissible due to their materiality in the context of a crisis of the telecom market.[763]

A different direction would come forward from the *Financial Statement Presentation Project*. Function classification would be the primary key. However, unless an entity elects the exception to only present expenses by nature as it reckons a functional key as not being useful to financial statements users, information by nature would also be warranted.[764]

Comment: Irrespective of whether presented in the statement or disclosed in the notes, information by nature would be a subclassification of functions. An entity would be able to present both classifications on the face of the statement, in effect resulting in a mixed model.

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[757] *SEC IFRS Reviews. Letter by the SEC, January 4, 2007. File No. 0-17444, Comment 3.*
[758] *SEC Regulations Committee, June 20, 2006, ¶ III.K.*
[759] *IFRIC Update, October 2004.*
[760] *SEC IFRS Reviews. Letter by the SEC, October 3, 2006. File No. 0-17444, Comment 3. Letter by the SEC, January 4, 2007. Comment 3. Reply by the company, November 30, 2006 and March 8, 2007.*
[761] *AMF 2006, ¶ 1.7; ICAEW 2007 Survey, ¶ 13.3.*
[762] *IAS 1, ¶ 97.*
[763] *SEC IFRS Reviews. Letter by the SEC, June 8, 2006. File No. 001-11130, Comment 1. Reply by the company, June 22, 2006.*
[764] *Staff Draft, ¶¶ 142, 146, 147, 148.*

4.7 CAPTIONS AND LINE ITEMS

4.7.1 Minimum Line Items on the Face of the Statements of Income

IAS 1 simply lists certain items that entities must present on the face of the statement of comprehensive income, without prescribing a sorting order and subtotals that may represent logical subclassifications of income. On the other hand, U.S. GAAP has a piecemeal guidance on presentation interspersed among various accounting pronouncements.

Exhibit 4-8 summarizes the minimum content of the statements of income IFRSs, U.S. GAAP, and SEC rules and regulations. Exhibit 4-10 does the same for insurance entities, while Exhibit 4-12, Exhibit 4-14, Exhibit 4-16, and Exhibit 4-18 refer to banks and similar financial institutions, investment companies, benefit plans, and real estate, respectively. Exhibit 4-7 reports a general key to all these Exhibits.

> **Comment:** These Exhibits refer to the statement of comprehensive income and reports a subtotal for profit or loss (under U.S. GAAP, net income), a total for other comprehensive income and a total for comprehensive income. To the extent that an entity is permitted and presents an income statement (i.e., under ASU 2011-05, a statement of net income or, under the 2011 Amendments to IAS 1, a separate statement of profit or loss), the part of the Exhibits up to such a subtotal is illustrative of the minimum content of the income statement. To the extent that an entity uses a single statement of comprehensive income (i.e., under ASU 2011-05, a continuous statement of comprehensive income or, under the 2011 Amendments to IAS 1, a statement of profit or loss and other comprehensive income) and a second statement of comprehensive income (i.e., a statement of income and comprehensive income, or a statement or earnings and comprehensive income, now under ASU 2011-05 called a statement of other comprehensive income and under the 2011 Amendments to IAS 1 called a statement presenting comprehensive income), the part of the Exhibit from the profit or loss to comprehensive income is illustrative of the minimum content of that statement.

The Staff Draft of the *Financial Statement Presentation Project* would not mention a list of minimum line items to display on the face of the statement of comprehensive income, apart from basic totalization of sections and categories as mentioned in Paragraph 4.4.1 previously, revenue, totalization of income before operating finance activities, net income, each item of other comprehensive income and comprehensive income. The FASB's view is that the new disaggregation guidance makes this unnecessary. Conversely, the IASB would simply transfer those items at the level of specific standards.[765]

The IASB has discussed whether an entity should separately present other comprehensive income relating to discontinued operations in the statement of comprehensive income.[766]

4.7.2 Presentation on the Face of the Statements of Income or Note Disclosure

Exhibit 4-9 illustrates the items that an entity may present in a statement of income or disclose in notes under IFRSs, U.S. GAAP, and SEC rules and regulations. Exhibit 4-11 does the same for insurance entities, while Exhibit 4-13, Exhibit 4-15, Exhibit 4-17, and Exhibit 4-19 refer to banks and similar financial institutions, investment companies, benefit plans, and real estate, respectively. Exhibit 4-7 reports a general key to all these Exhibits.

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[765] *Staff Draft, ¶¶ 150, Footnote 5, BC145, BC146.*
[766] *IASB Update, July 2009; IASB Update, March 2010.*

Exhibit 4-8 Minimum Line Items of the Statements of Income

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Sales and other revenue	– Net revenue[4] – Under a statement of income classified by nature: changes in finished goods and work in progress[5]	– Gross revenue (not-for-profit organizations)[6] – Net sales revenue[7] – A material termination claim following termination of war and defense contracts[8] – Deduction for a renegotiation refund in Federal Government contracts[9] – The difference between a renegotiation refund for prior years in Federal Government contracts and the provision made in prior financial statements[10]	– Item 1: Net sales and gross revenue[11] Required specific items are:[12] – Net sales of tangible products – Operating revenues of public utilities and others – Income from rentals – Revenues form services – Other revenues

[1]*See general key. This Exhibit focuses on companies other those in certain specialized industries (see specific Exhibits).*
"–" means that there are no specific separate display requirements.
[2]*Items adapted from IAS 1, ¶¶ 82–83, plus other standards as noted. An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*When no reference is made, guidance comes from FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03) for commercial and industrial companies.*
[4]*IAS 1, ¶ 82(a); IAS 18, ¶¶ 9, 10. Under IAS 18, revenue is net of trade discounts and volume rebates.*
[5]*IAS 1, ¶ 102.*
[6]*FASB ASC 958-225-45-14, 958-225-45-15, 958-225-45-17 (FASB Statement No. 117, ¶¶ 24, 25, 138); AICPA Audit and Accounting Guide, NPO, ¶ 13.21. In addition, a not-for-profit organization must report gross amounts of revenues and expenses from special events and other fund-raising activities if they are ongoing major or central activities, while it can report net amounts if they are peripheral or incidental activities. According to Table 3-3 of AICPA ATT 2010 and AICPA ATT 2006, 44% in 2009, 46% in 2005, and 50% in 2002 of the survey U.S. GAAP companies used the term "net sales", 43%, 39%, and 33%, respectively, "revenues", and approximately 13%, 16%, and 17% "sales" alone or in combination with other terms. Approximately 3–4% combined operating revenues in the same caption of net sales or sales.*
[7]*Under FASB ASC 605-15-45-1 (FASB Statement No. 48, ¶ 7), estimated returns must reduce revenues reported in the income statement when sales subject to right of return meet the criteria for recognition.*
[8]*FASB ASC 912-605-50-1, 912-225-45-4 (ARB 43, Ch. 11C, Restatement and Revision of Accounting Research Bulletins, Government Contracts, Terminated War and Defense Contracts, ¶¶ 7, 23).*
[9]*FASB ASC 912-225-45-1 (ARB 43, Ch. 11B, Restatement and Revision of Accounting Research Bulletins, Government Contracts, Renegotiation, ¶ 7).*
[10]*FASB ASC 912-225-45-2 (ARB 43, Ch. 11B, ¶ 9).*
[11]*FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)(1)).*
[12]*Under FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)), an item of net sales and gross revenues that is less than 10% of the total amount may be combined with the other ones. Difference in margins is an additional element that a non-smaller issuer should consider for the disaggregation of product and service revenues (Carnall 2009).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Sales and other revenue (*continued*)		– Sales related to terminated Federal Government contracts[13] – Development stage enterprises must show revenue for each period presented and the cumulative amount since inception of the development stage[14] – Sales, use, value added, excise, and similar taxes assessed by a governmental authority and imposed on and concurrent with a revenue transaction must be presented either as part of both revenue and of costs, in conjunction with disclosure in the notes, or on a net basis excluded from revenues[15] – For casinos: promotional allowances may be included in gross revenues and separately deducted[16] – For health care entities[17]: • service revenue reported net of contractual and other adjustments • significant revenue earned under capitation arrangements • less: provision for bad debt • net patient service revenue[18]	Other required items are: – Amounts earned from related parties[19] – Excise taxes equal or in excess of 1% or total sales and revenues if included therein* Other items include: – An operating-differential subsidy under the Merchant Marine Act of 1936[20] – Material cumulative effect of enactment of new tax rates on pre-tax income of a lessor under leveraged lease[21] – For casino-hotels, revenue attributable to:[22] • casino operations • hotel operations • restaurant operations

[13] *FASB ASC 912-225-45-4 (ARB 43, Ch. 11C, ¶ 23).*
[14] *FASB ASC 915-225-45-1 (FASB Statement No. 7,* Accounting and Reporting by Development Stage Enterprises*, ¶ 11.b).*
[15] *FASB ASC 605-45-50-3 (EITF Issue No. 06-3).*
[16] *FASB ASC 924-605-45-2 (AICPA Audit and Accounting Guide,* Casinos*, ¶ 2.04).*
[17] *FASB ASC 954-605-45-2, 954-605-45-3 (AICPA Audit and Accounting Guide, HCO, ¶ 10.26).*
[18] *FASB ASC 954-605-45-4, 954-605-45-5 (FASB Accounting Standards Update No. 2011-07, Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts for Certain Health Care Entities). This applies to health care entities unless they only recognize collectible revenues. This is effective for and within fiscal years beginning after December 15, 2011, and December 15, 2012 for nonpublic entities.*
[19] *FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that an entity must display related party transactions (also including transactions other than those stated in this Exhibit) on the face of the financial statements.*
[20] *FASB ASC 225-10-S99-8 (SEC Staff Accounting Bulletin, Topic 11.A,* Operating-Differential Subsidy*). Alternatively, presentation as a deduction in costs and expenses is possible.*
[21] *FASB ASC 840-30-S99-2 (EITF Issue No. 86-43, Effect of a Change in Tax Law or Rates on leveraged Leases).*
[22] *FASB ASC 924-10-S99-1 (SEC Staff Accounting Bulletin, Topic 11-L,* Income Statement Presentation of Casino-Hotels*).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Cost of sales	– Cost of sales, under a statement of income presented by function[23] – Under a statement of income presented by nature:[24] • expenses for raw materials and consumables • labor cost and other costs included in goods produced • net period change in inventories – Expenses relating to provisions[25] – Expense for defined benefit plans[26]	– Typically found but not required[27] Required specific items are: – Amortization of capitalized computer software costs to be sold, leased, or otherwise marketed and write down to net realizable value[28] – Development stage enterprises must show expenses for each period presented and the cumulative amount since inception of the development stage[29] – A material or unusual or infrequent anticipated loss on construction contracts[30]	– Item 2: Costs and expenses applicable to sales and revenues Required specific items are:[31] – Costs of tangible goods sold – Operating expenses of public utilities and others – Expenses applicable to rental income – Cost of services – Expenses applicable to other revenues – Amounts incurred from related parties[32] – For casino-hotels, expenses attributable to:[33] • casino operations • hotel operations • restaurant operations

[23]*IAS 1, ¶ 103; IAS 2, ¶ 36(d). IAS 1 at a minimum requires the presentation of cost of sales separately from other expenses when an entity uses an analysis of expenses by function on the face of the statement. However, an entity may elect to disclose such analysis in the notes.*

[24]*IAS 2, ¶¶ 36(d), 39. In this case, the entity must disclose inventories recognized as an expense in the period, i.e., cost of goods sold, in the notes.*

[25]*Under IAS 37, ¶ 54 an entity may present the expense relating to a provision net of a virtually certain reimbursement of the expenditures necessary to settle the provision. However, this standard does not mandate separate presentation.*

[26]*IAS 19 (2011), ¶¶ 134, BC201, BC202(b); IAS 19 (2007), ¶¶ 104A, 119, BC4(j). IAS 19 leaves an entity free to condense current service costs, interest cost, and expected return on plan assets (under the 2011 revision of IAS 19, service cost and net interest on the net defined benefit liability or asset) in one line on the face of the statement of income. IAS 19 does not specify the classification that the entity may use. The Standard does not explicitly mandate presentation or state separate presentation. IAS 19 (2007), ¶ 104A and IAS 19 (2011), ¶ 116 permit the offsetting of a virtually certain reimbursement to settle a defined benefit plan with expenses of defined benefit plans.*

[27]*According to Table 3-5 of AICPA ATT 2010 and AICPA ATT 2006, approximately 41–42% of the survey U.S. GAAP companies that adopted a single caption to show cost of sales (86% of the population, 89% in 2002) used this term in 2002–2009, 17–18% elected the expression cost of goods sold, 12–14% cost of products sold, 6–7% cost of revenues, and 19–21% other captions.*

[28]*FASB ASC 985-20-50-1 (FASB Statement No. 86,* Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, *¶ 11.b). It mentions disclosure in financial statements.*

[29]*FASB ASC 915-225-45-1 (FASB Statement No. 7, ¶ 11.b).*

[30]*FASB ASC 605-35-45-1 (AICPA Statement of Position No. 81-1, ¶ 88).*

[31]*Under FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)), an entity must combine the costs and expenses subcaptions that relate to classes of net sales and gross revenues that it has combined.*

[32]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that that an entity must display related party transactions (also including transactions other than those stated in this Exhibit) on the face of the financial statements.*

[33]*FASB ASC 924-10-S99-1 (SEC Staff Accounting Bulletin, Topic 11-L).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Gross Profit	Shown in illustrative examples and Implementation Guidance under a statement of income classified by function[34]	– Typically found – Unrecognized gross profit in the period of sale under the cost recovery method of accounting[35] – Earned gross profit during the years in which profit is earned under the cost recovery method of accounting	–
Other operating income	– Other income[36] A required specific item is: – Grants related to income, either separately or under Other income caption[37]	– Other income or other operating revenues[38] – For health care entities:[39] • dividend, interest, and other similar investment income • realized gains and losses • unrealized gains and losses on trading securities	See Sales and other revenue above
Operating expenses	– Certain material items may be presented here or disclosed in the notes[40]	– An entity, except for certain specialized industries, must generally choose an analysis of expenses by function – Items to display before income from operations, if presented, include: • substantial and unusual lower-of-cost-or-market loss[41]	– Item 3, Other operating costs and expenses – Item 4, Selling, general, and administrative expenses – Item 5, Provision for doubtful accounts and notes

[34] *IFRS 1, ¶ IG Example 11; IFRS 5, ¶ IG Example 11; IAS 1, ¶¶ 103, IG6; IAS 7,* Statement of Cash Flows*, ¶ IEA3.*
[35] *FASB ASC 605-10-25-4 (APB 10, ¶ 12, Footnote ii).*
[36] *IAS 1 does not require an "other income" caption. IAS 1, ¶¶ 102, 103, IG6 states examples that include this caption. Its location is below revenues in an income statement classification by nature and after gross profit and before operating expenses in a classification by function.*
[37] *IAS 20, ¶¶ 29, 29A, when this item is not deducted from the related expenses. An entity must show this item in the income statement if it presents such a statement instead of using the single statement of comprehensive income.*
[38] *Some accounting pronouncements mention this caption, for example FASB ASC 225-10-50-3 (FASB Statement No. 89, ¶ 7.a) and FASB ASC 605-50-45-13, 605-50-45-14 (EITF Issue No. 02-16, ¶¶ 4, 5).*
[39] *FASB ASC 954-320-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 4.07).*
[40] *IAS 1, ¶¶ 97, 98. See Exhibit 4-9.*
[41] *FASB ASC 330-10-50-2 (ARB 43, Ch. 4, ¶ 14) encourages separate identification outside costs of goods sold when the loss is material. The loss is sometimes found within cost of goods sold.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Operating expenses (*continued*)		• a material accrued net loss on firm, uncancelable, and unhedged purchase commitments[42] • an adjustment to a long-lived asset that is reclassified as held and used[43] • impairment of goodwill not associated with discontinued operations[44] • impairment losses and gains or losses on disposal of held-for-sale long-lived assets or disposal groups unrelated to discontinued operations[45] • environmental remediation costs and related recoveries from third parties not associated with discontinued operations[46] • accretion expense on an asset retirement obligation[47] • adjustment for real estate property taxes[49] • for casinos: participating fee to lessors of slot machines[50] – Items to separately present within income from continuing operations include: • amortization of intangible assets	– Item 6, Other general expenses, with detail of any material item • gains or losses from the sale of assets[48]

[42]*ARB 43, Ch. 4, ¶ 17 does not require classification outside cost of goods sold. However, it assimilates this type of loss to inventory loss. An entity classifies it separately from cost of goods sold when material.*
[43]*FASB Statement No. 144, ¶ 39. It does not explicitly state separate presentation, but requires the same classification as a loss on sale of the asset. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[44]*FASB Statement No. 142, ¶¶ 43, B183.*
[45]*FASB Statement No. 144, ¶¶ 45, B116. It does not mention specific manners of disclosure but it asserts consistency with those prescribed for impairment losses of held and used long-lived assets. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[46]*AICPA Statement of Position No. 96-1, ¶¶ 149, 170; EITF Issue No. 01-13, ¶ 3. However, separate presentation is not explicitly indicated.*
[47]*FASB Statement No. 143, ¶¶ 14, B57.*
[48]*SEC Staff Accounting Bulletin, Topic 13-B, ¶ Footnote 68.*
[49]*ARB 43, Ch. 10,* Restatement and Revision of Accounting Research Bulletins, Taxes, *¶ 19. Combination with the current year's provision is possible.*
[50]*FASB ASC 924-605-25-3 (AICPA Audit and Accounting Guide,* Casinos, *¶ 2.11).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Operating expenses (*continued*)		• impairment losses of intangible assets[51] • material business restructuring charges[52] • a gain or loss from a readjustment of the net investment in a leveraged lease[53] • the total of other-than-temporary impairment related to a credit loss for a held-to-maturity and an available-for-sale security and the offset that is reported in other comprehensive income[54] – For health care entities:[55] • other than temporary impairment losses	
Income from operations	– Results from operating activities (or from operations)[56]	– Income from operations or operating income[57]	–
Other income	–	– Federal assistance received by air carriers as direct compensation under the Air Transportation Safety and System Stabilization Act enacted because of the September 11, 2001 terrorist attacks[58] – Net capitalization during a period under phase-in plans of a utility[59] – Financing cost capitalized for rate-making purposes by regulated enterprises[60]	See presentation or disclosure of miscellaneous other income as part of Item 7, Nonoperating income

[51]*FASB Statement No. 142, ¶¶ 42, B184. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[52]*EITF Issue No. 86-22; EITF Issue No. 87-4; SEC Staff Accounting Bulletin, Topic 5-P.3, amended by SEC Staff Accounting Bulletin No. 100.*
[53]*FASB Statement No. 13, ¶ 46; FASB Staff Position FAS 13-2, ¶ A1.a.*
[54]*FASB Staff Position No. FAS 115-2 and FAS 124-2, ¶¶ 35, 36.*
[55]*FASB ASC 954-320-45-1 (AICPA Audit and Accounting Guide, HCO, ¶ 4.07).*
[56]*Under IFRSs, an entity may elect to show this aggregate. Ineum 2008 Survey, ¶¶ 5.1, 5.2 found extended use of alternative terminology for operating profit in 2006 IFRS financial statements, such as* profit/loss from operations, result from operating activities, profit/loss before financial items, operating income, income from operations, operating result, operating earnings, *and* operating income. *Survey companies also called profit or loss for the period as* profit (loss) of the period, net profit/loss for the year, profit for the period, net income, *and* income after taxes.
[57]*An entity may elect to show such a subtotal.*
[58]*EITF Issue No. 01-10, ¶ 17. Alternatively, an entity may report this item as a separate line item credit in operating expenses.*
[59]*FASB ASC 980-340-45-1 (FASB Statement No. 92, ¶ 10).*
[60]*FASB ASC 980-835-45-1 (FASB Statement No. 71, ¶ 15). Alternatively, presentation as reduction of interest is possible.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other expenses	–	– Net capitalized allowable costs recovered in the period under phase-in plans by a utility.[61]	See presentation or disclosure of miscellaneous income deductions as part of Item 9, Nonoperating expenses
Gains and losses	– Material gains[62] – Material losses – Gains and losses arising from the derecognition of financial assets measured at amortized cost[63] – Gains or losses from reclassification of a financial asset to one that is measured at fair value – Difference between the carrying amount of noncash assets distributed to owners and dividend payable[64] – Gains and losses from changes in fair value less costs to sell of biological asset[65]	– Gains or losses on early extinguishment of debt that is not classified as an extraordinary item[66] – Gains or losses on nonmonetary transactions[67] – All gains and losses, whether realized or not and whether or not settled physically, must be shown net[68] – Under ASU 2011-05, effects of reclassification adjustments[69]	– Separate lines for unrealized and realized gains or losses on derivatives that do not qualify for hedge accounting[70]

[61]*FASB ASC 980-340-45-1 (FASB Statement No. 92, ¶ 10).*
[62]*IAS 1, ¶ 35.*
[63]*IFRS 9, ¶ BC52; IAS 1, ¶¶ 82(aa), 82(ca). IAS 1 shows these gains or losses as specific line items separately from finance costs.*
[64]*IFRIC 17,* Distributions of Non-cash Assets to Owners, *¶ 15. This Interpretation does not explain the location in the statement of income.*
[65]*IAS 41, Example 1 shows this separate line. IFRIC Update, November 2010 explains that this is simply an example, not intended to conflict with the requirement in IAS 18 for separate presentation of revenue.*
[66]*FASB ASC 470-50-40-2 (APB 26, ¶ 20).*
[67]*FASB ASC 845-10-50-1 (APB 29, ¶ 28).*
[68]*FASB ASC 815-10-45-9 (EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, 8).*
[69]*Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-17 as amended by ASU 2011-05 requires the presentation of the effects of reclassification adjustments by component of net income and other comprehensive income. Depending on the items, the classification of the effects on net income may involve other captions, such as operating or nonoperating expenses.*
[70]*SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ M.3. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007].*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Finance results	– Finance costs[71] – Required specific items are: • dividends and distributions to unitholders that are classified as an expense, included either within interest expenses or presented separately[72] • gains and losses from remeasurement of a puttable instrument classified as a financial liability[73]	– A reduction of interest expense for financing cost capitalized for rate-making purposes by regulated enterprises[74] – The current period amount of interest expenses capitalized by electric utility companies on construction work in progress financed through a construction intermediary (either separate display or part of interest expense)[75] – Interest expense on shares subject to mandatory redemption for entities that have no other equity instruments[76]	– Item 7, Nonoperating income – Item 8, Interest and amortization of debt discount and expense – Item 9, Nonoperating expenses A required specific item is: – Income from transactions in securities of related parties[77]
		– Separate presentation of investment income from investments in life settlement contracts by third-party investors and accounted for under the fair value method and investment method (either separate lines or parenthetical disclosure of that from amounts at fair value)[78*] – Interest expense on an underpayment of income taxes[79]	

[71]*An entity that chooses to present both interest income and interest charges on the face of a statement of income cannot offset them but must indicate them separately (IFRS 7, ¶ IG13; IASB Update, November 2006; IFRIC Update, November 2006; IFRIC Update, October 2004).*

[72]*IAS 32, ¶¶ 18, 40, IE32, IE33. This may include the case of entities all of whose shares do not meet the criteria for equity classification under IAS 32, or the situation of entities whose shares are entirely puttable instruments classified as liabilities under IAS 32. This standard encourages separate classification if the tax impact of dividends differs from that of interests.*

[73]*IAS 32, ¶ 41, when separate classification is important to enlighten the entity's performance. IFRSs do not clarify whether an entity should include these gains and losses in the finance costs item of a statement of income.*

[74]*FASB ASC 980-835-45-1 (FASB Statement No. 71, ¶ 15). Alternatively, presentation as other income is possible.*

[75]*FASB ASC 980-810-S99-2 (SEC Staff Accounting Bulletin, Topic 10-A).*

[76]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement 150,* Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, *¶¶ 19, A6); FASB Statement 150, ¶ B59. For all other mandatorily redeemable instruments and other instruments for which it requires liability classification, FASB Statement No. 150, does not specifically mention separate presentation. FASB Staff Position FAS 150-3, ¶ 3 indefinitely delayed the classification, measurement, and disclosure provisions of FASB Statement No. 150 for mandatorily redeemable financial instruments of nonpublic, non-SEC registrant entities. For these companies, liability classification holds only for those financial instruments that are mandatorily redeemable on fixed dates for amounts that are either fixed or determinable through an external index.*

[77]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)) postulates that an entity must display related party transactions (also including transactions other than those stated in this Exhibit) on the face of the financial statements.*

[78]*FASB ASC 325-30-45-3 (FASB Staff Position No. FTB 85-4-1,* Accounting for Life Settlement Contracts by Third-Party Investors, *¶ 10). It does not indicate a specific location in the income statement.*

[79]*FASB ASC 740-10-45-25 (FASB Interpretation No. 48, ¶ 19). It does not explicitly require separate presentation. An entity may elect classification as income taxes.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Unusual or infrequent items	No such caption. See material items above	– See next Exhibit for individually material items that are unusual or infrequent, but not both, and the aggregate of not individually material ones[80]	–
Special captions for certain public companies	No such caption.	No such caption.	– Item 10, Income or loss before income tax expense and appropriate items below
	No. See below	No. See below	– Item 11, Income tax expense Specific items include: – Material cumulative effect of enactment of new tax rates on income tax expense of a lessor under leveraged lease[81]
Equity method income	– Share of the profit or loss of associates and joint ventures accounted for using the equity method[82]	– Income in an equity method investee, generally as a single line[83] – Patronage allocations of earnings on investments in agricultural cooperatives, if not following the recording of the costs or proceeds[84]	– Item 12: Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons[85]

[80]*FASB ASC 225-20-45-16 (APB 30, ¶ 26).*
[81]*FASB ASC 840-30-S99-2 (EITF Issue No. 86-43).*
[82]*IFRS 5, ¶ Example 11; IAS 1, ¶ 82(c); IAS 28 (2010), ¶ 38. IAS 1, ¶ IG6 show share of profit of associates after finance costs. When a venturer uses proportionate consolidation of a jointly controlled entity under IAS 31, it must show separate lines of items of income and expenses.*
[83]*FASB Statement No. 94,* Consolidation of All Majority-Owned Subsidiaries*, ¶ 38; FASB ASC 323-10-45-1 (APB 18, ¶ 11, 19.c). However, an entity in the construction and extraction of mineral resources industries that uses proportionate consolidation for investments in separate legal entities must show separate lines of major revenues and expenses captions (FASB ASC 910-810-45-1, 930-810-45-1, 932-810-45-1 (EITF Issue No. 00-1,* Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures*, ¶¶ 2, 4)).*
[84]*FASB ASC 905-605-45-2 (AICPA Statement of Position No. 85-3, ¶ 105).*
[85]*FASB ASC 225-10-S99-2, 944-255-S99-1 (Regulation S-X, ¶¶ 210.5-03(b).12, 210.7-04.10) permit a different location of this item. An investor would be able to include an equity investee within operating income, if presented, in the rare circumstances in which it regarded the investee as operationally integral to its operations (SEC Regulations Committee, March 11, 2003, ¶ XI.B).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Income from continuing operations before tax	Profit (loss) before tax	Income from continuing operations before tax[86]	No. See above
Income tax expense on profit or loss from continuing operations	– Income tax expense[87]	– Income tax expense Specific items include: – Taxes not payable in cash of an enterprise after quasi-reorganization[88] – Interest expense on an underpayment of income taxes[89] – Penalties associated with tax positions[90]	See above
Income from continuing operations after tax	– Profit for the year from continuing operations[91]	– Income from continuing operations after tax[92] – For health care entities, a performance indicator, labeled such as revenues over expenses, revenues and gains over expenses and losses, earned income, or performance earnings[93]	– Item 13, Income from continuing operations

[86]*Under U.S. GAAP, an entity that has no discontinued operations may change titles of this aggregate depending on captions that follow, i.e., income before extraordinary items, or income before extraordinary items and cumulative effects of a change in accounting principle before tax.*
[87]*IAS 12, ¶¶ 77, 77A. An entity must show this item in the income statement if it presents such a statement instead of using the single statement of comprehensive income.*
[88]*FASB Statement No. 130, ¶ 113; FASB ASC 852-10-15-1 (AICPA Statement of Position No. 90-7,* Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*).*
[89]*FASB ASC 740-10-45-25 (FASB Interpretation No. 48, ¶ 19). An entity may elect classification as interest expense. This Interpretation does not explicitly require separate presentation.*
[90]*FASB ASC 740-10-45-25 (FASB Interpretation No. 48, ¶ 19). It does not explicitly require separate presentation. An entity may elect classification as another expense classification.*
[91]*IAS 33, ¶¶ 9, 30 acknowledge the presentation of this aggregate as not mandatory. IAS 1, ¶ IG6 shows subtotals for profit before tax and for profit for the year from continuing operations. IFRS 5, ¶¶ 28, 33(b), 33(d), 36, 37, IG Example 11 use profit from continuing operations mainly to distinguish it from discontinued operations.*
[92]*FASB ASC 260-10-45-3 (FASB Statement No. 128, ¶ Footnote 4;) FASB ASC 220-10-45-7 (FASB Statement No. 130, ¶ 16); FASB Statement No. 130, ¶¶ 84-85; FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ Footnote 24); FASB ASC 825-10-15-7 (FASB Statement No. 159, ¶ Footnote 7); CON 5, ¶ 31; CON 6, ¶ 76. Under U.S. GAAP, an entity that has no discontinued operations may change titles of this aggregate depending on captions that follow, i.e., income before extraordinary items, or income before extraordinary items and cumulative effects of a change in accounting principle after tax.*
[93]*FASB ASC 954-225-45-4 (AICPA Audit and Accounting Guide, HCO, ¶ 10.20).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Discontinued operations	– Profit or loss for the period from discontinued operations (i.e., post-tax total)[94] – Certain current period adjustments directly related to items of prior-period discontinued operations[95] – Investor's share of an associate's discontinued operations[96]	– Discontinued operations,[97] including: • results of operation of discontinued operations • results of discontinued operations (i.e., post-tax total) – certain current period adjustments directly related to items of prior-period discontinued operations[98] – Health care entities must report discontinued operations separately from the performance indicator[99]	– Item 14, Discontinued operations
Income before extraordinary items	Prohibited[100]	– Income before extraordinary items[101]	– Item 15, Income or loss before extraordinary items and cumulative effects of changes in accounting principles
Extraordinary items, net of tax	Prohibited	– Extraordinary items[102] – Individually material extraordinary items or material amount from related transactions arising from the same single event, with detail of nature[103] – Current period adjustments of extraordinary items recognized in prior periods other than corrections of errors, with disclosure of year of origin, nature, and amount[104]	– Item 16, Extraordinary items, less applicable tax

[94]*IFRS 5, ¶¶ 33(a), 33A, Implementation Guidance, Example 11; IAS 1, ¶ 82(ea), as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010), ¶ 82(e). An entity that presents an income statement (as opposed to a single statement of comprehensive income) must display discontinued operations in that statement.*
[95]*IFRS 5, ¶ 35. See Paragraph 4.5.10.*
[96]*IAS 28 (2010), ¶ 38.*
[97]*FASB ASC 220-10-45-7 (FASB Statement No. 130, ¶ 16); FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43).*
[98]*FASB Statement No. 88, ¶¶ C37, C39; FASB ASC 205-20-45-4, 205-20-45-5 (FASB Statement No. 144, ¶¶ 44, Footnote 25); FASB Staff Position No. FAS 158-1, ¶¶ C37, C39; FASB ASC 205-20-S99-2 (SEC Staff Accounting Bulletin, Topic 5-Z.5. See Paragraph 4.5.10.*
[99]*FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guide, HCO, ¶ 10.21).*
[100]*Formerly known as "results from ordinary activities".*
[101]*FASB ASC 225-20-45-10 (APB 30, ¶ 11). Under U.S. GAAP, titles may change depending on captions that follow, such as income before extraordinary items, or income before cumulative effects of a change in accounting principle.*
[102]*FASB ASC 205-20-45-3 (FASB Statement No. 130, ¶ 16); FASB ASC 225-20-45-11 (APB 30, ¶ 11).*
[103]*APB 9, ¶¶ 3, 17; APB 30, ¶ 10; FASB ASC 225-20-45-3 (APB 30, ¶ 24).*
[104]*FASB ASC 2250-20-45-13 (APB 30, ¶ 25).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Extraordinary items, net of tax (*continued*)		– An investor's material share of an equity method investee extraordinary items[105] – Gains or losses from unusual sale of assets not in the ordinary course of business and not object of resale business – Not usually insured losses[106] – Gain or loss from discontinuing the application of FASB Statement No. 71 to all or part of the operations of a regulated enterprise[107] – The amount that would correspond to goodwill on initial consolidation of a variable interest entity would it be a business[108] – Business interruption insurance recoveries that meet the criteria of extraordinary items[109] – Realization of a tax loss carryforward or carryback recorded in a previous year when the source of income in the current year comes from extraordinary items[110] – A gain on restructuring debt and a gain or loss from extinguishment or modification of debt that meets the criteria of extraordinary items[111] – A catastrophic loss that meets the criteria of extraordinary items[112]	

[105]*FASB ASC 323-10-45-2 (APB 18, ¶ 19.d).*
[106]*FASB Statement No. 135, ¶ 20.b; APB 9, ¶ 15.*
[107]*FASB ASC 980-20-40-4, 980-20-50-2 (FASB Statement No. 101, ¶¶ 6, 9); FASB Statement No. 101, ¶¶ 10, 31; FASB ASC 225-20-45-8 (APB 30, ¶ 20(2)).*
[108]*FASB ASC 810-10-30-4 (FASB Interpretation 46(R),* Consolidation of Variable Interest Entities, *¶ 21).*
[109]*FASB ASC 225-30-45-1 (EITF Issue No. 01-13, ¶ 7).*
[110]*FASB ASC 740-20-45-3, 740-10-55-38 (FASB Statement No. 109, ¶¶ 37, 245). This rule does not apply to those deductible taxable differences and carryforwards arising from a business combination that is an acquisition or to those allocated to equity.*
[111]*FASB Statement No. 145, ¶¶ 7.a, 7.b; EITF Issue No. 90-19; EITF Issue No. 91-2; FASB ASC 470-50-40-6 (EITF Issue No. 96-19).*
[112]*EITF Issue No. 01-10, ¶ 5.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Extraordinary items, net of tax (*continued*)		– A gain or loss from an involuntary conversion of a nonmonetary asset to monetary asset that meets the criteria of extraordinary items[113] – The nonrecurring cost of an employee compensation plan offered by a government shareholder in a single reporting period as part of a privatization that meets the criteria of extraordinary items[114] – Impairment of receivables, impairment of inventories, equipment leased to others, foreign exchange translation gains or losses, and intangible assets and deferred research and development costs that meet the criteria of extraordinary items and that directly arise from a significant casualty, expropriation, or act of a new legal norm[115] – Health care entities must report extraordinary items separately from the performance indicator[116]	
Income before cumulative effects of a change in accounting principle (or earnings)	Not used	– Income before cumulative effects of a change in accounting principle (or earnings)	–
Cumulative effects of a change in accounting principle	No longer used[117]	– Only when prescribed by a transition provision of an accounting pronouncement[118] – Investor's share of investee's cumulative effects of a change in accounting principle, if material for the investor[119]	– Item 17, Cumulative effects of changes in accounting principles[120]

[113]*FASB Interpretation No. 30, ¶ 4.*
[114]*SEC, International, November 1, 2004, ¶ XII.D,* Issuance of Government-owned Shares to Employees.
[115]*FASB ASC 225-20-55-3, 225-20-55-4 (AICPA Interpretation, AIN-APB 30, ¶ 1) illustrates examples that do qualify and others that do not qualify.*
[116]*FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guide, HCO, ¶ 10.21).*
[117]*IAS 8, ¶¶ 24, 25.*
[118]*FASB ASC 250-10-45-6, 250-10-45-7 (FASB Statement No. 154, ¶¶ 8, 9); FASB Statement No. 154, ¶ B12. These sections now clarify that under no circumstances the period-specific effects of a voluntary change in accounting principle affect the income statement.*
[119]*FASB ASC 323-10-45-2 (APB 18, ¶ 19.d).*
[120]*FASB ASC 225-10-S99-2, (Regulation S-X, ¶ 210.5-03.18). Under FASB ASC 250-10-S99-3 (SAB 5-F), an entity that does not make a restatement because the cumulative impact is immaterial must include such effect in current period net income, but not in a specific line.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Adjustments for hyperinflationary accounting	– Gain or loss on net monetary position in hyperinflationary accounting[121]	–	–
Net income	– Profit or loss[122]	– Net income or loss[123]	– Item 18, Net income or loss
Attribution of net income	– Profit or loss for the period attributable to owners of the parent – Profit or loss for the period attributable to noncontrolling interests[124]	– Consolidated net income (loss) attributable to the parent – Consolidated net income (loss) attributable to the noncontrolling interests[125] – For agricultural cooperatives: • patronage earnings • nonpatronage earnings[126]	– Item 19, Net income attributable to the noncontrolling interest – Item 20, Net income attributable to the controlling interest – Income or loss applicable to common stock, under certain circumstances[127]

[121]*IAS 29, ¶ 28. IAS 29 does not indicate the location of this item in a statement of income. Gain or loss on net monetary position is netted by adjustments to assets and liabilities linked by agreement to price changes. It may be combined with interest income and expenses and foreign currency gains and losses referred to invested or borrowed funds.*

[122]*IAS 1, ¶ 81A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010), ¶¶ 82(f), 84 (deleted by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*). Profit or loss is a mandatory item in the separate income statement, if presented. The single statement of comprehensive income or the statement of comprehensive income (i.e., the statement of combined income and comprehensive income) must present profit or loss.*

[123]*FASB ASC 220-10-45-1A (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8); FASB ASC 220-10-45-6, 220-10-45-8 (FASB Statement No. 130, ¶¶ 15, 22), superseded by ASU 2011-05. Net income or loss is a mandatory item in a statement of income. If items of other comprehensive income exist, the statement that displays other comprehensive income (i.e., the statement of comprehensive income, the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity) must show net income or loss as a component of comprehensive income.*

[124]*IAS 1, ¶ 83(a); IAS 27 (2010), ¶ 28. The illustrative examples in IAS 1, ¶¶ IG5, IG5A as amended by 2011 Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income *show the attribution of profit or loss to controlling and noncontrolling interests located under profit or loss in the separate statement of profit or loss, while under comprehensive income on the face of the statement of profit or loss and other comprehensive income.*

[125]*FASB ASC 810-10-50-1A, 810-10-55-4J, 810-10-55-4K (ARB 51, ¶¶ 38(a), A4, A5, as amended by FASB Statement No. 160); FASB ASC 220-10-45-5, as amended by ASU 2011-05). FASB ASC 220-10-55-7, 220-10-55-8, 220-10-55-9, as amended by ASU 2011-05, show the attribution of net income to controlling and noncontrolling interests located under net income both when the separate statement of net income or the continuous statement of comprehensive income are used.*

[126]*FASB ASC 905-505-45-1 (AICPA Audit and Accounting Guide,* Agricultural Producers and Cooperatives*, (APC) ¶ 8.06). It mentions classification, not separate presentation.*

[127]*FASB ASC 225-10-S99-5 (SEC Staff Accounting Bulletin, Topic 6-B considers separate presentation income or loss applicable to common stock on the face of the consolidated income statement appropriate in case of a material difference (or more than 10%) between that figure and reported net income or loss or when it is indicative of significant trends or other qualitative considerations. Its presentation is mandatory when the entity adopts a single statement of income and comprehensive income. The reconciliation between net income and income available to common stock may be presented below comprehensive income.*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Attribution of net income (*continued*)			For limited partnerships, net income (loss) allocated to:[128] – The general partners – The limited partners
Per share data for entities required to present them	– For each class of ordinary shares, for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity: • basic earnings per share • diluted earnings per share – For each class of ordinary shares, for profit or loss attributable to the ordinary equity holders of the parent entity: • basic earnings per share • diluted earnings per share[129]	– For income from continuing operations available to common shareholders: • basic earnings per share • diluted earnings per share (only for entities with complex capital structure) – For net income available to common shareholders: • basic earnings per share • diluted earnings per share (only for entities with complex capital structure)[130]	– Item 21, Earnings per share data[131] – For limited partnerships, results of operations per unit[132]

[128]*FASB ASC 505-10-S99-5 (SEC Staff Accounting Bulletin, Topic 4-F,* Limited Partnerships*).*
[129]*IAS 33, ¶¶ 4A, 66, 67, 67A. An entity that presents a separate statement of profit or loss, i.e., income statement (as opposed to a statement of profit or loss and other comprehensive income, i.e., a single statement of comprehensive income) must display earnings per share information in that statement. A single line may show basic and diluted amounts when they are equal. The illustrative examples in IAS 1, ¶¶ IG5, IG5A as amended by 2011 Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income *show earnings per share located under profit or loss in the separate statement of profit or loss, while under comprehensive income on the face of the statement of profit or loss and other comprehensive income.*
[130]*FASB ASC 260-10-45-2, 260-10-45-7 (FASB Statement No. 128, ¶¶ 36, 38). A single line may show basic and diluted amounts when they are equal. FASB ASC 220-10-55-7, 220-10-55-8, 220-10-55-9, as amended by ASU 2011-05, show earnings per share located under net income both when the separate statement of net income or when the continuous statement of comprehensive income are used.*
[131]*Form 20-F, Instruction 2 to Item 17 requires private foreign issuers to present earnings per share according to U.S. GAAP if those computed in the issuers' primary financial statements under home-country GAAP materially differ.*
[132]*FASB ASC 505-10-S99-5 (SEC Staff Accounting Bulletin, Topic 4-F).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other comprehensive income	– Total of other comprehensive income not subject to reclassification and each component classified by nature,[133] also including: • investment in equity instrument carried at fair value through other comprehensive income • revaluation surplus[134] • change in revaluation surplus arising from a change in a decommissioning, restoration or similar liability[135] • actuarial gains and losses recognized in other comprehensive income under pre-2011 IAS 19[136] • remeasurements of the net defined benefit liability or assets under IAS 19 (2011)[137] • share of the other comprehensive income of associates and joint ventures accounted for using the equity method that is not subject to reclassification[138] • changes in the fair value of a financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of the liability, unless this creates or enlarges an accounting mismatch[139]	– Each item of other comprehensive income for the period,[140] also including: • unrealized gains and losses on available-for-sale securities[141] • unrealized gains and losses on transfer of held-to-maturity debt securities to available-for-sale category[142] • the portion of other-than-temporary impairment not related to a credit loss for a held-to-maturity and an available-for-sale security[143] • foreign currency translation adjustment[144] • gains or losses on foreign currency transactions designated as and effective economic hedges of a net investment in a foreign entity[145] • gains or losses on intercompany foreign currency transaction that are in substance part of a net investment in a foreign operation	–

[133] *IAS 1, ¶¶ 82A, IG5A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010); IAS 1 (2010), ¶ 82(g). The separate presentation of groups of items that are and that are not subject to reclassification applies for annual periods beginning on or after July 1, 2012, with earlier application permitted.*
[134] *IAS 16, ¶ 39; IAS 38, ¶ 85.*
[135] *IFRIC 1, ¶ 6(d).*
[136] *IAS 19 (2007), ¶ 93B.*
[137] *IAS 19 (2011), ¶¶ IN6(i)(ii), 120(c), 122, 127, 154, 172, BC65(c), B66(c), BC88, BC93, BC100, BCC276.*
[138] *IAS 1, ¶ 82A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010); IAS 1 (2010), ¶ 82(h); IAS 28 (2010), ¶¶ 11, 19A, 39; IAS 31, ¶ 45B.*
[139] *IFRS 9, ¶ 5.7.7.*
[140] *FASB ASC 220-10-45-1A, 220-10-45-1B, 220-10-45-8 (superseded), 220-10-55-2 moved to 220-10-45-10A, 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 17, 22, 130-131, as amended by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶¶ 8, 9),. An entity must present each item of other comprehensive income either in the statement of comprehensive income, or in the statement of combined income and comprehensive income, or in the statement of changes in equity. Under ASU 2011-05, the latter is no longer an option.*
[141] *FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05); FASB ASC 320-10-45-1 (FASB Statement No. 115, ¶ 17).*
[142] *FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05); FASB ASC 320-10-35-10(c) (FASB Statement No. 115, ¶ 15).*
[143] *FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05); FASB ASC 320-10-35-18 (FASB Statement No. 115, ¶ 16; FASB Staff Position No. FAS 115-2 and FAS 124-2, ¶¶ 11, 18, 30).*
[144] *FASB ASC 830-30-45-12 (FASB Statement No. 52, ¶ 13); FASB ASC 220-10-55-2 moved to 220-10-45-10A, 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 17, 130–131).*
[145] *FASB ASC 830-20-35-3 (FASB Statement No. 52, ¶ 20); FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other comprehensive income (*continued*)	• total income tax on group of items of other comprehensive income that are not subject to recycling – Total of other comprehensive income subject to reclassification and each component classified by nature, also including:[147] • foreign currency translation adjustment • gains and losses on available-for-sale financial assets • gains and losses on cash flow hedges • share of the other comprehensive income of associates and joint ventures accounted for using the equity method that is subject to reclassification	• an investor's share of an investee's adjustments for other comprehensive income due to change in an investor's interest in an equity-method investee with no loss of significant influence or due to an equity method investee's adjustments in other comprehensive income[146] • net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments[148] – Reclassification adjustments, under gross display[149] – Income tax on each item of other comprehensive income and on reclassification adjustments, if based on a gross-of-tax presentation[150] – Health care entities must report items of other comprehensive income separately from the performance indicator[151]	–

[146]*FASB ASC 323-10-35-18, 323-10-45-3 (FASB Statement No. 130, ¶¶ 121-122); FASB Technical Bulletin No. 79-19, ¶ 6. Combining with the investor's other comprehensive income items is possible.*

[147]*IAS 1, ¶¶ 82A, IG5A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010); IAS 1 (2010), ¶ 82(g).*

[148]*FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05); FASB ASC 815-30-45-1 (FASB Statement No. 133, ¶ 46).*

[149]*FASB ASC 220-10-45-5, 220-10-45-17, 220-10-55-18 (FASB Statement No. 130, ¶¶ 14, 20, 132). Presentation is in the statement in which the entity displays other comprehensive income (i.e., either the statement of comprehensive income, or the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-17 as amended by ASU 2011-05 requires the presentation of the effects of reclassification adjustments by component of net income and other comprehensive income.*

[150]*FASB ASC 220-10-45-12 (FASB Statement No. 130, ¶¶ 14, 25); FASB Statement No. 130, ¶¶ Appendix B, Appendix C 138. Display is in the statement in which the entity displays other comprehensive income (i.e., either the statement of comprehensive income, or the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity).*

[151]*FASB ASC 954-225-45-7 (AICPA Audit and Accounting Guide, HCO, ¶ 10.21).*

(continued)

Exhibit 4-8 Minimum Line Items of the Statements of Income (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other comprehensive income (*continued*)	• reclassification adjustments, under gross presentation[152] • total income tax on group of items of other comprehensive income that are subject to recycling • income tax on each item of other comprehensive income and on reclassification adjustments, if based on a pre-tax presentation[153]		
Total other comprehensive income	– Total other comprehensive income[154]	– Total other comprehensive income[155]	–
Comprehensive income	– Total comprehensive income[156]	– Total comprehensive income for the period[157]	–
Attribution of comprehensive income	– Total comprehensive income for the period attributable to noncontrolling interests – Total comprehensive income for the period attributable to owners of the parent[158]	– Comprehensive income attributable to noncontrolling interests – Comprehensive income attributable to the parent[159]	–

[152]*IAS 1, ¶ 94.*
[153]*IAS 1, ¶¶ 90–91, Guidance on Implementing, Part I; IAS 12, ¶ 81(ab).*
[154]*IAS 1, ¶ 81A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, effective for annual periods beginning on or after July 1, 2012, with earlier application permitted; IAS 1 (2010), ¶¶ 82(f), 84 (deleted by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*).*
[155]*FASB ASC 220-10-45-1A, 220-10-45-1B (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8).*
[156]*IAS 1, ¶ 81A, as amended by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*; IAS 1 (2010), ¶ 82(i) (deleted by Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*).*
[157]*FASB ASC 220-10-45-1A, 220-10-45-1B (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8); FASB ASC 220-10-45-5, 220-10-45-6 (FASB Statement No. 130, ¶¶ 14, 15), before amendments by ASU 2011-05. Presentation is in the statement in which the entity displays the components of other comprehensive income (i.e., either the statement of comprehensive income, or the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity). Under FASB ASC 220-10-15-3, 220-10-45-6 moved to 220-10-45-1A by ASU 2011-05 (FASB Statement No. 130, ¶¶ 6, 15), in absence of items of other comprehensive income in any period presented, reporting comprehensive income (ASU 2011-05 adds other comprehensive income) is not mandatory. According to Table 4-2 of AICPA ATT 2010 and AICPA ATT 2006, virtually all of the U.S. GAAP companies surveyed in 2002–2009 used expressions that contained the word "comprehensive" – therefore either comprehensive income, or comprehensive loss, or comprehensive income (loss) – on the face of the statement of comprehensive income or the statement of income and comprehensive income. Few companies used the term "comprehensive earnings" or other title.*
[158]*IAS 1, ¶ 83(b); IAS 27 (2010), ¶ 28.*
[159]*FASB ASC 220-10-45-5 (FASB Statement No. 130, ¶ 14, as amended by FASB Statement No. 160); FASB Statement No. 130, ¶ C9; FASB ASC 810-10-50-1A, 810-10-55-4J, 810-10-55-4K (ARB 51, ¶¶ 38(a), A4, A5, as amended by FASB Statement No. 160). Presentation is on the face of the statement that reports comprehensive income.*

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes

1	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Sales and other revenue	– Compensation from third parties for items of tangible assets that were impaired, lost, or given up[4]	– Contingent rentals for a lessor in significant sales-type or direct financing leases[5] – Contingent rentals for a lessor in operating leases[6] – Pre-tax income from a leveraged lease (to be presented separately from other leveraged lease items)[7] – Compensation earned under a research and development arrangement[8] – Related party transactions[9] – Voluntary parenthetical or note disclosure of gross transaction volume for revenues reported net[10] – Supplementary information of gross revenue of significant oil and gas producing activities of publicly traded companies, in aggregate and for geographic area[12]	– Development stage enterprises must show revenue for the periods presented and the cumulative amount since inception[11]

[1]*See general key. This Exhibit focuses on companies other those in certain specialized industries (see specific Exhibits).*
"–" means that there are no specific separate display or disclosure requirements.
[2]*Items adapted from IAS 1, ¶¶ 82–83, plus other standards as noted. An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*When no reference is made, guidance comes from FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03) for commercial and industrial companies.*
[4]*IAS 16, ¶ 74(d).*
[5]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.iv).*
[6]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.b.iii).*
[7]*FASB ASC 840-30-45-5 (FASB Statement No. 13, ¶ 47); FASB Statement No. 13, ¶ Appendix E. Under FASB Staff Position No. FASP FAS 13-2, ¶ 9. This line also includes the effects of a change or projected change in the timing of cash flows relating to income taxes generated by the lease on pre-tax gain or loss.*
[8]*FASB ASC 730-20-50-1 (FASB Statement No. 68,* Research and Development Arrangements*, ¶ 14.b); FASB Statement No. 68, ¶ 37.*
[9]*FASB ASC 850-10-50-1 (FASB Statement No. 57,* Related Party Disclosures*, ¶ 2.c) generically requires financial statements disclosure of transactions with related parties, other than in the ordinary course of business, and the effect of changes in terms. Disclosure of related party transactions may extend to other items.*
[10]*FASB ASC 605-45-50-1 (EITF Issue No. 99-19, ¶ 20).*
[11]*FASB Statement No. 7, ¶ 11; IPTF, September 27, 2004, ¶ 3. Disclosure is possible on the face of primary financial statements or in the notes. Item 17 filers are exempted.*
[12]*FASB ASC 932-235-50-24 (FASB Statement No. 19. ¶ 59T); FASB Statement No. 69, ¶ 25. Depending on the structure of oil and gas activities versus its other business activities, an entity may also disclose such supplementary information as part of the financial statements or segment reporting.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Cost of sales	– If the entity uses a presentation by function,[13] additional detail of cost of goods sold as: cost of inventories sold, unallocated production overheads, abnormal production costs, and any distribution costs allocated to cost of goods sold[14] – An entity that presents by function must include at least minimum detail by nature: • depreciation and amortization[15] • employee benefits expense[16]	– Contingent rentals incurred by a lessee in a capital lease[17] – Rental expense by a lessee in an operating lease, and separately minimum rental, and sublease rentals[18] – Costs incurred under a research and development arrangement[19] – A loss on termination of a Federal Government contract (separate line if displayed)[20]	– Expenses for share-based payment transactions[21*] – LIFO liquidation[22*] – Development stage enterprises must show expenses for the periods presented and the cumulative amount since inception[23]

[13]*However, an entity may elect to disclose an analysis by function in the notes. In addition, an entity that presents a statement by nature must disclose inventories recognized as an expense in the period, i.e., cost of goods sold, in the notes (IAS 2, ¶ 36(d)).*
[14]*IAS 2, ¶ 38.*
[15]*An entity may allocate these items to cost of sales and operating expenses. IAS 38, ¶ 118(d) requires the indication of the line items that contain amortization.*
[16]*IAS 1, ¶ 104. If the entity uses a statement of income classified by function, the analysis mentioned is an additional classification of expenses. An entity may classify or allocate employee benefits expense to cost of sales and operating expenses.*
[17]*FASB Statement No. 13, ¶ 16.a.iv.*
[18]*FASB Statement No. 13, ¶ 16.c.*
[19]*FASB ASC 730-20-50-1 (FASB Statement No. 68, ¶ 14.b); FASB Statement No. 68, ¶ 37.*
[20]*FASB ASC 912-20-45-5 (AICPA Audit and Accounting Guide,* Federal Government Contractors, *(FGC) ¶ 3.43).*
[21]*SEC Staff Accounting Bulletin, Topic 14-T, Classification of Compensation Expense Associated with Share-based Payment Arrangements, ¶ Footnote 87; SEC Staff, November 30, 2006. Current Accounting and Disclosure Issues in the Division of Corporation Finance, ¶ B.2. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]. An entity may consider disclosure through parenthetical explanation, the statement of cash flows, note disclosure, or Management's Discussion & Analysis. Use of separate lines is prohibited.*
[22]*FASB ASC 718-10-S99-1 (SEC Staff Accounting Bulletin, Topic 11-F. Entities may use either parenthetical explanation or note disclosure.*
[23]*IPTF, September 27, 2004, ¶ 3. Disclosure is possible on the face of primary financial statements or in the notes. Item 17 filers are exempted.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Cost of sales (*continued*)	– Changes in each subclassification of inventories[24] – Under IAS 19 (2007), for defined benefit plans, total amount expensed for:[25] • current service cost • interest cost • expected return on plan assets • less: a virtually certain reimbursement to settle a defined benefit plan[26] • actuarial gains and losses • past service cost • curtailment gains or losses • settlement gains or losses • the effects of asset ceiling limit – Under IAS 19 (2011), for defined benefit plans, total amount expensed for.[27] • current service cost • interest income or expense on the net defined benefit liability or asset • past service cost and settlement gains and losses	– Compensation cost (including that expensed from share-based payment arrangements)[28*] – Separately for pension plans and other post-retirement benefit plans of public entities, the portion of net periodic cost recognized and separately:[29] • service cost • interest cost • expected return on plan assets • gain and loss component • prior service cost or credit • transition asset or obligation component – Curtailment or settlement gains or losses[30] – Related party transactions[31]	

[24]*IAS 2, ¶ 37.*

[25]*IAS 19 (2007), ¶¶ 61, 120A(g), BC4(j). IAS 19 (2007), ¶ 119 leaves an entity free to condense current service costs, interest cost and expected return on plan assets (under the 2011 revision of IAS 19, service cost and net interest on the net defined benefit liability or asset) in one line on the face of the statement of income. IAS 19 does not specify the classification that the entity may use. An entity must identify the specific amounts of each component and illustrate the location of the respective amounts in the statement of comprehensive income. The Standard does not explicitly mandate presentation or state separate presentation.*

[26]*IAS 19 (2007), ¶ 104A permits the offsetting of such a reimbursement with expenses of defined benefit plans.*

[27]*IAS 19 (2011), ¶¶ 120, 141. IAS 19 (2011), ¶ 134 maintains the same conclusions as the previous version of IAS 19 on presentation of the cost components.*

[28]*FASB ASC 718-10-25-2, 718-10-50-1 (FASB Statement No. 123(R), ¶¶ 5, 64.b). An entity may allocate or classify this item to cost of sales and operating expenses. FASB ASC 718-10-S99-1 (SEC Staff Accounting Bulletin, Topic 14-F,* Classification of Compensation Expense Associated with Share-Based Payment Arrangements*), acknowledges that Topic 718 (FASB Statement No. 123(R)) does not indicate a line for share-based payment arrangements expenses. However, related noncash compensation must be included in the same lines used to report cash compensation. An entity that wishes to disclose noncash compensation can do it either parenthetically, in the statement of cash flows, in the notes, or in Management's Discussion and Analysis.*

[29]*FASB ASC 715-20-50-1 (FASB Statement No. 132R, ¶ 5.h); FASB Statement No. 132R, ¶¶ A33-A35. Components of net benefit cost are generally aggregated (FASB ASC 715-30-35-4 (FASB Statement No. 87, ¶ 20.b); FASB Statement No. 87, ¶ 93; FASB ASC 715-60-35-9 (FASB Statement No. 106, ¶ 46.b); FASB Statement No. 106, ¶ 275). Subtopic 715-20 (FASB Statement No. 132R) does not require disaggregation of items of net benefit cost. Furthermore, it does not explicitly mandate presentation or state separate presentation of net benefit cost and related components. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy.*

[30]*FASB Statement No. 106, ¶ Footnote c to ¶ F30 explains that a curtailment gain is not a component of net periodic cost and that an entity must disclose it separately.*

[31]*FASB ASC 850-10-50-1 (FASB Statement No. 57, ¶ 2.c) generically requires financial statements disclosure of transactions with related parties, other than in the ordinary course of business, and the effect of changes in terms. Disclosure of related party transactions may extend to other items.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Cost of sales (*continued*)		– Supplementary information of production costs, exploration expenses, depreciation, depletion, amortization, and valuation provisions of significant oil and gas producing activities of publicly traded companies, in aggregate and for geographic area[32]	
Gross Profit	–	– Deferred gross profit in the period of sale under the installment method of accounting[33] – Profit recognized during the years in which profit is earned under the installment method of accounting	–
Other operating income	– Material items that may be presented here or disclosed in the notes may include:[34] • gains on disposal of PP&E[35] • gains on disposal of investments • positive adjustments to litigation settlements	–	–
Operating expenses	– An entity may choose an analysis of expenses by either function or nature[36]	– Impairment losses of held and used long-lived assets or assets groups[37]	–

[32]*FASB ASC 932-235-50-23 (FASB Statement No. 19, ¶ 59S); FASB Statement No. 69, ¶ 24. Depending on the structure of oil and gas activities versus its other business activities, an entity may also disclose such supplementary information as part of the financial statements or segment reporting.*
[33]*APB 10, ¶ 12, Footnote ii; CON 6, ¶¶ 232–234. The option for presentation or disclosure is derived from accounting for real estate sales.*
[34]*IAS 1, ¶¶ 97, 98.*
[35]*AICPA IFRS ATT 2009, ¶¶ 3.314- 3.317 show financial statements of companies that, depending on the items, report gains or losses on disposal of PP&E or intangible assets as operating items, as well as companies that show them after operating income.*
[36]*IAS 1, ¶¶ 99–105. This analysis also applies to other expenses that make up profit or loss. Examples by nature may include selling expenses, marketing expenses, research & development, distribution expenses, administrative expenses, or other classifications.*
[37]*FASB ASC 360-10-45-4, 360-10-50-2 (FASB ASC FASB Statement No. 144, ¶¶ 25, 26). If presented on the face of a statement of income that shows a subtotal for income from operations, these impairment losses must be part of such an aggregate. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Operating expenses (*continued*)	– An entity must include this minimum detail by nature: • depreciation and amortization[38] • employee benefits expense[39] – Material items that may be presented here or disclosed in the notes may include:[40] • inventory write-downs and reversals • write-downs of PP&E and reversals • business restructuring provisions and reversals • losses on disposal of PP&E • losses on disposal of investments • litigation settlements	– Costs associated with an exit or disposal activity that is unrelated to discontinued operations[41] – Period depreciation expense[42] – Current-period aggregate amortization of intangible assets subject to amortization[43] – Amortization of assets under capital lease for a lessee[44] – By class of financial receivable, interest income on impaired loans and of the portion of it computed along a cash-basis method, if practicable, when presented as bad-debt expense[45] – Significant shipping and handling costs if not included in cost of sales, with disclosure of line item if not separately presented[46]	

[38]*An entity may allocate these items to cost of sales and operating expenses. IAS 38, ¶ 118(d) requires the indication of the line items that contain amortization.*
[39]*IAS 1, ¶ 104. If an entity uses a statement of income classified by function, this analysis is an additional classification of expenses. An entity may allocate employee benefits expense to cost of sales and operating expenses.*
[40]*IAS 1, ¶¶ 97, 98.*
[41]*FASC ASC 420-10-45-2, 420-10-45-3 (FASB Statement No. 146, ¶¶ 18, B53). If presented on the face of a statement of income that shows a subtotal for income from operations, these costs must be part of such an aggregate. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[42]*FASB ASC 360-10-501 (APB 12, ¶ 5). Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[43]*FASB ASC 350-30-50-2 (FASB Statement No. 142, ¶ 45.a(2)); FASB Statement No. 142, ¶ B188. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[44]*FASB ASC 840-30-45-3 (FASB Statement No. 13, ¶ 13). An entity must disclose if such an amount is commingled with other amortization expense. Classification in cost of sales versus operating expenses is a matter of an entity's accounting policy in consideration of the underlying asset.*
[45]*FASB ASC 310-10-45-5, 310-10-50-15, 310-10-50-19 (FASB Statement No. 114, ¶¶ 17, 20(b), 20(c), 59, 60, as amended by FASB Statement No. 118; FASB Statement No. 118, ¶¶ 3, 4, 6, 9, 14, 16. Amendments by FASB Accounting Standards Update No. 2010-20,* Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*). Above literature does not indicate any specific line item to use. Among the allowed methods, an entity may still choose to present the change in present value of an impaired loan carried on a discounted basis that results from passage of time within interest income or as bad-debt expense.*
[46]*FASB ASC 605-45-50-2 (EITF Issue No. 00-10, ¶ 6).*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Income from operations			
Gains and losses	– Gains or losses on loss of control of a subsidiary and the portion related to measuring a retained interest at fair value[47]	– Gains or losses on deconsolidation of a subsidiary and the portion related to measuring a retained interest at fair value[48] – Foreign currency transaction gains and losses[49] – Debtor's aggregate gain on restructuring of payables – Debtor's aggregate net gain or loss in the period on transfer of assets as a settlement restructuring of payables[50] – Aggregate gains or losses on sales of loans or trade receivables, including adjustment of loans held for sale to the lower of cost or fair value[51]	–
Finance costs	Specific interest items include:[52] – Interest revenue[53] – Total interest income and total interest expense for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss[54] – Interest income on financial assets written down for impairment[55]	– Interest cost incurred in the period, amount expensed, and amount capitalized in the period[56] – Interest costs related to product financing arrangements, divided in amounts incurred, expensed, and capitalized in the period[57]	– As part of Item 7, Nonoperating income: • dividends • interest on securities • profits on securities, net of losses • miscellaneous other income, and separately material amounts with the nature or related transactions

[47] *IAS 27 (2010), ¶ 41(f). An entity that uses note disclosure must indicate the line items involved.*
[48] *FASB ASC 810-10-50-1B (FASB Statement No. 160, ¶ 39). An entity that uses note disclosure must indicate the line items involved.*
[49] *FASB ASC 830-20-45-1 (FASB Statement No. 52, ¶ 30).*
[50] *FASB ASC 470-60-50-1 (FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, ¶ 25).*
[51] *AICPA Audit and Accounting Guide,* Banks and Savings Institutions*, (BSI) ¶ 8.30; AICPA Audit and Accounting Guide,* Audits of Credit Unions*, (CU) ¶ 7.22; FASB ASC 860-20-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.d).*
[52] *An entity that chooses to present both interest income and interest charges on the face of a statement of income cannot offset them. It must indicate them separately (IFRS 7, ¶ IG13; IFRIC Update, October 2004; IASB Update, November 2006; IFRIC Update, November 2006).*
[53] *IAS 18, ¶ 35(b)(iii).*
[54] *IFRS 7, ¶ 20(b).*
[55] *IFRS 7, ¶ 20(d).*
[56] *FASB ASC 835-20-50-1 (FASB Statement No. 34, ¶ 21).*
[57] *FASB ASC 470-40-25-4, 470-40-55-5, 470-40-55-8 (FASB Statement No. 49,* Accounting for Product Financing Arrangements*, ¶¶ 9, 28, 31).*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Finance costs (*continued*)	– Net gains or net losses on:[58] • financial assets initially designated at fair value through profit or loss • financial assets required to be carried at fair value through profit or loss • financial liabilities initially designated at fair value through profit or loss • financial liabilities held for trading • financial assets carried at fair value through other comprehensive income • financial assets carried at amortized cost • financial liabilities carried at amortized cost[59] – Prior to IFRS 9: on available-for-sale financial assets, and separately current period amounts and reclassification adjustments[60] – Fee income and expense for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss[61] – Impairment loss for each class of financial assets[62] – Accreted interest of discounted insurance liabilities[63]	– By class of financial receivable, interest income on impaired loans, and of the portion of it computed along a cash-basis method, if practicable[64]	– As part of Item 9, Nonoperating expenses: • losses on securities, net of profits • miscellaneous income deductions, and separately material amounts with the nature of related transactions

[58]*IFRS 7, ¶ 20(d).*
[59]*IFRS 7, ¶¶ 11A(d), 20(a), B5(e), BC33. IFRSs do not clarify whether or not these gains and losses are included in the finance costs caption of a statement of income. The notes must give detail of the composition of net gains or net losses, such as interest and dividend income on financial instruments carried at fair value through profit or loss, and dividends on instruments derecognized during the period and on those held at the end of the reporting period (IFRS 7, ¶¶ B5(e), BC34).*
[60]*IFRS 7, ¶ 20(a)(ii) (deleted by IFRS 9).*
[61]*IFRS 7, ¶ 20(c). IFRSs do not clarify whether or not these gains and losses are included in the finance costs caption of a statement of income.*
[62]*IFRS 7, ¶ 20(e). IFRSs do not clarify whether or not these gains and losses are included in the finance costs caption of a statement of income.*
[63]*IFRS 4, ¶ IG26(d)(i). This Standard does not specify the related line item of the statement of comprehensive income.*
[64]*FASB ASC 310-10-45-5, 310-10-50-15, 310-10-50-19 (FASB Statement No. 114, ¶¶ 17, 20(b), 20(c), 59, 60, as amended by FASB Statement No. 118; FASB Statement No. 118, ¶¶ 3, 4, 6, 9, 14, 16. Amendments by FASB Accounting Standards Update No. 2010-20,* Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*). Above literature does not indicate any specific line item to use. Among the allowed methods, an entity may still choose to present the change in present value of an impaired loan carried on a discounted basis that results from passage of time within interest income or as bad-debt expense.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Finance costs (*continued*)	– Portion of expense due to the remeasurement of a cash-settled share-based payment liability at each reporting period between grant and settlement date and at the date of settlement[65] – Gains or losses from extinguishing a financial liability, or a part thereof, with equity instruments[66]		
Unusual or infrequent items	No such caption. See material items above	– Individually-material items that are unusual or infrequent, but not both, and the aggregate of not individually-material ones may be presented here or disclosed in the notes,[67] including: • a material sale or purchase of tax benefits through tax leases[68] • losses and costs arising from the events of September 11, 2001[69] • a natural disaster not expected to re-occur[70] • material write-off of intangible assets[71] • a material loss from abandonment or disallowance of an electric public utility plant[72]	–

[65] *IFRS 2, ¶¶ 30, BC253, BC255. Presentation or note disclosure of such an effect is optional. IFRS 2 does not indicate the suitable caption of the statement of comprehensive income.*
[66] *IFRIC 19, ¶¶ 11, BC32. IFRSs do not clarify the location of these gains and losses in a statement of income.*
[67] *FASB ASC 225-20-45-16 (APB 30, ¶ 26).*
[68] *FASB Technical Bulletin No. 82-1, ¶ 6.*
[69] *EITF Issue No. 01-10, ¶ 6.*
[70] *AICPA, Technical Practice Aid No. 5400.05, ¶¶ 1, 5.*
[71] *FASB Statement No. 135, ¶ 20.b.*
[72] *EITF Topic No. D-5; SEC Staff Accounting Bulletin, Topic 10-E, ¶ Footnote 4.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Unusual or infrequent items (*continued*)		• a gain or loss on noninduced extinguishment of debt not occurring in the context of a troubled debt restructuring or on conversion of debt to equity securities according to the original terms of the debt[73] • a gain or loss from an involuntary conversion of a nonmonetary asset to monetary asset[74] • net-of-tax amounts by public utilities in scope of FASB Statement No. 71 for material estimated refunds to customers related to prior period revenue in the first period in which they accomplish the conditions for accrual[75]	
Special caption for certain public companies	No. See below	No. See below	– As part of Item 11, Income tax expense:[76] • Domestic and foreign income (loss) before income tax expense (benefit)
Equity method income	–	–	– Dividends received from unconsolidated subsidiaries and 50% or less owned persons (parenthetically or in a note)[*]
Income from continuing operations before tax	–	– Results of operations before a tax claim refund[77*]	–
Income tax expense	–	– Significant components related to continuing operations, such as:[78] • current tax expense or benefit	–

[73]*APB 29, ¶ 2; FASB ASC 845-10-30-3 (APB 29, ¶ 20); FASB Technical Bulletin No. 80-1.*
[74]*FASB ASC 605-40-45-1 (FASB Interpretation No. 30, ¶ 4).*
[75]*FASB ASC 980-605-50-1, 980-250-55-5 (FASB Statement No. 71, ¶¶ 19, 47); FASB Statement No. 71, ¶ 108. This form of presentation is not mandatory.*
[76]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(h)).*
[77]*ARB 43, Appendix B, Restatement and Revision of Accounting Research Bulletins, Changes of Substance Made in the Course of Restating and Revising the Bulletins, ¶ 13 gives entities the option to present results of operations before a tax claim refund through parenthetical explanation or note disclosure.*
[78]*FASB ASC 740-10-50-9 (FASB Statement No. 109, ¶ 45).*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Income tax expense (*continued*)		• deferred tax expense or benefit[79] • investment tax credits • government grants recognized as a reduction of income tax expense • benefits of operating loss carryforwards • tax expense resulting from the allocation of tax benefits directly to contributed capital • effects of enacted changes in tax laws or rates or of entity's tax status • adjustments to opening balance of a valuation allowance from changed judgment due to changes in circumstances – Income tax effects of pre-tax income from a leveraged lease and investment tax credit recognized (to be presented or disclosed separately from each other)[80] – Tax effects of foreign earnings repatriation provisions within the American Jobs Creation Act of 2004[81] – Supplementary information of income tax expense of significant oil and gas producing activities of publicly traded companies, in aggregate and for geographic area[82]	
Income from continuing operations after tax	– The portion attributable to the owners of the parent company[83]	– The portion attributable to the parent company[84] – Supplementary information of results of operations of significant oil and gas producing activities of publicly traded companies, in aggregate and for geographic area[85]	–

[79]*FASB ASC 740-10-50-9 (FASB Statement No. 109, ¶ 45).*
[80]*FASB ASC 840-30-45-5 (FASB Statement No. 13, ¶ 47); FASB Statement No. 13, ¶ Appendix E. Under FASB Staff Position No. FAS 13-2, ¶ 9. This line also includes the tax effects of a recognized gain or loss due to a change or projected change in the timing of cash flows relating to income taxes generated by the lease.*
[81]*FASB Staff Position No. FAS 109-2,* Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Job Creation Act of 2004*, ¶ 10. Presentation in the income statement or disclosure in the notes depends on where the entity reports current and deferred taxes.*
[82]*FASB ASC 932-235-50-23 (FASB Statement No. 19, ¶ 59S); FASB Statement No. 69, ¶ 24. Depending on the structure of oil and gas activities versus its other business activities, an entity may also disclose such supplementary information as part of the financial statements or segment reporting.*
[83]*IFRS 5, ¶ 33(d).*
[84]*FASB ASC 810-10-50-1A, 810-10-55-4J (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160).*
[85]*FASB Statement No. 19, ¶ 59S; FASB Statement No. 69, ¶ 24. Depending on the structure of oil and gas activities versus its other business activities, an entity may also disclose such supplementary information as part of the financial statements or segment reporting.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Discontinued operations	– Revenue, expenses, and pre-tax profit or loss – Related income tax effects – Gain or loss on discontinuance[86] – Related income tax effects – The portion of discontinued operations attributable to the owners of the parent company[87]	– Initial and subsequent write down to fair value less costs to sell, gains from any reversal of write down, and any other gains or losses from the sale of discontinued operations[88*] – The portion of discontinued operations attributable to the parent company[89]	–
Income before extraordinary items			
Extraordinary items	Prohibited	– Either parenthetical explanation or note disclosure of related income taxes[90*] – The portion attributable to the parent company[91]	–
Income before cumulative effects of a change in accounting principle (or earnings)			
Adjustments for hyperinflationary accounting	–	– As supplementary information, an entity may include gain or loss on net monetary items[92]	–

[86]*IFRS 5, ¶¶ 33(b), 41(c), BC76; IAS 12, ¶ 81(h). If disclosed in the notes, an entity must indicate the caption of the statement of income that includes such an amount. The detail of gains or losses on discontinuance, including impairment losses on the initial and subsequent remeasurement to fair value less costs to sell, gains from any reversal of impairment, and gains or losses on disposal may be presented in the notes.*

[87]*IFRS 5, ¶ 33(d). IFRS 5, ¶ Implementation Guidance, Example 11 also shows the portion of discontinued operations attributable to noncontrolling interests.*

[88]*FASB ASC 360-10-35-40, 205-20-45-3, 205-20-50-1 (FASB Statement No. 144, ¶¶ 37, 43, 47(b)). FASB ASC 205-20-45-3 (FASB Statement No. 144, ¶ 43) also shows parenthetical explanation of gain and loss on disposal within results of operations of discontinued operations. If disclosed in the notes, an entity must indicate the caption of the income statement that includes such amounts.*

[89]*FASB ASC 810-10-50-1A, 810-10-55-4J (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160).*

[90]*FASB ASC 810-10-45-4 (APB 30, ¶ 11).*

[91]*FASB ASC 810-10-50-1A, 810-10-55-4J (ARB 51, ¶¶ 38(b), A4, as amended by FASB Statement No. 160).*

[92]*FASB ASC 255-10-50-6, 255-10-50-14 (FASB Statement No. 89, ¶¶ Footnote 3, 12); FASB Statement No. 89, ¶ 125. This element comes after income from continuing operations, but an exact position is not set. In fact, the literature mentioned above does not define a net income total or an alternative bottom line.*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Net income			
Attribution of net income	–	–	–
Per share data for entities required to present them	– For discontinued operations: • basic earnings per share • diluted earnings per share[93]	– For discontinued operations: • basic earnings per share • diluted earnings per share – For extraordinary items: • basic earnings per share • diluted earnings per share[94] – For cumulative effect of an accounting change: • basic earnings per share • diluted earnings per share[95] – Debtor's per share aggregate gain on restructuring of payables[96]	–
Other comprehensive income	– Prior to the 2011 revision of IAS 19, gains and losses on defined benefit plans:[97] • actuarial gains and losses • the effects of asset ceiling limit – Under IAS 19 (2011), remeasurements of the net defined benefit liability or asset:[98] • return on plan assets not included in net interest • actuarial gains and losses • effects of the asset ceiling limit not included in net interest – IFRS 7 (prior to amendments by IFRS 9): net gains or net losses, current period amounts and reclassification adjustments of available-for-sale financial assets[99]		

[93]*IAS 33, ¶¶ 68, 68A. An entity that presents an income statement (as opposed to a single statement of comprehensive income) must display earnings per share on discontinued operations in that statement or in the notes.*
[94]*FASB ASC 260-10-45-3 (FASB Statement No. 128, ¶ 37); FASB Statement No. 128, ¶ 165; FASB ASC 225-20-45-12 (APB 30, ¶ 12). A single line may show basic and diluted amounts when they are equal.*
[95]*FASB Statement No. 128, ¶ 163.*
[96]*FASB ASC 470-60-50-1 (FASB Statement No. 15, ¶ 25.d).*
[97]*IAS 19 (2007), ¶ 120A(h).*
[98]*IAS 19 (2011), ¶ 141(c).*
[99]*IFRS 7, ¶¶ 20(a)(ii) (deleted by IFRS 9).*

(continued)

Exhibit 4-9 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other comprehensive income (*continued*)	– Net gains or net losses on financial assets measured at fair value through other comprehensive income[100] – Reclassification adjustments, under net presentation[101] – Income tax on each item of other comprehensive income and on reclassification adjustments, if based on a post-tax presentation[102*]	– Reclassification adjustments, under net display[103] – Income tax on each item of other comprehensive income and on reclassification adjustments, if based on a net-of-tax presentation[104*] – Net gain or loss and reclassification adjustments on derivative instruments designated and qualifying as cash flow or net investment hedging instruments, by type of contract[105] – Separately for pension plans and other post-retirement benefit plans, OCI detailed into current-period gain or loss, prior service cost or credit, reclassification adjustments including recycling of prior service cost or credit and of net transition asset or obligation[106]	–
Total other comprehensive income			
Comprehensive income			
Attribution of comprehensive income	–	–	–

[100]*IFRS 7, ¶¶ 8, 11A, 11B, 20(a)(viii) as amended by IFRS 9,* Financial Instruments, *¶ C8 (November 2009).*
[101]*IAS 1, ¶ 94.*
[102]*IAS 1, ¶¶ 90–91, Guidance on Implementing, Part I; IAS 12, ¶ 81(ab).*
[103]*FASB ASC 220-10-45-5, 220-10-45-17, 220-10-55-18 (FASB Statement No. 130, ¶¶ 14, 20, 132). Presentation is in the statement in which the entity displays other comprehensive income (i.e., the statement of comprehensive income, the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-17 as amended by ASU 2011-05 requires the presentation of the effects of reclassification adjustments by component of net income and other comprehensive income. In effect, this prohibits net presentation of reclassification adjustments.*
[104]*FASB ASC 220-10-45-5, 220-10-45-12 (FASB Statement No. 130, ¶¶ 14, 25): FASB Statement No. 130, ¶¶ Appendix B, Appendix C 138. Display is in the statement in which the entity displays other comprehensive income (i.e., the statement of comprehensive income, the statement of combined income and comprehensive income or, prior to ASU 2011-05, the statement of changes in equity).*
[105]*FASB ASC 815-10-50-4C (FASB Statement No. 133, ¶ 44C(b)).*
[106]*FASB ASC 715-20-50-1, 715-20-50-5, 958-715-50-1 (FASB Statement No. 132R, ¶¶ 5.i, 8.h, 10A, 10B, 10C); 10D; FASB Statement No. 158, ¶¶ 7.a, 7.b. FASB Statement No. 158 requires note disclosure. FASB Statement No. 158, ¶ B63 gives a limited exemption from displaying items that otherwise FASB Statement No. 130 requires on the face of the statement of changes in equity, by cross-referencing the notes. However, FASB ASC 220-10-55-2 moved to 220-10-45-10A (FASB Statement No. 130, ¶ 17, as amended by ASU 2011-05) list these components as part of the items of other comprehensive income to be presented. FASB ASC 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 130, 131, as amended by FASB Statement No. 158), under the gross-display method, show those items on the face of the statement that reports comprehensive income. Under ASU 2011-05, the statement of changes in equity is no longer an option for reporting comprehensive income. FASB Statement No. 158, ¶¶ 8.c, 8.d, 10.a, 10.b permit separate line(s) or note disclosure by not-for-profit organizations. In the former case, they must show those items within changes in unrestricted net assets, and health care organizations must display them outside a performance indicator of operations (AICPA Audit and Accounting Guide, HCO).*

Exhibit 4-10 Minimum Line Items of the Statements of Income of Insurance Enterprises

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Revenues:			
Revenue from insurance contracts issued	– Revenue from insurance contracts issued[4]	– For short-duration insurance contracts[φ] • premiums earned – For long-duration insurance contracts:[Ω] • premiums and policyholders' fees earned – For certain mutual life, insurance enterprises:[5] • premiums from participating insurance contracts	–
Premiums ceded to reinsurers	– Expenses related to reinsurance held[4]	–	–
Net premiums	No specialized industry requirement	– For short-duration insurance contracts:[φ♦*] • net premiums earned – For long-duration insurance contracts:[Ω♦*] • net premiums and policyholders' fees earned	– Item 1, Premiums (net of premiums on reinsurance ceded)
Net investment income	–	– Net investment income[Σ]	– Item 2. Net investment income
Realized gains and losses	– As minimum line items[6] • gains and losses arising from the derecognition of financial assets measured at amortized cost • gains or losses from reclassification of a financial asset to one that is measured at fair value	–	– Item 3, Realized investment gains and losses • net realized investment gains and losses
Other revenues	–	– Other revenues[Σ]	– Item 4, Other income • Amounts in excess of 5% of total revenue

[1]*See general key. The chapter on the statement of financial position includes a listing of insurance enterprises. "–" means that there are no specialized industry separate display requirements.*
[2]*An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86 and IFRS 4, ¶¶ IG22–IG30. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*Unless differently stated, this column refers to the income statement of insurance companies under FASB ASC 944-225-S99-1 (Regulation S-X, ¶ 210.7-04). Regulation S-X, ¶ 210.7-02 extends the general rules of Articles 1 to 4 of Regulation S-X to insurance companies.*
[4]*IFRS 4, ¶ IG24.*
[φ]*FASB ASC 944-605-55-11 (FASB Statement No. 113, ¶ 120: Illustration 1).*
[Ω]*FASB ASC 944-605-55-14 (FASB Statement No. 113, ¶ 120: Illustration 2).*
[Σ]*FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120: Illustration 1, Illustration 2).*
[5]*FASB ASC 944-605-25-3 (AICPA Statement of Position No. 95-1, Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises, ¶ 12).*
[♦]*FASB ASC 944-605-45-1, 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 16, 120: Illustration 1, Illustration 2); FASB Statement No. 113, ¶¶ 86, 87. Premiums ceded may be either presented as a separate line, or shown parenthetically as a deduction from the line of premiums earned. Alternatively, premiums earned may be presented net with note disclosure of premiums ceded.*
[6]*IAS 1, ¶ 82.*

(continued)

Exhibit 4-10 Minimum Line Items of the Statements of Income of Insurance Enterprises (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Total revenues	–	– Total revenues[Σa]	–
Expenses:			
Expense for claims and benefits	– Expense for policyholder claims and benefits[4]	– For short-duration contracts: • claims and claim settlement expenses[7] – For long-duration insurance contracts: • policyholder benefits[Ω] • benefit claims in excess of the related policyholder balances[8] • interest accrued to policyholders – For certain mutual life, insurance enterprises:[9] • death and surrender benefits incurred for certain life insurance contracts • annual policyholder dividends • increase in the liability for future policy benefits	–
Claims ceded to reinsurers	– Income from contracts with reinsurers[4]	–	–
Net expenses	–	– For short-duration contracts:[φ € *] • net claim and claim settlement expenses – For long-duration insurance contracts:[Ω € *] • net policyholder benefits	– Item 5, Benefits, claims, losses and settlement expenses
Policy acquisition costs	–	– For long-duration insurance contracts:[10] • amortization of capitalized acquisition costs	
Profit attributable to unit-holders	–	– For participating life insurance contracts: • policyholders' share in the net income that cannot be distributed to stockholders[11] • annual policyholder dividends[12]	– Item 6, Policyholders' share of earnings on participating policies, dividends and similar items

[7] *FASB ASC 944-40-50-5 (FASB Statement No. 60, ¶ 60.d;) FASB Statement No. 113, ¶¶ 86, 87; FASB ASC 944-605-55-11 (FASB Statement No. 113, ¶ Appendix B, Illustration 1). FASB ASC 944-40-50-5 simply mentions disclosure in the financial statements of an insurance enterprise.*
[8] *FASB ASC 944-20-45-2 (FASB Statement No. 97, ¶ 21).*
[9] *FASB ASC 944-40-25-31, 944-50-45-1, 944-40-35-25 (AICPA Statement of Position No. 95-1, ¶¶ 13, 14, 18).*
[€] *FASB ASC 944-605-45-1, 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 16, 120: Illustration 1, Illustration 2); FASB Statement No. 113, ¶¶ 86, 87. Recoveries under reinsurance contracts may be either presented as a separate line, or shown parenthetically as a deduction from the line of claims and claim settlement expenses. Alternatively, an entity may present claim settlement expenses net, with note disclosure of recoveries under reinsurance contracts.*
[10] *FASB ASC 944-20-45-2 (FASB Statement No. 97, ¶ 21).*
[11] *FASB ASC 944-50-25-2 (FASB Statement No. 60, ¶ 42).*
[12] *FASB ASC 944-50-25-4, 944-50-45-1 (AICPA Statement of Position No. 95-1, ¶ 14).*

(continued)

Exhibit 4-10 Minimum Line Items of the Statements of Income of Insurance Enterprises (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Other operating and administrative expenses	–	– For long-duration insurance contracts:[13] • expenses of contract administration – Direct incremental costs for demutualization or formation of a mutual insurance holding company[14]	– Item 7, Underwriting, acquisition and insurance expenses • any material amount in other operating expenses
Total expenses	–	– Total expenses$^{\Sigma}$	–
Finance results	–	–	–
Special captions for certain public companies	No such caption.	No such caption.	– Item 8, Income or loss before income tax expense and appropriate items below
	No. See below	No. See below	– Item 9, Income tax expense
Equity method income	–	–	– Item 10, Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons
Income from continuing operations before tax	–	Earnings before tax[15]	No. See above
Income tax expense	–	–	No. See above
Income from continuing operations after tax	–	–	– Item 11, Income from continuing operations
Discontinued operations	–	–	– Item 12, Discontinued operations
Income before extraordinary items	–	–	– Item 13, Income or loss before extraordinary items and cumulative effects of changes in accounting principles
Extraordinary items, net of tax	Prohibited	–	– Item 14, Extraordinary items, less applicable tax
Income before cumulative effects of a change in accounting principle (or earnings)	–	–	–

[13] *FASB ASC 944-20-45-2 (FASB Statement No. 97, ¶ 21).*
[14] *FASB ASC 944-805-45-3 (AICPA Statement of Position No. 00-3, ¶ 18); AICPA Statement of Position No. 00-3, ¶ 62.*
[15] *FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 16, 120: Illustration 1, Illustration 2).*

(continued)

Exhibit 4-10 Minimum Line Items of the Statements of Income of Insurance Enterprises (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Cumulative effects of a change in accounting principle	No longer used[16]	–	– Item 15, Cumulative effects of changes in accounting principles
Net income	–	–	– Item 16, Net income or loss
Attribution of net income	–	–	– Item 17, Net income attributable to the noncontrolling interest – Item 18, Net income attributable to the controlling interest
Per share data for entities required to present them	–	–	– Item 19, Earnings per share data
Other comprehensive income	Under an election of shadow accounting, if there is a direct contractual link between payments to policyholders and the carrying amount of, or returns from, owner-occupied property measured at revaluation model under IAS 16, an entity recognizes the changes in the insurance liability (or related deferred acquisition costs or related intangible assets) resulting from revaluations of the property in revaluation surplus[17]	–	–
Total other comprehensive income	–	–	–
Comprehensive income	–	–	–
Attribution of comprehensive income	–	–	–

[16] *IAS 8, ¶¶ 24, 25.*
[17] *IFRS 4, ¶¶ 30, IG10, BC180.*

Exhibit 4-11 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Insurance Enterprises

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Revenues:			
Revenue from insurance contracts issued	–	– Accretion on premium receivable relating to financial guarantee insurance contracts for which premiums are paid over the contract period[4]	–
Premiums ceded to reinsurers	–	– Premiums ceded[5*]	–
Net premiums	–	–	–
Net investment income	– Fee income and expense for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss[6]	–	–
Realized gains and losses	– Change in fair value recognized in profit or loss from sale of investment property from a pool measured at cost into one measured at fair value[7]	– Realized gains and losses on unhedged investments[8]	–
Other revenues	–	–	–
Total revenues	–	–	–
Expenses:			
Expense for claims and benefits	– Losses from the application of liability adequacy tests[9]	–	–

[1]*See general key. The chapter on the statement of financial position includes a listing of insurance enterprises. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2]*An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86 and IFRS 4, ¶¶ IG22–IG30. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*Unless differently stated, this column refers to the income statement of insurance companies under Regulation S-X, ¶ 210.7-04. Regulation S-X, ¶ 210.7-02 extends the general rules of Articles 1 to 4 of Regulation S-X to insurance companies.*
[Σ]*FASB ASC 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶ 120: Illustration 1, Illustration 2).*
[4]*FASB ASC 944-310-50-3 (FASB Statement No. 163, ¶ 30.a(2)); FASB Statement No. 163, ¶¶ B14, B42. The literature mentioned above does not prescribe a specific line item, but concludes that a separate line, inclusion in premium revenue, or investment income are available options. An entity that does not use a separate line item must explain which item includes such an amount.*
[5]*FASB ASC 944-605-45-1, 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 16, 120: Illustration 1, Illustration 2); FASB Statement No. 113, ¶¶ 86, 87. Premiums ceded may be either presented as a separate line, or shown parenthetically as a deduction from the line of premiums earned. Alternatively, premiums earned may be presented net with note disclosure of premiums ceded.*
[6]*IFRS 7, ¶ 20(c)(i). Accounting practice generally denotes such item as investment income.*
[7]*IAS 40, ¶¶ 32C, 75(f)(iv). IAS 40 simply mentions disclosure.*
[8]*FASB ASC 944-310-45-2, 944-325-45-4 (FASB Statement No. 60, ¶ 50); FASB Statement No. 97, ¶¶ 28, 73, 74. Insurance companies must either disclose or separately present realized gains and losses on unhedged investments in other income within operating income.*
[9]*IFRS 4, ¶ IG26. This Standard does not specify the related line item of the statement of comprehensive income.*

(continued)

Exhibit 4-11 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Insurance Enterprises (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Claims ceded to reinsurers	–	– Reinsurance recoveries[10]	–
Net expenses	–	–	–
Policy acquisition costs	– Acquisition costs expensed – Amortization of capitalized acquisition costs[11]	–	– As part of Item 7, Underwriting, acquisition, and insurance expenses: • amortization of deferred policy acquisition costs
Profit attributable to unit-holders	–	–	–
Other operating and administrative expenses	–	–	– As part of Item 7: • Other operating expenses
Total expenses	–	–	–
Finance results	– Accreted interest of discounted insurance liabilities – Effect of changes in discount rates[12]	–	–
Unusual or infrequent items	No such caption. See material items	– A gain arising from the receipt of stock from the conversion of a mutual insurance company into a stock enterprise[13]	–
Net income[14]			
Attribution of net income	– The portion of profit or loss attributable to the (part of) the discretionary participating feature that is classified in equity[15]	–	–

[10]*FASB ASC 944-605-45-1, 944-605-55-11, 944-605-55-14 (FASB Statement No. 113, ¶¶ 16, 120: Illustration 1, Illustration 2); FASB Statement No. 113, ¶¶ 86, 87. Recoveries under reinsurance contracts may be either presented as a separate line, or shown parenthetically as a deduction from the line of claims and claim settlement expenses. Alternatively, an entity may present claim settlement expenses net, with note disclosure of recoveries under reinsurance contracts.*
[11]*IFRS 4, ¶ IG26. This Standard does not specify the related line item of the statement of comprehensive income.*
[12]*IFRS 4, ¶ IG26. This Standard does not specify the related line item of a statement of income.*
[13]*FASB ASC 325-30-40-1 (EITF Issue No. 99-4).*
[14]*No specialized industry requirements for either presentation or disclosure apply to captions and items ranging from income from continuing operations to comprehensive income, except as stated in the Exhibit.*
[15]*IFRS 4, ¶¶ 34(c), IG26.*

Exhibit 4-12 Minimum Line Items of the Statements of Income of Banks and Similar Financial Institutions

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Interest income	–	Interest income♥ A required specific item is: – Redeemable preferred stock dividends of a subsidiary accounted for as a liability in consolidated financial statements[4] – Brokers and dealers may separately report interest income on fixed income securities owned	– Item 1, Interest and fees on loans – Item 2, Interest and dividends on investment securities • taxable interest income • nontaxable interest income • dividends – Item 3, Trading account interest – Item 4, Other interest income – Item 5, Total interest income
Interest expense	–	– Interest expense♥ – For brokers and dealers: a separate expense for the rebate or interest expense on stock-loan and repurchase transactions accounted for as financing transactions[5]	– Item 6, Interest on deposits – Item 7, Interest on short-term borrowings – Item 8, Interest on long-term debt – Item 9, Total interest expense
Net interest income[6]	–	–	– Item 10, Net interest income

[1]*See general key. The chapter on the statement of banks and similar financial institutions. For sake of simplicity, this Exhibit also includes brokers and dealers.*
"–" means that there are no specialized industry separate display or disclosure requirements.
[2]*An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*Unless differently stated, this column refers to the income statement of bank holding companies under FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04). FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations. FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1 to 4 of Regulation S-X to bank holding companies.*
♥*Shown in FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148).*
[4]*AICPA Statement of Position No. 01-6, ¶ 14.l.*
[5]*FASB ASC 940-405-45-1 (AICPA Audit and Accounting Guide,* Brokers and Dealers in Securities*, (BRD) ¶ 7.80).*
[6]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148) does not show an income statement structure that identifies net interest income. It lists and sums total revenues first, and then total expenses. This Exhibit shows net interest income to follow items under FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04). IAS 30 (superseded) did not require a caption for net interest income. However, IAS 30 (superseded), ¶ 16 did require separate disclosure of interest income and interest expense. See Paragraph 4.5.8 for the general prohibition to offset interest income and interest expense under IFRS 7 and IAS 1.*

(continued)

Exhibit 4-12 Minimum Line Items of the Statements of Income of Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Provision for losses	–	Provision for probable credit losses[7]	– Item 11. Provision for loan losses
Net interest income after provision for loan losses	–	–	– Item 12, Net interest income after provision for loan losses
Fees and commissions	–	Fees and commissions♠	– As part of Item 13, Other income: • commissions and fees and fiduciary activities • commissions, broker's fees and markups on securities underwriting and other securities activities • insurance commissions, fees and premiums • fees for other customer services – Total of Item 5 to Item 13 associated with foreign activities (separately for each significant geographic area and all insignificant other areas) for each period in which either assets, revenue, income (loss) before income tax expense, or net income (loss) of foreign activities exceed 10% of the corresponding amount[8]
Net gains on sales of trading and investment securities	– Gains and losses arising from the derecognition of financial assets measured at amortized cost (as a minimum line item)[9]	– Net gains on sales of trading and investment securities♠ Required specific items are: – Gains and losses on securities[10] – Fair value adjustments on short sale of securities, classified with gains and losses on securities[11] – For brokers and dealers, trading gains and losses[12]	– As part of Item 13, Other income: • profit or loss on transactions in securities in dealer trading account • investment securities gains or losses

[7]*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148) shows an item for provision for credit losses as part of total expenses. Conversely, FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04) determines an intermediate subtotal for net interest income after provision for loan losses.*

♠*FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148) shows this item as part of the revenues step of the income statement.*

[8]*Regulation S-X, ¶¶ 210.9-04.7, 210.9-05.*

[9]*IAS 1, ¶ 82.*

[10]*AICPA Audit and Accounting Guide, BSI, ¶ 5.93; FASB ASC 942-405-45-1 (AICPA Statement of Position No. 01-6, ¶ 10.b). This line includes fair value adjustments of obligations incurred in short sales.*

[11]*FASB ASC 942-405-45-1 (AICPA Statement of Position No. 01-6, ¶ 10).*

[12]*FASB ASC 940-320-45-4, 940-320-45-5 (AICPA Audit and Accounting Guide, BRD, ¶¶ 4.40, 4.57). Brokers and dealers may separately report trading gains and losses on fixed income securities owned.*

(continued)

Exhibit 4-12 Minimum Line Items of the Statements of Income of Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Unrealized appreciation of securities	– Gains or losses from reclassification of a financial asset to one that is measured at fair value (as a minimum line item)[13]	Unrealized appreciation of trading securities[♠]	–
Lease income	–	Lease income[♠]	–
Gain on sale of equipment	–	Gain on sale of equipment[♠] Required specific items are: – net gains on disposal of premises and equipment, to be included in noninterest income[14]	–
Other income	–	–	– As part of Item 13, Other income: • any other item in excess of 1% of the total of interest income and other income • the remaining amount of other income
Total revenues	–	Total revenues[♠]	–
Operating expenses	–	– Operating expenses[♦] Required specific items are: – For credit unions:[15] • Insurance premiums due to the National Credit Union – Net losses on disposal of premises and equipment, to be included in noninterest expense[16] – For certain depository institutions: • Financing Corporation (FICO) assessment, reported as a period cost[17]	– As part of Item 14, Other expenses: • salaries and employee benefits • any other item in excess of 1% of the total of interest income and other income
Depreciation and amortization	–	Depreciation[♦]	– As part of Item 14, Other expenses: • net occupancy expense of premises • goodwill amortization • net cost of operation of other real estate

[13] *IAS 1, ¶ 82.*
[14] *FASB ASC 942-360-45-2 (AICPA Statement of Position No. 01-6, ¶ 14).*
[♦] *FASB ASC 942-230-55-4 (FASB Statement No. 95, ¶ 148) shows this item as part of the expense step of the income statement.*
[15] *FASB ASC 942-325-35-4 (AICPA Statement of Position No. 01-6, ¶ 11.c).*
[16] *FASB ASC 942-360-45-2 (AICPA Statement of Position No. 01-6, ¶ 14).*
[17] *FASB ASC 942-720-25-1 (EITF Topic No. D-57,* Accounting Issues Relating to the Deposit Insurance Funds Act of 1996*).*

(continued)

Exhibit 4-12 Minimum Line Items of the Statements of Income of Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Total expenses	–	Total expenses♦	–
Finance results	–	– For credit unions,[18] • dividends (i.e., interests) on member deposit accounts, including member shares	–
Equity method income	–	–	– As part of Item 13, Other income: • gains or losses on disposition of equity in securities of subsidiaries or 50% or less owned persons • equity in earnings of unconsolidated subsidiaries and 50% or less owned persons
Income from continuing operations before tax	–	Income before income taxes♥	– Item 15, Income or loss before income tax expense • amount associated with foreign activities (separately for each significant geographic area and all insignificant other areas) for each period in which either assets, revenue, income (loss) before income tax expense, or net income (loss) of foreign activities exceed 10% of the corresponding amount[19]
Income tax expense on profit or loss from continuing operations	–	Provision for income taxes♥	– Item 16, Income tax expense
Income from continuing operations after tax	–	–	–
Discontinued operations	–	–	–
Income before extraordinary items	–	–	– Item 17, Income or loss before extraordinary items and cumulative effects of changes in accounting principles

[18]*FASB ASC 942-405-45-4 (AICPA Statement of Position No. 01-6, ¶ 11.d); EITF Issue No. 89-3,* Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions.
[19]*Regulation S-X, ¶¶ 210.9-04.7, 210.9-05.*

(continued)

Exhibit 4-12 Minimum Line Items of the Statements of Income of Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Extraordinary items, net of tax	Prohibited	–	– Item 18, Extraordinary items, less applicable tax
Income before cumulative effects of a change in accounting principle (or earnings)	–	–	–
Cumulative effects of a change in accounting principle	No longer used[20]	–	– Item 19, Cumulative effects of changes in accounting principles
Net Income	–	–	– Item 20, Net income or loss • amount associated with foreign activities (separately for each significant geographic area and all insignificant other areas) for each period in which either assets, revenue, income (loss) before income tax expense, or net income (loss) of foreign activities exceed 10% of the corresponding amount[21]
Attribution of net income	–	– Redeemable preferred stock dividends of a subsidiary accounted for as minority interest in consolidated financial statements[22]	– Item 21, Net income attributable to the noncontrolling interest – Item 22, Net income attributable to the controlling interest
Per share data for entities required to present them	–	–	– Item 23, Earnings per share data
Other comprehensive income	–	–	–
Total other comprehensive income	–	–	–
Comprehensive income	–	–	–
Attribution of comprehensive income	–	–	–

[20]*IAS 8, ¶¶ 24, 25.*
[21]*Regulation S-X, ¶¶ 210.9-04.7, 210.9-05.*
[22]*AICPA Statement of Position No. 01-6, ¶ 14.l.*

Exhibit 4-13 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Banks and Similar Financial Institutions

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Interest income	– Interest and similar income (superseded) – Dividend income (superseded)[4] – Total interest income for financial assets carried at amortized cost[5]	–	–
Interest expense	– Interest expense and similar charges (superseded)[4] – Total interest expense for financial liabilities not at fair value through profit or loss[5]	–	–
Net interest income	–	–	–
Provision for losses	– Impairment loss for each class of financial assets[6]	–	–
Net interest income after provision for loan losses	–	–	–
Fees and commissions	– Fee and commission income (superseded) – Fee and commission expense (superseded)[4] – Fee income and expense for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss[7] – Fee income and expense for asset-holding and investment trusts and similar fiduciary activity[8]	–	–

[1]*See general key. The chapter on the statement of financial position includes a listing of banks and similar financial institutions. For sake of simplicity, this Exhibit also includes brokers and dealers.*
"–" means that there are no specialized industry separate display or disclosure requirements.
[2]*An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*Unless differently stated, this column refers to the income statement of bank holding companies under FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04. FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations. FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1 to 4 of Regulation S-X to bank holding companies.*
[4]*IAS 30 (superseded), ¶ 10.*
[5]*IFRS 7, ¶ 20(b).*
[6]*IFRS 7, ¶ 20(e).*
[7]*IFRS 7, ¶ 20(c).*
[8]*IFRS 7, ¶ 20(c).*

(continued)

Exhibit 4-13 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Net gains on sales of trading and investment securities	– Gains less losses from dealing securities (superseded) – Gains less losses from investment securities (superseded) – Gains less losses from dealing in foreign currencies (superseded)[4] – Net gains or net losses on: • financial assets initially designated at fair value through profit or loss • financial assets required to be carried at fair value through profit or loss • financial liabilities initially designated at fair value through profit or loss • financial liabilities held for trading • financial assets carried at amortized cost • financial liabilities carried at amortized cost[9]	– Aggregate gains or losses on sales of loans or trade receivables, including adjustment of loans held for sale to the lower of cost or fair value[10]	–
Unrealized appreciation of securities	– Net gains or net losses on: • financial assets carried at fair value through other comprehensive income[11] – Prior to IFRS 9: gains or losses on available-for-sale financial assets, and separately current period amounts and reclassification adjustments[12]	–	–
Lease income	–	–	–
Gain on sale of equipment	–	–	–
Other income	– Other operating income (superseded)[4]	– For brokers and dealers, gross income resulting from complex strategies[13]	–
Total revenues	–	–	–

[9]*IFRS 7, ¶¶ 20(a), BC33. The notes must give detail of the composition of net gains or net losses, such as interest and dividend income on financial instruments carried at fair value through profit or loss (IFRS 7, ¶¶ B5(e), BC34).*
[10]*AICPA Audit and Accounting Guide,* Banks and Savings Institutions*, (BSI) ¶ 8.30; AICPA Audit and Accounting Guide,* Audits of Credit Unions*, (CU) ¶ 7.22; FASB ASC 860-20-50-5 (AICPA Statement of Position No. 01-6, ¶ 13.d).*
[11]*IFRS 7, ¶ 20(a).*
[12]*IFRS 7, ¶ 20(a)(ii) (deleted by IFRS 9).*
[13]*FASB ASC 940-320-45-6 (AICPA Audit and Accounting Guide, BRD, ¶ 7.81). Brokers and dealers may separately report trading gains and losses on fixed income securities owned.*

(continued)

Exhibit 4-13 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Banks and Similar Financial Institutions (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Operating expenses	– Impairment losses on loans and advances (superseded) – General administrative expenses (superseded) – Other operating expenses (superseded)[4]	– For brokers and dealers, expense resulting from complex strategies[14]	–
Depreciation and amortization	–	–	–
Total expenses	–	–	–
Finance results	–	–	–
Equity method income	–	–	–
Comprehensive income[15]	–	–	–

[14]*FASB ASC 940-320-45-6 (AICPA Audit and Accounting Guide, BRD, ¶ 7.81). Brokers and dealers may separately report trading gains and losses on fixed income securities owned.*
[15]*No specialized industry requirements for either presentation or disclosure apply to captions and items ranging from income from continuing operations to comprehensive income.*

Comment: U.S. GAAP and IFRSs do not use the term "disclosure" univocally. Generally, this word refers to note disclosure, but often includes an option between presentation and note disclosure. Nonetheless, certain pronouncements require presentation on the face of the financial statements, and sometimes specify when display or note disclosures are alternatives. The Exhibits report only affirmative guidance that explicitly permits such an option. However, the listing of items where display is possible is larger, for two reasons. Firstly, an entity may decide to present an item where no prohibition for such format exists. Secondly, the generic use of the term disclosure potentially increases this list.

4.7.3 Parenthetical Explanation

The Exhibits mentioned above state when parenthetical explanation is an option. Those occurrences are marked with an asterisk.

4.7.4 Mixed Items

There are some occurrences where a standard does not prescribe presentation on the face of the statements of income. However sometimes from the literal wording of a pronouncement it may be inferred (or sometimes the standard itself acknowledges) that an entity should consider whether or not to display an item separately (or even disclose it in the notes). Under IFRSs, an example of those occurrences is the portion of the gain or loss arising from a loss of control of a subsidiary that is attributable to the fair value remeasurement of an investment retained in the former subsidiary at the date of the loss of control.[767] Other examples comprise current service cost, interest cost and the expected return on plan assets of a defined benefit plan

[767] *IAS 27 (2010), ¶ 41(f).*

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Investment income:			
Interest income	–	– Interest income[4] ♥ – Withholding taxes on foreign source interest income are shown either as a deduction or parenthetically[5] * – For feeder investment funds,[6] allocated interest separately	– As part of Item 1, Investment income: • interests on securities • segregation for income from: > controlled companies > other affiliates – Additional items for issuers of face-amount certificates: • interest on mortgages
Dividend income	–	– Dividends income[7] ♥ – Withholding taxes on foreign source dividend income are shown either as a deduction or parenthetically[8] * – For feeder investment funds,[9] allocated dividends separately	– As part of Item 1, Investment income: • dividends • segregation for income from: > controlled companies > other affiliates
Other income	–	–	– As part of Item 1, Investment income: • other income • other categories in excess of 5% of total investment income – Additional items for issuers of face-amount certificates: • rental income

[1] *See general key. The chapter on the statement of financial position includes a listing of investment companies. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2] *An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances. This Exhibit does not show certain minimum line items under IAS 1, ¶ 82 that, if existing, an entity must display, such as discontinued operations.*
[3] *Unless differently stated, this column refers to the statement of operations of registered investment companies under FASB ASC 946-225-S99-1 (Regulation S-X, ¶ 210.6-07) or of registered investment companies that are issuers of face-amount certificates under FASB ASC 946-225-S99-2 (Regulation S-X, ¶ 210.6-08). FASB ASC 946-10-S99-3 (Regulation S-X, ¶ 210.6-03) extends the general rules of Articles 1 to 4 of Regulation S-X to registered investment companies.*
[4] *AICPA Statement of Position No. 95-2, Financial Reporting by Nonpublic Investment Partnerships, ¶ 13.*
♥ *Shown in FASB ASC 946-830-55-10 (AICPA Statement of Position No. 93-4,* Foreign Currency Accounting and Financial Statement Presentation for Investment Companies, *¶ 41: Appendix B).*
[5] *FASB ASC 946-830-45-39 (AICPA Statement of Position No. 93-4, ¶ 36).*
[6] *FASB ASC 946-225-45-11 (AICPA Audit and Accounting Guide, INV, ¶ 5.38).*
[7] *FASB ASC 946-225-45-17 (AICPA Statement of Position No. 95-2, ¶ 13).*
[8] *FASB ASC 946-830-45-39 (AICPA Statement of Position No. 93-4, ¶ 36).*
[9] *FASB ASC 946-225-45-11 (AICPA Audit and Accounting Guide, INV, ¶ 5.38).*

(continued)

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Expenses:			
Investment advisory fee	–	– Investment advisory (management) fees or compensation≠♥ – For nonpublic investment partnerships,[10] management fees if presented as expenses – Payments or allocations for general partner advisory services[11]	– As part of Item 2, Expenses: • investment advisory, management and service fees, and expenses in connection with research, selection, supervision, and custody of investments • expenses incurred within own organization for research, selection and supervision of investments
Professional fees	–	– Professional fees≠ – Brokerage service arrangements – Expense offset arrangements – Reduction in total expenses for two lines above: fees paid indirectly[12]	– As part of Item 2, Expenses: • brokerage service arrangements • expense offset arrangements • reduction in total expenses for two lines above: Fees paid indirectly
Custodian and transfer agent fees	–	– Custodian and transfer agent fees≠ – Shareholder service costs, including fees and expenses for the transfer agent and dividend disbursing agent • administration fees payable to an affiliate and accrued under a separate agreement[13] • registration fees and expenses • cost of reports to shareholders • other taxes • directors' or trustees' fees	See Investment advisory fee above

≠*FASB ASC 946-225-45-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.46); FASB ASC 946-830-55-10 (AICPA Statement of Position No. 93-4, ¶ 41: Appendix B).*

[10]*FASB ASC 946-20-45-4 (AICPA Statement of Position No. 95-2, ¶ 14). If accounted for as an allocation of net income from the limited partners' to the general partner's capital, an entity presents this item in the statement of changes in partners' capital. The notes must disclose the method used.*

[11]*FASB ASC 946-20-45-4 (AICPA Statement of Position No. 95-2, ¶ 14). Presentation in the statement of changes in partners' capital is possible.*

[12]*FASB ASC 946-20-45-3 11, 946-20-45-5 (AICPA Audit and Accounting Guide, INV, ¶¶ 7.50, 7.51).*

[13]*FASB ASC 946-225-45-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.46).*

(continued)

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Distribution expenses	–	– Distribution expenses♥ – Distribution (12b-1) expenses[14] – For open-end investment companies, changes in the liability for excess costs to distribute their shares[15]	– As part of Item 2, Expenses: • amounts paid for a 12b-1 plan and reimbursement shown as negative amounts
Other expenses	–	– Other expenses♦ – For feeder investment funds:[16] • allocated expenses • fund-specific expenses • fee waivers or reimbursements at the feeder-fund level	– As part of Item 2, Expenses: • other expense in excess of 5% of total expenses
Interest and other finance costs	–	– Interest expenses, including on debt, bank borrowings, and reverse repurchase agreements≠ – Dividend expenses on securities sold short[17]	– Item 3, Interest and amortization of debt discount and expense – For registered investment companies that are issuers of face-amount certificates: Item 4, Provision for certificate reserves (credits, dividends or interests in addition to the minimum maturity or face amount specified in the certificates) • reserve recoveries from surrenders or other causes
Total expenses	–	Total expenses♥	No specialized industry requirement
Investment income before income tax expense	–	–	– Item 4, Investment income before income tax expense (Item 5 for issuers of face-amount certificates)
Income tax expense	–	– Federal and state income taxes applicable to investment income[18]	– Item 5, Income tax expense (Item 6 for issuers of face-amount certificates)
Net investment income	–	– Net investment income or loss[19]	– Item 6, Investment income-net (Item 7 for issuers of face-amount certificates)

[14]*FASB ASC 946-225-45-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.46).*
[15]*AICPA Audit and Accounting Guide,* Investment Companies*, ¶ 8.35; FASB ASC 946-20-35-3 (AICPA Statement of Position No. 95-3,* Accounting for Certain Distribution Costs of Investment Companies*, ¶¶ 7, 9).*
♦ *Shown in AICPA Statement of Position No. 95-3, ¶ Appendix A.*
[16]*FASB ASC 946-225-45-11, 946-225-45-12 (AICPA Audit and Accounting Guide, INV, ¶ 5.38).*
[17]*FASB ASC 946-225-45-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.46).*
[18]*FASB ASC 946-225-45-3, 946-225-45-4 (AICPA Audit and Accounting Guide, INV, ¶¶ 6.10, 7.46).*
[19]*FASB ASC 946-225-45-5 (AICPA Audit and Accounting Guide, INV, ¶ 7.53). FASB ASC 946-830-55-10 (AICPA Statement of Position No. 93-4, ¶ 41: Appendix B).*

(continued)

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Net realized gain or loss from investments and foreign currency transactions	– Material foreign currency gains or losses[20] – Gains and losses arising from the derecognition of financial assets measured at amortized cost (as a minimum line item)[21] [22]	– Net realized gain or loss from investments and foreign currency transactions:[a] • net realized gain or loss from investments (net of brokerage commissions) • foreign currency transactions • separate line for net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violation of restrictions[23] • income tax expense applicable to the realized gain category[24] – For feeder funds:[25] • the feeders' allocated share of the master fund's realized gains and losses – For nonpublic investment partnerships and management investment companies,[26] realized gains and losses on securities	As part of Item 7 (Item 8 for issuers of face-amount certificates) below: – Net realized gain or loss on transactions in: • investment securities of unaffiliated issuers • investment securities of affiliated issuers • investments other than securities – Distributions of realized gains (capital gains, for issuers of face-amount certificates) by other investment companies – Separately: • gain or loss from expiration or closing of option contracts written • gain or loss on closed short positions in securities • other realized gain or loss – Applicable income taxes > Federal > other > payable currently > deferred

[20]*IAS 1, ¶ 35.*
[21]*IAS 1, ¶ 82.*
[22]*Under IFRSs, venture capital organizations, mutual funds, unit trusts, investment-linked insurance funds, and other investment companies do not apply the equity method of accounting to those associates or jointly controlled entities that they measure at fair value through profit or loss, either by designation or because they are instruments mandatorily measured at fair value under IFRS 9 (IAS 28 (2010), ¶¶ 1, BC9; IAS 31, ¶ 1). Therefore, the company classifies these investments, as well as other financial assets that it carries at fair value through profit or loss, as financial assets under IAS 1, ¶ 54(d). Consequently, in most circumstances investment companies would not show the minimum line item for equity method investments required by IAS 1, ¶ 82.*
[a]*FASB ASC 946-225-45-6, 946-225-45-7 (AICPA Audit and Accounting Guide, INV, ¶¶ 7.54, 7.55, 7.58, 7.62, 7.63); FASB ASC 946-830-45-36, 946-830-45-37, 946-830-55-10 (AICPA Statement of Position No. 93-4, ¶¶ 34, 35, Appendix B.) An entity may either separately report the foreign currency effect of realized gains or losses from investments into foreign currency transactions or combine it with net realized gains or losses from investments. A company may report unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies separately or combine it with unrealized gains and losses on investments. However, the company must separately report all other realized or unrealized foreign currency gains and losses. Therefore, it must include realized gains or losses on interest and dividends in the realized gain or loss component of net realized gain or loss. It must include all unrealized foreign currency gains and losses other than those on investments in unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies. A note must disclose the accounting policy followed.*
[23]*FASB ASC 946-20-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.60).*
[24]*FASB ASC 946-225-45-4 (AICPA Audit and Accounting Guide, INV, ¶ 6.10).*
[25]*FASB ASC 946-225-45-12 (AICPA Audit and Accounting Guide, INV, ¶ 5.38).*
[26]*FASB ASC 946-225-45-17 (AICPA Statement of Position No. 95-2, ¶ 13).*

(continued)

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Net increase (decrease) in unrealized appreciation or (depreciation) on investment and translation of assets and liabilities in foreign currencies	– Gains or losses from reclassification of a financial asset to one that is measured at fair value (as a minimum line item)[27]	– Net increase (decrease) in unrealized appreciation or (depreciation) on investment and translation of assets and liabilities in foreign currencies:[a] • net increase (decrease) in unrealized appreciation (depreciation) on investment • net increase (decrease) in unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies • provision for deferred income taxes on unrealized appreciation, shown as a charge against the unrealized gains account[28] • income tax expense applicable to the related unrealized gain category[29] – For feeder funds:[30] • the feeders' allocated share of the master fund's unrealized gains and losses – For nonpublic investment partnerships and management investment companies,[31] unrealized gains and losses on securities	As part of Item 7 (Item 8 for issuers of face-amount certificates) below: – Net increase or decrease during the period in the unrealized appreciation or depreciation in the value of investment securities and other investments held at the end of the period – Applicable income taxes > Federal > Other > Payable currently > Deferred
Net realized and unrealized gain (loss) from investments and foreign currency	–	– Net realized and unrealized gain or loss from investment and foreign currency (the sum of above)[a]	– Item 7, Realized and unrealized gain (loss) on investments-net (Item 8 for issuers of face-amount certificates)
Net increase (decrease) in net assets resulting from operations before cumulative effects of change in accounting principle	–	Net increase (decrease) in net assets resulting from operations before cumulative effects of change in accounting principle[♦]	– Item 8, Net gain (loss) on investments

[27] *IAS 1, ¶ 82.*
[28] *FASB ASC 946-740-35-1, 946-740-50-1, 946-20-50-13 (AICPA Audit and Accounting Guide, INV, ¶ 7.37).*
[29] *FASB ASC 945-225-45-4 (AICPA Audit and Accounting Guide, INV, ¶ 6.10).*
[30] *FASB ASC 946-225-45-12 (AICPA Audit and Accounting Guide, INV, ¶ 5.38).*
[31] *FASB ASC 946-225-45-17 AICPA Statement of Position No. 95-2, ¶ 13.*

(continued)

Exhibit 4-14 Minimum Line Items of the Statements of Income of Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Finance costs not part of net investment income	– Dividends and distributions to unitholders that are classified as an expense, included either within interest expenses or presented separately[32]	– Interest expense on shares subject to mandatory redemption for entities that have no other equity instruments[33]	–
Cumulative effects of change in accounting principle	–	Cumulative effects of a change in accounting principle♦	–
Net increase (decrease) in net assets resulting from operations	–	Net increase (decrease) in net assets resulting from operations♥♦	– Item 9, Net increase (decrease) in net assets resulting from operations – Item 9, Net income or loss, for issuers of face-amount certificates
Attribution per participating share for required entities	–	Exempted[34]	–
Other comprehensive income	–	–	–
Total other comprehensive income	–	–	–
Comprehensive income	Changes in net assets attributable to unitholders for entities that have share capital that does not meet the definition of equity under IAS 32[35]	–	–
Attribution of comprehensive income	[36]	[37]	–

[32]*IAS 32, ¶¶ 18, 40, IE32, IE33. This may include the case of entities all of whose shares do not meet the criteria for equity classification under IAS 32, or the situation of entities whose shares are entirely puttable instruments classified as liabilities under IAS 32. This standard encourages separate classification if the tax impact of dividends differs from that of interests.*

[33]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement 150,* Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, *¶¶ 19, A6); FASB Statement 150, ¶ B59. For all other mandatorily redeemable instruments and other instruments for which it requires liability classification, FASB Statement No. 150, does not specifically mention separate presentation. FASB Staff Position FAS 150-3, ¶ 3 indefinitely delayed the classification, measurement and disclosure provisions of FASB Statement No. 150 for mandatorily redeemable financial instruments of nonpublic, non-SEC registrant entities. For these companies, liability classification holds only for those financial instruments that are mandatorily redeemable on fixed dates for amounts that are either fixed or determinable through an external index. Therefore, shares or interests of unregistered investment companies would warrant liability classification only if at the reporting date they are irrevocably redeemable at a fixed or determinable amount.*

[34]*FASB ASC 260-10-15-3 (FASB Statement No. 128, ¶ Footnote 2).*

[35]*IAS 32, ¶¶ 18, IE32, IE33. This may include the case of entities all of whose shares do not meet the criteria for equity classification under IAS 32, or the situation of entities whose shares are entirely puttable instruments classified as liabilities under IAS 32.*

[36]*IAS 27 (2010), ¶ 16 does not exempt investment companies from consolidating their investments that meet the definition of a subsidiary. IAS 32, ¶ AG29A requires liability classification of noncontrolling interests of puttable financial instruments and similar instruments whose controlling interests are classified as equity.*

[37]*U.S. GAAP, apart from certain exceptions, excludes the consolidation of a non-investment company by an investment company (FASB ASB 810-10-15-10, 946-810-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.04). In addition, an investment company that is structured as a master-feeder or fund of funds would ordinarily not consolidate the underlying investee investment companies (FASB ASC 946-205-45-6, 946-210-50-4 (AICPA Audit and Accounting Guide, INV, ¶ 7.07, 7.16)).*

Exhibit 4-15 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Investment Companies

[1]	*IFRSs*[2]	*U.S. GAAP*	*SEC Guidance*[3]
Investment income:			
Interest income	– Total interest income financial assets carried at amortized cost[4]	–	–
Dividend income	– Dividends, with separate disclosure of those on investments derecognized during the period and those on investments held at the end of the reporting period[5]	–	–
Other income	– Fee income for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss – Fee income for asset-holding and investment trusts and similar fiduciary activity[6]	–	–
Expenses:			
Investment advisory fee	– Fee expense for asset-holding and investment trusts and similar fiduciary activity[7]	–	–
Professional fees	See above	–	–
Custodian and transfer agent fees	See above	–	–
Distribution expenses	See above	–	–
Other expenses	See above	– For management investment companies that have multiple classes of shares or master-feeder structures:[8] • class-specific expenses	–

[1]*See general key. The chapter on the statement of financial position includes a listing of investment companies. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2]*An entity may show additional content based on the disaggregation guidance in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances. This Exhibit does not show certain minimum line items under IAS 1, ¶ 82 that, if existing, an entity must display, such as discontinued operations.*
[3]*Unless differently stated, this column refers to the statement of operations of registered investment companies under FASB ASC 946-225-S99-1 (Regulation S-X, ¶ 210.6-07) or of registered investment companies that are issuers of face-amount certificates under FASB ASC 946-225-S99-2 (Regulation S-X, ¶ 210.6-08). FASB ASC 946-10-S99-3 (Regulation S-X, ¶ 210.6-03) extends the general rules of Articles 1 to 4 of Regulation S-X to registered investment companies.*
[4]*IFRS 7, ¶ 20(b).*
[5]*IFRS 7, ¶¶ 11A(d), 20(a), B5(e), BC33, BC34.*
[6]*IFRS 7, ¶ 20(c).*
[7]*IFRS 7, ¶ 20(c).*
[8]*FASB ASC 946-225-45-8, 946-225-45-9, 946-225-45-11 (AICPA Audit and Accounting Guide, BRD, ¶¶ 5.28, 5.30, 5.38).*

(continued)

Exhibit 4-15 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Interest and other finance costs	– Total interest expense for financial liabilities not at fair value through profit or loss[9] – Dividend expenses on financial liabilities initially designated at fair value through profit or loss and financial liabilities held for trading[10] – Fee expense for financial assets carried at amortized cost or financial liabilities not at fair value through profit or loss[11]	–	– As part of Item 3, Interest and amortization of debt discount and expense: • the average amount of borrowings • the average interest rate
Total expenses	–	–	–
Investment income before income tax expense	–	–	–
Income tax expense	–	–	–
Net investment income	–	–	–
Net realized gain or loss from investments and foreign currency transactions	– Net gains or net losses on:[12] • financial assets initially designated at fair value through profit or loss • those required to be carried so • financial liabilities initially designated at fair value through profit or loss • financial liabilities held for trading – Change in fair value recognized in profit or loss from sale on investment property from a pool measured at cost into one measured at fair value[13]	– Dealers in foreign exchange may report foreign currency transaction gains and losses as dealer gains and losses[14]	–
Net increase (decrease) in unrealized appreciation or (depreciation) on investment and translation of assets and liabilities in foreign currencies	Net gains or net losses on financial assets carried at fair value through other comprehensive income[15]	–	–
Net realized and unrealized gain (loss) from investments and foreign currency	–	–	–
Net increase (decrease) in net assets resulting from operations before cumulative effects of change in accounting principle	–	–	–

[9] *IFRS 7, ¶ 20(b).*
[10] *IFRS 7, ¶¶ 20(a), B5(e), BC33, BC34.*
[11] *IFRS 7, ¶ 20(c).*
[12] *IFRS 7, ¶¶ 11A(d), 20(a), B5(e), BC33, BC34, with disclosure of dividends on instruments derecognized during the period and on those held at the end of the reporting period.*
[13] *IAS 40, ¶¶ 32C, 75(f)(iv). IAS 40 simply mentions disclosure.*
[14] *FASB ASC 830-20-45-2 (FASB Statement No. 52, ¶ 30).*
[15] *IFRS 7, ¶ 20(a).*

(continued)

Exhibit 4-15 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Investment Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Finance costs not part of net investment income	–	–	–
Cumulative effects of change in accounting principle	–	–	–
Net increase (decrease) in net assets resulting from operations	–	–	–
Attribution per participating share for required entities	–	–	–
Other comprehensive income	–	–	–
Total other comprehensive income	–	–	–
Comprehensive income	16	–	–
Attribution of comprehensive income	–	–	–

[16]*IAS 32, ¶ IE32 refers to the expression changes in net assets attributable to unitholders for entities that have share capital that does not meet the definition of equity under IAS 32.*

as different items or as a single item,[768] a third-party compensation for an item of property, plant, and equipment that is impaired, lost, or given up.[769] Again, the listing may add foreign exchange differences and those of deferred foreign tax liabilities and assets (either separately or as part of deferred tax expense or income),[770] dividends classified as an expense,[771] and acquisition-related costs in a business combination.[772] Other occurrences include a gain in a bargain purchase,[773] a gain or loss arising from fair value remeasurement of a previously held equity interest in an acquiree in a step acquisition,[774] and an impairment loss and a reversal of an impairment loss.[775]

4.7.5 Disaggregation Guidance

Previous paragraphs report affirmative guidance on whether an entity must present specific items in the statements of income or disclose them in the notes. In addition, IFRSs and U.S. GAAP provide criteria to determine whether additional display on the face of the statements of income may be warranted. Therefore, in certain situations, an entity must exert its judgment based on disaggregation guidance.

As mentioned in Paragraph 4.4.1 previously, the IASB Framework welcomes subclassification on the face of the financial statements.[776] IAS 1 puts the presentation of additional line items, headings, and subtotals in connection with the determination of their relevance to understanding financial performance and with the need for explanation of financial performance.

[768] *IAS 19 (2007), ¶ 119 ; IAS 19 (2011), ¶ 134.*
[769] *IAS 16, ¶ 74(d).*
[770] *IAS 12, ¶ 78.*
[771] *IAS 32, ¶ 40.*
[772] *IFRS 3, ¶ B64(m).*
[773] *IFRS 3, ¶ B64(n).*
[774] *IFRS 3, ¶ B64(p).*
[775] *IAS 36, ¶¶ 126(a), 126(b).*
[776] The Conceptual Framework for Financial Reporting 2010, *¶¶ 4.3; IASB Framework, ¶ 48.*

Exhibit 4-16 Minimum Line Items of the Statements of Changes in Net Assets Available for Benefits of Employee Benefit Plans

[1]	*IFRSs*[2]	*U.S. GAAP*[2]	*SEC Guidance*[3]
Investment income:	– Investment income[4]	– Investment income exclusive of net appreciation (depreciation) in fair value[5]	– Item 1(a), Income
Interest and dividends	– As part of Investment income[4]	– Interest[6] – For defined contribution pension plans, interest income earned, and rebate interest paid as a result of securities lending activity[7] – Dividends[8]	– As part of Item 1(a), Income: • from interest • from cash dividends • thereof: whether from investments in or indebtedness of participating employers
Change in fair value of investments	– As part of Profits and losses on disposal of investments and changes in value of investments[4]	– Net appreciation (depreciation) in fair value of investments,[8] including realized gains and losses on investments bought or sold during the year	– As part of Item 1(a): • income from other sources • whether from investments in or indebtedness of participating employers

[1]*See general key. The chapter on the statement of financial position includes a listing of employee benefit plans. "–" means that there are no specialized industry separate display requirements.*
[2]*An entity may show additional content based on the disaggregation guidance FASB ASC 960-30-45-1 (FASB Statement No. 35, ¶ 236); FASB ASC 962-205-45-8 (AICPA Audit and Accounting Guide,* Employee Benefit Plans*, ¶ 3.50); FASB ASC 965-20-45-4 (AICPA Statement of Position No. 92-6,* Accounting and Reporting by Health and Welfare Benefit Plans*, ¶ 40); IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances. Under FASB ASC 962-205-45-1, 960-20-45-2, 960-205-55-1 (FASB Statement No. 35, ¶¶ 6, 8, 282), defined benefit pension plans may adopt either a separate statement of changes in net assets available for benefits and a statement of changes in accumulated plan benefits, combine the two into a statement of changes in accumulated plan benefits and net assets available for benefits, or disclose changes in actuarial present value of accumulated plan benefits in the notes. Under FASB ASC 965-205-45-2, 965-205-55-6 (AICPA Statement of Position No. 92-6, ¶¶ 20, Exhibit B), health and welfare defined benefit plans may combine information on changes in benefit obligations with those on changes in net assets in a statement of benefit obligations and net assets available for benefits. Alternatively, they may disclose benefit obligations in the notes, use a separate statement, or combine such information with another statement. IAS 26, ¶¶ 28–31 permits defined benefit plans either to present changes in the actuarial present value of promised retirement benefits as part of the statement of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits or to disclose such information in the notes. Placement of such information in a separate actuarial report is possible to the extent that this actuarial report accompanies the financial statements and is incorporated by reference by the financial statements.*
[3]*Unless differently stated, this column refers to the statement of operations and changes in plan equity of employee stock purchase, savings and similar plans under FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-04). FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-02) extends the general rules of Articles 1 to 4 of Regulation S-X to employee stock purchase, savings, and similar plans.*
[4]*IAS 26, ¶ 35(b).*
[5]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide,* Employee Benefit Plans *(EBP), ¶ 2.42); FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49); FASB ASC 965-20-45-3 (AICPA Statement of Position No. 92-6,* Accounting and Reporting by Health and Welfare Benefit Plans*, ¶ 39).*
[6]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); FASB Statement No. 35, ¶ Exhibit D-2; FASB ASC 965-20-45-3, 965-205-55-4, 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶¶ 39, Exhibit A, Exhibit C); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3,* Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, ¶ Appendix B); FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49).*
[7]*FASB ASC 962-325-45-9 (AICPA Audit and Accounting Guide, EBP, ¶ 3.44).*
[8]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); FASB Statement No. 35, ¶ Exhibit D-2; FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3, ¶ Appendix B); FASB ASC 965-20-45-3, 965-205-55-4, 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶¶ 39, Exhibit A, Exhibit C).*

(continued)

Exhibit 4-16 Minimum Line Items of the Statements of Changes in Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Subtotal	–	Subtotal[9]	–
Less: investment expenses	–	– Less: investment expenses[9]	– Item 1(b), Expenses
Net investment income	–	Net investment income[9]	– Item 1(c), Net investment income
Gains and losses on investments	– As part of Profits and losses on disposal of investments and changes in value of investments[4]	See above	– Item 2, Realized gain or loss on investments • investments in securities of the participating employer or employers • other investments in securities • other investments – Item 3, Unrealized appreciation or depreciation of investments
Net change in 401(h) account	– As part of Other income[4]	– Net change in 401(h) account of defined benefit pension plans[10] – For health and welfare benefit plans: • change in net assets of 401(h) account, as a single line outside net investment income, if net assets are shown as a single line in the statement of net assets available for benefits, or commingled in the changes in individual line items with disclosure in the notes[11]	–
Other income	– Other income[4]	– For defined contribution benefit plans, proceeds from demutualizations, if significant[12]	–

[9]*FASB Statement No. 35,* Accounting and Reporting by Defined Pension Plans, *¶ Exhibit D-2; FASB ASC 965-205-55-4, 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶¶ Exhibit A, Exhibit C); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3, ¶ Appendix B).*
[10]*FASB ASC 960-30-45-5 (AICPA Statement of Position No. 99-2, ¶ 8). The item only includes changes due to qualified transfers to the 401(h) account and unused or unspent amounts in the 401(h) account that were qualified transfers of excess pension plan assets that were not transferred back to the defined benefit pension plan.*
[11]*FASB ASC 965-205-55-8 (AICPA Statement of Position No. 99-2,* Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans, *¶¶ 23, Appendix C); AICPA Statement of Position No. 99-2, ¶ 11; FASB ASC 965-205-45-8 (AICPA Statement of Position No. 92-6, ¶ 55).*
[12]*FASB ASC 962-205-45-8 (AICPA Audit and Accounting Guide, EBP, ¶ 3.50).*

(continued)

Exhibit 4-16 Minimum Line Items of the Statements of Changes in Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Contributions:			
Participating employers	– Employer contributions[4]	Participating employers[9] – cash contribution[13] – noncash contribution	– As part of Item 4, Contributions and deposits: • participating employers
Participants	– Employee contributions[4]	– Participants[9,13]	– As part of Item 4, Contributions and deposits: • participating employees
Other contribution	–	– Other contribution (state subsidies or Federal grants)[13]	–
Total contributions	–	Total contributions[9]	–
Total additions	–	**Total additions**	–
Benefits paid to participants	– Benefits paid or payable and detail (e.g., retirement, death and disability benefits, and lump sum payments) [4]	– Benefits paid to participants[14] – For health and welfare benefit plans: • detail by type (e.g., health care, disability, and death)[15] • payment of claims[16]	– Item 5, Withdrawals, lapses and forfeitures: • balances of employees' accounts withdrawn, lapsed or forfeited during the period • amounts disbursed in settlement of such accounts • disposition of balances remaining after settlement
Purchases to insurances	–	– For defined benefit and health and welfare benefit plans, purchases of annuity contracts[17] – Payment of premiums to insurance companies to purchase contracts that are excluded from plan assets[5,10]	–

[13]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); AICPA Statement of Position No. 99-2, ¶ 39; FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49); FASB ASC 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶ 39). For defined benefit pension plans, refunds of terminated employees' contributions may be shown separately or netted against contributions received from participants or included in benefit paid (FASB ASC 960-30-45-1 (FASB Statement No. 35, ¶ 236)).*
[14]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49). For defined benefit pension plans, refunds of terminated employees' contributions may be shown separately or netted against contributions received from participants or included in benefit paid (FASB ASC 960-30-45-1 (FASB Statement No. 35, ¶ 236)).*
[15]*FASB ASC 965-205-55-4, 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶¶ Exhibit A, Exhibit C).*
[16]*FASB ASC 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶ 39).*
[17]*FASB Statement No. 35, ¶ Exhibit D-2; FASB ASC 956-205-55-2 (AICPA Statement of Position No. 99-2, ¶ Appendix B, Example 2).*

(continued)

Exhibit 4-16 Minimum Line Items of the Statements of Changes in Net Assets Available for Benefits of Employee Benefit Plans (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Administrative expenses	– Administrative expenses[4] – Other expenses	– Administrative expenses – For health and welfare benefit plans, operating and administrative expenses[6]	–
Income taxes	– Taxes on income[4]	– Income taxes[15]	–
Total deductions		Total deductions[9]	–
Net change during year	– Changes in net assets[4]	– Net change during year[9]	–
Net assets available for benefits	– Transfers from and to other plans[4]	– Net assets available for benefits: • beginning of year[9] • other changes (transfers of assets to or from other plans), if significant[18] • end of year[9]	– Item 6, Plan equity at beginning of period – Item 7, Plan equity at end of period

[18]*FASB ASC 962-205-45-8 (AICPA Audit and Accounting Guide, EBP, ¶ 3.50); FASB ASC 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶ 39).*

Materiality, nature, and function of items are the crucial dimensions.[777] Failure to meet such thresholds leads to note disclosure.[778] Other standards implement this route. For example, IAS 38 links disaggregation of classes of intangible items to their information relevance.[779] IAS 41 leaves the determination of the level of detail on gains or losses on biological assets and agricultural produce to financial statement preparers.[780]

Planning Point: On the other hand, Paragraph 4.5.3 previously above mentions many examples where the SEC has challenged voluntary additional headings, captions, and line items on the face of the income statement as conflicting with IFRS guidance related to avoiding discriminating non-operating versus operating items based on subjective or excluded criteria. Entities should keep those circumstances in mind.

IFRSs have no quantitative thresholds to aggregate or disaggregate items. By contrast, SEC guidance has many such occurrences. For example, under Regulation S-X, an entity may combine items of net sales and gross revenues that are less than 10% of the total amount. Difference in margins is an additional element that a company that does not qualify as a smaller reporting company should consider for disaggregation of product and service revenues.

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[777] *IAS 1, ¶¶ 85, 86.*
[778] *IAS 1, ¶ 7.*
[779] *IAS 38, ¶ 119.*
[780] *IAS 41,* Agriculture, *¶¶ B78, B79.*

Exhibit 4-17 Items that May be Either Separately Presented on the Face of the Statements of Net Assets Available for Benefits by Employee Benefit Plans or Disclosed in the Notes

[1]	*IFRSs*[2]	*U.S. GAAP*[2]	*SEC Guidance*[3]
Investment income:	–	–	–
Interest and dividends	–	–	–
Change in fair value of investments	–	– Detail of net appreciation (depreciation) in fair value of investments per each significant class[4] – For defined benefit pension plans and health and welfare benefit plans, detailed as:[5] • investments measured by quoted prices in an active market • investments otherwise determined	–
Subtotal	–	–	–
Less: investment expenses	–	–	–
Net investment income	–	–	–
Gains and losses on investments	–	–	–
Net increase in 401(h) account	–	–	–
Contributions:			
Participating employers	–	– Note or parenthetical description of the nature of employer noncash contributions[6*]	–
Participants	–	–	–
Other contribution	–	–	–
Total contributions	–	–	–
Total additions	–	**Total additions**	–

[1]*See general key. The chapter on the statement of financial position includes a listing of employee benefit plans. "–" means that there are no specialized industry separate display or disclosure requirements.*
[2]*An entity may show additional content based on the disaggregation guidance FASB ASC 960-30-45-1 (FASB Statement No. 35, ¶ 236); FASB ASC 962-205-45-8 (AICPA Audit and Accounting Guide, EBP, ¶ 3.50); FASB ASC 965-20-45-4 (AICPA Statement of Position No. 92-6, ¶ 40); IAS 1, ¶¶ 85-86. Reconciliation would be adapted to an entity's specific circumstances.*
[3]*Unless differently stated, this column refers to the statement of operations and changes in plan equity of employee stock purchase, savings, and similar plans under FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-04). FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-02) extends the general rules of Articles 1 to 4 of Regulation S-X to employee stock purchase, savings, and similar plans.*
[4]*FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49); FASB ASC 962-325-55-16 (AICPA Statement of Position No. 99-3, ¶ Appendix B); FASB ASC 965-20-45-3, 965-205-55-4, 965-205-55-7 (AICPA Statement of Position No. 92-6, ¶¶ 39, Exhibit A, Exhibit C).*
[5]*FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); FASB ASC 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶ 39).*
[6]*FASB Statement No. 35, ¶ 15; FASB ASC 965-20-50-1, 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶ 39); FASB ASC 960-30-45-2 (FASB Statement No. 35, ¶ 15; AICPA Audit and Accounting Guide, EBP, ¶ 2.42); FASB ASC 962-205-45-7 (AICPA Audit and Accounting Guide, EBP, ¶ 3.49).*

(continued)

Exhibit 4-17 Items that May be Either Separately Presented on the Face of the Statements of Net Assets Available for Benefits by Employee Benefit Plans or Disclosed in the Notes (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Benefits paid to participants	–	–	–
Purchases to insurances	–	–	–
Administrative expenses	–	–	–
Income taxes	–	–	–
Total deductions		–	–
Net change during year	–	–	–
Net assets available for benefits	–	– For defined contribution pension plans with nonparticipant-directed and non-nonparticipant- directed investment programs:[7] • significant components of changes in net assets of nonparticipant-directed investments	–

[7]*AICPA Audit and Accounting Guide, EBP, ¶ 3.35(k); FASB ASC 962-325-45-8 (AICPA Statement of Position No. 92-6, ¶ 55); AICPA Statement of Position No. 99-3,* Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, ¶¶ 8, Appendix B.*

The entity must combine costs and expenses applicable to sales and revenues subcaptions that relate to classes of net sales and gross revenues that it combined.[781] Under Regulation S-X, financial statements should not show captions that have no items.[782] Exhibit 4-8 to Exhibit 4-19 list other situations where a quantitative level triggers aggregation or disaggregation.

Variety in interpreting disaggregation guidance is significant in accounting practice.

Example: A pan-European survey highlights that the number of captions displayed in 2006 IFRS income statements ranged from 10 to 66, with an average of 20.4.[783]

The discretional nature of such a disaggregation guidance opens to jurisdictional interpretations.

Example: Along the lines of a strict interpretation, the UK Financial Reporting Review Panel stressed that in order to show line items additional to the minimum content in IAS 1 there must be a necessity to explain the elements of financial performance.[784]

CON 5 also highlights the importance of disaggregated information.[785] For not-for-profit organizations, FASB Statement No. 117 leaves financial statement preparers free to judge the

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781 *FASB ASC 225-10-S99-2 (Regulation S-X, ¶ 210.5-03(b)); Carnall 2009.*
782 *FASB ASC 205-10-S99-3 (Regulation S-X, ¶ 210.4-03).*
783 *Ineum 2008 Survey, ¶ 5.2.*
784 *Financial Reporting Review Panel,* Preliminary Report: IFRS Implementation*, ¶ 32 (2006); ICAEW 2007 Survey, ¶ 13.3.*
785 *CON 5, ¶ 22.*

Exhibit 4-18 Minimum Line Items of the Statements of Income of Real Estate Companies

[1]	*IFRSs*[2]	*U.S. GAAP*[2]	*SEC Guidance*
Revenues:			
Gross sales	–	– Gross sales[a]	–
Less: Estimated uncollectible sales	–	– Less: Estimated uncollectible sales[a] – Less: Estimated uncollectibles account for time-sharing transactions[3]	–
Revenue applicable to future improvements	No specific guidance	– Revenue applicable to future improvements:[a] estimated discounted amounts to be recovered from future sale of improvements, utilities, and amenities[4]	–
Valuation discount	–	– Valuation discount[b]	–
Net sales	–	– Net sales[a]	–
Improvement revenue – prior sales	No specific guidance	– Improvement revenue – prior sales[a]	–
Interest income	–	– Interest income[a]	–
Profit deferred	No such caption	– Profit deferred[b] – Unrecognized gross profit in the period of sale under the cost recovery method of accounting for real estate sales[5]	–
Profit recognized	No such caption	– Profit recognized[b] – Earned gross profit during the years in which profit is earned under the cost recovery method of accounting for real estate sales[6]	–
Other income	–	– For Real Estate Investment Trusts: • material effect of operating support by the adviser, if shown as income[7] – For blind pool and partially blind pool real estate syndications, syndication fees separately from property acquisition fees[8]	– Material cumulative effect of enactment of new tax rates on pre-tax income of a lessor under leveraged lease[9]

[1]*See general key.*
"–" means that there are no specialized industry separate display requirements.
[2]*An entity may show additional content based on disaggregation guidance, including in IAS 1, ¶¶ 85-86. Reconciliation would be adapted to an entity's specific circumstances. This Exhibit does not show all minimum line items under IAS 1, ¶ 82 that, if existing, an entity must display. See the Exhibit for all other types of companies.*
[a]*Shown in FASB ASC 976-605-55-11 (FASB Statement No. 66, ¶ 95: Schedule D) under percentage-of-completion method, and FASB ASC 976-605-55-13 (FASB Statement No. 66, ¶ 96: Schedule A) under installment method.*
[3]*FASB ASC 978-310-35-5, 978-310-45-1 (AICPA Statement of Position No. 04-2, ¶¶ 36, 63).*
[4]*FASB ASC 360-20-55-11, 976-605-30-3 (FASB Statement No. 66, ¶¶ 60, 75).*
[b]*Shown in FASB ASC 976-605-55-13 (FASB Statement No. 66, ¶ 96: Schedule A), under installment method.*
[5]*FASB ASC 360-20-55-14 (FASB Statement No. 66, ¶ 63).*
[6]*FASB ASC 360-20-55-14 (FASB Statement No. 66, ¶ 63).*
[7]*FASB ASC 974-605-45-1 (AICPA Statement of Position No. 75-2,* Accounting Practices of Real Estate Investment Trusts, *¶ 52). Alternatively, an entity may show this item as reduction of advisory fees.*
[8]*AICPA Statement of Position No. 92-1, ¶ 58.*
[9]*FASB ASC 840-30-S99-2 (EITF Issue No. 86-43, Effect of a Change in Tax Law or Rates on leveraged Leases).*

(continued)

Exhibit 4-18 Minimum Line Items of the Statements of Income of Real Estate Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Costs and expenses:			
Cost of sales	–	– Cost of sales[a]	–
Improvement costs – prior sales	No specific guidance	– Improvement costs – prior sales[10]	–
Selling expenses	–	– Selling expenses[a]	–
Other expenses	–	– Income taxes of common interest realty associations may be presented as operating expenses[11] – For Real Estate Investment Trusts: • material effect of operating support by the adviser, if shown as reduction of advisory fees[12]	–
Gains and losses	–	– Loss on contract cancellations relating to receivables within the period of cancellation with refund[13]	– A gain or loss from a readjustment of the net investment in a leveraged lease[14]
Income (loss) before provision for income taxes	–	– Income before provision for income taxes[a]	–
Income from continuing operations before tax	–	–	–
Income taxes	–	– Provision for current income taxes[a] – Provision for deferred income taxes	– Material cumulative effect of enactment of new tax rates on income tax expense of a lessor under leveraged lease[15]
Income from continuing operations after tax	–	–	–
Discontinued operations	–	–	–
Income before extraordinary items	Prohibited[16]	–	–

[10]*FASB ASC 360-20-55-11, 976-705-30-1, 976-605-30-3, 976-605-35-1, 976-605-55-11 (FASB Statement No. 66, ¶¶ 60, 70.c, 75, 76, 95: Schedule D).*
[11]*FASB ASC 972-740-45-1 (AICPA Audit and Accounting Guide, CIR, ¶ 4.16).*
[12]*FASB ASC 974-605-45-1 (AICPA Statement of Position No. 75-2, ¶ 52). Alternatively, an entity may show this item as income.*
[13]*FASB ASC 976-605-25-6, 976-605-25-8, 976-605-25-9, 976-310-35-1, 976-605-55-11 (FASB Statement No. 66, ¶¶ 45(a), 46(a), 47(a), 70(b), 95: Schedule D, 96: Schedule A).*
[14]*FASB Statement No. 13, ¶ 46; FASB Staff Position FAS 13-2, ¶ A1.a.*
[15]*FASB ASC 840-30-S99-2 (EITF Issue No. 86-43).*
[16]*Formerly known as "results from ordinary activities".*

(continued)

Exhibit 4-18 Minimum Line Items of the Statements of Income of Real Estate Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Special captions for real estate investment trusts	–	–	– For real estate investment trusts: Income or loss before gain or loss on sale of properties, extraordinary items and cumulative effects of accounting changes[17]
	–	–	– For real estate investment trusts: gain or loss on sale of properties, net of taxes[18]
Comprehensive income[19]	–	–	–

[17]*FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(1)); SEC,* Financial Reporting Manual, *¶ 2355.1.*
[18]*FASB ASC 974-10-S99-1 (Regulation S-X, ¶ 210.3-15(a)(1)); SEC,* Financial Reporting Manual, *¶ 2355.1.*
[19]*No specialized industry requirements for presentation apply to captions and items ranging from income after extraordinary items to comprehensive income.*

level of detail of disaggregation of revenues, expenses, gains and losses, and the best location of such information.[786] Based on a stricter approach, Regulation S-X Rule 5-03 clearly indicates what items must show up in a statement of income and it states when only note disclosure is possible.

Under the *Financial Statement Presentation Project,* financial statements should enucleate line items, according to a disaggregation working principle, to the extent that disaggregation enhances the usefulness of the information in predicting future cash flows. Disaggregation would tend to isolate items that economically respond similarly. The bulk of disaggregation guidance for the statements of income focuses on the classification by function versus nature in the operating category of the statement of comprehensive income, as explained in Paragraph 4.6 previously. The Project has been long debating the issue of whether an entity should display or disclose such information in the notes. In any event, information by nature would be a subclassification of functions, irrespective of whether presented in the statement or disclosed in the notes. However, as an exception, an entity may elect to present only expenses by nature if it considers a functional key as not being useful to financial statements users. The Staff Draft extends the optimum disaggregation point to the general principle, applicable to all financial statements, that it must depend on function, nature and measurement basis of items, unless immaterial, so that financial statements clearly represent the relationship between assets and liabilities and related impact of changes in assets and liabilities. However, displayed information should not be so excessive as to detract from clarity and understandability. Should this be the case, additional information is diverted to the notes.[787] As it may happen that some items are not selected through the intricacies of disaggregation guidance, unusual or infrequent items would deserve separate display.[788]

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[786] *FASB ASC 958-225-55-3 (FASB Statement No. 117, ¶ 118).*
[787] *Staff Draft, ¶¶ 46, 47, 51, 140-149, BC66, BC68, BC70, BC71; DP on Presentation, ¶¶ 2.23, 2.8.*
[788] *Staff Draft, ¶ BC170.*

Exhibit 4-19 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Real Estate Companies

[1]	*IFRSs*[2]	*U.S. GAAP*[2]	*SEC Guidance*
Revenues:			
Gross sales	– Rental income from investment property[3] – Income from rendering of real estate services[4] – Sale of real estate accounted for as sales of goods under IFRIC 15[5] – Sale of real estate accounted for as sales of goods as construction progresses under the percentage-of-completion method under IFRIC 15[6] – Sale of real estate accounted for as construction contracts under IFRIC 15[7]	– Contingent rentals for a lessor in significant sales-type or direct financing leases[8] – Contingent rentals for a lessor in operating leases[9] – Pre-tax income from a leveraged lease (to be presented separately from other leveraged lease items)[10]	–
Less: Estimated uncollectible sales	–	–	–
Revenue applicable to future improvements	–	–	–
Valuation discount	–	–	–
Net sales	–	–	–
Improvement revenue – prior sales	No specific guidance	–	–
Interest income	–	–	–
Profit deferred	No such caption	– Deferred gross profit in the period of sale under the installment method of accounting for real estate sales[11]	–

[1]*See general key.*
"–" means that there are no specialized industry separate display or disclosure requirements.
[2]*An entity may show additional content based on disaggregation guidance, including in IAS 1, ¶¶ 85–86. Reconciliation would be adapted to an entity's specific circumstances. This Exhibit does not show all minimum line items under IAS 1, ¶ 82 that, if existing, an entity must display. See the Exhibit for all other types of companies.*
[3]*IAS 40, ¶ 75.f(i). However, this standard refers to disclosure and not to either display or disclosure.*
[4]*IAS 18, ¶ 38(b)(ii). However, this standard refers to disclosure and not to either display or disclosure.*
[5]*IAS 18, ¶ 38(b)(i). However, this standard refers to disclosure and not to either display or disclosure.*
[6]*IFRIC 15, ¶¶ 17, 20(b). However, this standard refers to disclosure and not to either display or disclosure.*
[7]*IAS 11, ¶ 39(a). However, this standard refers to disclosure and not to either display or disclosure.*
[8]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.a.iv).*
[9]*FASB ASC 840-30-50-4 (FASB Statement No. 13, ¶ 23.b.iii).*
[10]*FASB ASC 840-30-45-5 (FASB Statement No. 13, ¶ 47); FASB Statement No. 13, ¶ Appendix E. Under FASB Staff Position No. FASP FAS 13-2, ¶ 9. This line also includes the effects of a change or projected change in the timing of cash flows relating to income taxes generated by the lease on pre-tax gain or loss.*
[11]*FASB ASC 360-20-55-10, 976-605-55-13 (FASB Statement No. 66, ¶¶ 59, 96). An entity may show the correspondent amounts of recognized revenue and cost of sales.*

(continued)

Exhibit 4-19 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Real Estate Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Profit recognized	No such caption	– Profit recognized during the years in which profit is earned under the installment method of accounting for real estate sales[12]	–
Other income	–	–	– Material cumulative effect of enactment of new tax rates on pre-tax income of a lessor under leveraged lease[13]
Costs and expenses:			
Cost of sales	– Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period[14]	–	–
Improvement costs – prior sales	No specific guidance	–	–
Selling expenses	–	–	–
Other expenses	– Direct operating expenses (including repairs and maintenance) arising from investment property that did not generated rental income during the period[15]	–	–
Gains and losses	– Net gains or losses from fair value adjustments[16] – Gain or loss on disposal of investment property carried at cost because of inability to determine fair value reliably[17]	–	–
Unusual or infrequent items	–	– A material sale or purchase of tax benefits through tax leases[18]	–

[12]*FASB ASC 360-20-55-10, 976-605-55-13 (FASB Statement No. 66, ¶¶ 59, 96). An entity may show the correspondent amounts of recognized revenue and cost of sales.*
[13]*FASB ASC 840-30-S99-2 (EITF Issue No. 86-43, Effect of a Change in Tax Law or Rates on Leveraged Leases).*
[14]*IAS 40, ¶ 75.f(ii). However, this standard refers to disclosure and not to either display or disclosure.*
[15]*IAS 40, ¶ 75.f(iii). However, this standard refers to disclosure and not to either display or disclosure.*
[16]*IAS 40, ¶ 76.d. However, this standard refers to disclosure and not to either display or disclosure.*
[17]*IAS 40, ¶ 78.d(iii). However, this standard refers to disclosure and not to either display or disclosure.*
[18]*FASB Technical Bulletin No. 82-1, ¶ 6.*

(continued)

Exhibit 4-19 Items that May be Either Separately Presented on the Face of the Statements of Income or Disclosed in the Notes by Real Estate Companies (*Continued*)

	IFRSs	*U.S. GAAP*	*SEC Guidance*
Income tax expense	–	– Income tax effects of pre-tax income from a leveraged lease and investment tax credit recognized (to be presented or disclosed separately from each other)[19]	– Material cumulative effect of enactment of new tax rates on income tax expense of a lessor under leveraged lease[20]
Comprehensive income[21]	–	–	–

[19]*FASB ASC 840-30-45-5 (FASB Statement No. 13, ¶ 47); FASB Statement No. 13, ¶ Appendix E. Under FASB Staff Position No. FAS 13-2, ¶ 9. This line also includes the tax effects of a recognized gain or loss due to a change or projected change in the timing of cash flows relating to income taxes generated by the lease.*
[20]*FASB ASC 840-30-S99-2 (EITF Issue No. 86-43).*
[21]*No specialized industry requirements for either presentation or disclosure apply to other captions and items up to comprehensive income.*

4.8 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating IFRS financial statements arising from the issues discussed in this chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraph 4.2.1

An entity that has components of other comprehensive income must decide whether to adopt a single statement of comprehensive income or an income statement plus a statement of comprehensive income.

Paragraph 4.2.3

A foreign private issuer must decide whether to present a statement of comprehensive income under IFRSs without reconciliation to U.S. GAAP in SEC filings or one prepared under U.S. GAAP. In the latter case, it must choose which U.S. GAAP format it will use.

Paragraph 4.3.5

An entity that is an SME must check if it is allowed to and wishes to present a combined statement of income and retained earnings.

Paragraph 4.5.2

Consider the SEC's prohibition against the exclusion of depreciation, amortization, or depletion from cost of sales.

Paragraph 4.5.3

An entity that decides to present a subtotal for profit or loss from operations in IFRSs statements of income, should consider the following:

- IFRSs guidance against arbitrary exclusions of items that would ordinarily be held as operating;
- IFRSs guidance against exclusions of unusual or infrequent or noncash items;
- What the U.S. GAAP equivalent aggregate would be;
- Whether or not the subtotal would qualify as a measure expressly permitted by IFRSs in SEC filings;

- The implications of the above point to qualifying as a non-GAAP measure;
- The SEC's prohibition to exclude depreciation, amortization, changes in estimates of accrued liabilities, or other recurring items from operating income;
- Additional disclosures that may be required in SEC filings.

Paragraph 4.5.4

An entity that presents other income and expenses captions must be sure that they do not include operating items.

Do not mix other operating revenues with other nonoperating income.

Review the appropriate location of income in equity method investees in the statement of income.

Review the appropriate location of gains or losses on disposal of noncurrent assets.

Review items for which presentation outside operating income is prohibited.

Review items for which presentation outside income from continuing operations is prohibited.

Review items for which presentation outside operating income is permitted or required.

Paragraph 4.5.5

Review the appropriate location of gains and losses.

Paragraph 4.5.6

Consider the appropriate display of business restructuring charges.

Paragraph 4.5.7

Consider the IFRS prohibition to exclude unusual or infrequent items from operating income.

Paragraph 4.6

Decide whether to use a classification by function or by nature of the statement of income. Also take into consideration type of industry, jurisdictional legal frameworks, impact on cost behavior analysis, impact on cash flow forecasting, methods most used by financial analyst, availability of appropriate features in accounting systems, subjectivity in cost allocation, management's analysis, propensity of countries in which the entity is present;

Decide how to disclose information by nature, if the statement of income displays a classification by function;

Formalize definitions of function or nature itemization and decide level of presentation detail;

In case of a classification by nature, consider additional presentation and disclosure that may be required for SEC filings;

Make sure that chosen presentation of items such as depreciation and amortization or restructuring charges does not violate overall consistency of classification throughout the statement and does not result in a mixed model of presentation;

Understand the intricacy of disclosure requirements of cost of goods sold under a classification of the statement of income by nature and by function.

Paragraph 4.7.5

Determine whether disaggregation guidance warrants presentation of additional headings and line items;

Make sure that additional disaggregation does not violate guidance related to avoid discriminating nonoperating versus operating items based on subjective or excluded criteria;

Check for compliance with jurisdictional and local legal framework.

OTHER CONTROL POINTS

Paragraph 4.2.2

The statement of changes in equity may not show components of other comprehensive income and of comprehensive income.

An entity that presents a single statement of comprehensive income must show totals for profit or loss and for comprehensive income.

An entity that presents an income statement must place the statement of comprehensive income immediately after the income statement.

The entity must decide whether to follow a gross-of-tax or a net-of-tax method of presenting other comprehensive income.

The entity must decide whether to follow a gross or a net presentation of reclassification adjustments.

Paragraph 4.2.4

The entity should check if it amended wording from "recognition directly in equity" to "recognition in other comprehensive income", in line with the post-2007 versions of IAS 1.

Paragraphs 4.3 and 4.3.4

The entity should make sure that the title of the statement of income selected denotes use of IFRSs.

Paragraph 4.4.2

The entity should check how the structure of its U.S. GAAP statement of income reconciles with the IFRSs requirements.

Paragraph 4.5.1

The entity should consider requirements regarding:

- Presentation of items that are ancillary to the sales transaction, such as:
  - Discount, allowances, rebates, and similar items;
  - Cash discounts;
  - Estimated returns;
  - Sales, use, value added, excise, and similar taxes;
- Review the policy for sales cash discounts;
- Recognition of gross versus net revenues;
- The prohibition to offset expenses against revenue;
- Presentation of other operating revenues.

Paragraph 4.5.2 and 4.6.2

The entity should consider requirements regarding:

- Whether or not to present gross profit;
- Terminology for gross profit;
- In which statements and filings and how to present gross profit;
- Items to include into, or not to exclude from, gross profit.

Paragraph 4.5.5

Review situations where offsetting is permitted for gains and losses.

Review display requirements of the specific gains and losses mentioned in the paragraph.

Paragraph 4.5.7

Review display requirements of the specific unusual or infrequent items mentioned in the paragraph.

Review display requirements of the specific material items mentioned in the paragraph.

Paragraph 4.5.8

Consider the IFRSs prohibition to offset interest income and interest expense;

Review presentation and disclosure requirements of the items mentioned in the paragraph, including:

- Interest income and interest expense;
- Dividend income;
- Gains and losses on financial instruments;
- Impairment losses on financial instruments;
- Dividends classified as expenses;
- Gain or loss on disposal of equity method investees;
- Unwinding of discount;
- Foreign exchange transaction gains or losses;
- Exchange differences on deferred foreign tax liabilities or assets;
- Interest and tax penalties;
- Fair value change due to the remeasurement of a cash-settled share-based payment liability;
- Interest cost and expected return on plan assets of a defined benefit plan;
- Lease finance income or expense.

Paragraph 4.5.9

Review guidance on:

- Including or excluding the items mentioned in the paragraph from income for continuing operations;
- Presenting income for continuing operations attributable to controlling and noncontrolling interests;
- Presenting earnings per share from continuing operations.

Paragraph 4.5.10

Check compliance with minimum line item display of discontinued operations;

Check compliance with required disclosures of discontinued operations;

Check use of allowed terminology for elements of discontinued operations;

Check compliance with display guidance for adjustments to discontinued operations;

Check compliance with display guidance for share of discontinued operations of an associate or joint venture;

Check compliance with disclosure of discontinued operations attributable to controlling and noncontrolling interests;

Check compliance with disclosure of discontinued operations per share;

Review guidance on including or excluding the items mentioned in the paragraph from discontinued operations;

Determine pervasive differences between home-country GAAP and U.S. GAAP in operations that qualify as discontinued and determine appropriate disclosures according to SEC guidance.

Paragraphs 4.5.11 and 4.5.12

Make sure the entity does not show a subtotal for profit or loss from ordinary activities and lines for extraordinary items under IFRSs.

Paragraph 4.5.14

Identify occurrences of retrospective application of a change in accounting policy, impracticability exceptions, and involuntary transitional provisions.

Paragraph 4.5.16

Review presentation and disclosure requirements for other comprehensive income with reference to the statement of other comprehensive income, including:

- Display format of other comprehensive income;
- Foreign currency translation adjustment;
- Gains and losses on hedges of a net investment in a foreign operation;
- Gains and losses on cash flow hedges;
- Gains and losses on available-for-sale securities;
- An investor's share of other comprehensive income of an equity method investee;
- Revaluation surplus;
- Actuarial gains and losses and asset ceiling adjustments of defined benefit plans;
- Investment in equity instruments designated as at fair value through other comprehensive income.

Paragraph 4.5.17

Present profit or loss and comprehensive income attributed to noncontrolling interest as an allocation, not an expense item;

Review the display and disclosure requirements of noncontrolling and controlling interests, also including those on income from continuing operations and discontinued operations;

Beware of transitional provisions on display of noncontrolling interest.

Paragraph 4.6.2

Review the correct accounting for items that must be included in cost of goods sold;

Review the policy for purchase cash discounts.

Paragraph 4.7

Review requirements for display on the face of the statement of income;

Review alternatives for display on the face of the statement of income or disclosure in the notes;

Review items for which parenthetical explanation is possible or required;

Review requirements for note disclosures;

Make sure to reconcile the points above with U.S. GAAP statement of income and notes.

5 DUAL REPORTING FOR THE STATEMENT OF CASH FLOWS

5.1 CHAPTER PREVIEW

This chapter provides ready-made dual reporting tools to assist financial statement preparers in designing the structures of the statement of cash flows under IFRSs, U.S. GAAP, and SEC rules and regulations, as well as to reconcile respective captions and line items.

This chapter first places the statement of cash flows in the context of the other financial statements, explains its location, titles used, and specific requirements for SEC registrants and foreign private issuers.

It then goes in-depth into the definition, reporting, and disclosure requirements for cash and cash equivalents.

A detailed comparison of layout allowed for presentation of the direct and indirect method of reporting cash flows from operating activities follows. This discussion also explains the pros and cons of both formats as well practical implementation points. The chapter then focuses on the structural elements of the statement of cash flows. Starting from the basic requirement to display gross inflows and gross outflows of operating, investing, and financing activities, it illustrates the general prohibition of additional aggregates, as well as exceptions such as the effects of changes in foreign currencies, or the effect of price-level adjustments. It spells out the main occurrences of noncash investing and financing transactions and related issues. It addresses the situations that may lead to net reporting of certain cash flows. Finally, it deals with the intricacies of constructing the consolidated statement of cash flows.

The next section of the chapter identifies transactions and events that determine specific cash flow classification issues. Contrasting the guidance by IFRSs, U.S. GAAP, and SEC rules and regulations, the discussion intersperses answers to grey areas, comments, examples of implementation issues, and practical planning points.

Finally, through specific Exhibits, the chapter explains the precise content of the statement of cash flows under IFRSs, U.S. GAAP, and SEC rules and regulations, those line items that accounting pronouncements require to separately display, those for which note disclosure is an option or is required, and the guidelines for additional disaggregation.

5.2 CONTEXT OF THE STATEMENT OF CASH FLOWS

5.2.1 Title of Statement

The U.S. Concepts use the *statement of cash flows*, *cash flow statement*, and *statement of changes in financial position* titles.[1] However, the U.S. Concepts also use *changes in financial position* as a general concept, with no reference to a specific statement.[2] Most U.S. GAAP literature and SEC guidance use the title *statement of cash flows*. FASB Statement No. 95 amended other pronouncements to rename *statement of changes in financial position* as *statement of cash flows* and *changes in financial position* into *cash flows*.[3] The FASB Accounting Codification has eliminated the remaining use of the term *cash flow statement* in some U.S. GAAP pronouncements Some SEC literature[4] still adopts the terms *cash flow statement* and *changes in financial position*.[5] However, some SEC guidance sometimes uses the expression *changes in financial position* in lieu of *changes in equity*.[6]

The superseded IASB Framework used, and the IASB version of the new common conceptual framework continues to refer to the statement of cash flows as the statement relating to *changes in financial position*. However, the IASB Framework uses that title as a general heading to include either a statement of cash flows or a statement of funds flows.[7] IFRSs have long been using the expression *cash flow statement*. IAS 1 recently changed this title to *statement of cash flows*.[8]

Planning Point: Entities reporting under IFRSs may use other titles for the statement of cash flows. IAS 1 acknowledges that, in general, titles of IFRSs financial statements are subject to change depending on the situation of the specific entity.[9] Contrary to the way they treat the statement of financial position and the income statement or the statement of comprehensive income, the U.S. Concepts, as well as Subtopic 230-10 (FASB Statement No. 95), do not refer to this flexibility in titles. The Staff Draft of the *Financial Statement Presentation Project* would instead permit alternative terminology, such as the old *cash flow statement*.[10]

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[1] *CON 1,* Objectives of Financial Reporting by Business Enterprises *(superseded), ¶ 6; CON 5,* Recognition and Measurement in Financial Statements of Business Enterprises*, ¶¶ 24, 53, 54, 99.*
[2] *CON 5, ¶ 5, Footnote 1; CON 6,* Elements of Financial Statements*, ¶ 20, Footnote 13.*
[3] *FASB Statement No. 95, ¶ 152.*
[4] *For example, Regulation S-X, ¶ 210.8.03(a)(3); Form 20-F, Item 8.A.1; FASB ASC 718-10-S99-1 (SEC Staff Accounting Bulletin, Topic 14F,* Classification of Compensation Expense Associated with Share-Based Payment Arrangements*).*
[5] *For example, Regulation S-K, ¶ 229.303(a).*
[6] *SEC, November 14, 2008. Release No. 33-8982,* Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*, ¶ Footnote 136 (hereinafter Release No. 33-8982).*
[7] The Conceptual Framework for Financial Reporting 2010*, ¶¶ 4.2, 4.43; IASB,* Framework for the Preparation and Presentation of Financial Statements*, ¶¶ 7, 18, 19 (superseded), 47.*
[8] *IAS 1,* Presentation of Financial Statements*, ¶¶ IN11, 10, BC14, BC15.*
[9] *IAS 1, ¶¶ 10, IG1.*
[10] *Staff Draft, ¶ 10.*

5.2.2 Whether a Statement is Required and Its Location

5.2.2.1 The Statement of Cash Flows as Part of a Full Set of Financial Statements CON 5 mentions the statement of cash flows as part of a full set of financial statements. U.S. GAAP requires it as part of general purpose financial statements. A complete or full set of financial statements must include a statement of cash flows.[11] Regulation S-X also requires the statement of cash flows. Under Form 20-F, the statement of cash flows is an integral component of the financial statements.[12]

Similarly, under the IASB Framework, information about changes in financial position, i.e., the statement of cash flows, is part of a separate statement. IAS 1 requires such a statement as part of a complete set of financial statements.

Comment: This may represent a major change for companies migrating from certain local GAAPs to IFRSs. For example, although most major companies reporting under Italian GAAP present the statement of cash flows, Italian standards regard it as being part of the notes and as not mandatory.[13] A Study of the FEE reported that the EC Accounting Directives did not require, although did not exclude, the presentation of the statement of cash flows.[14]

5.2.2.2 Location of the Statement of Cash Flows The IASB Framework mentions the statement of cash flows as the last financial statement, as does IAS 1.[15] CON 5 lists it before the statement of investments by and distributions to owners during the period.[16] According to the *AICPA Accounting Trends & Techniques*, approximately 50% of the U.S. GAAP companies surveyed in 2002–2009 placed the statement of cash flows as the last financial statement and about 49% in 2009 (46% in 2005 and 47% in 2002) after the income statement and the statement of financial position.[17] Notwithstanding its general placement as the last financial statement, the SEC Staff reported the statement of cash flows as being one of the more frequently studied by financial analysts, rating agencies, and investors.[18]

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11 *FASB ASC 230-10-05-1, 230-10-15-3 (FASB Statement No. 95,* Statement of Cash Flows*, ¶¶ 1, 3); FASB Statement No. 95,* Statement of Cash Flows*, ¶ 153; CON 5, ¶ 13; IAS 1, ¶ 10;* The Conceptual Framework for Financial Reporting 2010*, ¶ 4.2; IASB Framework, ¶¶ 18, 19 (superseded).*

12 *Regulation S-X, ¶¶ 210.3-02(a), 210.8-02; Form 20-F, Item 8.A.1(d).*

13 *OIC, Organismo Italiano di Contabilità, Principio Contabile 12,* Composizione e schemi del bilancio di esercizio di imprese mercantili, industriali e di servizi, *page 40.*

14 *FEE Study, April 1999.* Comparison of the EC Accounting Directives and IASs: A Contribution to International Accounting Developments, *¶ 17. [Online] FEE. Available at:* www.fee.be *[last accessed February 16, 2007].*

15 The Conceptual Framework for Financial Reporting 2010*, ¶ 4.2; IASB Framework, ¶¶ 18, 19 (superseded); IAS 1, ¶ 10.*

16 *CON 5, ¶ 13.*

17 *AIVPA ATT 2010 and AICPA ATT 2006, ¶ Table 6-1.*

18 *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at:* www.sec.gov/news/speech/spch120605jl.htm *[last accessed: November 26, 2010].*

5.2.2.3 Peculiarities of the Statement of Cash Flows in the Conceptual Frameworks Under the U.S. Concepts, the IASB Framework, and the IASB and FASB common conceptual framework, the statement of cash flows has something peculiar that differentiates it from the other statements: no elements of the financial statements are specific to this statement.[19]

> **Comment:** This has a relation with the fact that statements of cash flows are supposed to be immune from recognition and measurement judgments,[20] although this is only partially true, as some examples in this chapter show. Instead, as is well known, presentation on the face of this statement opens many classification options and grey areas.

5.2.3 The Statement of Cash Flows in Certain Specialized Industries

5.2.3.1 Relatively Low Importance of Specialized Industry Accounting Unlike the statement of comprehensive income (see Paragraph 4.3.4 previously), U.S. GAAP and IFRSs have no specific formats and titles for the statement of cash flows of certain specialized industries. U.S. GAAP, in particular, has no specialized industry guidance concerning the statement of cash flows.[21] For example, U.S. GAAP confirms the use of the statement of cash flows by broker-dealers for their securities trading activities.[22] Common interest realty associations and cooperatives must present the statement of cash flows.[23] Paragraph 3.2.3.5 previously lists examples of these associations.

Under IFRSs, the statement of cash flows applies to all industries, unless differently specified.[24] However, under both bodies of standards some specific rules exist.

> **Comment:** Unlike U.S. GAAP, IAS 7 does not exempt any entity from the presentation of the statement of cash flows. It explicitly mentions financial institutions as in scope.[25]

Under U.S. GAAP, not-for-profit organizations also present a statement of cash flows.[26] As mentioned, not-for-profit entities and governmental organizations fall outside of the scope of this Book.

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[19] *CON 5, ¶¶ 64, Footnote 40;* The Conceptual Framework for Financial Reporting 2010*, ¶ 4.2; IASB Framework, ¶ 47.*

[20] *CON 5, ¶ 54; IAS 1, ¶ 4.*

[21] *Hardiman, T. E. (2004)* Speech by SEC Staff: 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120604teh.htm [last accessed: November 26, 2010].*

[22] *FASB ASC 940-320-45-7 (AICPA Audit and Accounting Guide,* Brokers and Dealers in Securities *(BRD), ¶ 4.10).*

[23] *FASB ASC 972-205-45-6, 972-205-45-14 (AICPA Audit and Accounting Guide,* Common Interest Realty Associations *(CIR), ¶¶ 4.05, 9.09).*

[24] *IAS 1, ¶ 4.*

[25] *IAS 7,* Statement of Cash Flows*, ¶ 1.*

[26] *FASB ASC 958-205-45-4 (FASB Statement No. 117, ¶ 6).*

5.2.3.2 Specific Rules for Insurance Companies Under IFRSs, insurance entities that present a statement of cash flows according to the direct method must disclose cash flows from insurance contracts, including comparative information.[27] IAS 7 requires operating classification of cash inflows and outflows for premiums, claims, and policy benefits.[28] Paragraph 3.2.3.1 previously lists the types of insurance companies.

5.2.3.3 Specific Rules for Financial Institutions Paragraph 3.2.3.3 previously gives a listing of depository and lending institutions.[29] Financial institutions under IFRSs and banks, saving institutions, or credit unions under U.S. GAAP may report certain cash flows on a net basis (see Paragraph 5.5.10 following). In addition, operating treatment applies to securities and other assets acquired specifically for resale carried at market value and held in a trading account by brokers and dealers in securities or banks, as explained in Paragraph 5.6.17 following. Similarly, special rules apply to certain loans and trade receivables held for sale by mortgage banks, finance companies, and other entities (see Paragraph 5.6.18 following). Specific classifications of cash and cash equivalents may apply to banks and other financial institutions (see Paragraph 5.3.4 following). Finally, these entities may have peculiar items or classifications under U.S. GAAP and IFRSs, as Paragraph 5.7 illustrates.

The *Financial Statement Presentation Project* has long discussed whether the new financial statements schemes should differ for financial services entities, but tentatively resolved not to propose alternative arrangements for these enterprises. According to the Discussion Paper, financial services entities include banks and similar financial institutions, building societies, brokers in equity securities, asset management companies, and insurers. The list is not exhaustive.[30]

5.2.3.4 Specific Rules for Benefit Plans Under U.S. GAAP, defined benefit pension plans that report under Topic 960 (FASB Statement No. 35), health and welfare plans, and other not-pension employee benefit pension plans that give information similar to that in Topic 960 (FASB Statement No. 35) are exempt from presenting the statement of cash flows. However, U.S. GAAP encourages the presentation of the statement of cash flows when the entities deem it to be relevant, which is presumed in case of not-highly-liquid plan assets or in the presence of investments financed with debt.[31]

> **Comment:** IAS 26 does not mention the statement of cash flows among the financial statement of a retirement benefit plan.[32]

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[27] *IFRS 4,* Insurance Contracts*, ¶¶ 37(b), 42, IG19.*
[28] *IAS 7, ¶ 14(e).*
[29] *FASB ASC 942-10-15-2 (AICPA Statement of Position No. 01-6,* Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, ¶ 3-5); FASB ASC 942-225-S99-1 (Regulation S-X, ¶ 210.9-04).*
[30] *DP on Presentation, ¶¶ 2.78, 2.79.*
[31] *FASB ASC 230-10-15-4 (FASB Statement No. 95, ¶ 3, Footnote a); FASB ASC 230-10-15-4 (FASB Statement No. 102,* Statement of Cash Flows – Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*, ¶ 5); FASB Statement No. 102, ¶ 16; FASB ASC 965-205-45-5, 962-205-45-9 (AICPA Statement of Position No. 92-6, Accounting and Reporting by Health and Welfare Benefit Plans, ¶¶ 12, 21).*
[32] *IAS 26,* Accounting and Reporting by Retirement Benefit Plans*, ¶ 28.*

5.2.3.5 Specific Rules for Investment Companies In general, under U.S. GAAP, both registered and unregistered investment companies must produce a statement of cash flows.[33] However, U.S. GAAP exempts certain highly liquid investment companies subject to the Investment Company Act of 1940 or companies that have essentially the same characteristics, common fund trusts, variable annuity accounts or similar banking funds, and insurance or other companies acting as trustee, administrator, or guardian. In addition to presenting a statement of changes in net assets, virtually all of their investments must be highly liquid during the period and measured at fair value. In relation to average total assets, virtually no debt must be outstanding on average during the period.[34] Paragraph 5.3.4 following explains specific classifications of cash and cash equivalents that may apply to investment companies. Paragraph 3.2.3.2 previously lists the types of investment companies.

5.2.4 The Statement of Cash Flows of Domestic Registrants and Foreign Private Issuers

This paragraph highlights certain peculiarities of the statement of cash flows for SEC registrants and foreign private issuers as opposed to other companies subject to U.S. GAAP. Unless differently regulated, all other U.S. GAAP requirements described in this chapter also apply to these registrants. Other paragraphs in this chapter may mention specific requirements under SEC rules and regulations, as appropriate.

Regulation S-X requires the statement of cash flows,[35] although it does not provide much specific guidance in addition to general GAAP for private companies. SEC registrants present in electricity, gas, water, telephone, or telegraph services or that hold these types of securities may elect to use 12-month statements of cash flows.[36]

Under Form 20-F, the statement of cash flows is an integral component of the financial statements.[37] Form 20-F accepts a statement of cash flows under IAS 7, presented consistently across periods, in lieu of one under U.S. GAAP even from foreign private issuers that do not report under the IASB English version of IFRSs. Reconciliation from home-country GAAP other that IFRSs to IAS 7 is not acceptable though. The financial statements or the auditor's report must include a statement that asserts whether the statement of cash flows prepared on the basis of accounting used in primary financial statements complies with U.S. GAAP or IAS 7. Otherwise, the auditor's report must mention the basis of accounting used in primary financial statements from which the preparation of the statement of cash flows under U.S. GAAP or IAS 7 represents a departure. If presented in a supplemental note, the entity must indicate whether the statement of cash flows follows U.S. GAAP or IAS 7. On the contrary, if the company uses neither U.S. GAAP nor IAS 7 to prepare the statement of cash flows, it must explain any material difference compared to a statement of cash flows under U.S. GAAP, through note disclosure, or on the face of the statement in case of significant divergence.[38]

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[33] *FASB ASC 946-205-45-1 (AICPA Audit and Accounting Guide,* Investment Companies *(INV), ¶ 7.01).*

[34] *FASB ASC 230-10-15-4 (FASB Statement No. 95, ¶ 3, Footnote a); FASB Statement No. 95, ¶ 67; FASB FASB ASC 230-10-15-4 (Statement No. 102, ¶¶ 6, 7); Statement No. 102, ¶ 20.*

[35] *Regulation S-X, ¶¶ 210.3-02(a), 210.8-02.*

[36] *FASB ASC 225-10-S99-1 (Regulation S-X, ¶ 210.3-03(b)).*

[37] *Form 20-F, Item 8.A.1(d).*

[38] *Form 20-F, Item 17(c), Item 17(c)(2)(iii), Instructions 1 and 4 to Item 17; SEC,* Financial Reporting Manual*, ¶ 6540.1.*

However, the SEC Staff encourages the preparation of a supplemental statement of cash flows under U.S. GAAP to cross-check reconciling items.[39] In any event, SEC filings require a statement of cash flows for all periods for which an income statement is provided, even when the local GAAP in which an entity prepares primary financial statements do not require a statement of cash flows.[40] The SEC views the omission of disclosure of noncash investing and financing transactions, net presentation in lieu of gross reporting, unexplained composition of cash and cash equivalents, and different classifications as common mistakes in the U.S. GAAP reconciliation of the statement of cash flows by foreign private issuers.[41]

Under certain circumstances, the SEC Staff may permit a statement of revenue and direct expenses in lieu of full financial statements of entities, other than the registrant, that are required to be included in filings. If this makes it impracticable to prepare the statement of cash flows, the notes or unaudited supplemental disclosures must include information on operating, investing, and financing cash flows.[42]

In case differences between U.S. GAAP and local GAAP in accounting for business combinations are so pervasive as to require a foreign private issuer to prepare supplemental U.S. GAAP financial statements (also see Paragraph 2.10.2.7 previously), these must also include a condensed (as per Rule 10-01 of Regulation S-X) statement of cash flows for all period presented.[43]

5.2.5 The Statement of Cash Flows of Small and Medium-Sized Entities

IFRS for small and medium-sized entities essentially reproduces IAS 7, with minor simplifications for those types of entities.

> **Planning Point:** The Basis for Conclusions explains that the IASB rejected the idea of not requiring a statement of cash flows for small and medium-sized entities.[44] This may represent a major change for companies migrating from some local GAAP to IFRSs, as Paragraph 5.2.2 previously explains.

U.S. GAAP also concludes that the statement of cash flows apply to small businesses.[45]

5.3 CASH AND CASH EQUIVALENTS

5.3.1 Relevance for the Statement of Cash Flows

5.3.1.1 Cash and Cash Equivalents versus Funds Determining changes in cash and cash equivalents is the focal point of the statement of cash flows, as cash flows are inflows and outflows of cash and cash equivalents.[46]

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[39] *SEC,* Financial Reporting Manual*, ¶ 6510.7.*
[40] *IPTF Summary 2003, ¶ XXI.D.*
[41] *SEC,* Financial Reporting Manual*, ¶ 6510.6.*
[42] *SEC,* Financial Reporting Manual*, ¶¶ 2065.6, 2065.8.*
[43] *SEC, International, November 1, 2004, ¶ VI.B.*
[44] IFRS for Small and Medium-sized Entities*, ¶¶ BC138, BC139.*
[45] *FASB Statement No. 95, ¶ 66.*
[46] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 7); IAS 7, ¶¶ Objective, 6.*

Comment: U.S. GAAP before the issuance of FASB Statement No. 95 (Subtopic 230-10) and the 1977 version of IAS 7 referred to a larger concept of funds. Certain local GAAP still require or permit statements that depict the changes of various notions of funds, including changes in net working capital.

5.3.1.2 Correspondence with Captions in the Statement of Financial Position Under IFRSs, U.S. GAAP, and Subsection 210-10-S99-1 (Regulation S-X) for commercial and industrial companies, the statement of financial position must display cash and cash equivalents.[47] Under U.S. GAAP, title or titles for cash and cash equivalents used in the statement of financial position and in the statement of cash flows must correspond or be similar. Subtopic 230-10 (FASB Statement No. 95) permits the use simply of *cash* but not *funds*.[48] Subsection 210-10-S99-1 (Regulations S-X, Rule 5-02) also uses *cash* and the expression *cash and cash items*.[49] Registered investment companies and insurance companies must separately report a single caption for cash on hand and demand deposits. Interest-earning cash equivalents of insurance companies are instead part of short-term investments. Employee stock purchase, savings, and similar plans must show a caption for cash. Bank holding companies display a caption for cash and noninterest bearing deposits with other banks.[50] Under U.S. GAAP, investment companies must separately report amounts held in foreign currencies at value, with parenthetical disclosure of acquisition cost.[51] 88% of surveyed U.S. GAAP companies in 2009, 86% in 2005, and 82% in 2002 reported a line for cash and cash equivalents. 7% reported cash and equivalents and 4% (7% in 2002) unused cash. The remainder adopted other titles.[52]

Planning Point: U.S. GAAP requires correspondence between the amount of cash and cash equivalents in the statement of financial position and in the statement of cash flows as well as similarity of titles.[53] IAS 7 has no similar requirement, but requires reconciliation between the two. At a minimum, this might mean that the statement of financial position may break down cash and cash equivalents into several line items, as IAS 1 clearly states that the total of cash and cash equivalents is a required caption.

Example: The SEC Staff, in its review of Form 20-F of a German foreign private issuer for the fiscal year ended December 31, 2005, required the presentation of a line for cash and cash equivalents on the face of the statement of financial position. The entity had commingled that amount with marketable securities, a policy that is not permitted. The SEC Staff also called for a clear reconciliation with the amounts shown in the statement of cash flows.[54]

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47 *FASB ASC 230-10-45-4 (FASB Statement No. 95, ¶ 7); FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.1); IAS 1, ¶ 54(i).*

48 *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 7); FASB Statement No. 95, ¶ 54.*

49 *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.1).*

50 *FASB ASC 230-10-45-4 (FASB Statement No. 95, ¶ 7); FASB ASC 958-210-45-5 (FASB Statement No. 117,* Financial Statements of Not-for-Profit Organizations, *¶ 11); FASB ASC 210-10-S99-1, 946-210-S99-1, 962-205-S99-1, 944-210-S99-1, 942-210-S99-1 (Regulation S-X, ¶¶ 210.5-02.1, 210.6-04.5, 210.6A-03.5, 210.7-03.(a)2, Instruction 4 to 210.7-03.(a)1(g), 210.9-03-1); IAS 1, ¶ 54(i).*

51 *FASB ASC 946-305-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.23).*

52 *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 6-5.*

53 *FASB ASC 230-10-45-4 (FASB Statement No. 95, ¶ 7); FASB Statement No. 95, ¶ 54.*

54 *SEC IFRS Reviews. Letter by the SEC, December 22, 2006. File No. 1-15050, Comments 3 and 4.*

5.3.1.3 New Developments The *Financial Statement Presentation Project* proposes to eliminate the aggregation of cash equivalents with cash, both in the statement of cash flows and in the statement of financial position. These two items have different economics characteristics and their combination would conflict with the disaggregation principle.[55] In addition, the conventional three-month threshold is somewhat arbitrary.

5.3.2 Unrestricted Cash

5.3.2.1 Definition of Unrestricted Cash A strict definition of unrestricted cash is cash on hand, i.e., banknotes, coins, currency. In a broader sense, it may comprise petty cash and other imprest accounts, demand deposits with banks and other financial institutions,[56] and near-cash assets, such as undeposited checks, money orders, bank drafts, certified checks, cashier's check, and personal checks. Postage stamps are not cash, because they are not ready money, but prepaid expenses.

5.3.2.2 Presentation of Unrestricted Cash An entity may report unrestricted cash as a single line in the statement of financial position or separately as cash on hand and bank demand deposits. Alternatively, it may include unrestricted cash in a single caption for cash and cash equivalents. Even if presented as a single line, cash on hand and bank demand deposits are anyway accounted for in separate accounts and individually monitored for internal control and treasury purposes.

5.3.2.3 Demand Deposits To be included in cash, demand deposits such as checking accounts, must be available for deposit at any time and for immediate withdrawal without notice or penalty. Under U.S. GAAP, debits and credits to deposit accounts are cash flows even when simply accounting entries.[57] The FASB's version of the Staff Draft of the *Financial Statement Presentation Project* would confirm this definition.[58]

> **Planning Point:** In other terms, an entity reports the accounting balances of demand deposits, not value date balances, as part of cash and cash equivalents, in line with the criterion used for the statement of financial position.

5.3.2.4 Cash Collateral Under IFRSs, an entity recognizes nonsegregated cash collateral received as an asset against a payable to the transferor.[59]

> **Example:** In response to the SEC Staff in its review of Form 20-F of a foreign private issuer from The Netherlands for the fiscal year ended December 31, 2005, the company explained that it had reclassified cash collateral received, mainly on security lending transactions, to cash and cash equivalent, as under IAS 39 a cash collateral is recognized as an asset, even when not legally segregated from other assets. Under previous GAAP the entity used to offset them with cash collateral

[55] *Staff Draft, ¶¶ BC126, BC127.*
[56] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 7, Footnote 1); IAS 7, ¶ 6.*
[57] *FASB ASC 230-10-20, 230-10-45-28 (FASB Statement No. 95, ¶¶ 7, Footnote 1, 28, Footnote 12).*
[58] *Staff Draft, ¶ Appendix A – Glossary.*
[59] *IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1).*

payable. Finally, the company decreased the cash flow change for the period under IFRSs to take account of the fact that certain short-term borrowings had been reclassified under local GAAP from cash and cash equivalents to liabilities.[60]

5.3.2.5 Specialized Industry Guidance Under U.S. GAAP, depository and lending institutions must separately present material deposits in other institutions in the statement of financial position.[61] Credit unions must show fully refundable deposits with the National Credit Union Share Insurance Fund.[62] Investment companies include cash on hand and demand deposits in the cash caption.[63]

5.3.2.6 New Developments The *Financial Statement Presentation Project* proposes the presentation of cash in the operating category of the statement of financial position, not in the financing category, in order to avoid any inference as to the degree of availability of that balance and not to promote a net debt concept (see Paragraph 5.3.6 following). Entities would display cash in one and the same place in the statement of financial position, as distinguishing several functions of cash would be arbitrary.[64]

5.3.3 Bank Overdrafts

IAS 7 argues for the inclusion of bank overdrafts into cash and cash equivalents to the extent they are repayable on demand, have a fluctuant movement around zero balance, and thus the entity regards them as integral to its cash management.[65]

Planning Point: Under these circumstances, IAS 7 appears to require, not permit, the classification as cash and cash equivalents.

Comment: The tricky issue of reporting an overdraft as a financial liability is that it is a liability when its balance is negative but it is subject to switching to assets sooner or later. A demonstration of the reason why a bank overdraft may be seen as cash and cash equivalent is as follows. At reporting date, an entity offsets the negative balance of a bank account against a greater positive balance of another account with the same bank when they meet the right to setoff under IAS 32 and FIN 39.[66] If the entity classifies the bank overdraft as a financial liability and the positive bank account as cash and cash equivalents (because it is a demand deposit), the end result would anyway be to include the overdraft into cash and cash equivalents. For financial institutions, U.S. GAAP requires financial

[60] *SEC IFRS Reviews. Letter by the SEC, September 25, 2006. File No. 001-10882, Comment 7. Reply by the company, October 19, 2006.*

[61] *FASB ASC 942-210-45-4 (AICPA Audit and Accounting Guide,* Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies *(DEP), ¶ 6.11).*

[62] *AICPA Audit and Accounting Guide,* Audits of Credit Unions*, ¶ 10.20; AICPA Statement of Position No. 01-6, ¶ 11.a.*

[63] *FASB ASC 946-305-45-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.23).*

[64] *Staff Draft, ¶¶ 117, BC93, BC103.*

[65] *IAS 7, ¶ 8.*

[66] *FASB ASC 210-20-45 (FASB Interpretation No. 39,* Offsetting of Amounts Related to Certain Contracts)*; IAS 32, Financial Instruments: Presentation, ¶ 42.*

liability classification of overdrafts with other financial institutions, unless offset against the balance of a reciprocal account. The entity must disclose the related amounts.[67]

This in-substance cash and cash equivalents treatment is different from the accounting for other bank borrowings, which are financing liabilities under both IFRSs and U.S. GAAP. The SEC Staff also confirmed this classification under U.S. GAAP.[68]

Comment: As a result of the above, unlike U.S. GAAP, an entity will not report changes in those bank accounts as cash flow under IAS 7. Instead, they are embedded in cash and cash equivalents, because they are part of cash management.

The *Financial Statement Presentation Project* proposes to present bank overdrafts as debt.[69] Furthermore, financial services entities would likely report bank loans and bank overdrafts as operating activities in the statement of financial position.[70]

5.3.4 Cash Management and Cash Equivalents

5.3.4.1 The Notion of Cash Management The notion of cash equivalents is inherently interlocked with that of cash management. Cash management affects the form and composition of cash and cash equivalents, while cash flows are changes in the amount of cash and cash equivalents. The base of this theory is that, from a cash management perspective, the form of an instrument is not relevant to the extent it is an equivalent for managing short-term cash needs. Cash equivalents are instruments that an entity acquires for employing temporarily unused cash and gain interest in the short term with insignificant price risk, or resells to meet short-term cash needs, as it would also do with demand deposits. In other terms, they are investments that an entity regards as part of managing cash, not investing.[71]

5.3.4.2 Net Reporting Subsection 230-10-45-7 (FASB Statement No. 95) notes that the statement of cash flows reports cash equivalents net.[72] In essence, cash equivalents are out of scope of cash flow reporting. Conversely, cash flow reporting entails the flows that determine cash and cash equivalents. The movements within cash and cash equivalents are part of cash management, not part of cash flow reporting.[73]

5.3.4.3 Features of Cash Equivalents Under both U.S. GAAP and IFRSs, cash equivalents have three basic features. They are highly liquid, i.e., readily convertible to a known amount of cash. The risk of their change in value is insignificant. Finally, they have a short

[67] *FASB ASC 942-305-45-1, 942-405-50-1 (AICPA Statement of Position No. 01-6, ¶¶ 14.b, 14.e(3), B.5.b, B.5.l(3)).*
[68] *Davine 1996 Speech, ¶ E.*
[69] *Staff Draft, ¶¶ 87.g, 90.*
[70] *DP on Presentation, ¶ 2.79.*
[71] *IAS 7, ¶¶ 6, 7, 9, 16(c), 16(d), 51, 53, 76.*
[72] *FASB ASC 230-10-45-7 (FASB Statement No. 95, ¶ 11).*
[73] *FASB ASC 230-10-45-5, 230-10-45-7 (FASB Statement No. 95, ¶¶ 9, 11); FASB Statement No. 95, ¶ 76; IAS 7, ¶ 9.*

maturity, typically not to exceed three months from date of purchase, not from the reporting date (U.S. GAAP names this as original maturity to the holder of the investment). The IFRIC interprets convertibility into a known amount of cash in the sense that the entity must conclude that the risk of changes in value is insignificant.[74]

Comment: Unlike U.S. GAAP that qualifies the risk of changes in value as derived by changes in interest rates, IAS 7 does not explain whether such a risk also comprises credit risk. The discussion in the *Financial Statement Presentation Project* has criticized the lack of consideration of credit quality, as under certain circumstances low quality instruments may qualify as cash equivalents, whereas on the contrary, it may happen that high-rated investments may not meet all requisites.[75]

Comment: Both Subtopic 230-10 (FASB Statement No. 95) and IAS 7 state the three-month threshold as a general indication, not a bright line rule, although opinions on this point differ. The discussions in the *Financial Statement Presentation Project* highlight that this indication is somewhat arbitrary and unrealistic. Furthermore, as the computation of the maturity considers the date of acquisition of the instrument and not its remaining time to maturity, an entity may have instruments that have a higher degree of liquidity than cash equivalents. This is not a faithful representation of liquid assets. On the other hand, introducing a dynamic definition of cash equivalents would lead to a continuous reassessment of cash flows simply because of the effect of passage of time on cash equivalents.[76]

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information concluded that an issuer's policy to include bonds, CDOs, and investment funds in cash and cash equivalents did not comply with IAS 7 because those instruments were neither short-term nor liquid.[77]

Planning Point: A sale of a held-to-maturity security within three months of maturity date does not per se negate its nature as held-to-maturity security, because changes in market interest rates would not significantly affect its fair value. However, these securities cannot qualify as cash equivalents, because management intent to hold to maturity is a prerequisite to define a security as held-to-maturity. The availability to sell a security for liquidity needs (i.e., a cash equivalent) would negate classification as held-to-maturity.[78]

5.3.4.4 Equity Instruments Equity instruments are barred a classification as cash equivalents because they are subject to price risk and have no maturity. However, IAS 7 admits that

[74] *IFRIC Update, March 2009.*
[75] *IASB, March 22, 2007 Board Meeting, Agenda Paper 9C,* Cash Equivalents, *¶ 32. [Online] IASB. Available at: www.iasb.org [last accessed: June 27, 2007].*
[76] *IASB, March 22, 2007 Board Meeting, Agenda Paper 9C,* Cash Equivalents, *¶¶ 17, 20, 36, 37, 39. [Online] IASB. Available at: www.iasb.org [last accessed: June 27, 2007].*
[77] *CESR/09-1134, ¶ Decision ref. EECS/1209-04.*
[78] *FASB ASC 320-10-25-4, 320-10-25-14 (FASB Statement No. 115,* Accounting for Certain Investments in Debt and Equity Securities, *¶¶ 9.b, 11.a); IAS 39,* Financial Instruments: Recognition and Measurements, *(prior to IFRS 9), ¶¶ 9, AG16(b).*

preferred shares that have a specified redemption date and are within the above-mentioned maturity may be cash equivalents.

5.3.4.5 Money Market Funds Section 230-10-20 (FASB Statement No. 95) gives some examples of cash equivalents: Treasury bills, commercial paper, and certain money market funds. IAS 7 also mentions money market funds.[79] The IFRIC concludes that investments in shares or units of money market funds may be in substance a cash equivalent if they meet several criteria. In particular, the fact of being redeemable at any time at the current market price in a liquid market is not sufficient. The amount of cash obtainable upon conversion must be known at the time of the initial investment. The risk of changes in value must be insignificant, based on the fund's stated investment policy or the nature of the underlying investments.[80] The SEC Staff excluded the nature of cash equivalents of Auction Rate Notes (ARNs), because although highly liquid, they give no assurance of liquidation by the holder within three months of purchase.[81] The SEC Staff also decided that Variable Rate Demand Notes (VRDNs) are not cash equivalents because although they put option that they embody assured liquidity, the source of this feature is not to the issuer but to the remarketing agent.[82]

5.3.4.6 Entity-Specific Classification of Cash Equivalents Determination of what constitutes cash and cash equivalents for a specific company is not univocal. Naming a security as cash equivalent is not conclusive, as it may well fall under the scope of Section 942-320-55 (FASB Statement No. 115) if it meets the definition criteria based on the form of other instruments.[83] However, entities have some degree of freedom, also taking into due consideration the evolution of financial instruments. The notion itself of cash and cash equivalents permits a harmonization of different practices of cash management. Unlike IAS 7, Subtopic 230-10 (FASB Statement No. 95) allows banks and other financial institutions to treat cash flows from instruments carried in trading or investing accounts, that would otherwise qualify as cash and cash equivalents, as operating and investing activities (the latter also by investment companies), respectively. For investment treatment, they must be part of a larger pool of investments that qualify as investing activities.[84] A bank or other financial institution may also include Federal funds sold in cash and cash equivalents.[85]

5.3.4.7 Disclosure of Accounting Policy versus Composition of Cash Equivalents The composition of cash and cash equivalents is a matter of accounting policy to be disclosed in (and, under IFRSs, reconciled with) the amount shown in the statement of financial position. Under both IFRSs and U.S. GAAP, a change in their composition is a change in accounting policy (i.e., retrospectively applied).[86]

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79 *FASB ASC 230-10-20 (FASB Statement No. 95, ¶¶ 8, 9); IAS 7, ¶¶ 6, 7, IE.C.*

80 *IFRIC Update, March 2009; IFRIC Update, May 2009.*

81 *SEC Staff, December 1, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.H.3. [Online] SEC. Available at: www.sec.gov [last accessed: April 26, 2006].*

82 *IASB, March 22, 2007 Board Meeting, Agenda Paper 9C,* Cash Equivalents*, ¶ 7.b. [Online] IASB. Available at: www.iasb.org [last accessed: June 27, 2007].*

83 *FASB ASC 942-320-55 (EITF Topic No. D-39,* Questions Related to the Implementation of FASB Statement No. 115*).*

84 *FASB ASC 230-10-45-6 (FASB Statement No. 95, ¶ 10); FASB Statement No. 95, ¶¶ 55, 56, 65; FASB ASC 320-10-45-13 (FASB Statement No. 115, ¶ 117).*

85 *FASB ASC 230-10-20, 942-230-55-2 (FASB Statement No. 95, ¶¶ 9, 147).*

86 *FASB ASC 230-10-50-1 (FASB Statement No. 95, ¶ 10); IAS 7, ¶¶ 45–47.*

> **Planning Point:** Subtopic 230-10 (FASB Statement No. 95) requires the disclosure of the policy followed, while IAS 7 requires the disclosure of the components of cash and cash equivalents.

However, a survey reports that in 2006 only 60% of the IFRSs companies reviewed by the AFM, the securities regulators in The Netherlands, disclosed an accounting policy for cash and cash equivalents.[87] The SEC views unexplained composition of cash and cash equivalents as one of the common mistakes in the U.S. GAAP reconciliation of the statement of cash flows by foreign private issuers.[88]

5.3.5 Restricted Cash and Cash Equivalents

5.3.5.1 Classification as Current or Noncurrent Assets U.S. GAAP labels cash and cash equivalents that are not withdrawable or usable for current operations as noncurrent assets. Therefore, an entity cannot include them in the cash and cash equivalents caption. A similar criterion applies to cash and cash equivalents that an entity assigns for the acquisition or construction of noncurrent assets or for the payment of long-term debt, sinking funds, or other noncurrent liabilities.[89] Under IAS 1, cash and cash equivalents are current assets, unless restricted from exchange or designated to liquidate a liability within at least 12 months after the reporting period.[90] Under IFRSs, an entity recognizes nonsegregated cash collateral received as an asset against a payable to the transferor.[91]

> **Planning Point:** In order to be classified as current assets, under U.S. GAAP cash and cash equivalents must be readily convertible to cash and available for current operations (i.e., within the year or operating cycle, if longer).[92] IAS 1 applies the same concept but to the 12-month period.

> **Planning Point:** Under U.S. GAAP, cash and cash equivalents to be used in the current period to settle noncurrent liabilities are noncurrent assets, but an entity may regard them as current if they settle debt maturities classified as current liabilities. Conversely, under IAS 1 funds intended to pay a liability within 12 months after the reporting period are current, even if the liability is noncurrent.

> **Comment:** Unlike U.S. GAAP, IAS 1 does not mention restriction as to withdrawal and does not refer to designation for the acquisition or construction of noncurrent assets, although both may arguably be part of the restriction from cash being exchanged.

5.3.5.2 Presentation Captions and Items or Disclosure Under U.S. GAAP, companies generally include restricted cash and cash equivalents in other assets or under long-term investments. If restrictions expire in current operations, restricted cash is current assets. Companies

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87 *Ineum 2008 Survey, ¶ 2.2.*
88 *SEC,* Financial Reporting Manual, *¶ 6510.6.*
89 *FASB ASC 210-10-45-4 (ARB 43, Ch. 3A,* Restatement and Revisions of Accounting Research Bulletins, Working Capital, Current Assets and Current Liabilities, *¶ 6).*
90 *IAS 1, ¶ 66(d).*
91 *IFRS 9, ¶ IG D.1.1 (former IAS 39, ¶ IG D.1.1).*
92 *FASB ASC 210-10-45-1 (ARB 43, Ch. 3A, ¶ 4).*

generally report them after unrestricted cash equivalents or separately captioned within cash equivalent. Investments in the money market or other short-term funds that include restrictions on the ability of the entity to withdraw its balance are not cash equivalents.[93]

Regulation S-X simply mentions separate disclosure of restricted cash for commercial and industrial companies as well as for bank holding companies in the statement of financial position, with explanation of restrictions in the notes. It requires note disclosure for registered investment companies and mandates separate display for insurance companies, with explanation of restrictions in the notes.[94] Cash deposits for repurchase agreements are also restricted.[95] However, the SEC Staff specified that restricted cash warrants separate display from cash and cash equivalents on the face of the statement of financial position and is not part of cash in the statement of cash flows.[96]

Not-for-profit organizations must report cash restricted by donors outside cash and cash equivalents. They report these assets near tangible assets when restricted to investment in land, buildings, and equipment. The "long-term investments" caption includes cash and cash equivalents of permanent endowment funds held temporarily for long-term investment opportunities.[97] The "other assets" caption of health care entities separately includes cash and claims to cash that are restricted as to withdrawal or use for other than current operations, designated for expenditure in the acquisition or construction of noncurrent assets, required to be segregated for the liquidation of long-term debt, or limited to long-term use by a donor-imposed restriction.[98]

IFRSs do not prescribe a specific location for restricted cash and cash equivalents that are current or noncurrent assets and simply require disclosure of the significant amounts together with a commentary by management, including those relating to foreign subsidiaries in countries that restrict transfers of funds.[99] Paragraph 5.7.3 following goes into such disclosures.

5.3.5.3 Compensating Balances SEC registrants must segregate compensating balances when cash availability is legally restricted, though related guidance does not explicitly mention separate display. Conversely, an entity must simply provide note disclosure of amounts and terms of compensating balances that do not legally restrict reported cash or that have the purpose of assuring availability of future credit. Under U.S. GAAP, financial institutions must provide note disclosure of cash restrictions due to regulatory reserve requirements or formal compensation balance agreements. The SEC also requires bank holding companies to disclose average reserve balances required by the Federal Reserve.[100]

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93 *AICPA TIS Section 1100, ¶ 15.*

94 *FASB ASC 210-10-S99-1, 946-210-S99-1, 944-210-S99-1, 942-210-S99-1 (Regulation S-X, ¶¶ 210.5-02.1, 210.6-04.5, 210.7-03(a).2, 210.9-03.1(a)).*

95 *FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(m)(1)(iii)).*

96 *Davine 1996 Speech, ¶ E.*

97 *FASB ASC 958-210-45-6, 958-205-55-7 (FASB Statement No. 117, ¶¶ 11, 156).*

98 *FASB ASC 954-305-45-1 (AICPA Audit and Accounting Guide,* Health Care Organizations *(HCO), ¶ 3.01).*

99 *IAS 7, ¶¶ 48, 49.*

100 *FASB ASC 942-305-50-1 (AICPA Statement of Position No. 01-6, ¶¶ 14.a, B.5.a); FASB ASC 210-10-S99-1, 946-210-S99-1, 944-210-S99-1, 942-210-S99-1 (Regulation S-X, ¶¶ 210.5-02.1, 210.6-04.5, 210.7-03(a).2, 210.9-03.1(a)); FASB ASC 210-10-S99 (SEC Staff Accounting Bulletin, Topic 6-H,* Accounting Series Release 148 – Disclosure Of Compensating Balances And Short-Term Borrowing Arrangements*).*

5.3.5.4 Time Deposits Under U.S. GAAP, time deposits that are not available for immediate withdrawal or subject to penalties for withdrawal before maturity may meet the classification of restricted cash (current or noncurrent, depending on whether maturing within one year or the operating cycle) or short-term investments or long-term investments. In practice, to the extent banks do not demand notice before withdrawal, companies classify certificates of deposit with original maturities up to 90 days as cash and cash equivalents. Entities must include longer-maturity certificates of deposits that are not debt securities into other short-term investments or other long-term investments if maturity is beyond one year.[101] Subsection 210-10-S99-1 (Regulation S-X) does not require restricted cash status for time deposits and short-term certificates of deposits.[102] Not-for-profit, business oriented health care entities do not generally have to separately report checking or savings accounts maintained for restricted donations. Funds of others held under agency relationships are unrestricted assets.[103]

5.3.6 Net Debt and Treasury Assets

The *Financial Statement Presentation Project* has been long discussing the concept of net debt. The notion of net debt combines assets and liabilities that an entity regards as available to pay debt, i.e., cash and cash equivalents, certain treasury assets, and debt. It includes excess cash that an entity could use either as temporary investment or as retirement of existing debt (i.e., "negative" debt). Paragraph 5.6.17 following explains the implications of the concept of treasury assets as part of net debt. Lately, the Staff Draft rejected the notion of net debt, as its definition would be arbitrary. However, entities would be free, as they are now, to elaborate and present net debt information. The IASB version would only require analysis of net debt in the notes. It proposes a totalization and an analysis of changes in cash, short-term investments, finance leases, and debt in a single note disclosure.[104]

> **Planning Point:** Entities are currently not prohibited from commenting net debt on a voluntary basis in the notes or in management commentary, provided the basic financial statements do not show such an aggregate.

> **Example:** The Consob, the Italian securities regulator, requires publicly held companies to disclose net debt and related analysis.[105]

5.4 DIRECT VERSUS INDIRECT METHOD

5.4.1 Allowed Options

5.4.1.1 Basic Concepts of the Two Methods Two main approaches exist in constructing a statement of cash flows: the direct and the indirect methods. The former builds up net changes in cash flows by adding individual gross cash inflows and subtracting gross cash outflows. The latter method starts from the statement of income as if it were on a cash basis, and then adds

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[101] *AICPA, TIS Section 2130,* Receivables*, ¶ 39.*
[102] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.1).*
[103] *FASB ASC 954-305-45-3, 954-305-45-4 (AICPA Audit and Accounting Guide, HCO, ¶¶ 3.01, 3.02).*
[104] *DP on Presentation, ¶¶ 2.60, 2.61; Staff Draft, ¶¶ 255, BC93, BC214-BC217.*
[105] *Consob, Comunicazione DEM/6064293, July 28, 2008.*

or subtracts noncash items. It also backs out deferrals and accruals, and cash items that do not affect the statement of income.

> **Comment:** The direct and the indirect methods relate to the way of determining and presenting cash flows from operating activities. Presentation of cash flows from investing activities and of cash flows from financing activities remains the same.

5.4.1.2 Comparison with the Reconciliation Method under U.S. GAAP IAS 7 and Section 230-10-45 (FASB Statement No. 95) permit the direct and the indirect method of reporting cash flows from operating activities.[106] Both encourage the use of the direct method.[107] U.S. GAAP also calls the indirect method the reconciliation method.[108] In addition, unlike IFRSs, U.S. GAAP requires a reconciliation of net cash flow from operating activities to net income in any case, to benefit from both approaches even when companies use the direct method. If the entity adopts the direct method, it shows such reconciliation in a separate schedule. Section 230-10-45 (FASB Statement No. 95) encourages this approach.

5.4.1.3 Location of the Reconciliation Under U.S. GAAP, if the company uses the indirect method, it includes the reconciliation in a separate schedule or on the face of the statement of cash flows, by labeling all reconciling adjustments as such. In the former case, the statement of cash flows shows only a total for net cash flows from operating activities.[109] Under the indirect method or reconciliation schedule, not-for-profit organizations must reconcile the changes in net assets shown in the statement of activities to net cash flows from operating activities.[110]

According to the *AICPA Accounting Trends & Techniques*, U.S. GAAP companies that use the direct method place this reconciliation at the bottom of the statement or on an adjacent page. Companies that follow the indirect method generally incorporate the reconciliation within the statement itself.[111]

IAS 7 does not comment on the use of a separate schedule under the indirect method, but it shows adjustments on the face of the statement of cash flows.

5.4.1.4 Variant of the Indirect Method under IFRSs IAS 7 permits a variant of the indirect method that shows operating profit before working capital changes, and then working capital changes separately. The former aggregate is the sum of condensed captions of revenue excluding investment income and operating expenses excluding depreciation.[112] Paragraph 5.4.3.4 following explains the intricacies of this subtotal and that should use particular care in using this aggregate.

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[106] *FASB ASC 230-10-45-25, 230-10-45-28 (FASB Statement No. 95, ¶¶ 27, 28); IAS 7, ¶ 18.*
[107] *FASB ASC 230-10-45-25 (FASB Statement No. 95, ¶ 27); IAS 7, ¶ 19.*
[108] *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*
[109] *FASB ASC 230-10-45-29, 230-10-45-30, 230-10-45-31 (FASB Statement No. 95, ¶¶ 29, 30); FASB Statement No. 95, ¶ 119).*
[110] *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*
[111] *AICPA ATT 2010, ¶ 6.06.*
[112] *IAS 7, ¶¶ 20, IE Note D.*

5.4.1.5 Accounting Practice According to the *AICPA Accounting Trends & Techniques*, 99% of the U.S. GAAP companies surveyed in 2002–2009 used the indirect method.[113] *IFRS Accounting Trends & Techniques* illustrates that 91% of the IFRS companies surveyed reported cash flows under the indirect method in their 2008 financial statements.[114] A survey of European companies concluded that in 2005 all of them used the indirect method.[115] Another study reached the same conclusion, except for Australian companies for which A-IFRSs require the use of the direct method.[116]

IFRS Accounting Trends & Techniques includes examples of some reconciling noncash items specific to IFRSs, such as adjustment for onerous contracts, or annual allocation in income of the deferred credit representing government grants.[117]

5.4.1.6 New Developments Phase B of the *Financial Statement Presentation Project* should end with a final say on the direct versus indirect method debate.[118] The Discussion Paper initially proposed the use of the direct method plus a reconciliation schedule in the notes to extend the benefit of the indirect method in linking cash flows to the statement of comprehensive income.[119] The Staff Draft would now require the direct method and move to a reconciliation presented as an integral part of the statement of cash flows. Unlike the current U.S. GAAP approach, it would start from operating income (see Paragraph 5.4.4 following).[120]

5.4.2 Pros and Cons

The SEC Staff labels the direct method as being more useful than the indirect method, and encourages its voluntary presentation.[121] The indirect method would not suffice to assist users in analyzing cash flows changes.[122] In addition, Management's Discussion and Analysis of SEC registrants using the indirect method must disclose items that are not evident from the statement of cash flows.[123] Exhibit 5-1 summarizes the pros and cons of these methods.

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[113] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 6-2.*

[114] *AICPA IFRS ATT 2009, ¶ Table 5-1.*

[115] *ICAEW 2007 Survey, ¶ 13.6.*

[116] *Ernst & Young (2006)* IFRS Observations on the Implementation of IFRS*, page 8.*

[117] *AICPA IFRS ATT 2009, ¶¶ 5.29, 5.30.*

[118] *IAS 1, ¶ BC8(d); DP on Presentation, ¶¶ 1.1, 1.3.*

[119] *DP on Presentation, ¶¶ S12, 3.75, 3.80, Appendix A; Staff Draft, ¶ BC171.*

[120] *Staff Draft, ¶¶ 172, BC183, IG28.*

[121] *Nicolaisen, D. T. (2003)* Remarks before the 2003 Thirty-First AICPA National Conference on Current SEC Developments*, ¶ VII. [Online] Washington, DC: SEC. Available at: www.sec.gov/news/speech/spch121103dtn.htm [last accessed: February 5, 2007]; SEC, 2005.* Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*, ¶ Footnote 37. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: November 28, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: February 5, 2007].*

[122] *SEC, 2003. Interpretative Release No. 33-8350,* Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, ¶ IV.B.1. Operations. Washington, DC: SEC.*

[123] *SEC, 2003. Release No. 33-8350,* Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, ¶¶ I.D, IV.B.*

Exhibit 5-1 Pros and Cons of the Direct and Indirect Method of the Statement of Cash Flows

	Direct Method	*Indirect Method*
Detail of information	– Greater granularity of information on major classes of gross operating cash receipts and payments[1] – It is more in line with the disaggregation objective of the *Financial Statement Presentation Project*[2]	– It does not provide certain items that are instead available with the indirect method[3] – Contrary to the objective of the statement of cash flows, it provides adjustments that are not real cash flows[4]
Analysis from third parties	The direct method requires more information than the indirect method	The statement of cash flows cannot be constructed simply from the other individual statements without certain additional disclosures
Gross versus net reporting	It directly shows sources and uses of, and purposes for, major classes of gross operating cash receipts and payments[5]	It is implicit for net reporting of most operating cash flows[6]
Assistance in estimating future cash flows	– Knowing past gross cash flows gives information value to determine whether or not they will repeat in the future, plus additional elements in computing trends and comparisons[7] – This assists in projecting borrowing needs and repayment ability[8] – This is consistent with the liquidity and financial flexibility objective of the *Financial Statement Presentation Project*[9]	
Information about differences between accrual and cash bases		– It explains the differences between net income and cash flows from operating activities and helps identify recognition and measurement of noncash items,[10] including quality of earnings – It shows changes in working capital – Some of these differences may be devised as planning tools, e.g., receivables days on hand
Implementation costs	– Gathering information to prepare the statement is more difficult[11] – However, an entity is supposed to be able to prepare the minimum content of the statement (U.S. GAAP only) by indirect calculation[12]	

[1]*FASB Statement No 95, ¶ 27; IAS 7, ¶ 18(a).*
[2]*DP on Presentation, ¶ 3.78.*
[3]*IAS 7, ¶ 19.*
[4]*FASB Statement No. 95, ¶¶ 4, Dissenting Opinions.*
[5]*FASB Statement No 95, ¶¶ 27, 107; IAS 7, ¶ 18(a).*
[6]*FASB Statement No 95, ¶ 75, Footnote 16.*
[7]*FASB Statement No 95, ¶ 107; Staff Draft, ¶ BC172.*
[8]*FASB Statement No 95, ¶ 111.*
[9]*DP on Presentation, ¶ 3.78.*
[10]*FASB Statement No 95, ¶ 108; DP on Presentation, ¶ 3.79.*
[11]*FASB Statement No 95, ¶¶ 109, 113, 114.*
[12]*FASB Statement No 95, ¶¶ 116–117.*

(continued)

Exhibit 5-1 Pros and Cons of the Direct and Indirect Method of the Statement of Cash Flows (*Continued*)

	Direct Method	*Indirect Method*
Cohesiveness among financial statements	More cohesive[13]	
Understandability	More intuitive[14]	
Comparability across companies	Better comparability of real cash receipts and cash payments categories[15]	External comparison of adjustments is generally meaningless or less relevant
Verifiability	Amount and classification of receipts and payments are externally verifiable	Adjustments and subtotals are derivative measures of receipts and payments

[13]*DP on Presentation, ¶ 3.78.*
[14]*Staff Draft, ¶¶ BC172, BC175.*
[15]*Staff Draft, ¶ BC174.*

Planning Point: In summary, as a basic difference, the indirect method is essentially based on adjustments to the statement of income. To a certain extent, an entity may also derive the direct method from adjustments, as both IAS 7 and Subtopic 230-10 (FASB Statement No. 95) acknowledge. In particular, to reduce implementation costs, Section 230-10-55 (FASB Statement No. 95) conceived the minimum content of the statement as the one that the entity should be able to calculate indirectly even under the direct method.[124] This procedure by indirect calculation is typical of prospective financial reporting, such as for business case preparation and business planning, as opposed to financial statements. For example, a business plan may derive collections from customers as a function of sales and receivables days on hand, which in turn also determine the balance of accounts receivable. One of the reasons the *Financial Statement Presentation Project* would permit entities to disaggregate cash flows under the direct method at a lower detail than in the statement of comprehensive income is to facilitate the use of indirect techniques to construct direct-method items.[125] However, sometimes even the accounting records, unless properly structured, do not offer a sufficient level of detail to gather inputs to prepare operating cash flows under the direct method, as U.S. GAAP also acknowledges.[126] For example, the chart of accounts or statistical codes may need to segregate revenue, expenses, respective receivables, and payables for sale of goods versus those related to rendering of services. Tracking investment accounts is a typical problem with both methods, to distinguish payables for long-lived assets from operating payables and respective dates of cash settlement.

Planning Point: The dispute on the direct versus the indirect method originated in a context of general purpose financial statements. However, the question is quite irrelevant for internal management. An entity must build forecasting procedures along the lines of the direct method for cash flow planning and budgeting in any case. This entails gathering data from purchasing, customer ordering, payroll, and other departments. For management control purposes it must articulate actual cash flows following the same method to be able to compare them with budgeted or forecast figures. Therefore, critical strong procedures must reconcile actual direct method figures used by the treasury function and by the management control department to actual indirect method figures prepared by the financial reporting department.

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[124] *FASB ASC 230-10-55-1, 230-10-55-2, 230-10-55-3 (FASB Statement No. 95, ¶¶ 115–117); IAS 7, ¶ 19(b).*
[125] *Staff Draft, ¶ BC180.*
[126] *FASB Statement No. 95, ¶¶ 109, 113, 114.*

Exhibit 5-2 Basic Layout of the Cash Flows from Operating Activities under the Direct Method

IFRSs[1]	*U.S. GAAP*
Cash flows from operating activities:	***Cash flows from operating activities:***
Detail of cash receipts	Detail of cash receipts
Detail of cash payments	Detail of cash payments
Cash generated from or used by operations	
Interest paid	Interest paid, excluding capitalized interest
For a financial institution, the illustrative examples of IAS 7 (which are not part of IAS 7) illustrate a subtotal for	
Net cash from operating activities before income tax[2]	
Income taxes paid	Income taxes paid
Net cash from operating activities	**Net cash from operating activities**

[1]*Based on the illustrative example in IAS 7, ¶ IE.A, unless differently stated.*
[2]*IAS 7, ¶ IE.B.*

5.4.3 Comparison of Basic Layouts

Exhibit 5-2 and Exhibit 5-3 compare the layout of the section of the cash flows from operating activities of the statement of cash flows according to the direct and indirect methods under IFRSs and U.S. GAAP (Paragraph 5.4.1 previously). Although very similar, they prove to have some basic theoretical differences.

Exhibit 5-3 Basic Layout of the Cash Flows from Operating Activities under the Indirect Method

IFRSs[1]	*U.S. GAAP*[2]
Cash flows from operating activities:	**Cash flows from operating activities:**
Profit or loss	Net income
Or, profit or loss before taxation[3]	
Adjustments for noncash income and expenses[4]	Adjustments for noncash items, including items relating to investing or financing cash flows[5]
Adjustments for cash effects that are investing or financing[3]	
Interest expense	
Subtotal	
Changes in inventories and operating receivables and payables, i.e., any deferrals or accruals of past or future operating cash receipts or payments[3]	Adjustments for deferrals of past operating cash receipts and payments and for accruals of expected future operating cash receipts and payments[6]

[1]*Based on IAS 7, ¶ IE.A, unless differently stated.*
[2]*Based on FASB ASC 230-10-45-28, 230-10-45-29, 230-10-50-2, 230-10-55-10, 230-10-55-13, 230-10-55-14 (FASB Statement No. 95, ¶¶ 28, 29, 131, 132), unless differently stated. Alternatively, an entity that uses the indirect method may include the reconciliation in a separate schedule while the statement of cash flows shows only a total for net cash flows from operating activities.*
[3]*If the indirect method starts with profit or loss, it shows an adjustment for income tax expense, in order to separately display income tax cash flow. However, the Implementation Guidance of IFRS for Small and Medium-sized Entities illustrates an alternative layout under the indirect method, that is, an adjustment for only the portions of noncash finance costs and noncash income tax expense, plus information on finance costs paid in cash and income tax paid in cash at the bottom of the statement.*
[4]*IAS 7, ¶ 20.*
[5]*Based on FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28), as recently modified by FASB Accounting Standards Update No. 2010-8,* Technical Corrections to Various Topics, *¶ 3, which renamed this category of adjustments as adjustments to net income for noncash items, including items relating to investing or financing cash flows.*
[6]*FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*

(continued)

Exhibit 5-3 Basic Layout of the Cash Flows from Operating Activities under the Indirect Method (*Continued*)

IFRSs	*U.S. GAAP*
Cash generated from or used by operations	
Interest paid	
Income taxes paid	
Net cash from operating activities	**Net cash from operating activities**
Supplemental disclosures[7]	**Supplemental disclosures of cash flow information:**
Cash paid during the year for:	Cash paid during the year for:
– Interest, including the capitalized portion[8]	– Interest (net of amount capitalized)
– Income taxes when an entity allocates them into more than one category[9]	– Income taxes

[7] *IAS 7 does not illustrate the format or the location of such disclosures. However, the Implementation Guidance of* IFRS for Small and Medium-Sized Entities *illustrates them at the bottom of the statement like a sort of supplemental disclosure.*
[8] *IAS 7, ¶ 32.*
[9] *IAS 7, ¶ 36.*

5.4.3.1 Subtotal for Cash from Operations Firstly, unlike U.S. GAAP, the illustrative examples of IAS 7 show a subtotal for cash generated from or used by operations before coming to cash flows from operating activities.[127]

> **Comment:** This seems at odds with the guidance in IAS 1 that discourages an operating subtotal in the statement of comprehensive income (see Paragraph 4.5.3 previously).

> **Comment:** Paragraph 5.6.24 following explains that companies must segregate and not commingle the investing and financing elements of discontinued operations with cash flows from operating activities. Paragraph 5.6.22 following explains the elective separate presentation of cash flows from extraordinary items under U.S. GAAP.

5.4.3.2 Interest and Income Taxes Paid The aggregate discussed in the previous paragraph differs from net cash from operating activities because of interest and income taxes paid.

> **Planning Point:**. In fact, IAS 7 shows these two items after the operating subtotal. This is because, unlike U.S. GAAP, a statement under IAS 7 adjusts interest expenses when it starts from profit before taxation. It also adds income taxes back as well when it starts from profit or loss. The reason is that IAS 7 requires separate presentation of interest payments and income tax payments, irrespective of whether the entity uses the direct or the indirect method.[128] It requires disclosure of total income taxes paid, but only when an entity allocates them into more than one category of the statement of cash flows. It also requires disclosure of total interest paid, mainly to include the capitalized portion.[129] In any event, the standard does not illustrate the format or the location of such disclosures under the indirect method. Furthermore, under the direct method, the illustrative example in IAS 7 does not show whether an entity that chooses to classify interest and dividends received as operating

[127] *IAS 7, ¶ IE.A.*
[128] *IAS 7, ¶¶ 31, 35.*
[129] *IAS 7, ¶¶ 32, 36.*

activities must display them before or after the subtotal of cash from operations. Conversely, with the indirect method, U.S. GAAP simply requires disclosure, as part of supplemental disclosures or of a note, of interest and income taxes paid, which serves the purpose of making users able to reclassify interest differently. It illustrates this by means of supplemental disclosures.[130] According to the *AICPA Accounting Trends & Techniques*, approximately half of the U.S. GAAP companies surveyed in 2002–2009 disclosed interest and income taxes paid in their respective notes or in the notes related to the statement of cash flows, while an approximately 45–47% did so at the bottom of the statement of cash flows.[131] Consequently, by literally following the standard, leaving profit or loss unadjusted for interest expense, while simply showing changes in interest payable as part of changes in operating capital accounts, would not be compliant with IAS 7. Conversely, Subtopic 230-10 (FASB Statement No. 95) permits this form of presentation, as supplemental disclosure provides information on interest paid and income tax, while it requires separate presentation only under the direct method.[132] However, the Implementation Guidance of IFRS for small and medium-sized entities illustrates an alternative layout under the indirect method. It shows an adjustment for only the portions of noncash finance costs and noncash income tax expense, plus information on finance costs paid in cash and income tax paid in cash at the bottom of the statement as a sort of supplemental disclosure similar to that under U.S. GAAP.[133]

5.4.3.3 Managerial Variations The formats shown are those illustrated by accounting pronouncements, although they are not prescriptive.[134]

Planning Point: Several variations exist, including those for purposes other than financial statements, for example those suitable to evaluate a target company, on a pre- or post-tax basis or on a free cash flow method, but they fall outside the scope of this Book. These alterations generally concern the display of interest expense payment, income taxes on interest expenses, payment of fixed cost, leases and other financial burdens, and investment expenditure required to maintain capacity versus those to expand productive assets, dividends, and other discretionary expenditures. IAS 7 encourages disclosure of cash flows to maintain as opposed to increase operating capacity, information that U.S. GAAP expands into nondiscretionary versus discretionary expenditures (including dividends). Both bodies of standards do not mandate such disclosures, as Paragraph 5.7.3 following explains.[135] Importantly, these variants are for purposes other than financial statements. Otherwise, they would be non-GAAP measures subject to specific rules for SEC registrants (see Paragraph 4.5.3 previously).

5.4.3.4 Gross Operating Cash Flows Secondly, the illustrative example of IAS 7 also shows a subtotal for gross operating cash flows, i.e., before changes in net working capital.[136] The French Autorité des Marchés Financiers (AMF) requested the presentation of a subtotal for gross operating cash flows before changes in net working capital, called "capacité d'autofinancement"[137]

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[130] *FASB ASC 230-10-50-2 (FASB Statement No. 95, ¶ 29); FASB Statement No. 95, ¶¶ 90, 92, 121.*
[131] *AICPA ATT 2010 and AICPA ATT 2006, ¶¶ 6.08, Table 6-4.*
[132] *FASB ASC 230-10-45-25, 230-10-55-14 (FASB Statement No. 95, ¶¶ 27.b, 131).*
[133] IFRS for Small and Medium-sized Entities*, ¶ Illustrative Financial Statements.*
[134] *FASB ASC 230-10-55-9 (FASB Statement No. 95, ¶ 130).*
[135] *FASB Statement No. 95, ¶¶ 97-99; IAS 7, ¶¶ 50.c, 51.*
[136] *IAS 7, ¶ IE.A.*
[137] *Conseil national de la Compatibilité, October 2004*. Recommandation N° 2004-R.02 relative au Format du Compte de Résultat, Tableau des Flux de Trésorerie et Tableau de Variation des Capitaux Propres, des Entreprises sous Référentiel Comptable International*, ¶¶ 6.1, 6.3.*

> **Example:** On the contrary, the SEC Staff rejected a subtotal for cash flows from operations presented by a French private issuer that reported operating cash flows before changes in working capital.[138]

In addition, IAS 7 permits a variant of the indirect method that shows operating profit before working capital changes, and then working capital changes separately. The former aggregate is the sum of condensed captions of revenue excluding investment income and operating expenses excluding depreciation.[139]

> **Comment:** In summary, this short-cut approach shows noncash items as specific adjustments to profit or loss only to the extent they are not already part of net working capital. In fact, the net change in net working capital indirectly includes all other adjustments for noncash items that affect the income statement and that are also part of net working capital. Financial analysts sometimes refer to operating profit before working capital changes as gross operating cash flows (see Paragraph 5.4.3.4 previously). This has a specific use in corporate finance valuation.

Financial statement preparers should use particular care in reporting gross operating cash flows under either of these two approaches, as the following examples illustrate.

> **Example:** The SEC Staff, in its review of Form 20-F of a foreign private issuer from The Netherlands for the fiscal year ended December 31, 2005, considered a subtotal for operating cash flow before changes in working capital and provisions as a not-expressly permitted non-GAAP measure (see also Paragraph 4.5.3 previously).[140]

> **Example:** The SEC Staff interprets IAS 7 to require disaggregation of changes in operating assets and liabilities under the indirect method, although based on consideration of materiality it conceded to a foreign private issuer to report changes in net working capital as a single line[141]

5.4.3.5 Classification of Adjustments in the Indirect Method Thirdly, U.S. GAAP classifies the adjustments in the indirect method into different logical categories.

> **Comment:** Section 230-10-45 (FASB Statement No. 95) used to categorize adjustments in two groups: 1) adjustments for deferrals of past operating cash receipts and payments and for accruals of expected future operating cash receipts and payments; and 2) adjustments for cash effects that are investing or financing. IAS 7 also refers to the former as changes in inventories and operating

[138] *SEC IFRS Reviews. Letter by the SEC, December 12, 2006. File No. 001-14734, Comment 2. Reply by the company, January 11, 2007.*
[139] *IAS 7, ¶¶ 20, IE Note D.*
[140] *SEC IFRS Reviews. Letter by the SEC, March 21, 2007. File No. 0-22628.*
[141] *SEC IFRS Reviews. Letter by the SEC, September 7, 2006. File No. 1-15234, Comment 12. Reply by the company, November 24, 2006.*

receivables and payables. However, it has another category, i.e., adjustments for noncash income and expenses, that U.S. GAAP used to subsume in accruals and deferrals.[142] In this respect, U.S. GAAP was more balance sheet oriented. Recently, ASU 2010-8 rephrased Subsection 230-10-45-28 (FASB Statement No. 95) to include adjustments relating to investing or financing cash flows into a class of adjustments to net income for noncash items.[143] Interestingly, IAS 7 mentions the category of adjustments for cash effects that are investing or financing, but does not show it separately in its illustrative example.[144] It is interesting to compare the analysis that the Discussion Paper of the *Financial Statement Presentation Project* used to propose for the reconciliation schedule. It divided noncash items into three groups: accruals (including accruals, systematic allocations, and changes in assets and liabilities not attributable to remeasurements), remeasurements that are recurring changes to update to a current value, and nonrecurring remeasurements.[145]

Finally, as Paragraph 5.4.1 previously explains, U.S. GAAP permits two different formats of presenting reconciliation of net cash flow from operating activities to net income under the indirect method.

The *AICPA Accounting Trends & Techniques* describes the major classes of reconciling items used by U.S. GAAP companies. Virtually all the companies surveyed reported depreciation and/or amortization. In 2002 and 2005, employee related cost was the second most used item (deferred taxes in 2009). Other frequently used adjustments included gains or losses on sale of assets, write-down of assets, equity in investee's earnings, tax benefit from share-based compensation plans, provision for bad debt, and restructuring provision. Most companies separately indicated changes in accounts receivable and inventories, without combining them. In 2002–2009 over 40% combined accounts payable with other items. Approximately 40% reported changes in income taxes payable separately. Approximately 20% reported changes in employee related liabilities separately.[146]

5.4.4 Starting Point

5.4.4.1 Profit or Loss as the Starting Point IAS 7 mentions profit or loss as the starting point of the indirect method. The indirect method under U.S. GAAP also starts from net income.[147]

Comment: However, IAS 7 shows an example of the indirect method that begins with profit or loss before taxation. Furthermore, as mentioned, the short-cut indirect method in IAS 7 refers to operating profit before working capital charges.[148]

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[142] *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28); IAS 7, ¶¶ 18, 20.*

[143] *FASB Accounting Standards Update No. 2010-8,* Technical Corrections to Various Topics*, ¶ 3 amended FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*

[144] *IAS 7, ¶ 20(c).*

[145] *DP on Presentation, ¶ 4.19.*

[146] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 6-3.*

[147] *FASB Statement No. 95, ¶ 106; FASB ASC 230-10-55-13 (FASB Statement No. 95, ¶ 131); IAS 7, ¶¶ 18(b), 20.*

[148] *IAS 7, ¶ IE.A.*

5.4.4.2 The Position of Regulators Concerning Other Starting Points The SEC Staff contends that U.S. GAAP prohibits starting the statement of cash flows with income from continuing operations.[149] The SEC Staff also questions the choice of certain IFRS first-time adopters that use a starting point other than profit or loss or profit before taxes, as illustrated in the following examples.

Conversely, the French Autorité des Marchés Financiers (AMF) simply encouraged disclosure of the starting point in the indirect method of the statement of cash flows.[150]

Example: The SEC Staff, in its review of Form 20-F of a British foreign private issuer for the fiscal year ended December 31, 2005, challenged a presentation of indirect method that started from operating profit before share of results from joint ventures and associates.[151] It also opposed using operating income as a starting point by an Irish and two British foreign private issuers,[152] and profit from continuing operations before finance costs by a Spanish foreign private issuer. In reply to the argument of these companies that IAS 7 does not define profit or loss, the SEC Staff referred to the GAAP hierarchy in IAS 8 to direct to the definition of profit or loss in IAS 1.[153] However, the SEC Staff accepted net loss from continuing operations as the starting point of the statement of cash flows of an Italian foreign private issuer on the basis, as stated by the company, that this approach permitted the separate display of cash flows from discontinued operations.[154]

5.4.4.3 Comprehensive Income as a Starting Point The FASB and the IASB rejected comprehensive income as a starting point of the statement of cash flows, as this would add complexity by introducing reconciliation of other comprehensive income items.[155]

5.4.4.4 New Developments By contrast, the supplemental information proposed by the *Financial Statement Presentation Project* to reconcile cash flows and income statement would start from the subtotal of the operating category, i.e., operating income. This would achieve the result of disaggregating changes in operating assets and operating liabilities from changes in other assets and liabilities.[156]

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[149] *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*

[150] *Ineum 2008 Survey, ¶ 2.2.*

[151] *SEC IFRS Reviews. Letter by the SEC, September 27, 2006. File No. 1-9337, Comment 15.*

[152] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 1-32846, Comment 5. Letters by the SEC, September 15, 2006. Comment 14, and January 11, 2007, Comment 1. File No. 001-14978.*

[153] *SEC IFRS Reviews. Letters by the SEC, September 19, 2006 and January 18, 2007. File No. 1-15170, Comment 1. Reply by the company, October 20, 2006. Letters by the SEC, September 28, 2006, Comment 7 and January 11, 2007, Comment 1. File No. 1-10220. Reply by the company, November 6, 2006.*

[154] *SEC IFRS Reviews. Letter by the SEC, September 26, 2006. File No. 333-12334, Comment 8. Reply by the company, October 20, 2006.*

[155] *FASB Statement No. 130,* Reporting Comprehensive Income*, ¶ 107; IAS 1, ¶ BC76.*

[156] *Staff Draft, ¶¶ BC183, BC187, IG28.*

5.5 OTHER STRUCTURAL ELEMENTS OF THE STATEMENT OF CASH FLOWS

5.5.1 Activity Format

5.5.1.1 Basic Trichotomy Both Section 230-10-45 (FASB Statement No. 95) and IAS 7 require the classification of cash flows in three categories: operating, investing, and financing activities. They even place this building block within the objectives and purpose of that statement.[157] The IASB Framework already sanctioned this approach as the purpose of a statement of changes in financial position.[158] CON 5 timidly mentions these three categories.[159]

> **Comment:** As the following paragraphs illustrate, both Subtopic 230-10 (FASB Statement No. 95) and IAS 7 are prescriptive concerning which items must be included in each of the three categories. However, IAS 7 seems more flexible in allowing entities to find the classification that is more suitable to their businesses.[160]

The FASB considers a representation by activity as useful to analyzing financial performance and financing needs, to improving comparability and link related flows.[161] IAS 7 highlights the importance of understanding the links among activities.[162]

5.5.1.2 Allocation versus Predominant Activity On the other hand, many grey areas arise under this approach, as multiple classifications may sometimes appear to be theoretically sound.[163] In those situations, the lack of specific guidance risks undermining comparability.

> **Planning Point:** Although IAS 7 is not so explicit, an entity allocates the cash flows attributable to different classifications that make part of a single transaction when different classifications apply.[164] Conversely, U.S. GAAP requires determining which of the different natures is predominant.[165] The Staff Draft of the *Financial Statement Presentation Project* would confirm the latter approach.[166]

5.5.1.3 Consistency of Function versus Nature Across Statements The activity format is generally consistent with a classification by nature of the statement of comprehensive income. Paragraph 4.6 previously expands on the classification by function versus by nature of the income statement.

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[157] *FASB ASC 230-10-45-1, 230-10-45-10, 230-10-45-24 (FASB Statement No. 95, ¶¶ 6, 14, 26); IAS 7, ¶¶ Objective, 10.*
[158] *IASB Framework, ¶ 18 (superseded).*
[159] *CON 5, ¶ 52.*
[160] *IAS 7, ¶ 11.*
[161] *FASB Statement No. 95, ¶¶ 82–84.*
[162] *IAS 7, ¶ 11.*
[163] *FASB Statement No. 95, ¶ 86.*
[164] *IAS 7, ¶ 12.*
[165] *FASB ASC 230-10-45-22 (FASB Statement No. 95, ¶ 24).*
[166] *Staff Draft, ¶ 106.*

Comment: The activity format opens to a basic confusion. Sometimes the managerial function of cash flows themselves is the driver, i.e., financing activities have the purpose of financing the entity to invest and operate. Investing activities provide productive assets for an entity to operate, while operating activities provide the net return on assets invested. In this respect, the activity format is conceptually close to an income statement classified by function. In other occurrences, the nature of the activity that generates cash flows is the driver, e.g., the repayment of long-term notes receivable may have a financing nature but it relates to sales of inventory, indeed it is an operating asset that directly generates core revenues.

Comment: Generally speaking, the classification of an item as financial or operating may work around different interpretations (sometimes, misinterpretations) of these terms. This distinction may refer to the nature of the relationship underlying an item (e.g., trade versus other financial receivables – a view that is typical of IAS 1). The underlying contractual rights and obligations may be decisive (e.g., financial assets and financial liabilities under IAS 32). The function of an item may drive classification, e.g., held for investment, for trading, for sale, kept available for sale, or for productive operations – a view that is typical of accounting for financial instruments under IAS 39 (before IFRS 9) – or tangible assets under IAS 16 and IAS 40. The organizational unit or the business segment within a company may characterize the item that it holds or manages (e.g., an operating business unit as opposed to a treasury center – a view that is typical of segment reporting under IFRS 8). Under the functional approach of the *Financial Statement Presentation Project,* the way an entity uses financial assets and liabilities drives their classification.[167]

5.5.1.4 New Developments In general, the *Financial Statement Presentation Project* defines *functions* as primary activities of an entity or the way assets and liabilities are used. It connotes *nature* as the distinguishing factor that determines the same reaction to similar economic events. In particular, for the statement of cash flows, "activity" is the result of two effects. Firstly, it reflects the nature of the profit or loss item to which the cash flow belongs. Secondly, it mirrors the nature of the underlying assets or liabilities.[168]

Comment: The definition of primary activities and the nature of assets and liabilities seems a compromise. Reflecting the nature of the profit or loss item is, in great part, another way to phrase the traditional "inclusion" concept for cash flows from operating activities (explained in Paragraph 5.5.3.4 following). However, the nature of the profit or loss items in the statement of comprehensive income is far from being clear and univocal. As Paragraph 4.5.3 previously and the subsequent paragraphs illustrate, the boundaries of operating income are quite blurred.

The *Financial Statement Presentation Project* would classify cash flows consistently with sections and categories of the newly restructured format of the other statements. The categories would comprise business (subdivided into operating and investing), financing, income taxes, and discontinued operations. Most cash flows currently classified as investing would likely fall into the operating category.[169]

[167] *Staff Draft, ¶ 48.*
[168] *Staff Draft, ¶¶ 48–49, 178–182; DP on Presentation, ¶ 2.62.*
[169] *Staff Draft, ¶ IG28.*

5.5.2 Sources and Uses Format

The sources and uses format of the statement of cash flows arranges inflows as sources and outflows as uses of cash. Its inspiration is rooted in the basic concept underlying the statement: CON 5 introduces the statement of cash flows as information on sources and uses of cash.[170]

> **Comment:** This format was present in pre-FAS 95 practice, namely the superseded APB 19, *Reporting Changes in Financial Position*. The 1977 version of IAS 7 also adopted this layout.[171] Several variants exist: for instance, sources and uses of cash placed in separate columns or in a rolling format. Sometimes called the statement of cash receipts and disbursements, this somewhat resembles the statement of financial position: capital employed in assets on one side, and liabilities that finance those assets on the other side. In fact, the term funds often substitutes cash, in the sense that money is a resource available to fund several uses.

> **Planning Point:** This layout is not acceptable under U.S. GAAP, to the extent it does not show operating, investing, and financing activities of cash flows.[172] IAS 7 does not show this type of format. Certain foreign jurisdictions still use it, even some that adopted IFRSs. However, a statement that shows operating, investing, and financing activities and within each section lists sources and uses of cash with respective totals would be suitable under IFRSs or U.S. GAAP; it might even give an enhanced view of cash flows.

5.5.3 Cash Flows from Operating Activities

This paragraph discusses the several concepts underlying cash flows from operating activities. The discussion below illustrates the intricacies of defining operating activities even from the cash flow perspective. Different concepts conflict with each other.

5.5.3.1 Items that are Part of Cash Flows from Operating Activities Exhibit 5-4 and Exhibit 5-5 list the items that are part of cash flows from operating activities according to the direct method and indirect method, respectively, under IFRSs and U.S. GAAP.

5.5.3.2 Operating as Principal Activities The main definition of operating activities in both IAS 7 and Section 230-10-20 (FASB Statement No. 95) puts them in relation to the principal activities that generate revenues of an entity or, in physical terms as stated in U.S. GAAP, producing, delivering, and servicing activities of the entity.[173] Paragraph 5.4.3 previously explains the difference between cash generated from or used by operations and net cash flows from operating activities.

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[170] *CON 5, ¶ 52.*
[171] *IAS 7 (1977),* Statement of Changes in Financial Position *(superseded).*
[172] *FASB Statement No. 95, ¶ 82.*
[173] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 21); IAS 7, ¶¶ 6, 14.*

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method

IFRSs[1]	*U.S. GAAP and SEC Guidance*
Cash flows from operating activities: **Cash inflows:**	**Cash flows from operating activities:** **Cash inflows:**
– Cash receipts from the sales of goods and the rendering of services[2]	– Cash received from customers, including lessees, licensees, etc.[a] – Cash received from sales of goods or services, including proceeds from collection or sale of related accounts and notes receivable, whether short- or long-term[#b] – Principal collections of installment notes receivable from sales of goods or services,[3] even if seller-financed through a captive finance company,[4] or in connection with a dealer's floor plan financing arrangement[5] – Progress and advance payments of Federal Government contractors[6]
– Cash proceeds from rental and sale revenues of property, plant, and equipment to be routinely rented to others and then transferred to inventories and sold[7] – Cash receipts from royalties, fees, commissions, and other revenue	– Cash proceeds from the sale of property, plant and equipment, and other productive assets to be used or rented to others for a short period and then sold[8]
– Gross inflows for value added tax received by customers, unless reported together with cash receipts from customers[9]	
– Cash proceeds from transfers of accounts receivable that qualify as sales	– Cash proceeds from transfers of accounts receivable that qualify as sales[b] – Changes in time-sharing notes receivable and sales of these notes[10]

This is not a comprehensive inventory because it comprises only items that accounting pronouncements mention for either separate presentation, presentation, or inclusion in captions presented, or for either display or note disclosure. The Exhibit does not include items that require note disclosure only.

[a]*Minimum separate display item under FASB Statement 230-10-45-25 (FASB Statement No. 95, ¶ 27). In addition, it encourages reporting of major classes of gross cash receipts and payments.*

[#]*Items (under U.S. GAAP, additional items) for which separate presentation on the face of the statement of cash flows is mandatory. In addition, FASB ASC 230-10-45-25, 230-10-45-28 (FASB Statement No. 95, ¶ 27, 28) and IAS ¶¶ 18, 19 require reporting of major classes of gross operating cash inflows and outflows.*

[@]*Items that can either be presented on the face of the statement of cash flows or disclosed in the notes.*

[b]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22).*

[1]*Based on IAS 7, ¶¶ 14, 15, unless differently stated.*

[2]*As an example in agriculture, IAS 41, IE illustrates separate lines for cash receipts from sales of milk, from sales of livestock, cash paid for purchases of livestock.*

[a]*Minimum separate display item under FASB Statement 230-10-45-25 (FASB Statement No. 95, ¶ 27).*

[b]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22).*

[3]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶¶ 22.a); FASB Statement No. 95, ¶¶ 93, 95.*

[4]*Hardiman, T.E. (2004)* Speech by SEC Staff: 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120604teh.htm [last accessed: November 26, 2010].*

[5]*Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*

[6]*FASB ASC 912-310-45-11 (AICPA Audit and Accounting Guide,* Federal Government Contractors *(FGC), ¶ 3.85).*

[7]*IAS 7, ¶ 14; IAS 16, ¶¶ 68A, BC35A, BC35C, BC35E.*

[8]*FASB ASC 230-10-45-22 (FASB Statement No. 95, ¶ 24); FASB Statement No. 95, ¶ 87.*

[9]*IFRIC Update, April 2005; IFRIC Update, August 2005.*

[10]*FASB ASC 978-230-45-1 (AICPA Statement of Position No. 04-2,* Accounting for Real Estate Time-Sharing Transactions, *¶ 62).*

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Proceeds from insured benefits to fund employee benefit plans[11]	– Proceeds from insured benefits when the cash surrender value asset of the company-owned life insurance is operating in nature[12] – Insurance proceeds received not related to investing or financing activities[13,b] – Cash proceeds from sales-type short- or long-term lease receivables[14] – A cash allowance received from the landlord as an incentive for a leasehold improvement[15] – Refunds from suppliers[b] – Cash received to settle lawsuit[b]
– Net VAT refunded by the tax authorities[16]	
– Cash receipts from contracts and securities held for dealing or trading purposes	– Proceeds from sales and maturities of debt and equity instruments of other entities that are held for trading, classified based on their nature and purpose of acquisition[17] – Proceeds from sales of securities acquired specifically for resale and held in a trading account by other entities[18] – Principal cash inflows of a repurchase agreement by a seller-borrower, if the trading activities exception applies[19] – Principal cash inflows of a reverse repurchase agreement by a buyer-lender, if the trading activities exception applies – For SEC registrants: principal payments received on retained interests in securitized loans where the company accounts for retained interests as trading securities[20]

[11] *IFRS 4, ¶ IG Example 1, 1.22.; IAS 7, ¶ 14(d); IAS 19 (2007), ¶¶ 7, 41, 42, 104A, 104B, 104C; IAS 19 (2011), ¶¶ 8, 48, 49, 116, 117, 118.*

[12] *FASB ASC 325-30-05-3, 325-30-25-1, 325-30-35-2 (FASB Technical Bulletin No. 85-4, ¶¶ 2, 5).*

[13] *FASB ASC 230-10-45-12, 230-10-45-16, 230-10-45-25, 230-10-55-10, 230-10-55-20 (FASB Statement No. 95, ¶¶ 16.a, 22.c, 27.d, 131, 134.m); Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.2. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: February 5, 2007].*

[14] *SEC Staff, December 1, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: April 26, 2006].*

[15] *AICPA Technical Practice Aid, TPA 5600.17,* Cash Flow Statement Presentation of Landlord Incentive Allowance in an Operating Lease*; SEC Staff Letter, February 7, 2005. [Online] SEC. Available at: www.sec.gov/info/accountants/staffletters/cpcaf020705.htm [last accessed: February 4, 2009].*

[16] *IFRIC Update, April 2005; IFRIC Update, August 2005.*

[17] *FASB ASC 230-10-45-19 (FASB Statement No. 102, ¶ 8); FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 159, ¶¶ A42, A43.*

[18] *FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, Footnote 8c); FASB ASC 230-10-45-18, 230-10-45-20 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*

[19] *FASB ASC 230-10-45-19, 230-10-45-12 (FASB Statement No. 102, ¶¶ 8, 9).*

[20] *Mincin 2005.*

(continued)

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Proceeds from sale of cash advances and loans made by financial institutions to customers[21]	– Proceeds from loans that are originated or purchased specifically for resale and carried at market value[22] – Proceeds from loans held for sale and carried at market value by any company that gives lending or financing to others[23]
– Cash receipts from future, forward, option and swap contracts that are held for dealing or trading[24] – Cash inflows from hedging instruments where the hedged item generates operating cash flows[25]	– Cash inflows of hedging or nonhedging derivative instruments that are of an operating nature[26] – Cash inflows from derivative instruments in a fair value or cash flow hedge that hedge an item that generates operating cash flows may be classified as operating if they do not include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, and provided the accounting policy is disclosed[27]
– Cash flows from interests received[28#] – Cash flows from dividends received[29#] – Dividends received from an investee[30]	– Interest and dividends received[31 a] – Dividends received from an affiliate[32] – Cash interests and dividends from returns on loans, other debt instruments and equity instruments of other entities[b] – Financing revenue received under leases for a lessor under a direct-financing lease and sales-type leases[33] – Tax benefit (other than excess tax benefits) realized from stock options exercised during the year[34 @]

[21]*IAS 7, ¶ 15.*
[22]*FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 22.a, 23.a); FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB Statement No. 102, ¶¶ 10, 27, 30.*
[23]*FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB ASC 310-10-35-47, 310-10-35-48, 310-10-35-49 (AICPA Statement of Position No. 01-6, ¶¶ 8.a, 8.b, 8.c).*
[24]*IAS 7, ¶ 16(h).*
[25]*IAS 7, ¶ 16.*
[26]*FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶¶ 14, Footnote 4).*
[27]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶ 16, Footnote 5). Alternatively, an entity may classify such cash flows according to their nature.*
[28]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or investing. The illustrative example in IAS 7 does not show whether under the direct method an entity that chooses to classify this item in operating activities must display it before or after a subtotal of cash from operations.*
[29]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or investing. The illustrative example in IAS 7 does not show whether under the direct method an entity that chooses to classify this item in operating activities must display it before or after a subtotal of cash from operations.*
[30]*IAS 7, ¶¶ 31, 33, 37. An entity may show this item either as operating or investing. Any other payment and receipt between the investor and an investee are reported according to their nature. The illustrative example in IAS 7 does not show whether under the direct method an entity that chooses to classify this item in operating activities must display it before or after a subtotal of cash from operations.*
[31]*FASB ASC 230-10-45-25 (FASB Statement No. 95, ¶ 27) requires separate presentation of interest and dividends received (together) under the direct method.*
[32]*FASB ASC 230-10-55-10 (FASB Statement No. 95, ¶ 131).*
[33]*FASB ASC 230-10-55-10, 942-230-55-2 (FASB Statement No. 95, ¶¶ 131, 147 show this classification for a financial institution).*
[34]*FASB ASC 718-10-50-2 (FASB Statement No. 123R, ¶ A240.i); FASB Statement No. 123R, ¶ B244. Presentation or note disclosure is possible. The pronouncement mentions separate disclosure.*

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Cash inflows from net change in items with quick turnover, large amount, and short maturities, for which net reporting is allowed:[35] • principal amounts on credit cards • purchase and sale of investments • other short-term borrowing with a maturity not in excess of three months	
	– Elective separate disclosure of cash inflows from extraordinary items of an operating nature[36]
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to operating activities, except for newly acquired subsidiaries classified as held for sale on acquisition[37]	– Elective separate disclosure of cash inflows from discontinued operations of an operating nature[38]
	– For SEC registrants: related party transactions[39#] – Other operating cash receipts[a,b]
Cash outflows:	**Cash outflows:**
– Cash payment to suppliers for goods and services	– Cash paid to acquire materials for manufacture or goods for resale, including principal payments on related accounts and notes payable – Cash paid to suppliers for other goods and services, including insurance, advertising, etc.[a,b] – Repayments of installment notes payable for purchase of goods or services[40]
– Cash paid to acquire or produce property, plant, and equipment to be routinely rented to others and then transferred to inventories and sold[41]	– Cash paid to acquire or produce property, plant and equipment, and other productive assets to be used or rented to others for a short period and then sold[42]
– Gross outflows for value added tax paid to suppliers, unless reported together with cash payments to suppliers[43]	

[35]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates net change in credit card receivables as investing activity; IAS 7, ¶¶ 22-24, IE.B. Conversely, IAS 7, ¶ IE.B shows this in operating activities.*
[36]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*
[37]*IFRS 5, ¶ 13, 33(c).*
[38]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each sections; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*
[39]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*
[40]*FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.a).*
[41]*IAS 7, ¶ 14; IAS 16, ¶¶ 68A, BC35A, BC35C, BC35E.*
[42]*FASB ASC 230-10-45-22 (FASB Statement No. 95, ¶ 24); FASB Statement No. 95, ¶ 87.*
[43]*IFRIC Update, April 2005; IFRIC Update, August 2005.*

(continued)

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Net VAT remitted to the tax authorities[44]	– Cash paid to government for taxes, duties, fines, and other fees or penalties[45][b] – Cash contributions to charities[b]
– Cash payment to and on behalf of employees – Cash payments of insurance premiums to fund employee benefit plans[46]	– Cash paid to employees[a] – Contributions to pension plans[47] – Payments to the Pension Benefit Guaranty Corporation (PBGC) at or after emergence from bankruptcy for benefit plans that were assumed by the PBGC – Cash expense related to share-based payments arrangements[48] – Cash payments of premiums of company-owned life insurance when the cash surrender value of the asset is operating in nature[49]
– Expenditures incurred with the objective of generating future cash flows when an entity recognizes them as expense, such as advertising, promotion, training, research and uncapitalized development costs,[50] including certain uncapitalized costs for website development[51]	– Cash flows from uncapitalized research and development costs[52] – Cash expenditures for software development costs that do not qualify for capitalization, including certain uncapitalized costs of computer software for sale of lease to others, computer software for internal use, and website development costs[53] – Cash payments related to capitalized film development costs[54]
– Expenditures for exploration and evaluation activities when an entity recognizes them as expense[55]	– For SEC registrants: disbursements for abandonment and remediation costs in extractive industries[56] – Cost of oil and gas producing activities, such as geological and geophysical costs, that are expensed

[44] *IFRIC Update, April 2005; IFRIC Update, August 2005.*
[45] *When related to income taxes, these items are arguably included in income taxes paid.*
[46] *IFRS 4, ¶ IG Example 1, 1.22.; IAS 7, ¶ 14(d); IAS 19, ¶¶ 7, 41, 42, 104A, 104B, 104C; IAS 19 (2011), ¶¶ 8, 48, 49, 116, 117, 118.*
[47] *SEC Staff, December 1, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.2. [Online] SEC. Available at: www.sec.gov [last accessed: April 26, 2006].*
[48] *FASB ASC 718-10-S99-1 (SEC Staff Accounting Bulletin, Topic 14-F); Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ I.B.2. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: February 5, 2007]. Alternatively, an SEC registrant may disclose the cash versus noncash expense item parenthetically in the income statement, in the notes, or in Management's Discussion and Analysis. The presentation form shall not infer that the nature of the noncash item is different from cash compensation to employees.*
[49] *FASB ASC 325-30-05-3, 325-30-25-1, 325-30-35-2 (FASB Technical Bulletin No. 85-4, ¶¶ 2, 5).*
[50] *IAS 7, ¶¶ 16, BC3.*
[51] *SIC Interpretation No. 32.*
[52] *SEC Concept Release No. 33-7801, International Accounting Standards, Appendix B, Summary of the FASB's IASC/US GAAP Comparison Project.*
[53] *FASB ASC Subtopic 985-20 (FASB Statement No. 86); FASB ASC Subtopic 365-40 (AICPA Statement of Position No. 98-1); FASB ASC Subtopic 350-50 (EITF Issue No. 00-2).*
[54] *FASB ASC 926-230-45-1 (AICPA Statement of Position No. 00-2, ¶ 55); AICPA Statement of Position No. 00-2, ¶ 122.b.*
[55] *IFRS 6, ¶¶ BC23A, BC23B; IAS 7, ¶¶ 16, BC3.*
[56] *SEC, 2001. Division of Corporate Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance, ¶ II.F.8.*

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
	– For SEC registrants: cash flows associated with deferred stripping in mining industries[57] – Cash settlement of an asset retirement obligation[58] – Cash paid to settle lawsuits for patent infringement[59] – Cash paid to settle lawsuits[b] – Cash refunds to customers[b]
– Cash payments from contracts and securities held for dealing or trading purposes	– Purchase of debt and equity instruments of other entities that are held for trading, classified based on their nature and purpose of acquisition[60] – Purchase of securities acquired specifically for resale and held in a trading account by other entities[61] – Principal cash outflows of a repurchase agreement by a seller-borrower, if the trading activities exception applies[62] – Principal cash outflows of a reverse repurchase agreement by a buyer-lender, if the trading activities exception applies
– Purchase of cash advances and loans held for dealing or trading[63]	– Payment of loans that are originated or purchased specifically for resale and carried at market value[64] – Payment of loans held for sale and carried at market value by any company that gives lending or financing to others[65]
– Cash payments for future, forward, option, and swap contracts that are held for dealing or trading[66] – Cash outflows from hedging instruments where the hedged item generates operating cash flows[67]	– Cash outflows and distributions to counterparties of derivative instruments that are of an operating nature and that, if hedging an item that generates investing or financing cash flows and that do not include an other-than-insignificant financing element at inception, the entity does not report as investing or financing activities[68] – Elective separate disclosure of cash outflows from extraordinary items of an operating nature[69]

[57]*IPTF, November 25, 2002, ¶ Appendix, II.*
[58]*FASB ASC 230-10-45-17 (EITF Issue No. 02-6, Classification in the Statement of Cash Flows of Payments Made to Settle an Asset Retirement Obligation within the Scope of FASB Statement No. 143, ¶ 4).*
[59]*FASB ASC 230-10-55-10 (FASB Statement No. 95, ¶ 131).*
[60]*FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 159, ¶¶ A42, A43.*
[61]*FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶¶ 23.a, Footnote 8d); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*
[62]*FASB ASC 230-10-45-18, 230-10-45-21 (FASB Statement No. 102, ¶¶ 8, 9).*
[63]*IAS 7, ¶ 15.*
[64]*FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 22.a, 23.a); FASB Statement No. 102, ¶¶ 10, 27, 30.*
[65]*FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB ASC 310-10-35-47, 310-10-35-48, 310-10-35-49 (AICPA Statement of Position No. 01-6, ¶¶ 8.a, 8.b, 8.c).*
[66]*IAS 7, ¶ 16(g).*
[67]*IAS 7, ¶ 16.*
[68]*FASB ASC 230-10-45-27, 230-10-45-14 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 19.d). Alternatively, an entity may classify such cash flows according to their nature.*
[69]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*

(continued)

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to operating activities, except for newly acquired subsidiaries classified as held for sale on acquisition[70]	– Elective separate disclosure of cash outflows from discontinued operations of an operating nature[71]
– Cash outflows from net change in items with quick turnover, large amount, and short maturities, for which net reporting is allowed:[72] • principal amounts on credit cards • purchase and sale of investments • other short-term borrowing with a maturity not in excess of three months	
	– For SEC registrants: related party transactions[73#] – Other operating cash payments[a,b]
Cash generated from or used by operations – Interest paid[74#] – An entity may classify the interest element of a cash repayment of a loan as operating[75] – Payments of interests to holders of shares subject to mandatory redemption where no other equity instruments exist[76]	– Interest paid to lenders and other creditors (excluding capitalized interest)[77a,b] – For SEC registrants: cash payments of excess of principals of zero-coupon instruments and pay-in-kind interest instruments[78] – Payments of interest to holders of shares subject to mandatory redemption where no other equity instruments exist[79#]

[70]*IFRS 5, ¶¶ 13, 33(c).*

[71]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each sections; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*

[72]*IAS 7, ¶¶ 22–24, IE.B. FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates net change in credit card receivables as investing activity. Conversely, IAS 7, ¶ IE.B shows this in operating activities.*

[73]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*

[74]*IAS 7, ¶¶ 31, 33, 34, IE.A. An entity may show this item either as operating or financing items. In addition, IAS 7, ¶ 32 requires the disclosure of total interest payments during the period, including the amount capitalized, although the standard does not specify the classification of capitalized borrowing costs. Furthermore, it does not explain whether such disclosure should be in the notes or may be presented on the face of the statement. The illustrative example in IAS 7 does not show whether under the direct method an entity that chooses to classify interest received as operating activities must display it before or after a subtotal of cash from operations.*

[75]*IAS 7, ¶ 12.*

[76]*IAS 32 is not explicit on the classification of interest or dividends paid on those instruments. However, from the income statement side, IAS 32, ¶ 36 assimilates those dividends payment to interest on a bond.*

[77]*FASB ASC 230-10-45-25 (FASB Statement No. 95, ¶ 27) requires separate presentation of interest paid under the direct method.*

[78]*SEC Regulations Committee, September 26, 2006, ¶ IV.A. Refer to the text for a discussion of different theories for classification of debt premiums and discounts under U.S. GAAP and IFRSs.*

[79]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement No. 150, ¶¶ 19, A6).*

Exhibit 5-4 Items Included in Cash Flows from Operating Activities under the Direct Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Dividends paid[#80]	
– Cash payments and refunds of income taxes that cannot be specifically identified with financing and investing activities[#81]	– Income taxes paid[a]
	– Excess tax benefit recognized in equity from share-based payment arrangements[82a]
Net cash flows from operating activities[#]	**Net cash flows provided or used by operating activities[#]**

[80]*IAS 7, ¶ 34. An entity may show this item either as operating or financing. The illustrative example in IAS 7 does not show whether under the direct method an entity that chooses to classify dividends received as operating activities must display them before or after a subtotal of cash from operations.*
[81]*IAS 7, ¶¶ 14(f), 35, 36, IE.A. An entity must disclose total amount of taxes paid if it presents tax cash flows in more than one category.*
[82]*Under FASB ASC 230-10-45-14, 230-10-45-17, 230-10-45-25 (FASB Statement No. 95, ¶¶ 19.e, 23.c, 27.f); FASB Statement No. 123R, ¶ A96, windfall stock option deduction refers to the income tax deduction related to the share-based payments arrangements expense deducted for tax purpose and not recognized for accounting purposes. An entity must report it as a financing inflow and an operating outflow.*

Exhibit 5-5 Items Included in Cash Flows from Operating Activities under the Indirect Method

IFRSs[1]	*U.S. GAAP and SEC Guidance*
Cash flows from operating activities:	**Cash flows from operating activities:**
Profit or loss	Net income
Or, profit or loss before taxation[2]	
Adjustments for noncash income and expenses:	Adjustments for noncash income and expenses, including items relating to investing or financing cash flows:[3$]

This is not a comprehensive inventory because it comprises only items that accounting pronouncements mention for either separate presentation, presentation, or inclusion in captions presented, or for either display or note disclosure. The Exhibit does not include items that require note disclosure only.
[$]*Minimum item under the indirect method under FASB ASC 230-10-45-28 (FASB Statement No 95, ¶ 28). It requires separate display of all major classes of reconciling items.*
[#]*Items (or, under U.S. GAAP, additional items) for which separate presentation on the face of the statement of cash flows is mandatory. In addition, FASB ASC 230-10-50-2 (FASB Statement No. 95, ¶ 29) requires reporting major classes of reconciling items.*
[@]*Items that can either be presented on the face of the statement of cash flows or disclosed in the notes.*
[1]*Base on IAS 7, ¶¶ 20, IE.A, unless differently stated.*
[2]*If the indirect method starts with profit or loss, it shows an adjustment for income tax expense, in order to separately display income tax cash flow. However, the Implementation Guidance of IFRS for Small and Medium-sized Entities illustrates an alternative layout under the indirect method, that is, an adjustment for only the portions of noncash finance costs and noncash income tax expense, plus information on finance costs paid in cash and income tax paid in cash at the bottom of the statement.*
[3]*As recently modified by FASB Accounting Standards Update No. 2010-8,* Technical Corrections to Various Topics*, ¶ 3.*

(continued)

Exhibit 5-5 Items Included in Cash Flows from Operating Activities under the Indirect Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
Depreciation and amortization	Depreciation[4a$] amortization
Provisions	Provision for losses on accounts receivable[a]
Deferred taxes	
Unrealized foreign exchange gains or losses	
Undistributed profits of associates (investment income)	Undistributed earnings of an affiliate[a]
Interest expense	
Interest income[5]	
Dividend income[6]	
	Gains or losses on sale of facility,[b] plant, and equipment[$]
Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to operating activities, except for newly acquired subsidiaries classified as held for sale on acquisition[7]	Items relating to discontinued operations that are investing activities[8$]
	Gains or losses on extinguishment of debt[$]
	Gains or losses on available-for-sale and held-to-maturity securities classified as operating activities[9]
	Principal payments of installment notes receivable from sales of goods or services[10]
	Payment received on installment note receivable for sale of inventory[a]

[$]*Minimum item under the indirect method under FASB ASC 230-10-45-28 (FASB Statement No 95, ¶ 28). It requires separate display of all major classes of reconciling items.*

[4]*FASB ASC 360-10-50-1 (APB 12, ¶ 5); Davine 1996 Speech, ¶ E. An entity must disclose depreciation expense and amortization expense separately in the statement of cash flows, unless it does so elsewhere in the financial statements. Under the full-absorption method, inventories may include a capitalized portion of depreciation and amortization. If an entity shows the amounts expensed on the face of the statement of cash flows, it should exclude depreciation and amortization capitalized in inventories from the changes in inventories displayed in the same statement. If an entity shows the full amounts of depreciation and amortization incurred (i.e., comprehensive of the amount that is capitalized), it should include depreciation and amortization capitalized in inventories in the changes in inventories displayed in the statement of cash flows.*

[a]*FASB ASC 230-10-55-13 (FASB Statement No. 95, ¶ 131).*

[5]*IAS 7, ¶ 31 does not limit this separate presentation to the direct method, even though its illustrative example of IAS 7 shows only the adding back of interest paid under the indirect method, not interest income. Therefore, an entity that shows interest receipts separately under the indirect method must adjust profit or loss for interest income.*

[6]*IAS 7, ¶ 31 does not limit this separate presentation to the direct method, even though its illustrative example of IAS 7 shows only the adding back of interest paid under the indirect method, not dividend income. Therefore, an entity that shows dividend receipts separately under the indirect method must adjust profit or loss for dividend income.*

[7]*IFRS 5, ¶¶ 13, 33(c).*

[8]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10) permits separate disclosure of cash flows from discontinued operations. The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each section; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*

[9]*FASB ASC 230-10-45-19 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶ 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*

[10]*FASB ASC 230-10-45-16, 230-10-55-15 (FASB Statement No. 95, ¶¶ 22.a, 132); FASB Statement No. 95, ¶¶ 93, 95. If shown as a separate element, as in the example, the statement of cash flows under the indirect method does not report an adjustment for the decrease in installment notes receivable due to the collection, as otherwise it would count it twice.*

Exhibit 5-5 Items Included in Cash Flows from Operating Activities under the Indirect Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
	Cash proceeds from the sale of property, plant and equipment, and other productive assets to be used or rented to others for a short period and then sold.
	Cash paid to acquire or produce property, plant and equipment, and other productive assets to be used or rented to others for a short period and then sold[11]
Subtotal[12]	
Changes in inventories and operating receivables and payables:	Adjustments for deferrals of past operating cash receipts and payments:[$]
Decrease (increase) in inventories	Decrease (increase) in inventory[a$]
	Deferred income[$]
	Decrease (increase) in prepaid expenses[a]
	Net income adjustment to get progress and advance payments of Federal Government contractors[13]
	Adjustments for accruals of expected future operating cash receipts and payments:[$]
Decrease (increase) in trade and other operating receivables	Decrease (increase) in accounts receivable[a$]
	Decrease (increase) in trading securities, classified as operating based on their nature and purpose of acquisition, including unrealized depreciation (appreciation)[14]
	Changes in fair value of financial assets and financial liability for which an entity has adopted the fair value option, classified as operating based on their nature and purpose of acquisition[15#]
Increase (decrease) in trade operating payables	Increase (decrease) in accounts payable[$] and accrued expenses[a$]
Gross VAT amount collected in the period[16]	
Gross VAT amount paid in the period	
Change in net VAT position to tax authorities	
	Increase (decrease) in deferred taxes[a]
	Increase (decrease) in other liabilitiesa[$]
	Increase (decrease) in interest and income taxes payable[17]
	Accruals for interest incurred but not paid, even if reflected in changes in assets and liabilities related to investing or financing activities[18]

[11]*FASB ASC 230-10-45-22 (FASB Statement No. 95, ¶ 24); FASB Statement No. 95, ¶ 87. IAS 7, ¶ 14; IAS 16, ¶¶ 68A, BC35A, BC35C, BC35E have similar provisions, with certain slight differences. However, IFRSs require the previous classification of the property, plant, and equipment to inventory and the classification as revenue in the statement of comprehensive income. Thus, no adjustment arises in the statement of cash flows under the indirect method.*
[12]*This is sometimes referred to as gross operating cash flows.*
[13]*FASB ASC 912-310-45-11 (AICPA Audit and Accounting Guide, FGC, ¶ 3.85).*
[14]*FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, Footnote 8c, 23.a, Footnote 8d); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*
[15]*FASB Statement No. 159, ¶¶ A42, A43.*
[16]*IFRIC Update, April 2005; IFRIC Update, August 2005.*
[17]*FASB ASC 230-10-45-28, 230-10-55-1(FASB Statement No. 95, ¶¶ 28, Footnote 12, 131).*
[18]*FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28, Footnote 12).*

(continued)

Exhibit 5-5 Items Included in Cash Flows from Operating Activities under the Indirect Method (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
	Accruals for interest earned but not received, even if reflected in changes in assets and liabilities related to investing or financing activities, except interest credited directly to a demand deposit account that is part of cash and cash equivalents[19]
Cash generated from or used by operations Interest paid[20] Interest receipt[21][#] Dividends paid[22][#] Dividends receipt[23][#] Cash payments and refunds of income taxes that cannot be specifically identified with financing and investing activities[24][#]	
Net cash flows from operating activities[#]	**Net cash flows from operating activities**[#]
Supplemental disclosures[25]	**Supplemental disclosures of cash flow information:**[26]
– Total interest paid, including the capitalized portion[27]	– Interest paid (net of amount capitalized)[28][@]
– Total income taxes payments, when an entity allocates them into more than one category[29]	– Income taxes[@] – Excess tax benefit recognized in equity from share-based payment arrangements[30][#]

[19] *FASB ASC 230-10-20, 230-10-45-28 (FASB Statement No. 95, ¶¶ 7, Footnote 1, 28, Footnote 12).*

[20] *IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or financing items. In addition, IAS 7, ¶ 32 requires the disclosure of total interest payments during the period, including the amount capitalized, although the standard does not specify the classification of capitalized borrowing costs. Furthermore, it does not explain whether such disclosure should be in the notes or may be presented on the face of the statement.*

[21] *IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or investing.*

[22] *IAS 7, ¶¶ 31, 34. An entity may show this item either as operating or financing.*

[23] *IAS 7, ¶¶ 31, 34. An entity may show this item either as operating or investing.*

[24] *IAS 7, ¶¶ 14(f), 35, 36. An entity must disclose total amount of taxes paid if it presents tax cash flows in more than one category. If the indirect method starts with profit or loss, it shows an adjustment for income tax expense, in order to separately display income tax cash flow. However, the Implementation Guidance of IFRS for Small and Medium-sized Entities illustrates an alternative layout under the indirect method, that is, an adjustment for only the portions of noncash finance costs and noncash income tax expense, plus information on finance costs paid in cash and income tax paid in cash at the bottom of the statement.*

[25] *IAS 7 does not illustrate the format or the location of such disclosures. However, the Implementation Guidance of IFRS for Small and Medium-sized Entities illustrates them at the bottom of the statement like a sort of supplemental disclosure.*

[26] *Entities must give this disclosure either as a supplemental disclosure or as a note disclosure (FASB Statement No. 95, ¶¶ 29, 92 mention disclosure). According to AICPA ATT 2010 and AICPA ATT 2006, ¶¶ 6.08, Table 6-4, approximately half of the U.S. GAAP companies surveyed in 2002–2009 disclosed interest and income taxes paid in the respective notes or in the notes related to the statement of cash flows, and 48% (44% in 2002) at the bottom of the statement of cash flows.*

[27] *IAS 7, ¶ 32.*

[28] *FASB ASC 230-10-45-25, 230-10-50-2 (FASB Statement No. 95, ¶¶ 27, 29) require separate presentation of interest and dividends received (together) and of interest paid under the direct method. However, it simply requires disclosure of interest paid under the indirect method.*

[29] *IAS 7, ¶ 36.*

[30] *Under FASB ASC 230-10-45-14, 230-10-45-17, 230-10-45-25 (FASB Statement No. 95, ¶¶ 19.e, 23.c, 27.f); FASB Statement No. 123R, ¶ A96, windfall stock option deduction refers to the income tax deduction related to the share-based payments arrangements expense deducted for tax purposes and not recognized for accounting purposes. An entity must report it as a financing inflow and an operating outflow. However, U.S. GAAP does not clarify if under the indirect method the operating outflow should be part of supplemental disclosures of income taxes paid.*

> **Comment:** This definition would be much in line with the meaning of operating activities in the statement of comprehensive income. Unfortunately, as discussed in Paragraph 4.5.3 previously, reporting a subtotal for operating income is quite tricky under IFRSs; it is even prohibited according to certain interpretations. In this regard, the Staff Draft of the *Financial Statement Presentation Project* acknowledges a lack of coherence between that statement and the cash flows from operating activities.[174]

5.5.3.3 Analogy with Revenues A different reading of this rationale analogizes revenue and expenses versus gains and losses in the statement of comprehensive income to the difference between operating activities and investing activities in the statement of cash flows. This is the foundation for classifying cash flows from assets held for rental for others and then sold as operating activities under IFRSs[175] (see Paragraph 5.6.6 following).

> **Comment:** Paragraph 4.5.5 previously expands on gains and losses in the statement of income. Unfortunately, the not-so-clear discrimination between gains and losses versus revenue and expenses creates even less clear boundaries in the statement of cash flows. Investing activities set certain boundaries of operating activities, but only empirically. For example, gains or losses on disposal of property, plant, and equipment are part of net income but the cash flows from their purchase or disposal are part of investing activities simply because they relate to long-term assets devoted to produce an entity's goods or services.[176] Similarly, Subsection 230-10-45-28 (FASB Statement No. 95) reports cash flows from sale of discontinued operations into investing activities,[177] and related gains or losses are part of income from discontinued operations.

5.5.3.4 The Inclusion Concept Thirdly, the so-called "inclusion concept" starts from assuming all items affecting net income as potential operating activities in the statement of cash flows. IAS 7 affirmatively links cash flows from operating activities to items of profit or loss. The intent is to give an indicator of the cash flow ability of the entity from its principal operations. Subtopic 230-10 (FASB Statement No. 95) also highlights the link to items that enter into the determination of net income.[178] For example, as illustrated in Paragraph 5.6.1 following, to justify the option to classify interest paid and dividends received as operating, Subtopic 230-10 (FASB Statement No. 95) and IAS 7 argue that being classified as income or expenses in the income statement would make them operating items in the statement of cash flows.[179]

> **Comment:** Accounting pronouncements reflect the inherent conflict of this rationale. Translated to the reporting of cash flows, the inclusion concept would assimilate cash flows from operating activities to an indicator of the liquidity of net income.[180] On the other hand, the opposition to cash

[174] *Staff Draft, ¶ BC62.*
[175] *IAS 16, ¶¶ BC35B, BC35C.*
[176] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 15); IAS 7, ¶ 6*
[177] *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*
[178] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 21); FASB Statement No. 95, ¶¶ 90, 95; IAS 7, ¶ 13.*
[179] *FASB Statement No. 95, ¶ 88; IAS 7, ¶ 33.*
[180] *FASB Statement No. 123R,* Share-Based Payment, *¶ B226.*

flow per share by the FASB is intended to prevent a measure of performance based on cash flows from surrogating traditional measures based on the income statement.[181]

Furthermore, as discussed in Paragraph 4.5.3 previously, the debate on operating activities in the statement of income tries to find a border-line between operating income and income from continuing operations. Here instead, all net income or profit or loss would translate into cash flows from operating activities. For example, income taxes paid (excluding certain exceptions) are generally operating cash flows even though attributed to several items in the statement of comprehensive income under the intraperiod allocation rules. Whether or not the disaggregation of cash flows from operating activities would achieve a better consistency with the statement of comprehensive income is controversial. Paragraph 5.6.24 following discusses this point with reference to discontinued operations.

Finally, to defend the possible location of dividends paid into operating activities, IAS 7 argues that this would alert readers about whether cash flows from operating activities would suffice to pay dividends.[182] This is reminiscent of a statement of cash flows that uses an aggregate similar to free cash flow – indeed a non-GAAP measure. This opens up another issue: net income deducts interest expenses but not dividends, as it sees performance from the viewpoint of shareholders. If the attempt is to relate cash flows from operating activities to income from continuing operations, the latter also deducts interests but not dividends.

5.5.3.5 Operating as a Residual The fourth criterion for the identification of cash flows from operating activities is the residual concept. IAS 7 assimilates all residual activities, i.e., noninvesting and nonfinancial, as operating activities.[183] For example, cash flows for expenditures incurred to generate future cash flows that do not give rise to recognition of assets in accordance with IFRSs (e.g., expenditures for advertising, promotion, staff training, research and development, and exploration and evaluation activities – see Paragraph 5.6.9 following) cannot be investing cash flows and therefore would fall into the operating category.[184] The same argument applies to income taxes not specifically tied to investing and financing activities (Paragraph 5.6.26 following).[185] Section 230-10-20 (FASB Statement No. 95) also defines operating activities as residual.[186]

Comment: While Subtopic 230-10 (FASB Statement No. 95) first lists investing and financing activities and then operating activities, IAS 7 starts with operating activities.

5.5.3.6 Operating versus Other Current Assets and Liabilities The changes in accounts payable and accounts receivable balances in the statement of financial position may be different from the amount shown as an adjustment in the statement of cash flows under the indirect method.

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181 *FASB ASC 230-10-45-3 (FASB Statement No. 95, ¶ 33); FASB Statement No. 95, ¶ 122.*
182 *IAS 7, ¶ 34.*
183 *IAS 7, ¶¶ 6, 14.*
184 *IAS 7, ¶¶ BC3–BC6.*
185 *IAS 7, ¶ 35.*
186 *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 21).*

Planning Point: This may be due to the effect of acquisitions and divestitures of other businesses (see Paragraph 5.5.11 following). The effect of exchange rates on accounts payable and accounts receivable of foreign subsidiaries may be a second reason. Such an effect is included in the balances in the statement of financial position but not in cash flows from operating, investing, and financing activities (see Paragraph 5.5.6 following). Finally, under the indirect method, the adjustment for changes in accounts payable should consider only the portion of those current accounts that refer to operating items, not the current portion of payables to vendors of property, plant and equipment, intangible assets, and any other productive asset classified in investing activities. The supplier database is not the right place to set this segregation, because the same vendor may be a supplier of both capital goods and operating items. Therefore, the accounting information system should label the nature at purchased item database level. For blanket orders, or at lump sum amount, the single transaction should permit appropriate tagging to capture the nature of the transaction for cash flow reporting purpose.

Comment: The statement of cash flows exacerbates this distinction between operating assets and liabilities and other current assets or liabilities that currently form part of net working capital. From the perspective of the statement of financial position, IAS 1 makes a distinction between current operating assets and liabilities (i.e., assets sold, consumed, or realized as part of the normal operating cycle, and associated liabilities) and other current assets and current liabilities.[187] This distinction is not really present under U.S. GAAP for assets and only slightly present for liabilities.[188] The *Financial Statement Presentation Project* would in part represent this sort of distinction through the operating finance subcategory in the statement of financial position.[189]

The Staff Draft of the *Financial Statement Presentation Project* defines an operating finance subcategory of the operating category within the business section in the statement of financial position. This would take in activities that are mainly operating but at the same time supply a short-term source of finance. However, it would prohibit this classification in the statement of cash flows.[190]

5.5.4 Cash Flows from Investing Activities

5.5.4.1 Categories of Cash Flows from Investing Activities Section 230-10-20 (FASB Statement No. 95) defines cash flows from investing activities based on three categories: items relating to loans made by the enterprise, securities of other entities held for investment, and assets employed in producing the core business of the entity (e.g., long-lived assets).[191] IAS 7 includes only the last component in the definition and hardly mentions investing financial assets. It stresses that investing in long-term assets is supposed to generate future income and cash flows.[192]

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[187] *IAS 1, ¶¶ 66, 68, 69.*
[188] *FASB ASC 210-10-45-3, 210-10-45-9 (ARB 43, Ch. 3A, ¶¶ 5, 7).*
[189] *Staff Draft, ¶¶ 75, 76, 131.*
[190] *Staff Draft, ¶¶ 80, Appendix A.*
[191] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 15).*
[192] *IAS 7, ¶¶ 6, 16.*

5.5.4.2 Gross Reporting An entity must separately display major classes of gross investing inflows and inflows in the statement of cash flows, except to the extent it can report certain items net (see Paragraph 5.5.10 following).[193]

5.5.4.3 Asset Recognition as a Prerequisite under IFRSs IAS 7 adds that recognition of an asset is a prerequisite for classifying related expenditures incurred with the objective of generating future cash flows as investing activities. Items that do not qualify include advertising, promotion, training, research, and uncapitalized development expenditures (see Paragraphs 5.6.8 following and 5.6.9 following).[194]

5.5.4.4 Relationship with Operating Activities IAS 7 explains that profit or loss includes the gain or loss on disposal of property, plant, and equipment but the proceeds from that sale are investing activities.[195]

Planning Point: The reply of some companies to the review of Form 20-F by the SEC shows a common misinterpretation of this sentence in IAS 7. This simply means that the gain or loss on disposal is a noncash adjustment in the operating section of the statement of cash flows. Some issuers read this as permitting investing cash flow characterization of items that affect the income statement. As mentioned above, in April 2009 *Improvements to IFRSs* expressly prohibited this inference.

5.5.4.5 Noncurrent versus Current Assets In establishing a relationship between asset recognition in the statement of financial position and investing activities in the statement of cash flows, IAS 7 does not go further to discriminate noncurrent from current assets, although it is understood that the standard refers to long-lived assets.

Example: The SEC Staff, in its review of Form 20-F of a British foreign private issuer opposed the classification of prepublication expenditures as investing activities on the ground that the company had classified them as current intangible assets with amortization being part of cost of goods sold.[196]

5.5.4.6 Items Included in Cash Flows from Investing Activities Both U.S. GAAP and IFRSs list specific items that make up investing activities. Exhibit 5-6 lists the main items that an entity must include in cash flows from investing activities, including those that it must separately display or disclose.

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193 *FASB ASC 230-10-45-26 (FASB Statement No. 95, ¶ 31); IAS 7, ¶ 21.*
194 *IAS 7, ¶ 16.*
195 *IAS 7, ¶ 14.*
196 *SEC IFRS Reviews. Letter by the SEC, December 20, 2006. File No. 001-16055, Comment 2. Reply by the company, January 30, 2007.*

Exhibit 5-6 Items Included in Cash Flows from Investing Activities

IFRSs[1]

Cash inflows:

- Cash receipts from the repayment of cash advances and loans made to other parties[2]
- Cash receipts from sale of debt instruments of other entities, other than those classified as cash and cash equivalents held for dealing or trading[3]

U.S. GAAP and SEC Guidance

- Cash receipts from collection of principal or sales of loans or long-term receivables made by the enterprise not in relation with its revenue-producing activities
- Directly related proceeds of insurance settlements[4]
- Proceeds from loans held for investment (i.e., other than those classified as held for resale or cash and cash equivalents) of manufacturing and commercial companies not associated with sale of inventory to customers[5]
- Cash receipts from collection of principal or sales of debt instruments of other entities, other than cash equivalents and debt instrument classified as operating under the trading exception
- Proceeds from sales and maturity of held-to-maturity and debt available-for-sale securities of other entities
- Directly related proceeds of insurance settlements[6]
- Principal cash inflows of a repurchase agreement by a seller-borrower, if the agreement qualifies for sale treatment and the trading activities exception does not apply and net reporting does not apply[7]
- Principal cash inflows of a reverse repurchase agreement by a buyer-lender, if the agreement qualifies for sale treatment and the trading activities exception does not apply and net reporting does not apply
- For SEC registrants: principal payments received on retained interests in securitized loans where the company accounts for retained interests as available-for-sale securities[8]

This is not a comprehensive inventory because it comprises only items that accounting pronouncements mention for either separate presentation, presentation, or inclusion in captions presented, or for either display or note disclosure. The Exhibit does not include items that require note disclosure only.

[#]*Items (under U.S. GAAP, additional items) for which separate presentation on the face of the statement of cash flows is mandatory. In addition, FASB ASC 230-10-45-26 (FASB Statement No. 95, ¶ 31) and IAS ¶ 21 require reporting of major classes of gross investing cash inflows and outflows.*

[1]*IAS 7, ¶ 21 requires separate presentation of gross amounts of major classes of investing inflows and outflows, except when the standard permits net reporting.*

[2]*IAS 7, ¶ 16(f).*

[3]*IAS 7, ¶ 16(d).*

[4]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶ 16.a; FASB Statement No. 102, ¶ 9).*

[5]*FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 23.a); FASB Statement No. 95, ¶ 95; FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); Minchin, R. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech [last accessed: November 26, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. Washington, DC: SEC Available at: www.sec.gov [last accessed: April 26, 2006].*

[6]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶¶ 16.a, Footnote 5); FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 10, 27, 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*

[7]*FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8).*

[8]*Mincin 2005.*

(continued)

Exhibit 5-6 Items Included in Cash Flows from Investing Activities (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Cash receipts from sale of equity instruments of other entities and interests in joint ventures, other than those classified as cash and cash equivalents held for dealing or trading[9]	– Cash proceeds from sales of, and return of investment in, equity instruments of other entities, other than those carried in a trading account by banks, brokers, and dealers in securities and other enterprises – Proceeds from sales of equity available-for-sale securities of other entities – Directly related proceeds of insurance settlements[10] – Principal payments received under direct-financing lease by a lessor[11] – Proceeds from insured benefits when the cash surrender value asset of the company-owned life insurance is investing in nature[12]
See cash flows from operating activities[13]	– Net change in items with quick turnover, large amount and short maturities, for which net reporting is allowed:[14] • net decrease in investments other than cash and cash equivalents • net decrease in loans receivable • net decrease in debt assets or net increase in debt liabilities with original maturity of three months or less, including amounts due on demand
– Cash receipts from future, forward, option, and swap contracts that are not held for dealing or trading or classified as financing activities[15]	– Proceeds from sale of futures contracts[16]
– Cash inflows from hedging instruments where the hedged item generates investing cash flows[17]	– Cash inflows from derivative instruments in a fair value or cash flow hedge that hedge an item that generates investing cash flows may be classified as investing if they do not include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, and the accounting policy is disclosed[18]
– Cash flows from interests received[19#] – Cash flows from dividends received[20#]	

[9]*IAS 7, ¶ 16(d).*
[10]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶¶ 16.b, Footnote 5); FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶ 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*
[11]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*
[12]*FASB ASC 325-30-05-3, 325-30-25-1, 325-30-35-2 (FASB Technical Bulletin No. 85-4, ¶¶ 2, 5).*
[13]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates the net change in credit card receivables of a financial institution as investing activity. IAS 7, ¶ IE.B shows all this, as well as certificates of deposit and cash advances and loans to customers, in operating activities.*
[14]*FASB ASC 230-10-45-9; 942-230-55-2 (FASB Statement No. 95, ¶¶ 13, Footnote 3, 147); FASB Statement No. 95, ¶ 80.*
[15]*IAS 7, ¶ 16(h).*
[16]*FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶ 14, Footnote 4).*
[17]*IAS 7, ¶ 16.*
[18]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶ 16, Footnote 5). Alternatively, an entity may classify such cash flows according to their nature.*
[19]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or investing.*
[20]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or investing.*

Exhibit 5-6 Items Included in Cash Flows from Investing Activities (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Cash receipt from the sale of property, plant and equipment, intangible assets, and other long-term assets[21]	– Cash inflows from the sale of property, plant and equipment, and other productive assets[#] – Directly related proceeds of insurance settlements[22] – Cash proceeds from sale by a seller-lessee that retains only a minor part of the right to use the asset in a sales-leaseback[23]
– Cash refunds of income taxes that are specifically identified with investing activities[24#]	
	– Elective separate disclosure of cash inflows from extraordinary items of investing nature[25]
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to investing activities, except for newly acquired subsidiaries classified as held for sale on acquisition[26]	– Elective separate disclosure of cash inflows from discontinued operations of investing nature[27]
	– For SEC registrants: related party transactions[28#] – All other cash receipts that derive from transactions defined as investing activities[29]
Cash outflows:	
– Cash advances and loans made to other parties[30] – Cash payments to acquire debt instruments of other entities, other than those classified as cash and cash equivalents held for dealing or trading[31]	– Disbursements for loans made by the enterprise and to acquire debt instruments of other enterprises, different from cash equivalents and instruments acquired specifically for resale[32]

[21]*IAS 7, ¶¶ 14, 16(b).*
[22]*FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶¶ 16.c, Footnote 5).*
[23]*FASB ASC 840-40-25-2, 840-40-25-3 (FASB Statement No. 13,* Accounting for Leases, *¶ 33); FASB Statement No. 13, ¶ 107; FASB Statement No. 28,* Accounting for Leases with Leasebacks, *¶ 11; FASB ASC 840-40-25-4 (FASB Statement No. 28, ¶ 17).*
[24]*IAS 7, ¶¶ 14(f), 35.*
[25]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*
[26]*IFRS 5, ¶¶ 13, 33(c).*
[27]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each sections; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*
[28]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*
[29]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.c).*
[30]*IAS 7, ¶ 16(e).*
[31]*IAS 7, ¶ 16(c).*
[32]*FASB ASC 230-10-45-13 (FASB Statement No. 95, ¶ 17.a; FASB Statement No. 102, ¶ 9); FASB Statement No. 102, ¶ 27.*

(continued)

Exhibit 5-6 Items Included in Cash Flows from Investing Activities (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
	– Payment of loans held for investment (i.e., other than those classified as held for resale or cash and cash equivalents) of manufacturing and commercial companies not associated with sale of inventory to customers[33] – Payments to acquire debt instruments of other entities – Payments to purchase held-to-maturity and debt available-for-sale securities[34] – Principal cash outflows of a repurchase agreement by a seller-borrower, if the agreement qualifies for sale treatment and the trading activities exception does not apply and net reporting does not apply[35] – Principal cash outflows of a reverse repurchase agreement by a buyer-lender, if the agreement qualifies for sale treatment and the trading activities exception does not apply and net reporting does not apply
– Cash payments to acquire debt instruments of other entities and interests in joint ventures, other than those classified as cash and cash equivalents held for dealing or trading[36]	– Payments to acquire equity instruments of other entities, other than those carried in a trading account by banks, brokers, and dealers in securities and other enterprises[37] – Payments to purchase equity available-for-sale securities[38]
See cash flows from operating activities[39]	– Net change in items with quick turnover, large amount, and short maturities, for which net reporting is allowed:[40] • net increase in investments other than cash and cash equivalents • net increase in loans receivable • net increase in debt assets or net decrease in debt liabilities with original maturity of three months or less, including amounts duo on demand

[33]*FASB ASC 230-10-20, 230-10-45-12, 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 23.a); FASB Statement No. 95, ¶ 95; Minchin, R. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech [last accessed: November 26, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. Washington, DC: SEC Available at: www.sec.gov [last accessed: April 26, 2006].*
[34]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 17.a); FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 10, 27, 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*
[35]*FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8).*
[36]*IAS 7, ¶ 16(c).*
[37]*FASB ASC 230-10-45-13 (FASB Statement No. 95, ¶ 17.b).*
[38]*FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶ 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*
[39]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates the net change in credit card receivables of a financial institution as investing activity. IAS 7, ¶ IE.B shows all this, as well as certificates of deposit and cash advances and loans to customers, in operating activities.*
[40]*FASB ASC 230-10-45-9; 942-230-55-2 (FASB Statement No. 95, ¶¶ 13, 147).*

Exhibit 5-6 Items Included in Cash Flows from Investing Activities (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
	– Cash payments of premiums of company-owned life insurance when the cash surrender value of the asset is investing in nature[41]
– Cash payments for future, forward, option, and swap contracts that are not held for dealing or trading or classified as financing activities[42]	– Payments to purchase futures contracts[43]
– Cash outflows from hedging instruments where the hedged item generates investing cash flows[44]	– Cash outflows from derivative instruments in a fair value or cash flow hedge that hedge an item that generates investing cash flows may be classified as investing if they do not include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, and the accounting policy is disclosed[45]
– Cash payments to acquire or self-construct property, plant and equipment, and to purchase intangibles and other long-term assets	– Payments at the time of purchase, or soon before or after (e.g., advance payments, down payment), to acquire property, plant and equipment, and other productive assets[46#] – Payments for interest cost capitalized on property, plant and equipment, and other productive assets, as part of the investment cash outflow to purchase those assets[47] – Cash payments to purchase assets for subsequent lease[48] – Cash expenditures by the lessee for leasehold improvement[49] – Cash outflows for collection items purchased by a not-for-profit organization that has a policy of not capitalizing collections[50]
– Expenditures incurred with the objective of generating future cash flows only when an entity recognizes them as assets, such as certain development costs[51] – Cash payments for certain capitalized development costs,[52] including certain costs for website development[53]	– Cash flows related to those software development costs that qualify for capitalization, including certain costs of computer software for sale or lease to others, computer software for internal use, and website development costs[54]

[41]*FASB ASC 325-30-05-3, 325-30-25-1, 325-30-35-2 (FASB Technical Bulletin No. 85-4, ¶¶ 2, 5).*
[42]*IAS 7, ¶ 16(g).*
[43]*FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶ 14, Footnote 4).*
[44]*IAS 7, ¶ 16.*
[45]*FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶¶ 14, Footnote 4). Alternatively, an entity may classify such cash flows according to their nature.*
[46]*FASB ASC 230-10-45-13 (FASB Statement No. 95, ¶ 17.c, Footnote 6).*
[47]*FASB ASC 230-10-45-13 (FASB Statement No. 95, ¶ 17.c, Footnote 7).*
[48]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*
[49]*AICPA Technical Practice Aid, TPA 5600.17; SEC Staff Letter, February 7, 2005. [Online] SEC. Available at: www.sec.gov/info/accountants/staffletters/cpcaf020705.htm [last accessed: February 4, 2009].*
[50]*FASB ASC 958-805-25-23 (FASB Statement No. 164, ¶ 39).*
[51]*IAS 7, ¶¶ 16, BC3.*
[52]*IAS 7, ¶ 16(a).*
[53]*SIC Interpretation No. 32.*
[54]*FASB ASC Subtopic 985-20 (FASB Statement No. 86); FASB ASC Subtopic 365-40 (AICPA Statement of Position No. 98-1); FASB ASC Subtopic 350-50 (EITF Issue No. 00-2).*

(continued)

Exhibit 5-6 Items Included in Cash Flows from Investing Activities (*Continued*)

IFRSs	*U.S. GAAP and SEC Guidance*
– Expenditures for exploration and evaluation activities when an entity recognizes them as assets[55]	– Cash expenditures for exploratory wells for SEC registrants that apply the successful efforts method of accounting for oil and gas producing activities[56]
– Cash payments of income taxes that are specifically identified with investing activities[57#]	
– Cash payment from obtaining control of subsidiaries and other businesses, net of cash and cash equivalents acquired[#]	– Payments for purchase of a company, net of cash and cash equivalent acquired[59#]
– Cash payment from losing control of subsidiaries and other businesses, net of cash and cash equivalents disposed of[58#]	
	– Elective separate disclosure of cash outflows from extraordinary items of investing nature[60]
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to investing activities, except for newly acquired subsidiaries classified as held for sale on acquisition[61]	– Elective separate disclosure of cash outflows from discontinued operations of investing nature[62]
	– For SEC registrants: related party transactions[63#]
	– All other cash payments that derive from transactions defined as investing activities[64]
Net cash flows from investing activities[#]	**Net cash flows from investing activities[#]**

[55]*IFRS 6, ¶¶ BC23A, BC23B; IAS 7, ¶¶ 16, BC3.*
[56]*SEC, 2001. Division of Corporate Finance:* Frequently Requested Accounting and Financial Reporting Interpretations and Guidance*, ¶ II.F.8.*
[57]*IAS 7, ¶¶ 14(f), 35.*
[58]*IAS 7, ¶¶ 39, 41, 42.*
[59]*FASB ASC 230-10-55-10 (FASB Statement No. 95, ¶ 131). The pronouncement shows this item separately but it does not explicitly state it.*
[60]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*
[61]*IFRS 5, ¶¶ 13, 33(c).*
[62]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each section; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*
[63]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*
[64]*FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.e).*

Comment: Subsection 942-230-55 (FASB Statement No. 95) illustrates the net change in credit card receivables of banks and financial institutions as investing activity. IAS 7 shows this, as well as certificates of deposit and cash advances and loans to customers, even if not trading, in operating activities.[197] However, as explained in Paragraph 5.6.18 previously, Section 230-10-45 (FASB Statement No. 102) requires operating classification for loans held for resale and carried at market value or at the lower of cost or market value, whereas cash flows relating to other types of loans made to customers are investing activities.

5.5.4.7 New Developments The *Financial Statement Presentation Project* would place investing activities as part of business activities. But, their notion would be dramatically different. Investment assets and liabilities have the goal of generating a return, such as investment securities, dividends and interest on investments, real estate investments, and nonfinancial assets that generate rents, royalties or other fees, or equity method investments. On the contrary, cash flows from purchase and sale of tangible assets would fall into cash flows from operating activities.[198]

5.5.5 Cash Flows from Financing Activities

5.5.5.1 Definition of Cash Flows from Financing Activities Section 230-10-20 (FASB Statement No. 95) defines cash flows from financing activities as those from transactions with owners and third-party lenders.[199] IAS 7 defines them similarly, but it stresses a link to the size and the composition with the entity's finance structure.[200]

The FASB rejected a separate section for capital (i.e., equity) cash flows for not-for-profit organizations.[201] Similarly, the *Financial Statement Presentation Project* would also prohibit separate categories of debt and equity financing.[202]

5.5.5.2 Gross Reporting An entity must separately display major classes of gross financing inflows and inflows in the statement of cash flows, except to the extent it can report certain items net (see Paragraph 5.5.10 following).[203]

5.5.5.3 Items Included in Cash Flows from Financing Activities Exhibit 5-7 lists the main items that an entity must include in cash flows from financing activities, including those that it must separately display or disclose.

Comment: Section 942-230-55 (FASB Statement No. 95) illustrates net change in demand deposit and other short-term borrowings of a financial institution in financing activities. IAS 7 shows these in operating activities.[204]

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[197] *FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147); IAS 7, ¶¶ 15, 16(e), 16(f), IE.B.*
[198] *Staff Draft, ¶¶ 71, 82, 179, 182.*
[199] *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 18).*
[200] *IAS 7, ¶ 6.*
[201] *FASB Statement No. 117, ¶ 142.*
[202] *Staff Draft, ¶ 85.*
[203] *FASB ASC 230-10-45-26 (FASB Statement No. 95, ¶ 31); IAS 7, ¶ 21.*
[204] *FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147); IAS 7, ¶ IE.B.*

Exhibit 5-7 Items Included in Cash Flows from Financing Activities

IFRSs[1]	*U.S. GAAP*
Cash inflows:	
– Cash proceeds from issuing shares or other equity instruments[2]	– Cash proceeds from issuing equity securities[3#]
– Cash inflows from changes in ownership interests in subsidiaries with no loss of control[4]	
	– Cash received from the exercise of share options and similar instruments granted under share-based payment arrangements[5@]
– Cash proceeds from issuing debentures, loans, bonds, mortgages, notes, mortgages, and other short- or long-term borrowings[6]	– Cash proceeds from issuing bonds, mortgages, notes, and other short- or long-term credit[8#]
– Cash proceeds from bank borrowings, except bank overdrafts that an entity classifies as cash equivalents[7]	
	– Progress and advance payments of Federal Government contractors, when accounted for as borrowings[9]
	– Cash proceeds from seller or third-party financing of productive assets[10]
	– Cash proceeds from third-party financing of purchase of inventory by dealers[11]
– Cash receipts for grants related to assets[12]	– Cash receipts from contributions and investment income restricted by donor stipulation for acquiring, constructing, or improving PP&E or other long-lived assets or establishing or increasing a permanent or long-term endowment[13]

This is not a comprehensive inventory because it comprises only items that accounting pronouncements mention for either separate presentation, presentation, or inclusion in captions presented, or for either display or note disclosure. The Exhibit does not include items that require note disclosure only.

[#]*Items (under U.S. GAAP, additional items) for which separate presentation on the face of the statement of cash flows is mandatory. In addition, FASB ASC 230-10-45-26 (FASB Statement No. 95, ¶ 31) and IAS ¶ 21 require reporting of major classes of gross financing cash inflows and outflows.*

[@]*Items that can either be presented on the face of the statement of cash flows or disclosed in the notes.*

[1]*IAS 7, ¶ 21 requires separate presentation of gross amounts of major classes of financing inflows and outflows, except when the standard permits net reporting.*

[2]*IAS 7, ¶ 17(a).*

[3]*FASB ASC 230-10-45-14 (FASB Statement No. 95, ¶ 19.a).*

[4]*IAS 7, ¶¶ 42A, 42B.*

[5]*FASB ASC 718-10-50-2 (FASB Statement No. 123R, ¶ A240.i); FASB Statement No. 123R, ¶ B244. Presentation or note disclosure is possible. The pronouncement mentions separate disclosure.*

[6]*IAS 7, ¶ 17(c).*

[7]*IAS 7, ¶ 8.*

[8]*FASB ASC 230-10-45-14 (FASB Statement No. 95, ¶ 19.b).*

[9]*FASB ASC 912-405-45-7 (AICPA Audit and Accounting Guide, FGC, ¶ 3.85) .*

[10]*FASB ASC 230-10-55-15 (FASB Statement No. 95, ¶¶ 20.c, Footnotes 6 and 8); FASB Statement No. 95, ¶ 96.*

[11]*FASB ASC 230-10-45-14, 230-10-45-15 (FASB Statement No. 95, ¶¶ 19.b, 20.b, 20.c); Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*

[12]*IAS 20, ¶ 28 appears to suggest separate presentation, irrespective of whether or not the entity presents the asset net of the grant in the statement of financial position.*

[13]*FASB ASC 230-10-20, 230-10-45-14 (FASB Statement No. 95, ¶¶ 18, 19.c).*

Exhibit 5-7 Items Included in Cash Flows from Financing Activities (*Continued*)

IFRSs	*U.S. GAAP*
	– Cash proceeds from sale by a seller-lessee that retains substantially all the right to use the asset in a sale-leaseback[14]
	– Cash proceeds from sale by a seller-lessee that retains more than a minor part but less than substantially all the right to use the asset in a sale-leaseback
– Cash proceeds from transfers of accounts receivable accounted for as collateralized borrowings[15]	– Cash proceeds from transfers of accounts receivable accounted for as collateralized borrowings[16]
	– Cash inflows received from derivative instruments in a fair value or cash flow hedge that hedge an item that generates financing cash flows may be classified as financing if they do not include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, and the accounting policy is disclosed[17]
– Cash receipts from future, forward, option, and swap contracts that are classified as financing activities[18] – Cash inflows from hedging instruments where the hedged item generates financing cash flows[19]	– Cash inflows from a derivative instrument must be classified as financing when the derivative does include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments[20]
– Cash refunds of income taxes that are specifically identified with financing activities[21#]	
	– Excess tax benefit recognized in equity from share-based payment arrangements[22#]
	– Elective separate disclosure of cash inflows from extraordinary items of financing nature[23]

[14]*FASB ASC 840-40-25-2, 840-40-25-3 (FASB Statement No. 13,* Accounting for Leases*, ¶ 33); FASB Statement No. 13, ¶ 107; FASB Statement No. 28,* Accounting for Leases with Leasebacks*, ¶ 11; FASB ASC 840-40-25-4 (FASB Statement No. 28, ¶ 17).*
[15]*IAS 7, ¶¶ 14(a), 17(c).*
[16]*FASB ASC 230-10-45-14, 230-10-45-16 (FASB Statement No. 95, ¶¶ 19.b, 22.a).*
[17]*FASB ASC 230-10-45-27, 230-10-45-14 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 19.d). Alternatively, an entity may classify such cash flows according to their nature.*
[18]*IAS 7, ¶ 16(h).*
[19]*IAS 7, ¶ 16.*
[20]*FASB ASC 230-10-45-23, 230-10-45-27 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 24).*
[21]*IAS 7, ¶¶ 14(f), 35.*
[22]*Under FASB ASC 230-10-45-14, 230-10-45-17, 230-10-45-25 (FASB Statement No. 95, ¶¶ 19.e, 23.c, 27.f); FASB Statement No. 123R, ¶ A96, windfall stock option deduction refers to the income tax deduction related to the share-based payments arrangements expense deducted for tax purposes and not recognized for accounting purposes. An entity must report it as a financing inflow and an operating outflow.*
[23]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*

(continued)

Exhibit 5-7 Items Included in Cash Flows from Financing Activities (*Continued*)

IFRSs	*U.S. GAAP*
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to financing activities, except for newly acquired subsidiaries classified as held for sale on acquisition[24]	– Elective separate disclosure of cash inflows from discontinued operations of a financing nature[25] – For SEC registrants: related party transactions[26#] – All other cash receipts that derive from transactions defined as financing activities[27]
Cash outflows:	
– Cash payments to owners to acquire or redeem own shares[28]	– Cash distributions to owners, including dividends[29] – Re-acquisition of own equity instruments[#]
– Cash outflows from changes in ownership interests in subsidiaries with no loss of control[30] – Dividends paid[31#]	
	– Cash used to settle equity instruments granted under share-based payment arrangements[32@] – Payments to holders of shares subject to mandatory redemption where no other equity instruments exist[33#]
– Cash repayments of borrowings, except bank overdrafts that an entity classifies as cash equivalents[34]	– Cash repayments or settlements of borrowings[35#]
	– Payments for debt issue costs[36] – Cash payments of third-party financing of purchase of inventory by dealers[37] – Cash repayments of principal of seller-financed debt directly related to a purchase of PP&E or other productive assets and repayments of principal to other long-term creditors[38]

[24]*IFRS 5, ¶ 13, 33(c).*
[25]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each section; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*
[26]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*
[27]*FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.c).*
[28]*IAS 7, ¶ 17(b).*
[29]*FASB ASC 230-10-45-15 (FASB Statement No. 95, ¶ 20.a) does not require a presentation of dividends paid separate from other distributions to owners.*
[30]*IAS 7, ¶¶ 42A, 42B.*
[31]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or financing.*
[32]*FASB ASC 718-10-50-2 (FASB Statement No. 123R, ¶ A240.i); FASB Statement No. 123R, ¶ B244. Presentation or note disclosure is possible. The pronouncement mentions separate disclosure.*
[33]*FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement No. 150, ¶¶ 19, A6, B59).*
[34]*IAS 7, ¶¶ 8, 17(d).*
[35]*FASB ASC 230-10-20, 230-10-45-15 (FASB Statement No. 95, ¶¶ 18, 20.b).*
[36]*EITF Issue No. 95-13.*
[37]*FASB ASC 230-10-45-14, 230-10-45-15 (FASB Statement No. 95, ¶¶ 19.b, 20.b, 20.c); Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*
[38]*FASB ASC 230-10-55-15 (FASB Statement No. 95, ¶¶ 20.c, Footnotes 6 and 8); FASB Statement No. 95, ¶ 96.*

Exhibit 5-7 Items Included in Cash Flows from Financing Activities (*Continued*)

IFRSs	*U.S. GAAP*
– Principal payments under finance lease obligations by a lessee[39]	– Principal payments under capital lease obligations by a lessee[40]
– Cash payments for future, forward, option, and swap contracts that are classified as financing activities[41] – Cash outflows from hedging instruments where the hedged item generates financing cash flows[42]	– Cash outflows and distributions to counterparties of derivative instruments in a fair value or cash flow hedge that hedge an item that generates financing cash flows may be classified as financing if they do not include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, and the accounting policy is disclosed[43] – Cash outflows and distributions to counterparties of a derivative instrument must be classified as financing when the derivative does include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments[44]
– Interest paid[45#] – Cash payments of income taxes that are specifically identified with financing activities[46#]	
	– Elective separate disclosure of cash outflows from extraordinary items of financing nature[47]
– Either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows from discontinued operations related to financing activities, except for newly acquired subsidiaries classified as held for sale on acquisition[48]	– Elective separate disclosure of cash outflows from discontinued operations of a financing nature[49]
	– For SEC registrants: related party transactions[50#] – All other cash payments that derive from transactions defined as financing activities[51]
Net cash flows from financing activities[#]	**Net cash flows from financing activities[#]**

[39]*IAS 7, ¶ 17(e).*
[40]*FASB ASC 230-10-55-10 (FASB Statement No. 95, ¶ 131).*
[41]*IAS 7, ¶ 16(g).*
[42]*IAS 7, ¶ 16.*
[43]*FASB ASC 230-10-45-23, 230-10-45-27, 230-10-45-15 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 20.d, 24). Alternatively, an entity may classify such cash flows according to their nature.*
[44]*FASB ASC 230-10-45-23, 230-10-45-27, 230-10-45-15 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 24).*
[45]*IAS 7, ¶¶ 31, 33. An entity may show this item either as operating or financing.*
[46]*IAS 7, ¶¶ 14(f), 35.*
[47]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*
[48]*IFRS 5, ¶¶ 13, 33(c).*
[49]*FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10). The SEC Staff considers acceptable three of the current practices: 1) combination with each of the three basic categories; 2) separate disclosure within each section; and 3) as the last item before net changes in cash flows, broken down into the three classes (Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007]).*
[50]*FASB ASC 235-10-S99-1 (Regulation S-X, ¶ 210.4-08(k)(1)).*
[51]*FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.e).*

5.5.6 Effect of Changes in Foreign Currency

5.5.6.1 Translation Method Both U.S. GAAP and IFRSs require the recording of cash flows arising from transactions in foreign currencies by using the exchange rates at the date of the cash flows. A practical approximation, such as period weighted average rates as used for the purpose of the statement of comprehensive income, may be acceptable if, under U.S. GAAP, results are approximately unchanged or if, under IFRSs, rates do not fluctuate significantly. The same method applies to translate the cash flows of foreign operations in consolidated financial statements.[205]

5.5.6.2 The Effect of the Translation versus the Remeasurement Method The following discussion explains the effect of the translation versus the remeasurement methods on the statement of cash flows.

> **Planning Point:** Under the direct method, whether the translation or the remeasurement method applies (i.e., when the foreign or the reporting currency is the functional currency of the subsidiary, respectively) is irrelevant to determine the subsidiary's statement of cash flows in the reporting currency. In fact, in both cases transaction rates apply to determine the subsidiary's cash flows in reporting currency. However, under the indirect method the amounts of the individual lines of cash flows from operations vary, although the total does not change. This is because under the remeasurement method net income includes the remeasurement gain or loss (added back as a noncash item). Adjustments for noncash items may also differ: for example, the current method translates depreciation at average exchange rates, while the remeasurement method uses the historical rate.

> **Comment:** Translation or remeasurement methods do not affect the amount of the cash and cash equivalents reconciling item. Conversely, the translation currency adjustment in other comprehensive income under the current method differs from the remeasurement gain or loss in net income under the remeasurement method.

5.5.6.3 Transaction Gains or Losses under the Direct and Indirect Methods The following discussion explains the treatment of the transaction gains or losses under the direct and indirect methods.

> **Planning Point:** Under the indirect method, an entity need not add back unrealized transaction foreign currency gains or losses that are included in net income and that affect new working capital. In fact, the net working capital change in the statement of cash flows neutralizes such a noncash item. This is shown in the Implementation Guidance of IFRSs for small and medium-sized entities.[206] Alternatively, the entity may back out the transaction gains or losses and exclude them from the changes in net working capital. Conversely, an adjustment must remove a settled gain or loss from net income that relates to a financing or an investing cash flow, e.g., for payment for equipment.

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[205] *FASB ASC 830-230-45-1 (FASB Statement No. 95, ¶ 25); IAS 7, ¶¶ 25-27; IAS 21,* The Effects of Changes in Foreign Exchange Rates*, ¶¶ 7, 22.*

[206] IFRS for Small and Medium-sized Entities*, ¶ Illustrative Financial Statements.*

5.5.6.4 Separate Presentation of the Effect of Exchange Rate Changes Under both U.S. GAAP and IFRSs, a separate line in the statement of cash flows shows the impact of exchange rate changes on cash and cash equivalents. This is simply a line item to reconcile the ending balance of cash and cash equivalents in the statement of cash flows to the one in the statement of financial position. As the latter amount results from translating foreign cash and cash equivalents at the exchange rates at the end of the reporting period, this reconciling line incorporates any unrealized gains or losses arising from translating foreign currency cash and cash equivalents at closing rates: these unrealized gains or losses do not represent cash flows.[207]

Planning Point: Subtopic 230-10 (FASB Statement No. 95) considers this as a separate part of the reconciliation of changes in cash and cash equivalents. However, it shows it as a line separate from operating, investing, and financing cash flows that enters into the determination of net cash flows.[208] Some companies show it after net cash flows.[209] Conversely, IAS 7 describes it as part of the reconciliation of beginning to ending cash and cash equivalents, but actually presents it in a footnote to the cash and cash equivalents balances in the statement of cash flows.[210] In practice, IFRS companies use any of these presentation formats.[211] The Staff Draft of the *Financial Statement Presentation Project* would use a wording similar to IAS 7, but a presentation similar to current U.S. GAAP examples.[212]

Example: In response to the SEC Staff in its review of Form 20-F of a foreign private issuer from The Netherlands for the fiscal year ended December 31, 2005, the company explained that it had moved the effects of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents from the computation of cash flows under previous GAAP to a reconciling item under IAS 7 to arrive at the ending balance of cash and cash equivalents in the statement of financial position.[213]

5.5.6.5 Calculation of the Effect of Exchange Rate Changes Two ways exist to calculate the effect of exchange rate changes on cash and cash equivalents.

Planning Point: One method, as shown in Subsection 830-230-55-15 (FASB Statement No. 95),[214] first determines the effect on the beginning balance of cash and cash equivalents. This is the beginning balance in local currency times the net change in exchange rate during the period. Then, the difference between the subsidiary's cash flows translated at closing rate and the cash flows as reported in the statement of cash flows translated at transaction dates measures the effect of exchange rate changes attributable to the cash flows of the year. The sum of these components makes the total effect of

[207] *FASB ASC 830-230-45-1 (FASB Statement No. 95, ¶ 25); FASB Statement No. 95, ¶ 101; IAS 7, ¶ 28.*
[208] *FASB ASC 830-230-45-1, 830-230-55-2 (FASB Statement No. 95, ¶¶ 25, 136).*
[209] *For example, AICPA ATT 2006, ¶ 6.52.*
[210] *IAS 7, ¶¶ 28, IE Note C.*
[211] *For example, see AICPA IFRS ATT 2009, ¶¶ 5.22, 5.23 for the reconciling item as part of changes in cash and cash equivalents, ¶¶ 5.21, 5.24, 5.25 for the reconciling item before net cash flows, and ¶¶ 5.20, 5.26, 5.28 for the reconciling item after net cash flows.*
[212] *Staff Draft, ¶¶ 196, IG28.*
[213] *IAS 7, ¶ 28.*
[214] *FASB ASC 830-230-55-15 (FASB Statement No. 95, ¶ 146).*

exchange rate changes. Another method computes the overall effect as a plug. This corresponds to the difference between the period change in cash and cash equivalents in the subsidiary's statement of financial position translated or remeasured in reporting currency and the net cash flows in the subsidiary's statement of cash flows translated or remeasured in reporting currency.

5.5.6.6 Calculation in Consolidated Statement of Cash Flows The generally used and simplified method of computing the consolidated statement of cash flows from the other consolidated individual statements (see Paragraph 5.5.11 following) is not acceptable in presence of foreign operations.[215]

Planning Point: This so-called short-cut method determines the effect of exchange rate changes on cash and cash equivalents erroneously. In fact, changes in a subsidiary's assets and liabilities translated or remeasured in reporting currency already include the effect of exchange rates, a fact that would misstate operating, investing, and financing cash flows and the reconciling item for the effect of exchange rates. The SEC Staff clarifies that, in the presence of foreign operations, determining changes in working capital items as the difference between ending and beginning balances in the statement of financial position is wrong.[216] In addition, this method allows the calculation of the effect of exchange rate changes only under the indirect method and as a total figure at consolidated level, not for each subsidiary.

5.5.7 Price-Level Adjusted Statement of Cash Flows

5.5.7.1 SEC Guidance Form 20-F allows foreign private issuers to include price-level adjusted financial statements, required or permitted by local GAAP, in SEC filings. It also provides an accommodation to foreign private issuers reporting under a home-country GAAP constituting a comprehensive system of price-level accounting in primary financial statements, i.e., historical cost/constant currency or current cost accounting. They can omit reconciliation to U.S. GAAP relating to the effects of changes in price levels, in exchange for certain disclosures.[217]

In particular, the SEC requires a comprehensive segregation of the impact of inflation on cash flows in price-level adjusted statement of cash flows in filing with the SEC, such as the display of an additional specific category. This caption must be separate from cash flows from operating, investing, and financing activities. The rationale is that the inclusion of the effects on operating, investing, and financing activities sections may otherwise undermine the respective cash flow amounts.[218] An entity must present a full, not a condensed, price-level adjusted statement of cash flows, even if home-GAAP does not require a statement of cash flows as part of price-level adjusted financial statements.[219]

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[215] *FASB Statement No. 95, ¶ 104.*

[216] *Davine 1996 Speech ¶ E.*

[217] *Form 20-F, Item 17(c)(2)(iv)(A).*

[218] *IPTF, May 28, 1998, ¶ XVIII;* AICPA, 1998. AICPA International Practices Task Force Meeting Highlights, November 24, 1998*, Washington, DC, AICPA, ¶ VI. [Online] AICPA. Available at:* www.aicpa.org *[last accessed July 9, 2010]; SEC,* Financial Reporting Manual*, ¶ 6720.4; SEC, International, November 1, 2004, ¶ XI.4.*

[219] *IPTF, March 22, 2005, ¶ 5.*

As a further point, by analogy with the effect of foreign exchange rates on cash and cash equivalents, monetary gain or loss is not a cash flow itself, and as such it should be presented separately as a reconciling item of cash and cash equivalents. By analogy with the treatment of foreign exchange rates under the indirect method, an entity need not adjust back monetary gain or loss on items that are part of net working capital as the net working capital change neutralizes this noncash item. Alternatively, it could back out the monetary gain or loss and exclude it from the changes in net working capital. In any case, regular presentation and analysis of operating, investing, and financing activities in local currencies remain necessary.[220]

5.5.7.2 Approaches under IAS 29 IAS 29 requires the restatement of individual items of the statement of cash flows based on a general price index, although the standard does not provide application guidance or illustrative examples.[221] Different practices of presenting monetary gain on loss have been reported, from commingling inflation effects with specific items, to identifying the total impact per operating, investing, and financing activities, or reporting a single separate item[222] (similarly to the approach preferred by the SEC).

5.5.8 Other Cash Flow Aggregations

5.5.8.1 Permitted Aggregations Paragraph 5.5.1 previously explains that operating, investing, and financing activities are the only characterizations required and permitted by U.S. GAAP and IFRSs on the face of the statement of cash flows. In reality, Paragraph 5.5.6 previously explains that the foreign exchange effect on cash and cash equivalents become a fourth admitted caption. SEC guidance regards another category as appropriate for the effect of inflation on price-level adjusted statements of cash flows (Paragraph 5.5.7 previously). Further, a separate item before net changes in cash flows broken down into the three classes is one of the allowed options that the SEC Staff accepts to present cash flows from discontinued operations (see Paragraph 5.6.24 following). Finally, for a financial institution, IAS 7 illustrates a subtotal for net cash from operating activities before income taxes.[223]

5.5.8.2 The Debate Against Additional Aggregations Although IAS 7 appears not to be strictly prescriptive on the display of the statement of cash flows,[224] subtotals and aggregation other than operating, investing, and financing activities would very rarely be considered acceptable.

Planning Point: In fact, IAS 7 states that each company adopts the presentation that best suits its business. It encourages additional information if relevant for an understanding of financial position and liquidity.[225] However, companies have often misunderstood this alleged flexibility, as allowing exceptions to existing requirements. In other situations, regulators have considered a narrower interpretation of the basic trichotomy, as shown in some of the following examples.

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[220] *AICPA, 1997.* AICPA International Practices Task Force Meeting Highlights, December 2, 1997, *Washington, DC, AICPA, ¶ XII. [Online] AICPA. Available at:* www.aicpa.org *[last accessed July 9, 2010].*

[221] *IAS 29,* Financial Reporting in Hyperinflationary Economies, *¶ 33.*

[222] *Bonham, M. et al. (Ernst & Young) (2004)* International GAAP*, UK: LexisNexis, Chapter 2.4.5.*

[223] *IAS 7, ¶ IE.B.*

[224] *IAS 7, ¶ 11.*

[225] *IAS 7, ¶ 50.*

Example: The SEC Staff, in its review of Form 20-F of a Swedish foreign private issuer for the fiscal year ended December 31, 2005 was against using subtotals for cash flows from operating investing activities and cash flows before financial investing activities to distinguish investing in core business productive assets from investing in financial assets.[226]

Example: The SEC Staff, in its review of Form 20-F of an Italian foreign private issuer, requested explanations of a separate caption of cash flows due to changes in scope of subsidiaries that were consolidated (i.e., a change in reporting entity). According to the company, this did not fall into any of the three categories under IFRSs.[227] Strangely, the discussion did not focus on disclosing this item in noncash investing and financing transactions and recasting comparative information.

Example: The SEC Staff, in its review of Form 20-F of a British foreign private issuer, requested explanations of a subtotal of cash flows from operating plus investing activities. The company explained to the SEC Staff that such aggregate assisted users in evaluating cash for dividends, debt servicing, and share repurchase.[228]

5.5.8.3 New Developments The Staff Draft of the *Financial Statement Presentation Project* proposes radical changes to the categories of the statement of cash flows and their meanings. Net cash flows from business activities would breakdown into net cash flows from operating activities and net cash flows from investing activities. Net cash flows from business activities plus net cash flows from financing activities would give net cash flows from continuing operations before taxes. Two new classifications would follow with intermediate subtotals: cash paid for income tax and net cash flows from discontinued operations. Unlike the statement of financial position and the statement of comprehensive income, the statement of cash flows would not include the operating finance category. The entity would ensure the same prominence and consistency of presentation of headings and subtotals across statements, including any other totalization that they may judge useful, although the same sorting is not mandatory.[229]

5.5.9 Noncash Investing and Financing Activities

5.5.9.1 Prohibition to Display in the Statement of Cash Flows Under both U.S. GAAP and IFRSs investing and financing activities (or transactions) that do not entail movements of cash and cash equivalents in the current period cannot show up in the statement of cash flows. The statement of cash flows includes only the cash part of a transaction that comprises both cash and noncash components.[230]

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[226] *SEC IFRS Reviews. Letters by the SEC, December 17, 2006 and March 12, 2007. File No. 0-12033, Comment 6. Reply by the company, December 21, 2006 and April 2, 2007.*

[227] *SEC IFRS Reviews. Letters by the SEC, September 28, 2006. File No. 001-14090, Comment 5. Reply by the company, October 27, 2006.*

[228] *SEC IFRS Reviews. Letters by the SEC, December 29, 2006. File Nos 1-10533 & 0-20122, Comment 1. Reply by the company, March 31, 2007.*

[229] *Staff Draft, ¶¶ 80, 112, IG28, BC118.*

[230] *FASB ASC 230-10-50-5 (FASB Statement No. 95, ¶ 32); IAS 7, ¶ 43.*

5.5.9.2 Rationale for Reporting Noncash Investing and Financing Activities Reporting noncash investing and financing activities has information value.

> **Comment:** The rationale is that certain transactions have no cash payment or receipt in the current period. Yet, they may determine cash changes in other periods or otherwise prevent them occurring.

This category may also provide a better understanding of certain transactions.

> **Example:** The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed, in part, that an issuer did not comply with IAS 7. It reported an increase in a loan receivable, due to the disposal of a subsidiary to which it had granted a loan, as an investing cash outflow instead of a noncash transaction resulting from the fact that due to deconsolidation the consolidated financial statements no longer eliminated the loan.[231]

On the other hand, under certain circumstances, inconsistencies may arise when a cash flow is split into two or more notional cash flows, a fact that is tantamount to reporting noncash activities.

> **Planning Point:** For example, the statement of cash flows may split a single real cash flow into imputed components (therefore, not real cash flows), as in the case of windfall stock option deduction (Paragraph 5.6.27 following) or a third-party dealer financing of purchase of inventory (Paragraph 5.6.15 following). Many have criticized such a treatment.

5.5.9.3 Location of Disclosure IAS 7 prohibits the display of noncash transactions on the face of the statement of cash flows, but it is not specific on the location of their disclosure. Its illustrative example shows this explanation as part of notes to the statement of cash flows.[232] Subtopic 230-10 (FASB Statement No. 95) permits either narrative or schedule disclosures, provided they clearly reference the statement of cash flows, and illustrates them as a supplemental schedule below the statement of cash flows. Entities can present them on the same page as the statement, but not on its face. It adds that information provided must link cash and noncash features of transactions that involve similar items.[233] The Staff Draft of the *Financial Statement Presentation Project* maintains the form of supplemental disclosure. It also requires information on the effect on the enterprise's capital structure and asset structure.[234]

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[231] *Committee of European Securities Regulators (CESR), 2010. CESR/09-720,* 6th Extract from EECS's Database of Enforcement Decisions, *Paris: CESR, ¶ Decision ref. EECS/0809-04. [Online] CESR. Available at:* www.cesr.eu *[last accessed July 20, 2010].*

[232] *IAS 7, ¶¶ 43, IE Note B.*

[233] *FASB ASC 230-10-50-3, 230-10-50-6, 230-10-55-11, 230-10-55-15 (FASB Statement No. 95, ¶¶ 32, 74, 131, 132).*

[234] *Staff Draft, ¶¶ 174, 175; IASB Update, April 2010.*

The SEC views a lack of disclosure of noncash investing and financing transactions as one of the common mistakes in the U.S. GAAP reconciliation of the statement of cash flows by foreign private issuers.[235]

Apart from the statement of cash flows, the Staff Draft of the *Financial Statement Presentation Project* would include information on noncash transactions in the analyses of changes in assets and liabilities.[236]

5.5.9.4 Separating Noncash Investing from Financing Activities Most companies do not separate disclosure of noncash investing transactions from noncash financing transactions, although some do.[237]

> **Comment:** Indeed, some transactions have the nature of both. For example, obtaining a fixed asset through a capital lease, generally regarded as noncash financing transaction, is also a noncash investing activity.

5.5.9.5 Items Included in Noncash Investing and Financing Activities Examples of noncash investing and financing transactions may comprise: a purchase of assets against a capital (under IFRSs, finance) lease or by assuming debt; a purchase of real estate by means of a mortgage from the seller or another seller-financed arrangement; or a receipt of an asset as a gift or donation. Other transactions may comprise a business combination to the extent cash is not involved (e.g., assumption of liabilities, issuance of stock); a debt to equity swap; an exchange of other noncash assets or other noncash liabilities; some nonmonetary transaction,[238] barter transactions, and an exchange of loans or trade receivables for retained interests in securitized loans.[239] Under U.S. GAAP, the acquirer in a business combination between nonprofit entities must disclose noncash contributions received and other noncash amounts received or transferred.[240] Investment companies must disclose reinvestment of dividends and distributions.[241] Renewals or modifications of loans for a bank would fall within the scope of these noncash transactions, but need not be separately disclosed to the extent that net reporting applies to these transactions (see Paragraph 5.5.10 following).[242] Paragraph 5.6.13 following illustrates the noncash transaction that occurs at inception of seller financing through a wholly owned captive finance company. Paragraph 5.6.7 following shows the noncash activities related to a leveraged lease transaction at its inception.

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[235] *SEC,* Financial Reporting Manual, *¶ 6510.6.*
[236] *Staff Draft, ¶ 246; IASB Update, April 2010.*
[237] *For example, AICPA ATT 2006, ¶ 6.55.*
[238] *FASB ASC 230-10-50-4, 230-10-55-11 (FASB Statement No. 95, ¶¶ 32, 131); FASB Statement No. 95, ¶ 70 and IAS 7, ¶ 44 mention some of these examples.*
[239] *Minchin, R. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech [last accessed: November 26, 2010].*
[240] *FASB ASC 958-805-50-15, 958-805-55-70 (FASB Statement No. 164,* Not-for-Profit Entities: Mergers and Acquisitions*, ¶¶ 75, A133).*
[241] *FASB ASC 946-230-55-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.75).*
[242] *FASB Statement No. 104,* Statement of Cash Flows – Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions*, ¶ 16.*

Planning Point: Whether entities should disclose some other transactions not mentioned in authoritative pronouncements as noncash investing or financing is controversial. This finds diverse application in practice. Several authors have discussed this topic. Examples may comprise stock dividends, conversion of convertible debt, declarations of unpaid cash dividends, or the portion of dividends not yet paid during the year. Other occurrences may comprise current/noncurrent liabilities reclassifications, debt restructuring with no cash involved, redemption of a class of stock for another class, capitalization of retained earnings, changes in asset foreclosure, salvage property acquired by exercising rights to recoveries, or retirement of fully depreciated assets.[243]

5.5.9.6 Composition of Consideration in a Business Combination Paragraph 5.5.11 following explains the requirement to disclose the composition of the consideration transferred or received in obtaining or losing control of a subsidiary or other businesses, as a single line displays the investing cash flow for the net cash involved.

Comment: By analogy, such a note disclosure is consistent with the disclosure of noncash investing and financing transactions, when seeing the business acquired or disposed of as a composite of individual assets other than cash and liabilities.

5.5.9.7 Comparison with Operating Activities Conversely, U.S. GAAP and IFRSs do not require the disclosure of operating noncash items as part of noncash transactions.

Comment: Presumably, this is because they already appear on the face of the statement under the indirect method. The Staff Draft of the *Financial Statement Presentation Project* makes this clear.[244]

Comment: Sales of goods against an installment note do not generate any cash movements at inception, but will create operating cash flows afterwards. An entity that sees such a transaction as investing in nature would disclose it as part of noncash investing and financing transactions. Paragraph 5.6.11 following explains that this is an operating transaction. However, an entity that considers it so would not disclose any noncash transactions at inception. Some have criticized this alleged inconsistency.[245] This dilemma covers all noncash transactions that do not affect the income statement and that at the same time are neither investing nor financing in nature.

5.5.9.8 Items Affecting Other Comprehensive Income Diverse practices exist on whether noncash items affecting other comprehensive income should be disclosed as noncash investing and financing transactions.

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[243] *Nurnberg, H. (2006)* The Cash Flow Statement. *New York: BNA, Accounting Policy & Practice Portfolios, pages A-1004 analyzes the nature of some of these transactions and concludes that presumably such a disclosure is not required to the extent that these are external transactions and other financial statements already disclose them.*

[244] *Staff Draft, ¶ 176.*

[245] *FASB Statement No. 95, ¶ Dissenting Opinions.*

> **Comment:** The FASB and the IASB rejected comprehensive income as a starting point of the statement of cash flows, because this would add complexity by introducing the reconciliation of other comprehensive income items:[246] this could lead to a negative answer to this question.

5.5.10 Net versus Gross Reporting

5.5.10.1 Basic Principle of Gross Reporting Reporting gross cash receipts and gross cash payments, whether of an operating, investing, or financing nature, is a basic principle of the statement of cash flows.[247] The SEC views net in lieu of gross reporting as one of the common mistakes in the U.S. GAAP reconciliation of the statement of cash flows by foreign private issuers.[248]

However, under certain circumstances, both U.S. GAAP and IFRSs depart from the basic principle of gross cash flows and permit net reporting.

> **Comment:** These occurrences generally involve financial institutions, such as banks and investment companies. However, IAS 7 does not explicitly state that these requirements must apply to financial institutions only. Arguably, this concept may extend into the situations discussed in the following paragraphs when they do not refer to specific industries.

Paragraph 5.6.28 following explains the gross versus net treatment of value added tax and the proposed amendments by the *Financial Statement Presentation Project*.

5.5.10.2 Implicit Limitations of the Indirect Method and Cash Equivalents Firstly, to a certain extent the indirect method implicitly results in reporting cash flows from operating activities on a net basis. Paragraph 5.3 previously goes into this.

Secondly, Subsection 230-10-45-7 (FASB Statement No. 95) notes that cash equivalents are reported net.[249]

> **Comment:** However, Subtopic 230-10 (FASB Statement No. 95) and IAS 7 explain that in essence cash equivalents are outside the scope of cash flow reporting. In fact, cash flow reporting entails the flows that create cash and cash equivalents. As Paragraph 5.3.1 previously explains, the movements within cash and cash equivalents are part of cash management, not cash reporting.[250]

5.5.10.3 Underlying Transactions of Customers The first case of net reporting is when cash inflows and outflows are attributable to underlying transactions of a customer, i.e., a third party, not the reporting entity. Examples involve a bank for the movements of demand deposits

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246 *FASB Statement No. 130, ¶ 107; IAS 1, ¶ BC76.*
247 *FASB ASC 230-10-45-7 (FASB Statement No. 95, ¶ 11); FASB Statement No. 95, ¶ 75; IAS 7, ¶ 21.*
248 *SEC,* Financial Reporting Manual*, ¶ 6510.6.*
249 *FASB ASC 230-10-45-7 (FASB Statement No. 95, ¶ 11).*
250 *FASB ASC 230-10-45-7, 230-10-45-5 (FASB Statement No. 95, ¶¶ 9, 11); FASB Statement No. 95, ¶ 76; IAS 7, ¶ 9.*

(Section 230-10-45 (FASB Statement No. 95) also mentions customer accounts payable of brokers/dealers), an investment company for the funds held for customers, and rent collected and paid on behalf of owners of properties.[251]

> **Comment:** These individual transactions occur between a customer and its counterparties. The bank or the investment company does not have any title to record income or expense. The cash transaction simply translates into a net change in the bank's receivables or payables.

> **Planning Point:** Section 605-45-45 (EITF Issue No. 99-19) and IFRSs have no guidance on whether an entity acting as an agent should report gross or net cash flows for a transaction for which it recognizes revenue net. No issue arises if the agent also receives cash inflows for the net amount of the commission. However, if it receives a gross cash flow on behalf of the principal party and pays another amount to end up with the net commission, the question arises as to whether the statement of cash flows should depict the real gross cash movements or the net amount that reflects the substance of the transaction. On one hand, in reply to the VAT issue mentioned in Paragraph 5.6.28 following, the IFRIC stressed that IAS 7 is clear in always mandating gross reporting, apart from allowed exceptions.[252] On the other hand, an entity that acts as an agent might arguably assert that the gross cash inflows and outflows are attributable to underlying transactions of a third party (i.e., its principal) with another third party (i.e., the end customer), therefore falling into the above exception for net reporting. Unlike the VAT situation, the entity does not have an obligation to pay a third party (the government authority) in its quality of agent.

5.5.10.4 Certain Short-Maturity, Large Cash Flows with Quick Turnover The second type of net reporting consists of short-maturity, large cash flows with quick turnover, such as customer credit card transactions, dealings in investments, and borrowings, with original maturities of the asset or liability equal or less than three months.[253]

> **Comment:** IAS 7 does not relate this second type of net reporting to financial services entities only. FASB Statement No. 104, in amending FASB Statement No. 95, implies that these requirements are general.[254] However, Section 230-10-45 (FASB Statement No. 95) clarifies that the credit card transactions referred to here are those of financial services payable within one month without interest and not arising from sales of goods or services by the entity.[255]

> **Planning Point:** Section 230-10-45 (FASB Statement No. 95) specifies that the investments referred to here are other than cash equivalents. The fact of being short-term is part of the definition of cash equivalents and having an original maturity not exceeding three months is typical (see Paragraph 5.3.4 previously). This means that the investments considered here are those that do not meet the high liquidity criterion of cash equivalents.[256] IAS 7 omits this clarification. Conversely, the fact of

[251] *FASB ASC 230-10-45-8 (FASB Statement No. 95, ¶ 12); IAS 7, ¶¶ 22, 23, 24(a).*
[252] *IFRIC Update, April 2005.*
[253] *FASB ASC 230-10-45-8, 230-10-45-9 (FASB Statement No. 95, ¶¶ 12, 13); IAS 7, ¶ 23A.*
[254] *FASB Statement No. 104, ¶ 2.*
[255] *FASB ASC 230-10-45-9, 942-230-45- (FASB Statement No. 95, ¶¶ 13, Footnote 3, 13A); FASB Statement No. 95, ¶ 80.*
[256] *FASB ASC 230-10-45-8, 230-10-45-9 (FASB Statement No. 95, ¶¶ 8, 13).*

having an original maturity not exceeding three months does not imply that such positions must be either cash equivalents or subject to net reporting: large cash flows with quick turnover are additional conditions.

Planning Point: IAS 7 refers to the three-month threshold only in the case of short-term borrowings and maintains a generic short maturity for other cash receipts and payments, while Section 230-10-45 (FASB Statement No. 95) relates the three-month cutoff to debt assets or liabilities.

Example: The SEC Staff, in its review of Form 20-F of a Swedish foreign private issuer for the fiscal year ended December 31, 2005, challenged the net presentation of borrowing with maturities in excess of three months.[257] In the review of Form 20-F of another Swedish foreign private issuer, the SEC Staff opposed reporting net securities with maturity longer than three months.[258]

Comment: By contrast, IAS 1 reports gains and losses that originate from the same type of transactions as net amounts in the statement of income (see Paragraph 4.5.5 previously), for example, gains and losses on held-for-trading financial instruments, provided they are not individually material.[259]

5.5.10.5 Certain Cash Flows of Financial Institutions Finally, a financial institution (under U.S. GAAP, a bank, a saving institution, and a credit union) may also report cash flows relating to time deposits (i.e., under IFRSs, with fixed maturity date), inter-banking accounts (and, under IFRSs, customer cash advances), and loans to customers and their repayment on a net basis. Section 230-10-45 (FASB Statement No. 95) adds that a consolidated statement of cash flows must indicate these net flows separately from any other gross flows.[260] This accommodation does not extend to insurance, finance companies, and other intermediaries.[261]

Planning Point: The accounting pronouncements mentioned in the situations discussed so far consider net reporting an acceptable option, but do not require it.

In addition, under U.S. GAAP, nonregistered investment partnerships must report gross amounts of payments for purchase and proceeds from sale or maturities of long-term investments, unless they otherwise qualify for net reporting. Conversely, they may report net amounts for short-term investments. They must separate presentation of proceeds and costs for short and long positions.[262]

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[257] *SEC IFRS Reviews. Letter by the SEC, November 17, 2006. File No. 0-12033, Comment 7. Reply by the company, December 21, 2006.*

[258] *SEC IFRS Reviews. Letters by the SEC, November 3, 2006 and December 12, 2007. File No. 0-13722, Comment 2.*

[259] *IAS 1, ¶ 35.*

[260] *FASB ASC 942-230-45-1, 942-230-45-2 (FASB Statement No. 95, ¶ 13A); IAS 7, ¶ 24.*

[261] *FASB Statement No. 104, ¶ 24,*

[262] *AIPCA, Technical Practice Aid, TPA 6910.17,* Presentation of Long and Short Positions – NonRegistered Investment Partnerships.

Exhibit 5-6 and Exhibit 5-7 also show which of the items reported net are investing and which are financing activities.

> **Planning Point:** U.S. GAAP illustrates the net change in demand deposits, time deposits, and savings accounts of a financial institution in financing activities, while net change in credit card receivables and customer loans with maturities of three months or less are shown as investing activities. IAS 7 shows deposit from customers, certificates of deposit, cash advances, and loans to customers in operating activities.[263] The Staff Draft of the *Financial Statement Presentation Project* labels deposit taking and loan making as operating activities in the statement of financial position of a bank.[264]

> **Example:** An Irish bank explained to the SEC Staff, in its review of Form 20-F, that its classification of issue of debt securities as operating as opposed to financing activities reflected the fact that loan making was part of the main revenue-producing activity of a bank.[265]

5.5.10.6 New Developments The Staff Draft of the *Financial Statement Presentation Project* would confirm the current net reporting guidance, and would extend the exceptions applicable to financial institutions to financial services entities, except loans to customers and their repayment.[266] In fact, unless the second criterion for net reporting discussed above applies, entities with deposit activities would report debits and credits to deposit accounts (e.g., loans to customers, their repayment, interest earned by customers, fee expenses due from customers) as gross cash flows.[267]

5.5.11 Consolidated Statement of Cash Flows

5.5.11.1 Consolidation Methods The consolidated statement of cash flows may be prepared directly from the other consolidated individual statements or from the separate financial statements of the companies included in the consolidated group. However, as Paragraph 5.5.6 previously explains, the calculation of the effect of changes in exchange rates on a consolidated statement of cash flows that includes foreign operations requires using the separate financial statements of those foreign operations.

5.5.11.2 Specific Items under the Indirect Method The consolidated statement of cash flows under the indirect method usually presents specific items in addition to those that ordinarily arise in an entity's statement of cash flows. Adjustments to net income to derive cash flows from operating activities may include amortization of fair value adjustments and goodwill impairment. The consolidation process has already eliminated unrealized intercompany profits, as well as intercompany transfers, from the consolidated statement of financial position and the consolidated statement of comprehensive income. As Paragraph 5.6.21 following explains,

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263 *FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147); FASB Statement No. 104, ¶ 29; IAS 7, ¶¶ 16(e), 16(f), IE.B.*

264 *Staff Draft, ¶ 73.c.*

265 *SEC IFRS Reviews. Letter by the SEC, January 25, 2007. File No. 001-14452, Comment 5. Reply by the company, February 16, 2007.*

266 *Staff Draft, ¶¶ 185–188.*

267 *Staff Draft, ¶¶ 190–191, BC192–BC196.*

the entity must add undistributed equity method earnings back, whereas it does not eliminate dividends paid by equity-income investees.

5.5.11.3 Noncontrolling Interest Neither Topic 230 (FASB Statement No. 95), Topic 805 (FASB Statement No. 141R), nor IFRS 3 explicitly explain the presentation of noncontrolling interest in the statement of cash flows.

> **Planning Point:** Under traditional U.S. practice, minority interests were added back to consolidated net income as an adjustment to derive cash flows from operations. Under Subtopic 810-10 (ARB 51, as amended), as well as under IAS 27, noncontrolling interests are now part of equity. Consistently, net income includes both the controlling and noncontrolling portion of net income without requiring such an adjustment.

5.5.11.4 Cash Flows for Obtaining or Losing Control of an Investee IAS 7 requires the display in separate lines of investing cash flows for obtaining, and separately, losing control of a subsidiary or other business. This is shown after offset of the full amount of cash and cash equivalents of the acquired entity (without regard to the ownership interest percentage), as well as those of the business disposed of. Consequently, to avoid double counting, the changes in net working capital shown in the operating section of the statement of cash flows under the indirect method should not consider assets and liabilities of the company acquired or disposed of, as they are already included in the consideration transferred for the acquisition or obtained for the disposal. The line for the payment to acquire the company or business is also comprehensive of amount paid for noncurrent assets and liabilities. The notes must detail the composition of the consideration transferred or received, e.g., cash and cash equivalents paid or received, cash and cash equivalents of the business acquired or disposed of, and other noncash assets and liabilities.[268]

> **Planning Point:** In other terms, the investment outflows for the consideration transferred also include the portion that refers to the fair value of net working capital of the acquiree. Any postacquisition change in net working capital of the former acquiree will be part of the adjustment to net income in the consolidated cash flows from operating activities under the indirect method. Any postacquisition earnings of the former acquiree will also be part of cash flows from operating activities as already included in consolidated net income. A company that loses control of another entity (i.e., the seller) transfers that entity's net working capital to the buyer. Its consolidated statement of cash flows reports that transfer as an investing inflow, not as operating activities.

Section 230-10-55 (FASB Statement No. 95) shows this presentation by means of examples, but it does not explicitly state this. It shows the case of purchasing, not disposing of, a company.[269] Unlike IAS 7, the respective note disclosures are part of the supplemental schedule of noncash investing and financing activities.

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[268] *IAS 7, ¶¶ 39–42, IE Note A.*

[269] *FASB ASC 230-10-55-10, 230-10-55-13, 230-10-55-20, 230-10-55-21 (FASB Statement No. 95, ¶¶ 131–135).*

> **Planning Point:** When a company acquires or disposes of a business that is not a legal entity, the unconsolidated statement of cash flows is also affected.

> **Example:** The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed, in part, that an issuer did not comply with IAS 7. It did not offset the cash consideration received for the disposal of a subsidiary (an investing cash inflow) against cash and cash equivalents of the subsidiary disposed of. In addition, it had reported an increase in a loan receivable, due to the disposal of a subsidiary to which it had granted the loan, as an investing cash outflow. It should have reported this as a noncash transaction resulting from the deconsolidation.[270]

5.5.11.5 Dividends Paid to Noncontrolling Interest Financing cash flows (as well as, under IFRSs, operating cash flows, as explained in Paragraph 5.6.1 following) may include dividends paid by the parent, as well as those paid by subsidiaries to noncontrolling owners, and cash flows from changes in ownership interests in subsidiaries with no loss of control.[271] In 2009, 91% of surveyed IFRSs companies reported dividends paid to noncontrolling interest as financing activities, while the remaining companies as operating (one as investing) activities.[272]

> **Comment:** Subsidiary's dividends paid to noncontrolling owners are cash flows that exit the consolidated group. In the statement of financial position, noncontrolling interests are equity. In the income statement, noncontrolling interests are profit or loss that accrues to noncontrolling owners. The consolidated statement of cash flows differs from the other statements, insofar as it reports as cash flows all cash payments and receipts between the company and owners, irrespective of whether they are controlling or noncontrolling.

5.5.11.6 Impact of Proportionate Consolidation versus Consolidation versus Equity Method Under IFRSs, an entity that proportionately consolidates a jointly controlled entity reports the proportionate share of the cash flows of that entity on a line-by-line basis in its consolidated statement of cash flows. If it uses the equity method, its consolidated statement of cash flows reports the outlay to acquire the investment, dividends, and any other flows between the entity and the investees.[273]

> **Planning Point:** Therefore, the choice of proportionate consolidation versus equity method is not neutral on the statement of cash flows. Apart from a different presentation format, it does not fully eliminate the effects of accounting methods, contrary to what IAS 7 purports to achieve.[274]

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[270] *Committee of European Securities Regulators (CESR), 2010. CESR/09-720,* 6th Extract from EECS's Database of Enforcement Decisions, *Paris: CESR, ¶ Decision ref. EECS/0809-04. [Online] CESR. Available at: www.cesr.eu [last accessed July 20, 2010].*

[271] *IAS 7, ¶¶ 42A, 42B.*

[272] *AICPA IFRS ATT 2009, ¶ Table 5-2.*

[273] *IAS 7, ¶ 38.*

[274] *IAS 7, ¶ 4.*

Example: Exhibit 5-8 contrasts an example of consolidated financial statements under the equity method, full consolidation, and proportionate consolidation. Consolidated profit or loss and equity are equal if the same procedures for unrealized intercompany profits are used. Conversely, consolidated cash and cash equivalents, as well as operating, investing, and financing aggregations,[275] vary depending on the method used. This is expected, because an investee accounted for at equity method is not part of the consolidated group and consolidated financial statements do not eliminate cash transfers with it. While proportionate consolidation (before IFRS 11) combines the investor's share of cash and cash equivalents of the joint venture under consolidated cash and cash equivalents, the equity method includes that portion in the investment account. On the other hand, unlike full consolidation, proportionate consolidation and the equity method do not show any noncontrolling interests or any cash transactions with them.

Under IFRSs before IFRS 11, proportionately consolidated financial statements generally permit both separate display of the venturer's share of each item of the joint venture or its aggregation with the investor items.[276] With particular reference to the proportionately consolidated statement of cash flows, IAS 7 does not mention separate lines for the venturer's share of the cash flows of the joint venture.

Comment: The separate line item format goes by the name of expanded equity method. U.S. GAAP does not generally use proportionate consolidation, except for the construction industry and extraction of mineral resources, excluding refining, marketing, and transporting those materials.[277] Two surveys of 2005 and 2006 IFRS financial statements show that none of the companies using proportionate consolidation used the expanded format.[278]

A venturer that has not yet applied IFRS 11 must disclose whether it uses proportionate consolidation or the equity method.[279] IAS 7 encourages the additional disclosure of operating, investing, and financing cash flows relating to proportionately consolidated joint ventures.[280] Under APB 18, an entity that uses the equity method for investments that are material in aggregate must consider presentation or note disclosure of summarized information of major captions of the investee.[281] However, APB 18 does not mention the statement of cash flows. Regulation S-X does not mention the statement of cash flows in summarized financial information either.[282] Under certain conditions, Form 20-F exempts foreign private issuers that use proportionate consolidation under IFRSs (or other local GAAP), in lieu of the equity method as would apply under U.S. GAAP, from reconciling classification and display differences. However, they must provide summarized footnote disclosure of proportionately consolidated amounts, including proportionate share of the operating, investing, and financing

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[275] *FASB Statement No. 94,* Consolidation of All Majority-Owned Subsidiaries*, ¶¶ 31, 44.*
[276] *IAS 31, Interests in Joint Ventures, ¶¶ 3, 34.*
[277] *FASB ASC 810-10-45-14 (EITF Issue No. 00-1,* Investor Balance Sheet and Income Statement Display under the Equity Methods for Investments in Certain Partnerships and Other Ventures*, ¶ 4).*
[278] *ICAEW 2007 Survey, ¶ 15.4; Ineum 2008 Survey, ¶ 7.3.*
[279] *IAS 1, ¶ 119; IAS 31, ¶ 57.*
[280] *IAS 7, ¶ 50(b).*
[281] *FASB ASC 323-10-50-3 (APB 18,* The Equity Method of Accounting for Investments in Common Stock*, ¶ 20.d).*
[282] *Regulation S-X, ¶ 210.1-02(bb).*

Exhibit 5-8 Impact of Method of Consolidation on the Consolidated Statement of Cash Flows

Inputs:

Company A and B form company C	
A has an interest in C of	50%
Company A pays its interest in C in cash for $:	5
Company B pays its interest in C in cash for $:	5
Company A sales an equipment to C at fair value against cash $:	8
Net carrying amount of the equipment for A is $:	6
For its separate financial statements, A accounts for C at cost method	

Accounting entries for A's separate financial statements:

	Debit	Credit
Investment in C	5	
Cash		5
Acquisition of a 50% interest in C		
Cash	8	
PP&E		6
Gain on disposal of equipment		2
Sale of equipment		

Accounting entries for C's separate financial statements:

	Debit	Credit
Cash	10	
Share capital		10
Formation of the company		
PP&E	8	
Cash		8
Purchase of equipment		

Consolidation if A accounts for C at equity method

	Financial Statements		Consolidation Entries			Consolidated Financial Statements Y	Consolidated Financial Statements Y − 1
	A	C	Debit	Credit	Note		
Income statement							
Gain on disposal of PP&E	2	0	1		a	1	0
Profit or loss	2	0				1	0
Changes in retained earnings							
Retained Earnings, Beginning of Year	0	0				0	0
Profit or loss	2	0				1	0
Less: Dividends	0	0				0	0
Ending Retained Earnings	2	0				1	0
Statement of financial position							
Cash & cash equivalents	3	2				3	0
Investment in C	5	-		1	a	4	0
PP&E	0	8				0	6
Issued capital and other reserves	6	10				6	6
Ending Retained Earnings	2	0				1	0
Equity attributable to the parent						7	6
Total equity	8	10				7	6

(continued)

Exhibit 5-8 Impact of Method of Consolidation on the Consolidated Statement of Cash Flows (*Continued*)

Statement of cash flows (indirect method, starting from individual consolidated statements)	
Profit or loss	1
Adjustments:	
Gain on disposal of PP&E	−1
Cash flows from operating activities	**0**
Investment in associate	−4
Change in PP&E	6
Gain on disposal of PP&E	1
Cash flows from investing activities	**3**
Cash flows from financing activities	0
Net change in cash flows	3
Beginning cash & cash equivalents	0
Ending cash & cash equivalents	3

Consolidation entries if A accounts for C at equity method	Debit	Credit
a Gain on disposal of PP&E	1	
Investment in C		1
Elimination of unrealized profits		

Note: the adjustment is against the investor's gain, and not against the equity income in the investee, because the investor recorded this profit.

Consolidation if A fully consolidates C

	Financial Statements A	Financial Statements C	Aggregated A + C	Consolidation Entries Debit	Consolidation Entries Credit	Note	Consolidated Financial Statements Y	Consolidated Financial Statements Y − 1
Income statement								
Gain on disposal of PP&E	2	0	2	2		a	0	0
Profit or loss	2	0	2				0	0
Changes in retained earnings								
Retained Earnings, Beginning of Year	0	0	0				0	0
Profit or loss	2	0	2				0	0
Less: Dividends	0	0	0				0	0
Ending Retained Earnings	2	0	2				0	0
Statement of financial position								
Cash & cash equivalents	3	2	5				5	0
Investment in C	5	-	5		5	b	0	0
PP&E	0	8	8		2	a	6	6
Issued capital and other reserves	6	10	16	5		b		
				5		b	6	6
Ending Retained Earnings	2	0	2				0	0
Noncontrolling interest	0	0	0		5	b	5	0
Equity attributable to the parent							6	6
Total equity	8	10	18				11	6

Exhibit 5-8 Impact of Method of Consolidation on the Consolidated Statement of Cash Flows (*Continued*)

Statement of cash flows (indirect method, starting from individual consolidated statements)	
Profit or loss	0
Adjustments:	
Gain on disposal of PP&E	0
Cash flows from operating activities	**0**
Change in PP&E	0
Gain on disposal of PP&E	0
Cash flows from investing activities	**0**
Change in noncontrolling interest with no loss of control (Note A)	5
Cash flows from financing activities	5
Net change in cash flows	5
Beginning cash & cash equivalents	0
Ending cash & cash equivalents	5

Note A: This case simply intends to show the effect of using full consolidation on a 50% interest. IAS 7 shows the net cash paid to acquire control of C, net of cash of the subsidiary, as investing activities. Although A purchased only a share of C, 100% of the cash of C is offset against cash paid. This would result in showing a positive cash flow in investing activities.

Cash paid for the % acquired of C	5
Less: Cash acquired	−10
Net cash paid for C investment	−5

Alternatively, this could be seen as a change in noncontrolling interest with no loss of control, which IAS 7 requires to show in financing activities.

Consolidation entries if A fully consolidates C		
a Gain on disposal	2	
PP&E		2
Elimination of unrealized profits		

Note: As this is a downstream sale, the full intercompany unrealized profit is eliminated under full consolidation.

b Issued capital and other reserves	10	
Investment in C		5
Noncontrolling interest		5
Elimination of the investment account		

(continued)

Exhibit 5-8 Impact of Method of Consolidation on the Consolidated Statement of Cash Flows (*Continued*)

Consolidation if A proportionately consolidates C

	Financial Statements A	Financial Statements C	Share of C	A + Share of C	Consolidation Entries Debit	Consolidation Entries Credit	Consolidation Entries Note	Consolidated Financial Statements Y	Consolidated Financial Statements Y − 1
Income statement									
Gain on disposal of PP&E	2	0	0	2	1		a	1	0
Profit or loss	2	0	0	2				1	0
Changes in retained earnings									
Retained Earnings, Beginning of Year	0	0	0	0				0	0
Profit or loss	2	0	0	2				1	0
Less: Dividends	0	0	0	0				0	0
Ending Retained Earnings	2	0	0	2				1	0
Statement of financial position									
Cash & cash equivalents	3	2	1	4				4	0
Investment in C	5	-	-	5		5	b	0	0
PP&E	0	8	4	4		1	a	3	6
Issued capital and other reserves	6	10	5	11	5		b	6	6
Ending Retained Earnings	2	0	0	2				1	0
Equity attributable to the parent								7	6

Statement of cash flows (indirect method, starting from individual consolidated statements)

Profit or loss	1
Adjustments:	
Gain on disposal of PP&E	−1
Cash flows from operating activities	**0**
Change in PP&E	3
Gain on disposal of PP&E	1
Cash flows from investing activities	**4**
Cash flows from financing activities	0
Net change in cash flows	4
Beginning cash & cash equivalents	0
Ending cash & cash equivalents	4

Consolidation entries if A proportionately consolidates C

	Debit	Credit
a Gain on disposal	1	
PP&E		1
Elimination of unrealized profits		
b Issued capital and other reserves	5	
Investment in C		5
Elimination of the investment account		

or alternatively, according to a different theory of consolidation process:

	Debit	Credit
b Share of cash of C	1	
Share of PP&E of C	4	
Investment in C		5
Replacement of investment account with venturer's proportionate share of assets and liabilities of C		

cash flows.[283] The SEC Staff clarified that a company that takes this accommodation could footnote U.S. GAAP selected financial data to indicate that proportionately consolidated data are not in accordance with U.S. GAAP.[284] By analogy with the accommodation to foreign private issuers, the SEC Staff has sometimes not proscribed, on a preclearance basis and with an audit report qualification, the use of proportionate consolidation to foreign private issuers filing under U.S. GAAP.[285]

Example: The SEC Staff, in its review of Form 20-F of a Portuguese foreign private issuer for the fiscal year ended December 31, 2005 solicited, among other things, the disclosure of operating, investing, and financing cash flows regarding proportionate consolidation to comply with the above-mentioned exemption.[286]

5.5.11.7 Preacquisition Dividends and Preacquisition Earnings The May 2008 amendments of IAS 27 eliminated the treatment of dividends paid out of preacquisition earnings as a return of capital (i.e., a reduction of the cost of the investment) in the separate financial statements of a parent, investor, or joint venturer that accounts for an investee at cost method. Now, unlike U.S. GAAP, when using the cost method, an entity recognizes preacquisition dividends as dividend income.[287]

Planning Point: Therefore, after these amendments, the IFRS separate statement of cash flows of a parent, investor or joint venturer reports preacquisition dividends paid according to the general rules for payments of dividends (see Paragraph 5.6.1 following) and not as investing inflows. However, for nontrading equity investments measured at fair value through other comprehensive income, IFRS 9 excludes recognition in profit or loss of dividends that are clearly a recovery of the cost of investment. This exception is intended as a countermeasure to structuring opportunities.[288]

ARB 51 used to permit consolidation of intra-year business combinations either by using only postacquisition data, or through the so-called preacquisition earnings method. It preferred the latter approach.[289] In that case, the consolidated income statement included net income of the acquiree from the beginning of the year of acquisition, as well as the full-year share of minority interest in net income. In the consolidated statement of financial position, a debit in a preacquisition earnings account used to offset the controlling interest's share of net income related to the preacquisition. A credit in a preacquisition dividends account recorded the controlling interest's share of subsidiary's dividends paid out of net income related to the

[283] *Form 20-F, Item 17(c)(2)(vii).*
[284] *AICPA, 2003.* AICPA International Practices Task Force Meeting Highlights, June 15, 2003*, Washington, DC, AICPA, ¶ 12. [Online] AICPA. Available at:* www.aicpa.org *[last accessed December 24, 2006].*
[285] *IPTF, March 22, 2005, ¶ 7.a; Form 20-F, Item 17(c)(2)(vii); SEC,* Financial Reporting Manual*, ¶ 6520.2; SEC, International, November 1, 2004, ¶ VI.C.*
[286] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006, Comment 14. File 1-14648.*
[287] *FASB ASC 325-20-35-1 (APB 18, ¶ 6.a); IAS 27 (2010),* Consolidated and Separate Financial Statements*, ¶¶ 38A, BC66H.*
[288] *IFRS 9,* Financial Instruments*, ¶¶ B5.7.1, BC5.25(a).*
[289] *ARB 51 (unamended),* Consolidated Financial Statements*, ¶ 11.*

preacquisition period. This amount increased equity for the amount of subsidiary's dividends already offset in consolidation against the subsidiary's retained earnings. Recently, U.S. GAAP eliminated the preacquisition earnings method option. IFRSs do not permit it either.[290]

> **Comment:** U.S. GAAP has no specific explicit guidance for preacquisition earnings on parent-only financial statements, as it contemplates only consolidated financial statements as general purpose financial statements of a parent company with consolidated subsidiaries, even if it does not prohibit the use of parent-only financial statements for other uses.[291] However, Subtopic 230-10 (FASB Statement No. 95) explains that cash receipts from returns of investment in equity instruments of other entities are investing activities, while those from returns on investment are operating activities.[292]

> **Planning Point:** As stated, preacquisition dividends refer to the controlling interest's share of net income related to the preacquisition. Whatever approach an entity follows, from the perspective of the consolidated statement of cash flows, cash inflows for dividends paid by a subsidiary to the parent are eliminated. Instead, subsidiary's dividends paid to noncontrolling interests are financing outflows.

5.5.12 Development Stage Enterprises

Under U.S. GAAP, the statement of cash flows of a development stage enterprise must show, in addition to current and comparative periods, cumulative figures from the start of the enterprise, or if a reactivated dormant company, from the start of the development stage.[293] Paragraphs 3.3.8 previously and 6.4.11 following expand on development stage enterprises.

> **Comment:** IFRSs do not provide guidance on the presentational requirements of development stage enterprises.

> **Planning Point:** The statement of income of development stage enterprises may typically depict initial loss from starting a new venture. Their statement of financial position may give an early warning on pernicious growth of net working capital or equity balance risking failure to meet statutory requirements. However, the statement of cash flows of development stage enterprises may be particularly important to identify temporary difficulties in generating positive operating cash flows, paying liability obligations when they become due, or obtaining adequate financing.

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290 *FASB Statement No. 141R,* Business Combinations, *¶¶ B108, B422.e; FASB ASC 810-45-4 (ARB 51, ¶ 11, as amended by FASB Statement No. 160,* Noncontrolling Interests in Consolidated Financial Statements*); FASB Statement No. 160, ¶ B60; IFRS 3, ¶¶ BC108, BC422.e; IAS 27 (2010), ¶ 26.*

291 *FASB Statement No. 94,* Consolidation of All Majority-Owned Subsidiaries, *¶ 15; APB 18, ¶ 14; FASB ASC 810-10-45-11 (ARB 51, ¶ 24, as amended by FASB Statement No. 160); AICPA TPA 1400.32,* Parent-Only Financial Statements and Relationship to GAAP.

292 *FASB ASC 230-10-45-12, 230-10-45-16 (FASB Statement No. 95, ¶¶ 16.b, 22.b).*

293 *FASB ASC 915-230-45-1 (FASB Statement No. 7,* Accounting and Reporting by Development Stage Enterprises, *¶ 11).*

5.6 SPECIAL ISSUES

5.6.1 Interest and Dividends

5.6.1.1 Options under IFRSs versus U.S. GAAP Under IAS 7, an entity may display cash flows from interest and dividends received either as operating or investing items, while interest and dividends paid either as operating or financing items, consistently across periods.[294] Conversely, U.S. GAAP classifies interest and dividends received as operating activities.[295] Interest and dividend receipts for which a long-term donor restriction exists are financing activities.[296] Interest payments are also operating in nature,[297] while dividends paid are financing outflows.[298] IFRSs provide no guidance on endowments or other donor stipulations, but encourage their disclosure.[299]

As mentioned in Paragraph 5.6.4 following, unlike Subtopic 230-10 (FASB Statement No. 95), under IFRSs additional disclosure of total amount of interest payment must also include capitalized interest.

Subtopic 480-10 (FASB Statement No. 150) requires separate presentation of payments of interests to holders of shares subject to mandatory redemption where no other equity instruments exist.[300]

Comment: IAS 32 is not explicit on the classification of interest or dividends paid on those instruments. However, from the income statement side it assimilates the payment of those dividends to interest on a bond.[301]

5.6.1.2 Mixed Rationales The so-called "inclusion concept" (see Paragraph 5.5.3.4 previously), i.e., consistency with the composition of net income, is the main rationale of the operating classification under both bodies of standards.[302] In addition, operating treatment was the prevalent practice in U.S. GAAP before the issuance of FASB Statement No. 95.

Planning Point: As Paragraph 5.5.3 previously explains, one part of the definition of operating activities refers to revenue-producing activities. However, Paragraph 4.5.1.7 previously and Paragraph 4.5.8 previously explain that the location of interest and dividend income in the statement of comprehensive income is unclear and the terminology of income versus revenue in accounting pronouncements is still imprecise. Consequently, the election to classify interest and dividends received as operating cash flows, although not prohibited, would be inconsistent for an entity that reports the

294 *IAS 7, ¶¶ 31–34.*
295 *FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.b).*
296 *FASB ASC 230-10-20, 230-10-45-14, 230-10-45-25 (FASB Statement No. 95, ¶¶ 18, 19.c, 27, Footnote 11a).*
297 *FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.d).*
298 *FASB ASC 230-10-45-15 (FASB Statement No. 95, ¶ 20.a).*
299 *IAS 7, ¶ 50.a.*
300 *FASB ASC 480-10-45-2, 480-10-55-64 (FASB Statement No. 150,* Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, ¶¶ 19, A6).*
301 *IAS 32, ¶ 36.*
302 *FASB Statement No. 95, ¶ 88; IAS 7, ¶ 33.*

corresponding income in financial income as opposed to revenue. Conversely, operating classification of dividend collections on equity investment is customary U.S. practice.

Comment: There are mixed reasons in favor of and against the operating treatment of interest and dividends.

Firstly, this display is consistent with the calculation of net income after deducting interest claims of external providers of finance, and after adding interest income and dividend income. However, reporting interest paid as operating implicitly includes a component of financing risk, i.e., the effect of the entity's financing leverage, into the depiction of operating results and operating risk.[303]

Secondly, under IAS 7 the investing key ties in to the idea that interest and dividends received are a return on investment. The justification for characterizing interest and dividends paid as financing stems from their nature as cost of finance.[304] In addition, financing activities embed the capital gain component of return of capital.[305] Somewhat inconsistently, Subtopic 230-10 (FASB Statement No. 95) includes both return of, and return on, equity investment in financing activities, but it separates return of debt investment (financing) from return on their investment (operating activities). Similarly, it locates return of investment of financial assets into investing activities, while return on their investment is located in operating activities.[306]

As mentioned in Paragraph 5.5.3 previously, the *Financial Statement Presentation Project* would simplify the matter and not admit an operating finance subcategory on the face of the statement of cash flows.

Planning Point: IAS 7 leaves entities free to adopt one of the permitted classifications for interests and dividends. IAS 7 adds that operating classification of interest and dividends is more suitable for financial institutions. FASB Statement No. 95 does not explicitly say so, but somehow assimilates interest income and expense of a bank to revenue and cost of sales of a commercial or industrial company.[307] A commercial or industrial company would generally, but not always, purchase equity or debt securities for investment purposes. Paragraph 4.5.4.4 previously includes a discussion on whether or not an equity method investee may be seen as an operating activity.

The reason IAS 7 permits classing dividends paid into operating activities is to alert readers about whether cash flows from operating activities would suffice to pay dividends.

Example: The SEC Staff, in its review of Form 20-F of a British foreign private issuer for the fiscal year ended December 31, 2005 encouraged the disclosure of the fact that dividends had been distributed in excess of cash flows from operating activities and of the sources of cash used for

303 *White, G.I. Sondhi, A.C., and Fried, D. (2003)* The Analysis and Use of Financial Statements*, 3rd edn. Hoboken (NJ): John Wiley & Sons, Inc., page 97.*

304 *FASB Statement No. 95, ¶ 89; IAS 7, ¶ 33.*

305 *White, G.I. Sondhi, A.C., and Fried, D. (2003)* The Analysis and Use of Financial Statements*, 3rd edn. Hoboken (NJ): John Wiley & Sons, Inc., page 97.*

306 *FASB ASC 230-10-45-12, 230-10-20, 230-10-45-15, 230-10-45-16 (FASB Statement No. 95, ¶¶ 16.b, 18, 20.b, 22.b); FASB Statement No. 95, ¶ 89.*

307 *FASB Statement No. 95, ¶¶ 61, 90; IAS 7, ¶¶ 19.b, 33.*

this purpose. In that case, the entity had sourced a special dividend from cash flows from investing activities.[308]

Planning Point: While IAS 7 requires separate line items for interest received, dividends received, interest paid, and dividends paid, U.S. GAAP does so for interest paid but accepts compacting interest and dividends received into a single line.[309] Furthermore, U.S. GAAP does not require a presentation of dividends paid separate from other distributions to owners.[310] IAS 7 does not limit this separate presentation to the direct method, even though its illustrative example shows only the adding back of interest paid under the indirect method, not interest income or dividend income. Therefore, an entity that shows interest receipt or dividend receipt separately under the indirect method must adjust profit or loss for interest and dividend income. Subtopic 230-10 (FASB Statement No. 95) requires separate presentation of interest and dividends received (together) and of interest paid under the direct method. However, it simply requires disclosure of interest paid under the indirect method.[311] Consequently, as Paragraph 5.4.3 previously explains, leaving profit or loss unadjusted for interest expense under the indirect method and showing changes in interest payable as part of changes in operating capital accounts is not compliant with IAS 7. Conversely, Subtopic 230-10 (FASB Statement No. 95) permits this form of presentation.[312]

Example: The SEC Staff, in its review of Form 20-F of a Spanish foreign private issuer for the fiscal year ended December 31, 2005, stressed that under IFRSs dividends paid and interests paid must be separately presented.[313]

5.6.1.3 Accounting Practice *IFRS Accounting Trends & Techniques* indicates that approximately 61% of the IFRS companies surveyed reported interest received as operating activities and virtually all the others as investment items. Interest paid showed up as operating for approximately 71% of occurrences and financing for virtually all the remaining companies. Dividends received turned out to be operating for about 59% of companies reporting dividends, and investing items for the remainder. Companies displayed dividends paid as financing in all cases, apart from three South African entities that showed them in between operating and investing activities. Almost all companies with dividends paid to minority interest presented them in financing activities (a minority of companies displayed them as operating items).[314]

5.6.1.4 New Developments The Discussion Paper of the *Financial Statement Presentation Project* illustrates interest received on cash as part of financing activities, and interest received from available-for-sale securities as operating activities. It shows interest received from loans as investing activities. Dividends received would be part of cash from investing activities. It places interest paid in the same section, category, or subcategory as the liability that bears the interest. Dividend paid would be included in the financing section. The Staff Draft does not propose separate debt and equity categories in the financing sections.[315] As part of the project

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[308] *SEC IFRS Reviews. Letter by the SEC, September 26, 2006. File No. 001-10409, Comment 1.*
[309] *FASB ASC 230-10-45-25 (FASB Statement No. 95, ¶¶ 27.b, 27.e); IAS 7, ¶ 31.*
[310] *FASB ASC 230-10-45-15 (FASB Statement No. 95, ¶ 20.a).*
[311] *FASB ASC 230-10-45-25, 230-10-50-2 (FASB Statement No. 95 ¶¶ 27, 29).*
[312] *FASB ASC 230-10-45-25, 230-10-55-13 (FASB Statement No. 95, ¶ 27.b, 131).*
[313] *SEC IFRS Reviews. Letter by the SEC, December 29, 2006. File No. 001-10110, Comment 7.*
[314] *AICPA IFRS ATT 2009, ¶ Table 5-2.*
[315] *DP on Presentation, ¶ A8; Staff Draft, ¶¶ 82, 107, 108, IG32, BC96.*

on lease accounting, the IASB and the FASB tentatively decided that a lessee would separately classify lease interest payments as financing activities.[316]

5.6.2 Debt Discounts and Premiums

Under Subtopic 230-10 (FASB Statement No. 95) and IAS 7, receipts for money borrowed and repayments of debt are financing activities.[317] However, both pronouncements do not explain how to classify debt discounts and premiums for cash flow purposes. The issue arises because the income statement includes interest expenses on an accrual basis according to the interest method, while the statement of cash flows reports interest payment on a cash basis. The difference of the two includes the amortization of discounts and premiums. In the statement of cash flows, a discount means a lower collection on money at issuance of debt, while a premium translates into a higher repayment of debt at maturity. The issue is whether cash flows from discounts and premiums are operating, following the classification in the income statement, or financing as a repayment of debt.

Comment: The adoption of a balance-sheet approach or a revenue-expense theory may conceptually sustain one or the other view. On one hand, under the U.S. Concepts, premiums and discounts are debt valuation accounts.[318] On the other hand, CON 6 also interprets a discount as a lower borrowed amount that translates into a higher interest rate, reported under APB 21 as interest expense through amortization of the discounts.[319] An analogy may exist with debt issue costs, because CON 6 assimilates them to debt discount. As Paragraph 5.6.3 following explains, the payment of debt issue costs is a financing activity.

Different methods exist in U.S. practice, ranging from making no allocation, to all combinations in apportioning original issuance proceeds, periodic interest payments, or repayment at maturity between operating and investing outflows.[320]

The SEC Staff gave an interpretation related to a similar issue which could indicate a leaning towards treatment of premiums as operating cash flows. It concluded that operating classification is the technically correct treatment of payments of excess of principals of zero-coupon instruments and pay-in-kind interest instruments.[321]

[316] *IASB Update, March 2010.*

[317] *FASB ASC 230-10-20, 230-10-45-14, 230-10-45-15 (FASB Statement No. 95, ¶¶ 18, 19.b, 20.b); IAS 7, ¶ 17.*

[318] *CON 6, ¶¶ 34, 43, 235.*

[319] *FASB ASC 835-30-45-1A, 835-30-45-3 (APB 21, ¶ 16); CON 6, ¶¶ 236, 238.*

[320] *See Nurnberg, H. (2006)* The Cash Flow Statement. *New York: BNA, Accounting Policy & Practice Portfolios, pages A-803, A-804.*

[321] *AICPA, SEC Regulations Committee,* September 26, 2006 – Joint Meeting with SEC Staff, *¶ IV.A, Available at: www.sec.gov [last accessed July 20, 2010] (hereinafter SEC Regulations Committee, September 26, 2006).*

Comment: IFRSs do not provide guidance either. A change in size of borrowing would meet the definition of financing activities in IAS 7,[322] and a change in discount or premium changes the amount of borrowing. Of course, an entity that determines operating as the appropriate treatment would have all the classification options permitted by IAS 7 for interest payments available.

5.6.3 Debt Issue Costs

EITF Issue No. 95-13 requires the classification of payments for debt issue costs as part of financing activities in the statement of cash flows.[323] IFRSs provide no guidance on this topic.

Comment: EITF Issue No. 95-13 does not provide the Basis for Conclusions. APB 21 requires the presentation of issue costs as deferred charges in the statement of financial position.[324] The amortization over the term of the debt could suggest a leaning to operating cash flows classification. However, CON 6 contests their classification as assets, to suggest either their character as expenses or common features with debt discount (Paragraph 5.6.2 previously).[325]

5.6.4 Capitalized Interest

5.6.4.1 Classification of Capitalized Interest Subsection 230-10-45-13 (FASB Statement No. 95) classifies interest cost capitalized on property, plant and equipment, and other productive assets as part of the investment cash outflows to purchase those assets.[326]

Comment: Literally, Subsection 230-10-45-13 (FASB Statement No. 95) mentions acquiring, not constructing or producing assets. Arguably, as in this case it refers to capitalized interest costs, those terms must be included.

FASB Statement No. 95 explicitly excludes payment for capitalized interest from operating cash flows and from the supplemental disclosure of interest paid.[327] By contrast, IAS 7 requires the disclosure of total interest payments during the period, including the amount capitalized,[328] although the standard does not specify the classification of capitalized borrowing costs. Furthermore, it does not explain the location of such a disclosure, whether in the notes or on the face of the statement. IFRIC Update proposes that classification of capitalized interest should be in line with that of the asset to which they are capitalized, for example investment cash flows in the case of fixed assets, and operating cash flows in the case of inventories.[329]

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[322] *IAS 7, ¶ 6.*

[323] *FASB ASC 230-10-45-15 (EITF Issue No. 95-13,* Classification of Debt Issue Costs in the Statement of Cash Flows*).*

[324] *FASB ASC 835-30-45-3 (APB 21, ¶ 16).*

[325] *CON 6, ¶ 237.*

[326] *FASB ASC 230-10-45-13 (FASB Statement No. 95, ¶¶ 17.c, Footnote 7).*

[327] *FASB ASC 230-10-50-2, 230-10-55-10, 230-10-55-14 (FASB Statement No. 95, ¶¶ 29, 131, 132); FASB Statement No. 95, ¶ 90.*

[328] *IAS 7, ¶ 32.*

[329] *IFRIC Update, May 2011.*

5.6.4.2 The Interaction with Premiums and Discounts Different methods exist in U.S. practice to apportion current interest payments into operating and investing amounts, in the presence of debt discounts or premiums together with capitalized interest. Some companies include discounts or premiums in the calculation, so as to have a proportional allocation of both current interest payments and discounts or premiums into operating and investing cash flows. Other companies first classify discounts or premiums as either operating or investing (because capitalized), and then classify current interest payments as investing for the amount remaining to make up the required capitalized amount.[330]

> **Comment:** Given a total interest amount to capitalize, the amount of interest expense to capitalize is a function of the amount of premiums and discounts considered capitalizable. Subsection 230-10 (FASB Statement No. 95) does not explain how to classify the periodic amortization of debt discounts and premiums in the presence of capitalized interest. However, the interlinking of Subsection 230-10 (FASB Statement No. 95) and Subtopic 835-20 (FASB Statement No. 34) seems clear. Interest costs capitalizable under FASB Statement No. 34 also comprise the amortization of premiums and discounts on debt that has explicit or imputed interest rates, the amortization of debt issue costs, and interest expense included in minimum lease payments in a capital lease.[331] Consequently, the portion of amortized premiums and discounts that an entity capitalizes under Subtopic 835-20 (FASB Statement No. 34) would be investing cash flow under Subsection 230-10 (FASB Statement No. 95). By difference, the remaining amount is the capitalized interest expense. IAS 7 has no guidance in this respect.

Subsection 230-10-45-28 (FASB Statement No. 95) clarifies that in order to determine operating cash flows under the indirect method an entity must adjust net income for accruals of interest incurred but not paid, even if they are reflected in changes in assets and liabilities related to investing or financing activities.[332]

> **Comment:** Therefore, it would appear that deferrals and accruals of interest expense give rise to operating cash flows even if this interest is capitalized. Subtopic 230-10 (FASB Statement No. 95) is not clear in this respect. However, under the U.S. Concepts, the accrual of interest expenses is theoretically similar to the amortization of premiums and discounts. Premiums and discounts are debt valuation accounts[333] and their so-called amortization is an incorrect term to mean an accrual process.[334] It would be inconsistent that payments corresponding to amortized amounts of capitalized premiums and discounts be considered investing, while reversals of accrued interest are deemed operating irrespective of whether capitalized or not.

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330 *See Nurnberg, H. (2006)* The Cash Flow Statement. *New York: BNA, Accounting Policy & Practice Portfolios, pages A-805, A-806.*

331 *FASB ASC 835-20-20 (FASB Statement No. 34,* Capitalization of Interest Cost, *¶¶ 1, Footnote 1, 2).*

332 *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28, Footnote 12).*

333 *CON 6, ¶¶ 34, 43, 235–236, 238.*

334 *CON 6, ¶¶ 141, Footnote 55, 239.*

5.6.5 Interest on Cash and Cash Equivalents

Cash equivalents may include instruments that bear interest, for example treasury bills, or money market funds. Likewise, cash may also include interest-bearing items, such as certain demand deposits with banks.[335]

Comment: Cash management includes movements between items of cash and cash equivalents to invest excess cash.[336] The objective of cash management is generally to earn interest on excess and idle cash (see Paragraph 5.3.4 previously).[337] It might be argued that interest sums earned on cash and cash equivalents are part of cash management, and therefore should not be reported as cash flows. However, U.S. GAAP and IFRSs do not specify any treatment for those amounts of interest that is different from the respective general rules for classifying interest paid and received as cash flows. Under U.S. GAAP, interest sums directly credited to a demand deposit account are operating cash flows that increase cash.[338] Although IAS 7 is silent on this; it appears to prohibit investment classification: investment activities exclude items relating to assets that are part of cash and cash equivalents.[339]

Example: The SEC Staff, in its review of Form 20-F of a British foreign private issuer for the fiscal year ended December 31, 2005, requested an explanation about the classification of interests received as a financing item. The company explained that those interests had been received from cash and cash equivalents and therefore classification in investment activities was prohibited.[340]

The Discussion Paper of the *Financial Statement Presentation Project* illustrates interest received on cash as part of financing activities.[341]

5.6.6 Productive Assets to be Used or Rented and then Sold

Under certain circumstances, U.S. GAAP provides for a classification exception for cash flows relating to property, plant and equipment, and other productive assets. Section 230-10-45 (FASB Statement No. 95) considers internally used productive assets or those rented to others as generally investing in nature. However, when an entity produces or purchases these assets with the purpose of using or renting them for a short period and then selling them externally, it classifies the cash flows related to acquisition, production, and sales as operating activities. The rationale is that these are predominantly direct revenue-producing activities.[342] IFRSs have a similar provision, with certain differences, as explained below.

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335 *FASB ASC 230-10-20 (FASB Statement No. 95, ¶ 7, Footnote 1).*
336 *IAS 7, ¶ 9.*
337 *FASB Statement No. 95, ¶ 53.*
338 *FASB ASC 230-10-20, 230-10-45-28 (FASB Statement No. 95, ¶¶ 7, Footnote 1, 28, Footnote 12).*
339 *IAS 7, ¶ 6.*
340 *SEC IFRS Reviews. Letter by the SEC, December 22, 2006. File No. 000-30126, Comment 8. Reply by the company, January 12, 2007.*
341 *DP on Presentation, ¶ A8.*
342 *FASB ASC 230-10-45-22 (FASB Statement No. 95, ¶ 24); FASB Statement No. 95, ¶ 87.*

Comment: The basic rationale is the existence of a direct linkage with revenues as if those assets were inventories. However, these assets may often have the dual nature of inventory and productive assets, hence operating and investing activities. Under U.S. GAAP the basic criterion is to determine which of the two is the predominant source of cash flows. Therefore, the length of internal use or rental to others becomes important. Conversely, IFRSs do not mention a time-span, nor do they explicitly require the determination of predominance of the nature of cash flows. These are operating cash flows with no optional treatments. Yet, IAS 16 adds that this business pattern must be routine, and renting and selling must be in the ordinary course of business. As another precondition, entities must transfer those assets to inventories once they are no longer rented or when held for sale, and must account for their proceeds as revenues, not gains. Hence, this addresses the business of renting and subsequently selling those assets, e.g., rented car fleets of automotive companies, favoring a somewhat forced simplistic consistency across individual financial statements and among companies. Renting to others may be a core revenue-producing activity in certain industries, both when assets are productive (e.g., renting by a real estate development company) and when assets are inventory-type (e.g., renting by dealers).

U.S. GAAP refers to productive assets while IFRSs refer only to property, plant, and equipment.

U.S. GAAP regards internal use and renting to others as features characterizing investing assets. IAS 16 also includes rental to others in the definition of property, plant, and equipment. For productive assets used or rented and then sold, IFRSs do not mention the fact that they may be used internally before being held for sale. Furthermore, Subtopic 230-10 (FASB Statement No. 95) explicitly mentions only the cash flows related to acquisition, production, and sales as operating activities, while IAS 7 considers cash flows from renting to others as operating activities.[343] Arguably, additional specification is not necessary in U.S. GAAP, because proceeds from renting are in any case operating, consistently with cash flows from operating leases.

Planning Point: As IFRSs require the previous classification of the property, plant, and equipment to inventory and the classification as revenue in the statement of comprehensive income, unlike U.S. GAAP no adjustment arises in the statement of cash flows under the indirect method.

5.6.7 Leases

As mentioned in Paragraph 5.5.9 previously, at inception, a capital lease represents noncash investing and financing activities, disclosed outside of the statement of cash flows. Similar characterization holds under U.S. GAAP for a leveraged lease where an equity investment and a bank loan finance the lease asset.

IAS 7 explicitly classifies cash payments of a finance lease obligation by a lessee as financing activities.[344] The illustrative examples of Subtopic 230-10 (FASB Statement No. 95) also show that a lessee under a capital lease classifies principal payments as financing outflows. Of course, the different classification of interest expenses under U.S. GAAP and IFRSs (see Paragraph 5.6.1 previously) affects the categorization of the interest portion in a capital or finance lease.

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[343] *IAS 7, ¶ 14; IAS 16,* Property, Plant and Equipment, *¶¶ 6, 68A, BC35A, BC35C, BC35E.*
[344] *IAS 7, ¶¶ 17(e), IE A.*

> **Comment:** Paragraph 4.5.8.12 previously expands on the controversy regarding the classification of the interest portion in a capital or finance lease in the statement of comprehensive income.

Conversely, under operating leases, the cash payment of lease liabilities (i.e., rentals) fully gives rise to operating activities. Under U.S. GAAP, as rents of an operating lease are operating in nature, a cash allowance received from the landlord as an incentive for a leasehold improvement is an operating cash inflow. Cash expenditures by the lessee for leasehold improvement are investing outflows.[345]

Under U.S. GAAP, a company presents cash payments to purchase assets for a subsequent lease as investing outflows. Once it becomes a lessor under a direct-financing lease, it represents principal collections received as investing inflows. Financing income received follows the rules applicable to interest income.[346] Conversely, a lessor's cash flows relating to short- or long-term sales-type leases[347] and operating lease receivables are operating in nature.

Under U.S. GAAP, a seller-lessee follows the cash flow presentation applicable to a capital lease (i.e., financing activities) when the sale-leaseback qualifies as a capital lease. The transaction is generally a financing scheme to the extent the seller-lessee carries on using the asset after the sale. When the seller-lessee retains only a minor part of the right to use the asset, it accounts for the sale-leaseback, including from a cash flow perspective, as a separate sale of productive assets (i.e., investing activities) and a separate lease according to their respective terms. Although U.S. GAAP does not explicitly state this, when the seller-lessee retains more than a minor part but less than substantially all the right to use the asset, the partial deferral of gain would call for financing activities classification of cash flows.[348] The buyer-lessor follows the criteria of a purchase and a direct financing lease or operating lease, depending on the classification of the leaseback.[349] IFRSs are silent on cash flow classification of sale-leaseback transactions. Again, a sale-leaseback may also result in an operating or a finance lease. In the latter case, IAS 17 regards the transactions as a means of providing finance. Under IFRSs, a company must consider disclosing sale-leaseback arrangements separately.[350]

The FASB and IASB project on leases would radically change the accounting model. From the perspective of the statement of cash flows, it would require financing classification of lease principal and interest payments by a lessee. A lessor would classify cash receipts from a right

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[345] *AICPA Technical Practice Aid, TPA 5600.17,* Cash Flow Statement Presentation of Landlord Incentive Allowance in an Operating Lease*; SEC Staff Letter, February 7, 2005. [Online] SEC. Available at: www.sec.gov/info/accountants/staffletters/cpcaf020705.htm [last accessed: February 4, 2009].*

[346] *FASB ASC 230-10-55-10, 942-230-55-2 (FASB Statement No. 95, ¶¶ 131, 147).*

[347] *SEC Staff, December 1, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: April 26, 2006].*

[348] *FASB ASC 840-40-25-2, 840-40-25-3 (FASB Statement No. 13,* Accounting for Leases*, ¶ 33); FASB Statement No. 13, ¶ 107; FASB Statement No. 28,* Accounting for Leases with Leasebacks*, ¶ 11; FASB ASC 840-40-25-4 (FASB Statement No. 28, ¶ 17).*

[349] *FASB ASC 840-40-25-28 (FASB Statement No. 13, ¶ 34).*

[350] *IAS 17,* Leases*, ¶ 66.*

to receive lease payments and related interest income as operating activities. Both the lessor and the lessee would separately present cash flows.[351]

5.6.8 Capitalized Research and Development and Similar Expenditures

IAS 7 classifies cash outflows relating to capitalized development as investing activities.[352] Cash outflows relating to uncapitalized research and development costs are operating activities because IAS 7 permits investment classification of only the cash flows that relate to expenditures recognized as assets (see Paragraph 5.5.4.3 previously).[353] Under U.S. GAAP, an entity would generally report cash flows from those uncapitalized research and development costs as operating activities.[354] Similarly, under U.S. GAAP cash flows related to those software development costs that qualify for capitalization (including certain costs of computer software for sale of lease to others,[355] computer software for internal use,[356] and website development costs[357]) are investing activities, whereas they are operating activities if those costs are uncapitalized. Conversely, cash payments related to capitalized film development costs are classed as operating activities.[358]

Planning Point: IFRSs do not permit capitalization of research costs, but allow capitalization of development costs, including certain costs for website development,[359] subject to certain rigid criteria. However, when development costs meet capitalization criteria, the resulting intangible assets include all directly attributable costs.[360] On the contrary, U.S. GAAP requires capitalization of materials, equipment or facilities acquired or constructed for research and development activities as tangible assets and of intangible assets purchased for research and development activities as intangible assets, only when they have alternative future use. It requires expending costs such as salaries and contract services as research and development costs.[361] Therefore, under certain circumstances, certain noninternally generated costs incurred in research may qualify for capitalization under U.S. GAAP but not under IFRSs, while certain internally generated costs may be eligible for capitalization under IFRSs for development projects that qualify, but not under U.S. GAAP.

351 *FASB Proposed Accounting Standards Update,* Leases (Topic 840)*, ¶¶ 27, 45, 63, BC147, BC153, BC159, BC179 (August 2010); Exposure Draft,* Leases*, ¶¶ 27, 45, 63, BC147, BC153, BC159, BC179 (August 2010).*

352 *IAS 7, ¶ 16(a).*

353 *IAS 7, ¶¶ 16, BC3, BC6.*

354 *SEC Concept Release No. 33-7801,* International Accounting Standards*, Appendix B,* Summary of the FASB's IASC/US GAAP Comparison Project.

355 *According to FASB ASC Subtopic 985-20 (FASB Statement No. 86,* Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*).*

356 *According to FASB ASC Subtopic 365-40 (AICPA Statement of Position No. 98-1,* Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*).*

357 *According to FASB ASC Subtopic 350-50 (EITF Issue No. 00-2,* Accounting for Web Site Development Costs*).*

358 *FASB ASC 926-230-45-1 (AICPA Statement of Position No. 00-2,* Accounting by Producers or Distributors of Films*, ¶ 55); AICPA Statement of Position No. 00-2, ¶ 122.b.*

359 *SIC Interpretation No. 32,* Intangible Assets – Web Site Costs.

360 *IAS 38,* Intangible Assets*, ¶¶ 54, 57, 66.*

361 *FASB ASC 730-10-25-2 (FASB Statement No. 2,* Accounting for Research and Development Costs*, ¶ 11).*

> **Example:** An Italian foreign private issuer explained to the SEC Staff that upon transition to IFRSs it reclassified expenditures for certain development costs from cash flows from operating activities as expensed under previous GAAP into cash flows from investing activities as capitalized under IFRSs.[362]

5.6.9 Certain Exploration Expenditures

The SEC Staff directed registrants to present cash payments related to cost of oil and gas producing activities expensed under Section 932-360-25 (Paragraphs 17 and 18 of FASB Statement No. 19), such as geological and geophysical costs, as operating, not as investing activities. Conversely, cash expenditures for exploratory wells for a company that applies the successful efforts method of accounting for oil and gas producing activities are investing activities, because the entity capitalizes them until it finds proved reserves within the subsequent year. Furthermore, cash outflows for accrued abandonment and remediation exit costs in extractive industries are operating activities.[363] Finally, SEC registrants must report cash flows associated with deferred stripping in mining industries as operating activities.[364]

As mentioned in Paragraph 5.5.4.3 previously, under IFRSs recognition of an asset is a prerequisite for classifying related expenditures incurred with the objective of generating future cash flows as investing activities.[365] In particular, this includes expenditures for exploration and evaluation activities when an entity recognizes them as expenses.[366] In addition, the SEC Staff, in its review of Form 20-F of a French foreign private issuer, interpreted that the U.S. GAAP treatment for expenditures mentioned above also applies under IFRSs.[367]

> **Example:** The SEC Staff, in its review of Form 20-F of an Australian and a British foreign private issuer, contested the presentation of noncapitalized exploration expenditures as investment activities as opposed to operating activities under IAS 7.[368]

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[362] *SEC IFRS Reviews. Letter by the SEC, December 18, 2006. File Nos 001-10108, Comment 25. Reply by the company, February 2, 2007.*

[363] *FASB ASC 932-720-25-1, 932-360-25-9, 932-720-25-1 (FASB Statement No. 19,* Financial Accounting and Reporting by Oil and Gas Producing Companies, *¶¶ 13, 17, 18); SEC, 2001. Division of Corporate Finance:* Frequently Requested Accounting and Financial Reporting Interpretations and Guidance, *¶ II.F.8.*

[364] *IPTF, November 25, 2002, ¶ Appendix, II.*

[365] *IAS 7, ¶¶ 6, 16.*

[366] *IFRS 6,* Exploration for and Evaluation of Mineral Resources, *¶¶ BC23A, BC23B; IAS 7, ¶¶ 16, BC3.*

[367] *SEC IFRS Reviews. Letter by the SEC, December 22, 2006. File No. 1-10888, Comment 1.*

[368] *SEC IFRS Reviews. Letters by the SEC, April 3, 2007. File Nos 001-09526 and 001-31714. Comment 4. June 15, 2007, Comment 2; Letters by the SEC, December 29, 2006, March 7, 2007, May 3, 2007. File Nos 1-10533 and 0-20122. Replies by the company, March 30, 2007 and June 4, 2007.*

Comment: IFRS 1 has an accommodation for certain IFRS first-time adopters to measure exploration and development costs for oil and gas properties in the development or production phases at their carrying amount under previous GAAP at the date of transition to IFRSs.[369] Arguably, cash payments related to these previously capitalized costs qualify for classification as investment activities in the statement of cash flows.

5.6.10 Cash Receipts of Receivables

U.S. GAAP classifies cash receipts from any type of customer receivable related to sales of goods or rendering of services as operating activities, whether or not those accounts receivable are long- or short-term and take the form of notes receivable.[370]

On the other hand, cash receipts relating to long-term receivables that the entity originates or purchases not in relation to its revenue-producing activities, i.e., not for sales of goods or rendering of services, are cash inflows from investing activities.[371]

In other terms, the nature of the original transaction from which the notes arose prevails. The SEC Staff confirmed this interpretation.[372]

IAS 7 defines operating activities in relation to principal revenue-producing activities and specifically mentions cash receipts from the sale of goods and services. On the other hand, it defines investing activities as related to long-term assets and specifically mentions cash repayments of advances and loans made to third parties, i.e., not to customers.[373]

Comment: Therefore, even if IAS 7 is not so specific on whether the type or the nature of receivables determines the classification for cash flow purposes and it does not mention notes versus accounts receivable, it is quite prescriptive in the same sense as U.S. GAAP.

5.6.11 Installment Sales

Under U.S. GAAP, in line with the inclusion concept, cash receipts from notes receivable, including installment notes receivable, related to the entity's revenue-producing business, are operating activities in the statement of cash flows. As explained in Paragraph 5.6.10 previously, Subtopic 230-10 (FASB Statement No. 95) does not follow the investing theory, i.e., viewing this from the perspective of providing customers with long-term credit.[374] The SEC Staff also confirmed this interpretation with reference to installment notes receivable. It also stresses that not only principal payments of those notes receivable, but also related interest are operating

[369] *IFRS 1,* First-time Adoption of International Financial Reporting Standards, *¶ D8A.*
[370] *FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.a).*
[371] *FASB ASC 230-10-45-12 (FASB Statement No. 95, ¶ 16.a).*
[372] *Hardiman, T.E. (2004)* Speech by SEC Staff: 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120604teh.htm [last accessed: November 26, 2010].*
[373] *IAS 7, ¶¶ 6, 14(a), 16(e).*
[374] *FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.a); FASB Statement No. 95, ¶¶ 93, 95.*

cash flows.[375] The nature of the original transaction from which the notes arose, i.e., sales of goods or rendering of services, prevails. In addition, considering those inflows as investing would determine a net negative cash flow during the entire life cycle of operations in installment sales.[376] Finally, under U.S. GAAP installment notes receivable are current assets when this is in line with normal trade terms and the practice of the business.[377]

Planning Point: Under U.S. GAAP installment sale accounting, an entity defers the gross profit of a sale effected through installment notes receivable. It recognizes realized gross profit only to the extent of the gross profit of the installment notes receivable that it collects. Therefore, net income does not include any profit on those sales, except for the gross profit attributable to the portion of receivables collected. The statement of financial position generally shows installment notes receivable net of deferred gross profit.[378] Therefore, in a statement of cash flows under the indirect method, the cash inflow due to the realized profit embedded in net income counteracts the increase in installment note receivable due to the reduction of the deferred gross profit offset. Of course, there is a positive cash flow represented by the decrease in installment note receivable due to the collection itself. If installment notes receivable are part of working capital, no specific adjustment is necessary under the indirect method to derive cash flows from operating activities. Alternatively, as Subtopic 230-10 (FASB Statement No. 95) shows, the payments received on installment notes receivable come out separately as a positive adjustment to net income. In this case, the changes in net working capital shall not report the decrease in installment notes receivable due to the collection, as otherwise this would be counted twice. Under a direct method, Subtopic 230-10 (FASB Statement No. 95) subsumes the collection of installment notes receivable in cash received from customers.[379]

Unlike U.S. GAAP, IAS 18 recognizes revenue on installment sales at the date of sale.[380]

Planning Point: Unlike U.S. GAAP, IFRSs have no special rules for classification of installment notes receivable. Some doubt might arise about installment notes receivable classified as noncurrent because due beyond 12 months after the reporting period: under IAS 7 investing activities relate to long-term assets. However, the arguments expressed in Paragraph 5.6.10 previously on the classification of repayment of long-term receivables under IAS 7 should also hold for installment notes receivable. Their cash flows are operating to the extent they originate from transactions with customers for the sales of the entity's goods or services.

No adjustment would be necessary under the indirect method of the statement of cash flows, provided installment notes receivable are current assets. In fact, profit or loss already includes revenue, gross margin, and related costs. Changes in operating accounts receivable automatically adjust profit or loss for the uncollected portion of installment notes receivable. In case installment notes receivable are noncurrent assets, under the indirect method an adjustment would be necessary to include the period changes in installment notes receivable into cash flows from operating activities.

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375 *Hardiman, T.E. (2004)* Speech by SEC Staff: 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at:* www.sec.gov/news/speech/spch120604teh.htm *[last accessed: November 26, 2010].*

376 *FASB Statement No. 95, ¶¶ 94, Dissenting Opinions.*

377 *FASB ASC 310-10-45-9 (ARB 43, Ch. 3A, ¶ 4).*

378 *FASB ASC 605-10-25-4 (APB 10,* Omnibus Opinion – 1966, *¶¶ 12, Footnote ii); CON 6, ¶¶ 232–234.*

379 *FASB ASC 230-10-55-13, 230-10-55-21 (FASB Statement No. 95, ¶¶ 131, 135).*

380 *IAS 18,* Revenue, *¶ IE8.*

> **Comment:** In the year of issuance of the note receivable, the inclusion concept is a stronger rationale in IFRSs than U.S. GAAP, as IAS 18 recognizes all the gross profit at date of sale. In subsequent years, the investing rationale would be stronger in IFRSs than U.S. GAAP, as IFRSs recognize no additional gross profit on the collections of the notes receivable.

5.6.12 Installment Purchases of Inventory

Under U.S. GAAP, in line with the inclusion concept, repayments of notes payable for the purchase of goods or services are operating activities in the statement of cash flows.[381] In case of long-term installment notes payable, these are operating as well. U.S. GAAP does not accept the alternative view to see these transactions as financial activities because the vendor receives long-term financing.

5.6.13 Seller Financing of Sales of Inventory through a Wholly-Owned Finance Company

The SEC Staff clarified that the operating nature of cash flows relating to the sale of inventory does not change at consolidated level if the company that sells goods or services facilitates this sale through a wholly owned captive finance company that issues a long-term loan to customers solely in connection with such a commercial transaction. At consolidated level, this results in a sale against a long-term note receivable. In fact, intercompany elimination procedures remove the seller's collection from the finance company against the finance company's payment. Therefore, at the date of sale there is neither consolidated cash inflow nor outflow. At repayment of the note receivable, there will be an operating cash receipt.[382] The SEC Staff requires disclosure of the correspondence between cash flows from the sale of inventory and from the repayment of notes receivable or loans and the consolidated statement of cash flows, with consistent terminology across individual financial statements.[383] Conversely, in its statement of cash flows, the finance company will report the disbursement for the customer loan in investing activities if it did not originate it for resale, or otherwise as operating outflow, as explained in Paragraph 5.6.18 following.[384]

> **Planning Point:** Finance companies, unlike banks, savings institutions, and credit unions (see Paragraph 5.5.10 previously) report cash flows on loans to customers on a gross basis, even if they are part of the same consolidated group.[385] This would not pose any particular problem in consolidation, to the extent the parent entity is an industrial or commercial company, as in the example discussed.

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[381] *FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.a).*

[382] *Hardiman, T.E. (2004)* Speech by SEC Staff: 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120604teh.htm [last accessed: November 26, 2010].*

[383] *Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. Washington, DC: SEC Available at: www.sec.gov [last accessed: April 26, 2006].*

[384] *FASB ASC 230-10-20, 230-10-45-13, 230-10-45-16 (FASB Statement No. 95, ¶¶ 15, 17.a, 22.a, Footnote 8c).*

[385] *FASB ASC 230-10-45-9 (FASB Statement No. 95, ¶ 13).*

5.6.14 Seller Financing of Purchase of Inventory by Dealers

Under U.S. GAAP, cash payments of accounts payable as well as short- or long-term notes payable to suppliers of merchandise or materials for production are operating activities.[386]

The SEC Staff expresses a view similar to that mentioned in Paragraph 5.6.13 previously, with reference to a dealer's floor plan financing arrangement whereby a manufacturer finances the purchase of its products by its dealers by making its finance subsidiary grant them a loan collateralized by a pledge on inventory. The finance subsidiary pays the manufacturer and gives credit to the dealers that repay the finance company at a later stage, generally upon their sales of the products to end customers. The manufacturer reports these cash flows as operating activities. Dealers consider the purchase and the sale of inventory, as well as changes in trade loans, as operating activities.[387]

5.6.15 Third-Party Financing of Purchase of Inventory by Dealers

Under U.S. GAAP, cash proceeds and payments of notes payable that are part of a financing scheme from external lenders are financing outflows.[388] As opposed to seller financing, a third-party financing arrangement for the purchase of inventory arises when the finance company is external to the group. In this case, at least for publicly held companies, the SEC Staff does not consider the loan to be trade in nature but tantamount to an external loan, because a third party, not the seller, provides it. The finance company acts as dealer's agent and not as the seller's agent. Therefore, the transaction generates financing cash flows, which of course are not eliminated in consolidation. Irrespective of the financing construct, the underlying purchase and sale of products instead originate operating cash flows.[389]

Comment: Under both U.S. GAAP and IFRSs, this treatment appears to be consistent with the rationale explained in Paragraph 5.6.10 previously. On the other hand, by structuring a transaction differently, i.e., by choosing an external versus a captive lender, a company would be able to report similar consolidated cash flows differently.

Comment: Both from the manufacturer's viewpoint (in the case of seller financing) and from the dealer's perspective, the characterization of the same loan as trade or financing in their separate financial statements under U.S. GAAP would depend on whether or not it is associated to the sale transaction. IAS 7 does not treat this topic explicitly.

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386 *FASB ASC 230-10-45-17 (FASB Statement No. 95, ¶ 23.a).*

387 *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*

388 *FASB ASC 230-10-45-14, 230-10-45-15 (FASB Statement No. 95, ¶¶ 19.b, 20.b, 20.c).*

389 *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010].*

5.6.16 Seller and Third-Party Dealer Financing of Purchase of Productive Assets

The discussion presented in Paragraph 5.6.14 previously relates to purchase of inventory. U.S. GAAP classifies cash flows arising from seller-financed debt to purchase property, plant and equipment, or other productive assets as financing activities, as well as those related to third-party financing arrangements. This comes from a practical, not a conceptual rationale to simplify the tracking of those transactions. However, payments made close to or at purchase, such as advance payments and down payments, are investing activities.[390]

> **Comment:** The outcome is hybrid: the down payment becomes an investing outflow, the acquisition of a tangible asset against the remaining debt is a noncash transaction (not shown in the statement of cash flows), and the repayment of the debt is a financing outflow.

> **Comment:** IAS 7 does not provide explicit guidance on this situation. In general, cash payments to acquire productive assets such as property, plant, and equipment are investing activities, but cash proceeds and repayments of amounts borrowed are financing activities.[391] Lacking specific guidance, IFRS practice generally conforms to the U.S. GAAP solution.

5.6.17 Trading versus Investment Securities

IAS 7 classifies the cash impact of trading securities as operating activities, including when related to derivative contracts held for trading.[392] Conversely, under U.S. GAAP, the classification of cash flows from purchases and sales of debt or equity securities held for trading depends on the nature and purpose for which they have been acquired.[393] Although generally operating, cash flows relating to trading securities are not necessarily so. This is because trading classification may apply to securities that an entity has not held for sale in the near term,[394] in which case their cash flows would not necessarily be operating. Conversely, under both U.S. GAAP and IFRSs cash flows from held-to-maturity and available-for-sale securities are part of investing activities.[395] The SEC Staff clarifies that principal payments received on retained interests in securitized loans, when retained interests represent securities, are operating activities where the company accounts for retained interests as trading securities, and investment activities if it classifies them as available-for-sale securities.[396] The *Financial Statement*

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[390] *FASB ASC 230-10-55-15 (FASB Statement No. 95, ¶¶ 20.c, Footnotes 6 and 8); FASB Statement No. 95, ¶ 96.*

[391] *IAS 7, ¶¶ 16(a), 17 (c), 17(d).*

[392] *IAS 7, ¶¶ 14(g), 15, 16(g), 16(h).*

[393] *FASB ASC 230-10-45-19 (FASB Statement No. 102, ¶ 8); FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18).*

[394] *FASB Statement No. 159,* The Fair Value Option for Financial Assets and Financial Liabilities*, ¶ A42.*

[395] *FASB ASC 230-10-45-11 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶ 30; FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118; IAS 7, ¶¶ 16(c), 16(d).*

[396] *FASB ASC 860-20-35-2 (FASB Statement No. 140, ¶ 14); Mincin, R. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech [last accessed: November 26, 2010] (hereinafter Mincin 2005).*

Presentation Project would generally, but not always, continue the classification of cash flows from trading financial assets as operating. In fact, much would depend on management's view of the entity's business activities. Trading instruments might be investing (under the new notion of investment category) if not related to the core business. An illustrative example also depicts a company where management judged available-for-sale securities as operating assets.[397]

Comment: Both U.S. GAAP and IFRSs apply the above-mentioned current rules to both financial and nonfinancial companies. However, much of the focus and the basis of conclusion of FASB Statement No. 102 deals with the fact that it is a response to the request to clarify the accounting treatment for banks, brokers, and dealers, although it also applies to other enterprises.[398] Some have criticized the extension of these rules to nonfinancial companies for many reasons. For example, an entity that occasionally holds trading securities would report related cash flows as if they were part of its core business like a bank. The following example shows another dilemma concerning how to classify marketable securities that do not qualify as trading financial assets because the entity does not manage them with a trading intent but, at the same time, the securities do not meet the criteria for classification as cash equivalents.

Example: The SEC Staff, in its review of Form 20-F of a Swedish foreign private issuer for the fiscal year ended December 31, 2005 requested the company to reclassify cash flows from nontrading marketable securities as investment activities. The company had presented them as financing activities. It contended that IAS 7 associates the feature of principal revenue-producing to operating activities, which was clearly not applicable to marketable securities managed by a treasury center of a manufacturing company, especially if managed for temporary use of excess cash and not for speculative and trading purposes. The securities did not qualify as cash equivalents. On the other hand, the company contended that IAS 7 indicates that investing activities generate future income and cash lows, which is clearly not the case of marketable securities.[399]

Comment: The topic discussed in the previous example brings to mind the long-debated concept of treasury assets and net debt in the *Financial Statement Presentation Project*. There are several definitions of treasury assets. They have been intended as assets managed as part of net financing of a business, including cash and cash equivalents,[400] as well as investments sourced by excess capital.[401] The Discussion Paper concluded that treasury assets are assets managed by the treasury function of an entity and considered as financing activities as part of net debt. Under a version of this theory, the financing section of the statement of financial position would include certain financial assets, not only financial liabilities. In fact, net debt would include excess cash that an entity could use either for temporary investment or for retirement of existing debt (i.e., "negative" debt). Lately, the Staff Draft rejected the notions of treasury assets and net debt. Only the IASB version would require analysis of net debt in the notes.[402] Paragraph 5.3 previously and Paragraph 5.3.6 previously expand on these concepts.

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[397] *DP on Presentation, ¶¶ 2.67, A23; Staff Draft, ¶ IG32.*

[398] *FASB Statement No. 102, ¶¶ 4, 26.*

[399] *SEC IFRS Reviews. Letters by the SEC, October 30, 2006, Comment 9, and January 12, 2007, Comment 2. File No. 0-13722. Reply by the company, December 4, 2006 and September 28, 2006.*

[400] *FASB/IASB, Joint International Group (JIG) on Financial Statement Presentation, September 15, 2006, Apenda Paper 1,* Working Principles and Working Format*, ¶ 4. [Online]. Available at: www.fasb.org [last accessed June 21, 2007].*

[401] *FASB, 2006.* Minutes of the July 19, 2006 Financial Statement Presentation Meeting: Application of Working Principles*, ¶ 35. [Online]. Available at: www.fasb.org [last accessed June 21, 2007].*

[402] *DP on Presentation, ¶¶ 2.60, 2.61; Staff Draft, ¶¶ BC93, BC216, BC217.*

Comment: U.S. GAAP and IFRSs are not explicit on whether the general classification rule for interest and dividend receipts also applies to those related to debt and equity available-for-sale and debt held-to-maturity financial assets, nor are they explicit about whether the rule for collection and repayment of principal amounts also attracts these interest and dividend collections. In classifying investing activities from available-for-sale and held-to-maturity securities, Section 320-10-45 (FASB Statement No. 115) mentions only cash flows from purchase, sale, and maturity of these securities.[403] In classifying interest collections as operating activities, Section 320-10-45 (FASB Statement No. 95) does not pose limitations with regard to available-for-sale and held-to-maturity securities.[404] Its dissenting opinion also states that the general rule for interest and dividends applies. This issue may be more relevant for IFRSs that permit alternative classifications of interest and dividend received (Paragraph 5.6.1 previously). IAS 7 mentions cash from purchase and sale of equity and debt instruments as part of investing activities, but is silent on interest and dividends on available-for-sale and debt held-to-maturity financial assets.[405]

Planning Point: Unrealized gains or losses on available-for-sale financial instruments recognized in other comprehensive income do not involve any cash flows. As those gains and losses are not part of profit or loss, the starting point of the indirect method, the change in net working capital must exclude any change in fair value of available-for-sale financial instruments recognized in other comprehensive income. Profit or loss includes unrealized gains or losses on trading financial assets: therefore, they are reconciling items.[406] Realized gains and losses on trading financial assets are not reconciling items, to the extent they are operating cash flows. Realized gains and losses on held-to-maturity securities are reconciling items in the sense that they adjust cash flows from operating activities as the relating cash flow is part of investing activities.

Under U.S. GAAP, operating treatment also applies to cash flows arising from securities and other assets acquired specifically for resale and carried at market value in a trading account of brokers and dealers in securities, banks, or other entities. This is because holding those securities for resale is tantamount to selling inventory for a manufacturing company.[407]

Comment: U.S. GAAP does not explain whether other entities would be in the financial services sector or in any sector.

As an accommodation, U.S. GAAP allows banks and other financial institutions to treat cash flows from instruments carried in trading or investing accounts that would otherwise qualify as cash and cash equivalents, as operating and investing activities, respectively.[408] The SEC clarified that banks and thrifts, and finance and insurance companies must display proceeds from sales of debt securities separately from those deriving from their maturities or disclose them in the notes. In addition, proceeds relating to sale of held-to-maturity securities must

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403 *FASB ASC 320-10-45-11 (FASB Statement No. 115, ¶ 18); FASB Statement No. 115, ¶ 118.*
404 *FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.b).*
405 *IAS 7, ¶¶ 16(c), 16(d).*
406 *FASB Statement No. 102, ¶ 30.*
407 *FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, Footnote 8c, 23.a, Footnote 8d); FASB ASC 230-10-45-18, 230-10-45-20 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*
408 *FASB Statement No. 95, ¶¶ 55, 56.*

be presented separately from available-for-sale.[409] The Staff Draft of the *Financial Statement Presentation Project* would instead label the purchase and sale of all investments by financial service entities as operating activities.[410]

5.6.18 Loans Held for Sale

U.S. GAAP gives operating classification to cash flows from purchases and sales of loans that are originated or purchased specifically for resale and carried at market value or, in case of mortgage loans held for sale, at the lower of cost or market value. This is because holding those loans for resale is tantamount to selling inventory for a manufacturing company.[411] This topic comprises several situations.

Firstly, loans and trade receivables held for sale and carried at the lower of cost or market value under Subtopic 948-310 (FASB Statement No. 65) by mortgage banks are operating in nature.[412]

Secondly, under SOP 01-6 finance companies and any other (non-mortgage banking) companies that happen to give lending or financing to others report cash flows relating to loans held for sale and carried at market value in operating activities. A loan and a trade receivable is held for sale when at origination or purchase management intends to sell it or transfer it in a securitization transaction or subsequently decides to sell it even though it was initially classified differently. Loans acquired with the intention of holding for the foreseeable future or until maturity or payoff are investing in nature. This holds true even in case management subsequently changed its intention regarding the purpose of those loans.[413]

Finally, for manufacturing and commercial companies, in addition to this investing intention, loans held for investment must not be associated with sale of inventory to customers.[414]

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[409] *SEC, 2001. Division of Corporate Finance:* Frequently Requested Accounting and Financial Reporting Interpretations and Guidance*, ¶ I.E.*

[410] *Staff Draft, ¶ 82.a.*

[411] *FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 22.a, 23.a); FASB Statement No. 102, ¶¶ 10, 27, 30.*

[412] *FASB ASC 948-310-35-1 (FASB Statement No. 65,* Accounting for Certain Mortgage Banking Activities*, ¶ 4); FASB ASC 230-10-45-21 (FASB Statement No. 102, ¶ 9, Footnote 4).*

[413] *FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB ASC 310-10-35-47, 310-10-35-48, 310-10-35-49 (AICPA Statement of Position No. 01-6, ¶¶ 8.a, 8.b, 8.c).*

[414] *FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 23.a); FASB Statement No. 95, ¶ 95; Minchin, R. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech [last accessed: November 26, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, 2005.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C.1. Washington, DC: SEC Available at: www.sec.gov [last accessed: April 26, 2006].*

The SEC Staff requires a reconciliation of changes in balances of loans and receivables held for sale in the statement of cash flows.[415]

IAS 7 classifies cash flows from loans held for dealing or trading in operating activities. It specifies that this is generally the situation of financial institutions.[416] However, unlike U.S. GAAP, it classifies cash flows relating to all loans made by financial institutions to customers as operating activities. Instead, cash flows relating to nontrading advances and loans made by nonfinancial institutions are investing activities.[417]

Comment: IAS 7 does not provide the same level of detail as U.S. GAAP on this subject. IFRSs do not have these categories of loans held for resale or for sale and loans held for investment. Prior to IFRS 9, loans could fall into the category of financial assets held for trading or that of loans and receivables. Under IFRS 9, they may be financial assets measured at amortized costs or at fair value.[418]

5.6.19 Transfers of Accounts Receivable

Paragraph 5.6.10 previously refers to cash receipts from any type of customer receivables associated with sales of goods or rendering of services. This paragraph treats transfers of accounts receivable.

Topic 860 (FASB Statement No. 140) and IFRS 9 (IAS 39, prior to the effective date of IFRS 9) provide the rules for determining if a transfer of financial assets qualifies as a sale or as a collateralized borrowing. In particular, Paragraph 5.6.10 previously explains that an entity presents proceeds from a transfer of accounts receivable that is a sale as operating activities in the statement of cash flows. As a result of the sale, the entity derecognized accounts receivable. If it employs the indirect method, the reduction of accounts receivable translates into an adjustment that increases operating cash flows. Conversely, cash flows from transfers of accounts receivable that do not qualify as sales but are collateralized borrowings are financing activities.[419]

Among other disclosures, Section 860-20-50 (FASB Statement No. 140, as amended), in case of transfers of securitized financial assets accounted for as a sale, requires either separate presentation in the financial statements or note disclosure of the cash flows between the transferor and the transferee. Details include cash flows relating to new transfers, collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees, and retained beneficial interests.[420]

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[415] *SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.Q.4. [Online] SEC. Available at:* www.sec.gov *[last accessed: January 8, 2007].*

[416] *IAS 7, ¶ 15.*

[417] *IAS 7, ¶¶ 16(e), 16(f).*

[418] *IFRS 9, ¶¶ B4.4, Example 2, Example 3; IAS 39 (2005), ¶ 9.*

[419] *FASB ASC 230-10-45-14, 230-10-45-16 (FASB Statement No. 95, ¶¶ 19.b, 22.a); IAS 7, ¶¶ 14(a), 17(c).*

[420] *FASB ASC 860-20-50-3 (FASB Statement No. 140,* Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, ¶¶ 17.h(4), 329, as amended by FASB Statement No. 166, Accounting for Transfers of Financial Assets).*

The SEC Staff clarifies that principal payments received on retained interests in securitized loans, when retained interests represent securities, are operating activities where the company accounts for retained interests as trading securities, and investment activities if the company classifies them as available-for-sale securities.[421] However, no specific guidance explains whether an entity should maintain the operating classification of cash flows arising from retained interests in securitized receivables that it does not recognize as securities.

5.6.20 Repurchase and Reverse Repurchase Agreements

Topic 860 (FASB Statement No. 140) and IFRS 9 (IAS 39, prior to the effective date of IFRS 9) provide the rules for determining if an agreement to repurchase or redeem a financial asset qualifies as a sale or purchase of the underlying securities or as a secured borrowing.

From the viewpoint of the statement of cash flows, there may be different situations. If repurchase agreements or reverse repurchase agreements qualify as trading activities, they are operating activities, as explained in Paragraph 5.6.17 previously and Paragraph 5.6.18 previously. If they qualify for sale treatment but not as trading activities, and the exception for net reporting does not apply (see Paragraph 5.6.10 previously), their cash flows are investing activities.[422] However, the portion of payment relating to interest by a seller-borrower of a repurchase agreement and the portion of receipt relating to interest by a buyer-lender of a reverse repurchase agreement would be operating activities under U.S. GAAP, while under IFRSs they are either financing or investing, respectively, or operating (see Paragraph 5.6.1 previously). If the agreements qualify for secured borrowing treatment and the trading activities exception does not apply, U.S. GAAP provides specific guidelines for depository and lending institutions.[423] With reference to these institutions, a seller-borrower of a repurchase agreement presents principal cash flows as financing activities and interest payments as operating activities. A buyer-lender of a reverse repurchase agreement shows principal cash flows as investing activities and interest receipts as operating activities. IFRSs have no specific guidance in such a case. However, as mentioned above, those interest cash flows would be either financing or investing, respectively, or operating activities.

The SEC Staff clarifies that principal payments received on retained interests in securitized loans are operating activities where the company accounts for retained interests as trading securities, and investment activities if it classifies them as available-for-sale securities.[424]

5.6.21 Equity Method Investments and Investments in Joint Ventures

IAS 7 assimilates cash flows relating to the purchase and sale of an equity interest in joint ventures (and in associates, although it does not expressly mention them) to the general treatment applicable to investments in financial assets that are not held for trading (see Paragraph 5.6.17 previously).[425] In addition, an investment in an equity method associate is a noncurrent asset,[426] a fact that confirms its investing nature. An entity again applies investing cash flow

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[421] *FASB ASC 860-20-35-2 (FASB Statement No. 140, ¶ 14); Mincin 2005.*
[422] *FASB ASC 230-10-45-20, 230-10-45-21 (FASB Statement No. 102, ¶¶ 8, 9).*
[423] *AICPA Audit and Accounting Guide, DEP, ¶ 6.20.*
[424] *Mincin 2005.*
[425] *IAS 7, ¶¶ 16(c), 16(d).*
[426] *IAS 28 (2010),* Investments in Associates, *¶ 38.*

classification to such investments in its separate financial statements in which it accounts for them at cost method or at fair value in accordance with IFRS 9.[427] Under IFRSs, investment companies, such as venture capital, mutual funds, unit trusts, investment-linked insurance funds, and similar entities, which account for interests in associates or joint ventures at fair value through profit or loss, also report related cash flows as investing activities.[428]

Comment: IFRSs apply equity method accounting to associates and, prior to IFRS 11, as one of the methods allowed, to jointly controlled entities only in consolidated financial statements. IFRS 11 eliminates the proportionate consolidation method. An investor that also presents consolidated financial statements would, in its separate financial statements, account for an associate and a jointly controlled entity at cost method or at fair value. It would use the equity method only in case it presented only individual financial statements alone, a situation that would arise if it had no subsidiary or jointly controlled entity and thus presented no consolidated financial statements.[429] Conversely, under U.S. GAAP, equity method accounting generally applies to a subsidiary, an investee or a corporate joint venture in the parent or investor's stand-alone financial statements. Equity method also applies to an investee or to a corporate joint venture in consolidated financial statements.

Subtopic 230-10 (FASB Statement No. 95) is silent on the topic. However, U.S. practice generally treats these cash flows as investing activities, as implicit in the general rule for not held-for-trading investments in financial assets (see Paragraph 5.6.17 previously).

Paragraph 5.5.11 previously explains the display of investing cash flows for obtaining or losing control of a subsidiary or other businesses in the consolidated statement of cash flows.

Planning Point: The acquisition or disposal of a business that is not a legal entity also affects the unconsolidated statement of cash flows.

Planning Point: IFRSs do not exempt investment companies from consolidating their investments that meet the definition of a subsidiary.[430] Therefore, the acquisition or the disposal of a subsidiary by an investment company would be reported in the statement of cash flows as an acquisition or disposal of a business under IFRSs, i.e., an investment activity for the net amount. Instead, U.S. GAAP, apart from certain exceptions, excludes the consolidation of a noninvestment company by an investment company.[431] In addition, an investment company that is structured as a master-feeder or fund of funds would ordinarily not consolidate the underlying investee investment companies. An acquisition or disposal would simply originate investing cash flows relating to nontrading investments in financial assets.

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[427] *IAS 7, ¶¶ 16(c), 16(d); IAS 27 (2010), ¶ 38, as amended by IFRS 9; IAS 28 (2010), ¶ 35; IAS 31, ¶ 46.*

[428] *IAS 28 (2010), ¶ 1, as amended by IFRS 9; IAS 31, ¶ 1, as amended by IFRS 9.*

[429] *IAS 27 (2010), ¶ 38; IAS 28 (2010), ¶¶ 4, 35; IAS 31, ¶ 46.*

[430] *IAS 27 (2010), ¶ 16.*

[431] *FASB ASB 810-10-15-10, 946-810-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.04); FASB ASC 946-10-S99-3 (Regulation S-X, ¶ 210.6-03(c)(1)(i)).*

Equity income in investees is a noncash item. As investments in associates and joint ventures are noncurrent assets, in the statement of cash flows under the indirect method their change does not automatically adjust net income through the change in net working capital (assuming the entity does not regard them as operating items). Therefore, the statement of cash flows under the indirect method only shows undistributed equity earnings in investees as an adjusting item.[432]

> **Comment:** Paragraph 4.5.4.4 previously illustrates the treatment of equity income in investees from the perspective of the income statement, regarding which some not so straightforward guidance exists on their nonoperating nature, possibly resulting in lack of consistency across financial statements.

Conversely, dividends paid by an investee to the investor are real cash from both the separate and consolidated perspectives. Therefore, the consolidated statement of cash flows under the direct method shows dividends the investor receives from the investee as operating activities.[433] Of course IFRSs would allow the option to depict them as investing activities (see Paragraph 5.6.1 previously)

Payments and receipts between the investor and an investee that is accounted for at equity method or cost are also real cash flows that IAS 7 requires an entity to report according to applicable rules both in the investor's separate statement of cash flows and in the consolidated statement of cash flows.[434]

Paragraph 5.5.11.6 previously illustrates the impact of using the equity method, full consolidation and proportionate consolidation on consolidated cash and cash equivalents and on the consolidated statement of cash flows.

5.6.22 Extraordinary Items

IFRSs prohibit extraordinary items. Paragraph 4.5.12 previously expands on the treatment of extraordinary items in the statement of comprehensive income.

When the old IASs permitted them, IAS 7 separately reported those cash flows in the related operating, investing, and financing sections.[435]

Subsection 230-10-45-24 (FASB Statement No. 95) does not require, but does not prohibit, separate disclosure of cash flows from extraordinary items. However, it requires that an entity electing such disclosure makes use of a consistent presentation for all periods affected.[436] They affect operating, investing, and financing cash flows depending on the nature of the extraordinary item to which they refer.

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[432] *FASB ASC 230-10-55-13 (FASB Statement No. 95, ¶ 131); IAS 7, ¶ 20(b).*
[433] *FASB ASC 230-10-55-10 (FASB Statement No. 95, ¶ 131).*
[434] *IAS 7, ¶¶ 37, 38.*
[435] *IAS 7 (1992), superseded, ¶ 29.*
[436] *FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ Footnote 10).*

> **Planning Point:** Restate any cash flows from extraordinary items under U.S. GAAP to ordinary operating, investing, and financing activities to which they refer under IFRSs.

5.6.23 Unusual or Infrequent Items and Material Items

Paragraph 4.5.7 previously expands on the treatment of items that are unusual or infrequent, but not both, in the statement of comprehensive income under U.S. GAAP. That paragraph also explains the accounting for material items under IFRSs. Both bodies of standards are silent on the treatment of these items in the statement of cash flows.

> **Planning Point:** An entity may consider presenting separately or disclosing these items in the statement of cash flows, by analogy with the statement of comprehensive income, to the extent permitted by the disaggregation guidance principles explained in Paragraph 5.7.2 following. However, Paragraph 4.5.7 previously explains that IAS 1 stresses that irregular, infrequent, or unusual items are operating items in the statement of income, although this is controversial under U.S. GAAP. Companies had better not report aggregates that include or extract such items, as IFRSs and U.S. GAAP do not allow subtotals in the statement of cash flows apart from the basic trichotomy and few other captions (see Paragraph 5.5.8 previously). Furthermore, SEC registrants should avoid not-expressly-permitted non-GAAP measures in SEC filings.

The *Financial Statement Presentation Project* would separately classify nonrecurring cash flows, such as those related to lawsuits, termination benefits, and receipts from insurances.[437]

5.6.24 Discontinued Operations

The FASB removed the disclosure in APB 30 and FASB Statement No. 121 about proceeds from discontinued operations, with the justification that the statement of cash flows already provides for this.[438] Subsection 230-10-45-24 (FASB Statement No. 95) does not require, but does not prohibit, separate disclosure of cash flows relating to discontinued operations affecting operating, investing, and financing activities. However, it requires that an entity electing such disclosure makes use of a consistent presentation for all periods affected.[439] It incidentally adds that cash flows from sales of discontinued operations relate to investment activities and entities must report them as such.[440]

> **Comment:** However, this indication does not provide any affirmative guidance as to the way of presenting or disclosing those items that relate to investment activities, e.g., whether commingled or separate within investment activities or in a separate section.

Unlike Subtopic 230-10 (FASB Statement No. 95), IFRS 5 affirmatively requires either separate presentation in the statement of cash flows or disclosure in the notes of the net cash flows

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[437] *Staff Draft, ¶¶ 183-184.*
[438] *FASB Statement No. 144,* Accounting for the Impairment or Disposal of Long-Lived Assets*, ¶ B121.*
[439] *FASB ASC 230-10-45-24 (FASB Statement No. 95, ¶ 26, Footnote 10).*
[440] *FASB ASC 230-10-45-28 (FASB Statement No. 95, ¶ 28).*

from discontinued operations related to operating, investing, and financing activities, except for newly acquired subsidiaries classified as held for sale on acquisition.[441]

Example: The SEC Staff, in its review of Form 20-F of an Italian and of two French foreign private issuers for the fiscal year ended December 31, 2005, requested presentation or disclosure of cash flows relating to discontinued operations.[442]

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed, in part, that an issuer did not comply with IFRS 5 by not disclosing the effects of discontinued operations in the statement of cash flows.[443]

Comment: IFRS 5 refers to net cash flows. Subtopic 230-10 (FASB Statement No. 95) is not explicit as to whether disclosure is of gross or net cash flows. Arguably, gross reporting is the basic rule under both IFRSs and U.S. GAAP (see Paragraph 5.5.10 previously).

Planning Point: Paragraph 5.4.3.2 previously illustrates the separate display of cash flows related to income taxes under IFRSs. Presentation of discontinued operations is net of taxes in the income statement. This raises the issue of whether or not an entity should gross up cash flows from results of operations of discontinued operations in the operating activities section of the statement of cash flows to report income taxes separately.

The SEC Staff interprets Subtopic 230-10 (FASB Statement No. 95) in the sense that whatever presentation an entity chooses must comply with its basic principle that all cash flows must be segregated as either operating, investing, or financing activities. It inventories several ways in which registrants usually report discontinued operations in the statement of cash flows. It considers three of the current practices which are acceptable. The first consists in combining cash flows from discontinued operations with those of each of the three basic categories. Alternatively, separately disclosing them within each of those sections is possible. The third alternative is reporting cash flows from discontinued operations as the last item before net changes in cash flows, provided the breakdown into the three classes is indicated. Management's Discussion and Analysis of SEC registrants must explain the presentation followed, quantify material amounts if not separately presented, and discuss the impact on future liquidity and capital resources.[444]

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[441] *IFRS 5,* Non-current Assets Held for Sale and Discontinued Operations, *¶¶ 13, 33(c).*

[442] *SEC IFRS Reviews. Letter by the SEC, December 19, 2006. File No. 1-14970, Comment 7. by the SEC, September 7, 2006. File No. 1-15234, Comment 25. Letter by the SEC, September 25, 2006. File No. 1-15248, Comment 52.*

[443] *Committee of European Securities Regulators (CESR), 2010. CESR/10-834,* 3rd Extract from EECS's Database of Enforcement Decisions, *Paris: CESR, ¶ Decision ref. EECS/0508-08. [Online] CESR. Available at: www.cesr.eu [last accessed July 20, 2010].*

[444] *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; SEC Staff, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.1. [Online] SEC. Available at: www.sec.gov [last accessed: January 8, 2007].*

Planning Point: Information on cash flows from discontinued operations is of utmost importance in projecting cash flows, because such streams will not be repeated in the near future. While under U.S. GAAP the income statement has an aggregate for income from continuing operations and for discontinued operations, the statement of cash flows only has cash flows from operating activities. Therefore, combining cash flows from discontinued operations of an operating nature in the operating activities section (as in the first option allowed) would not put users in a position to read and project cash flows relating to the operations of the discontinued operations appropriately, unless the entity gives disclosures in the notes. Furthermore, the first option allowed by the SEC, i.e., the combination of cash flows from discontinued operations with those of each of the three basic categories, would not be acceptable under IFRS 5 unless the notes disclose respective amounts.

The SEC Staff determines the following presentation to be erroneous: 1) the display of a single line without separate information on operating, investing, or financing components, or 2) the inclusion of operating, investing, or financing components of cash flows of discontinued operations into cash flows from operating activities.

Comment: A single line with no detail would not spell out the portion of the cash flows associated with the operations of the discontinued operations and the proceeds from their disposal.

Example: Under IFRSs, certain companies use memorandum lines or parenthetical explanation for discontinued operations for each of the operating, investing, and financing totals on the face of the statement of cash flows. This may be seen as a variant of the second approach accepted by the SEC as mentioned previously.[445]

IAS 35 (superseded) used to require such information in the financial statements for each discontinued operation. It mandated that interim financial statements reported significant changes in those cash flows. It gave illustrative examples about presentation on the face of the statement, either with separate columns for continuing and discontinued operations or separate totals.[446]

Comment: These formats had the advantage of distinguishing discontinued operations from the remainder of operating activities. Although not conflicting with the SEC guidance, neither the separate column option nor the separation of continuing and discontinued operations are among the options discussed by the SEC Staff as mentioned above.

Finding a presentation format under the indirect method is more complex.

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[445] *See examples in: Bonham, M. et al. (Ernst & Young) (2004)* International GAAP. *UK: LexisNexis, Chapter 32.3.1.*

[446] *IAS 35,* Discontinuing Operations *(superseded), ¶¶ 27(g), 38, 47, A9.*

Example: The SEC Staff, in its review of Form 20-F of an Italian foreign private issuer, accepted net loss from continuing operations as the starting point of the statement of cash flows. According to the company, this approach permitted the separate display of cash flows from discontinued operations.[447] However, this presentation in a single line is acceptable if the amount refers to operating activities only. It may however conflict with the guidance relating to the starting point of the indirect method (see Paragraph 5.5.11 previously).

Planning Point: Subtopic 230-10 (FASB Statement No. 95) seems to suggest another format applicable to the indirect method: an adjustment for items relating to discontinued operations that are investing activities. The first option allowed by the SEC, i.e., the combination of cash flows from discontinued operations with those of each of the three basic categories would be acceptable under IFRS 5 only if the notes disclose respective amounts.

The Staff Draft of the *Financial Statement Presentation Project* would provide for a separate discontinued operation section on the face of the statement of cash flows.[448]

The topic of disclosing the impact of cash flows from discontinuing operations has a link with the cash flows from obtaining or losing control of a subsidiary. This has been treated in Paragraph 5.4.4 previously.

5.6.25 Cumulative Effect of a Change in Accounting Principle and Correction of Errors

As explained in Paragraph 5.6.25 previously, both U.S. GAAP and IFRSs account for changes in accounting principles and corrections of errors retroactively. From the perspective of the statement of cash flows, these adjustments are noncash items that, moreover, do not generally affect the statement of income. In the rare occurrences in which, either because of an involuntary change (i.e., mandated by a specific pronouncement) or because of the impracticability exception, a change in accounting policy impacts the statement of income, it will constitute a noncash adjustment under the indirect method.

5.6.26 Income Taxes

IAS 7 classifies cash flows relating to income taxes in operating activities, but also in investing or financing sections in case an entity is able to associate them specifically with those types of activities.[449] Subtopic 230-10 (FASB Statement No. 95) also classifies payment of income taxes in cash flows from operating activities. However, except for the topic explained in Paragraph 5.6.27 following, it does not permit intraperiod tax allocation in the statement of cash flows, on the grounds of the inherent difficulties of this approach, that are already complex for the income statement.[450] IAS 7 explains such difficulties even better: tax cash flows may

[447] *SEC IFRS Reviews. Letter by the SEC, September 26, 2006. File No. 333-12334, Comment 8. Reply by the company, October 20, 2006.*
[448] *DP on Presentation, ¶¶ S4(c), 2.20, 2.37, A8; Staff Draft, ¶¶ 99, IG28.*
[449] *IAS 7, ¶¶ 14(f), 35.*
[450] *FASB ASC 230-10-45-17, 230-10-45-25 (FASB Statement No. 95, ¶¶ 23(c), 27.f); FASB Statement No. 95, ¶¶ 91–92.*

have timing differences from both tax expenses and benefits and from the cash flows of the transactions from which they arise. An entity must disclose the total amount of taxes paid if it presents tax cash flows in more than one category.[451]

> **Comment:** Therefore, apart from certain exceptions, U.S. GAAP prohibits the allocation of cash flows relating to income taxes, while IFRSs permit it if practicable.

Both sets of standards require separate identification. IAS 7 does not mandate separate presentation of tax refunds versus tax payments.[452] Subtopic 230-10 (FASB Statement No. 95) does not mention tax refunds at all.

> **Planning Point:** Paragraph 5.4.3 previously explains the different locations in the statement of cash flows of income taxes paid under the indirect method in accordance with IFRSs and U.S. GAAP. Under IFRSs, a statement of cash flows by indirect method that starts with profit or loss, as opposed to profit before taxation (see Paragraph 5.4.4 previously), would show an adjustment for income tax expense, in order to separately display income tax cash flow. The reason is that IAS 7 requires separate presentation of income tax payments, irrespective of whether the entity uses the direct or the indirect method.[453] It requires disclosure of total income taxes payments, but only when an entity allocates them to more than one category of the statement of cash flows.[454] In any event, the standard does not illustrate the format or the location of such disclosures. Conversely, with the indirect method, U.S. GAAP simply requires disclosure of income taxes paid as part of supplemental disclosures or of a note.[455] The *AICPA Accounting Trends & Techniques* reports that 50% or more of the U.S. GAAP companies surveyed in 2002–2009 disclosed income tax payments in the notes to financial statements, 48% (44% in 2002) at the bottom of the statement of cash flows, no more than 2% within that statement, and the remainder did not disclose any amount.[456] Consequently, by literally following the standard, leaving profit or loss unadjusted for income tax expense, while simply showing changes in income tax payable as part of changes in operating capital accounts, would not be compliant with IAS 7. Conversely, Subtopic 230-10 (FASB Statement No. 95) permits this form of presentation, given that supplemental disclosure already provides information on income tax paid, while it requires separate presentation only under the direct method.[457] However, the Implementation Guidance of IFRS for small and medium-sized entities illustrates an alternative layout under the indirect method. It shows an adjustment for only the portions of noncash income tax expense, plus information on income tax paid in cash at the bottom of the statement as a sort of supplemental disclosure similar to that under U.S. GAAP.[458]

For a financial institution, IAS 7 illustrates a subtotal for net cash from operating activities before income taxes.[459]

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[451] *IAS 7, ¶ 36.*
[452] *IAS 7, ¶ 14.*
[453] *IAS 7, ¶¶ 31, 35.*
[454] *IAS 7, ¶ 36.*
[455] *FASB ASC 230-10-50-2 (FASB Statement No. 95, ¶ 29); FASB Statement No. 95, ¶¶ 92, 121.*
[456] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 6-4.*
[457] *FASB ASC 230-10-45-25, 230-10-55-13 (FASB Statement No. 95, ¶¶ 27.b, 131).*
[458] IFRS for Small and Medium-sized Entities, *¶ Illustrative Financial Statements.*
[459] *IAS 7, ¶ IE.B.*

The *Financial Statement Presentation Project* would introduce a separate income tax section in the statement of cash flows, while intraperiod tax allocation would hold in the statement of comprehensive income only.[460]

5.6.27 Excess Tax Benefits of Share-Based Payment Arrangements

U.S. GAAP classifies cash inflows corresponding to the so-called excess tax benefits of share-based payment arrangements as financing activities. FIN 31 (superseded) called this a windfall stock option deduction.[461] U.S. GAAP represents the cash impact of excess tax benefits as both a financing inflow and an operating outflow.[462] This is an exception to the general rule explained in Paragraph 5.6.26 previously of not allocating income tax cash flows to operating, investing, and financing activities.

> **Comment:** However, U.S. GAAP does not clarify whether under the indirect method the operating outflow should be part of supplemental disclosures of income taxes paid.

Because of the materiality of the topic, this would make the cash flow effects of share-based payment transactions transparent and consistent with the treatment in the income statement and in the statement of financial position. However, critics see this solution as representing not real, but imputed and figurative cash flows. It would also depict tax benefits as cash inflows instead of reductions of cash payments.[463] U.S. GAAP does not require this dual presentation for the reverse effect, i.e., the write-off of the deferred tax asset related to recognized compensation cost that ended up being not deductible, that is offset against any remaining additional paid-in capital pool.[464] In addition, U.S. GAAP requires separate disclosure of cash tax benefit (other than excess tax benefits) that an entity realizes from stock options exercised during the year.[465]

> **Comment:** IFRS 2 does not treat this topic from the point of view of the statement of cash flows. However, during the project work, the IASB tentatively affirmed that an entity would classify any tax benefits recognized in income as operating and those recognized in equity as financing activities.[466]

To explain, both IFRS 2 and Topic 718 (FASB Statement No. 123(R)) require recognition of compensation cost relating to share-based payment transactions in net income. When an item is recognized as an expense and not as a liability in the period it is incurred (i.e., the remuneration expense recognized for accounting purposes), the difference between its tax base

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[460] *Staff Draft, ¶¶ 97, BC111, BC112, IG28.*
[461] *FASB Interpretation No. 31,* Treatment of Stock Compensation Plans in EPS Computations *(superseded), ¶ 3.*
[462] *FASB ASC 230-10-45-14, 230-10-45-17, 230-10-45-25 (FASB Statement No. 95, ¶¶ 19.e, 23.c, 27.f); FASB Statement No. 123R, ¶¶ 2, 68, A96.*
[463] *FASB ASC 230-10-45-14 (FASB Statement No. 95, ¶ 19.e); FASB Statement No. 123R, ¶¶ B223-B226, B243.*
[464] *FASB ASC 718-20-55-23 (FASB Statement No. 123R, ¶¶ A95, Footnote 84); FASB Statement No. 123R, ¶ B228.*
[465] *FASB ASC 718-10-50-2 (FASB Statement No. 123R, ¶ A240.i); FASB Statement No. 123R, ¶ B244.*
[466] *IASB Update, November 2003.*

and its zero carrying amount (as no liability is recorded) is a deductible temporary difference. If no component is deductible for tax purposes, no temporary difference arises, as there will be no difference between the tax base (nil) and the financial reporting base (nil, because the entity expenses the remuneration).[467]

A difference between the cumulative compensation expense recorded for financial reporting purposes and the amount that the tax rules permit an entity to deduct on the remuneration paid in shares, stock options, or similar arrangements may be the result of many factors. It may originate from a timing lag due to the use of a measurement date for accounting purposes (e.g., grant date under both U.S. GAAP and IFRS 2) that is different from that admitted for taxation (typically, for example, share option exercise date). Also, the measurement methods used may differ (e.g., intrinsic value for tax purposes versus fair value for financial reporting, thus the time value component of the instrument may not be deductible for tax purposes), the rules for treatment of forfeitures may be at variance, or other specific tax deduction rules may exist under a specific tax jurisdiction.[468]

Exhibit 5-9 summarizes the IFRSs and U.S. GAAP logic, computation procedures, and entries to account for income taxes on equity-settled share-based payment arrangements.

> **Comment:** There are certain differences between U.S. GAAP and IFRSs, as explained below. The two sets of standards assume different rationales and procedures to arrive at a conclusion and accounting that are in part similar. The SEC Staff reminded foreign private issuers that, although measurement provisions of IFRS 2 and U.S. GAAP would ordinarily not produce Form 20-F reconciling items, these may result from certain differences between the two bodies of standards.[469]

Firstly, IFRSs and U.S. GAAP differ in accounting for an excess income tax benefit in share-based payment arrangements, in the sense that both apply equity recognition to an excess income tax benefit, but with different recognition limits. An excess income tax benefit refers to the excess of the realized tax deduction reported on a tax return (under IFRSs, the estimated, or subsequently realized, future tax deduction) over the tax effects of the cumulative compensation expense recognized for financial reporting purposes. As per the general intraperiod tax allocation rule under IAS 12, backwards tracing applies. Therefore, IFRSs require the recognition in profit or loss of income tax benefits to the extent the estimated or actual tax deduction corresponds to the cumulative compensation expense recognized in profit or loss for financial reporting purposes. Any tax deduction in excess of the cumulative expense recognized for financial reporting purposes must then refer to an equity component, and therefore its recognition must be directly in equity as it occurs.[470] The IFRSs rationale is that, in addition to an employee remuneration expense that is compensation cost in nature, a portion of the tax deduction also refers to an equity item because the arrangement is also a share-based transaction: that portion of taxes must trace back to equity. The portion recognized directly in equity is not limited to the excess relating to changes in value of an equity interest,

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[467] *IFRS 2,* Share-based Payment*, ¶ BC312; IAS 12,* Income Taxes*, ¶ 26(a).*

[468] *FASB ASC 718-740-05-4 (FASB Statement No. 123(R), ¶ 58); IFRS 2, ¶ BC315; IAS 12, ¶ 68A.*

[469] *FASB ASC 718-10-S99-1 (SEC Staff Accounting Bulletin, Topic 14-L,* Application of the Measurement Provisions of Statement 123R to Foreign Private Issuers*).*

[470] *IAS 12, ¶ 68C.*

Exhibit 5-9 Deferred Taxes on Equity-Settled Share-Based Payment Transactions

IFRSs

- Deferred tax asset computed based on updated estimate of the future tax deduction (e.g., with current share price)

↓

- Deferred tax income cannot exceed actual tax deduction
- At vesting, excess tax benefits are recognized as they arise

↓

- Unrecovered deferred tax is not asset under the IASB Framework

↓

- No permanent tax difference for unrecovered deferred tax is recorded

U.S. GAAP

- Deferred tax asset computed based on the cumulative expense (recognized award grant-date fair value)

↓

- Deferred tax income may exceed actual tax deduction

↓

- Any unrecovered deferred tax is written off to equity as a final adjustment

↓

- Unrecovered portion: permanent tax difference
- Hence the need to offset with any remaining APIC from excess tax benefits from previous awards

IFRSs

		Debit	Credit	
Every year before vesting:				
Deferred tax asset	**A**	x		
Deferred tax income (income statement)	**B**		x	Computed based on estimated tax deduction
Before exercise if the estimated tax deduction exceeds the cumulative remuneration expense:				
Deferred tax asset	**A**	x		Estimated tax deduction, updated based on the end of period share prices
Equity	**C**		x	To the extent the estimated tax deduction exceeds the cumulative remuneration expense
Deferred tax income (income statement)	**B**		x	Balance
At exercise				
Deferred tax expense (income statement)		x		Tax on the cumulative remuneration expense
Equity	**Reversal of C**	x		Reversal of tax applicable to the estimated tax deduction in excess of the cumulative remuneration expense
Deferred tax asset	**Reversal of A**		x	

(continued)

Exhibit 5-9 Deferred Taxes on Equity-Settled Share-Based Payment Transactions (*Continued*)

If at exercise realized tax return deductions are more than compensation cost recognized:

		Debit	Credit	
Current tax payable		x		Current tax benefit that is realized at share option exercise date
Current tax income (income statement)	**As B**		x	
Equity	**Balance**		x	Any difference between realized tax benefit and estimated amount recorded to date (an excess tax benefit)

If at exercise realized tax return deductions are less than compensation cost recognized:

		Debit	Credit
Current tax payable		x	
Current tax income (income statement)			x

U.S. GAAP

		Debit	Credit	
Every year till vesting:				
Deferred tax asset	**A**	x		Computed based on the cumulative expense
Deferred tax income (income statement)	**B**		x	Recorded for financial reporting purposes for instruments classified as equity that ordinarily will result in a future tax deduction
At vesting/exercise:				
Deferred tax expense (income statement)	**B**	x		
Deferred tax asset	**Reversal of A**		x	
If tax return deductions are more than compensation cost recognized:				
Current tax payable		x		Current tax benefit that is realized at share option exercise date
Current tax expense (income statement)			x	
Additional paid-in capital			x	Tax applicable to the estimated tax deduction in excess of the cumulative remuneration expense to the extent that such an excess results from changes in the fair value of the entity's shares between the measurement date for financial reporting and the later measurement date for tax purposes
If tax return deductions are less than compensation cost recognized				
Current tax payable		x		Current tax benefit that is realized at share option exercise date
Additional paid-in capital		x		Final adjustment to write-off unrecovered deferred taxes against any remaining additional paid-in capital resulting from excess tax benefits from previous awards
Current tax expense (income statement)			x	Balance

because other reasons may exist, depending on the jurisdiction, such as differences in valuation methodology. As IFRSs, because of their international nature, must be applicable to any tax jurisdiction, such accounting must be irrespective of the specific determinants to which the tax rules may attribute this excess tax benefit according to specific tax rules.

> **Comment:** Consistently with IAS 12, backwards tracing would require income recognition for income tax related to the portion of an excess tax benefit arising from an increase of share price, because book equity does not reflect changes in fair value of equity instruments.

U.S. GAAP recognizes the income tax effects of equity-settled share-based payment arrangements in the income statement, based on deferred tax assets computed on the cumulative expense recorded for financial reporting purposes for instruments classified as equity that will ordinarily result in a future tax deduction.[471] U.S. GAAP credits in equity, i.e., in additional paid-in capital, any excess tax benefit (i.e., the realized tax deduction that exceeds the total expense recognized in the financial statements). In fact, U.S. GAAP also views an equity-settled share-based payment arrangement as two embedded transactions, i.e., service rendered in exchange for shares (therefore, a transaction that must affect the income statement), and share option exercise or vesting of shares (i.e., an equity transaction between the entity and employees acting in their quality of shareholders). This is because under grant date measurement, any change in the value of the equity instruments after grant date is seen as a matter of equity holders acting as such and not as employees.[472] However, Subtopic 718-740 (FASB Statement No. 123(R)) limits the equity recognition of an excess tax benefit to the extent that such an excess results from changes in the fair value of the entity's shares between the measurement date for financial reporting and the later measurement date for tax purposes.[473] This is because U.S. GAAP is tied to the U.S. tax system, where excess tax deductions originate from the increase in the intrinsic value of the equity instrument after the grant date (generally at the exercise date for share options and at the vesting date for shares). Hence, U.S. GAAP regards only the tax effect related to the increase of share price as an equity component.[474] An entity does not credit additional paid-in capital to the extent a realized tax deduction from an existing net operating loss carryforward reduces taxes payable.[475] EITF Issue No. 06-11 has a specific rule for dividends or dividend equivalents paid to employees on nonvested equity shares or share units during the vesting period or on outstanding share options before their exercise are tax deductible, even when charged to retained earnings. It recognizes the realized income tax benefits as an increase in additional paid-in capital and includes it in the so-called "APIC pool" (see below).[476]

Secondly, under IFRSs, deferred taxes are kept posted every period based on the entity's updated estimate of the tax base of the employee services received to date, which corresponds

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[471] *FASB ASC 718-740-25-2, 718-740-30-1 (FASB Statement No. 123(R), ¶ 59).*

[472] *FASB Statement No. 109,* Accounting for Income Taxes*, ¶ 143; FASB Statement No. 123(R), ¶¶ B209, B224; IFRS 2, ¶¶ BC317–BC320.*

[473] *FASB ASC 718-740-45-2, 718-740-35-3 (FASB Statement No. 123(R), ¶ 62).*

[474] *FASB Statement No. 123(R), ¶¶ B208–B209; IFRS 2, ¶ BC328.*

[475] *FASB ASC 718-740-25-10 (FASB Statement No. 123(R), ¶ Footnote 82).*

[476] *FASB ASC 718-740-45-8 to 718-740-45-12 (EITF Issue No. 06-11,* Accounting for Income Tax Benefits of Dividend on Share-Based Payment Awards*).*

to the expected tax deduction that the specific tax jurisdiction would permit in future periods. When the entity does not know such a tax base at the end of the period, it must estimate it based on information available at the end of the period. If under that tax jurisdiction this requires a determination of share prices at a future date, the entity must then estimate the share prices at the end of the reporting period.[477] This fine-tuning estimation process ensures that the cumulative tax benefit recognized over time does not exceed the actual deductible tax benefits.[478] Thanks to this mechanism, no unrecovered deferred tax should arise, nor should it be on the balance sheet, as it does not meet the definition of an asset under the IASB Framework.[479] Consequently, no permanent tax difference should exist. Contrary to IFRSs, U.S. GAAP does not update deferred taxes on the cumulative expense already recorded at the award grant-date fair value, based on a new estimate of what future tax deductions would be at subsequent reporting dates due to changes in the current fair value of share prices.[480] The U.S. GAAP rationale for not considering changes in share prices during the requisite service period is that the employees, not the employer, contractually bear the risk of those changes and the employees render the service in the requisite period to earn their right to benefit from the options irrespective of any share price change. To confirm this view, an entity would recognize the remaining unrecognized compensation cost even in the case of cancellation of the options.[481] An entity separately accounts for the two transactions (rendering of services by employees and issuing of equity). They must not interfere with each other. The benefit the employer receives from service rendered does not depend on changes in share price: hence, those changes must not affect compensation cost. Therefore, differences between cumulative expense and tax deduction are likely to arise in each vesting period. Unrecovered deferred taxes (i.e., on a permanent difference) may arise to the extent an entity records a cumulative expense that exceeds the actual tax benefit. Insofar as these tax differences are unrecoverable and they are not reversed during the vesting period as they arise, at vesting or exercise the entity writes them off to equity as a final adjustment against any remaining additional paid-in capital resulting from excess tax benefits from previous awards (the so-called "APIC pool").[482]

Thirdly, under U.S. GAAP, this write-off follows a portfolio approach, in the sense that any remaining additional paid-in capital that arose from excess tax benefits as a result of previous awards is first written off, prior to recognizing the remainder in the income statement.[483] The same treatment applies in the reverse situation of tax deficiencies (i.e., where the recognized tax deduction is less than the total expense recognized for accounting purposes). As mentioned, the need for a final adjustment to write off an excess income tax benefit cannot arise under IFRS 2. By definition, tax deficiencies do not arise under IFRS 2 during the vesting period because the estimated tax deduction is updated each period. An entity recognizes a tax deficiency that arises in the vesting or exercise period in profit or loss.[484] It makes this determination on an individual instrument basis.

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[477] *IAS 12, ¶ 68B; IFRS 2, ¶ BC324.*
[478] *IFRS 2, ¶ BC327.*
[479] *IFRS 2, ¶ BC325.*
[480] *FASB ASC 718-740-30-2 (FASB Statement No. 123(R), ¶ 61); FASB Statement No. 123(R), ¶ B207.*
[481] *FASB Statement No. 123(R), ¶¶ B159–B160, B163–B164, B221–B222.*
[482] *FASB ASC 718-20-55-23 (FASB Statement No. 123(R), ¶ A95).*
[483] *FASB ASC 718-740-35-5, 718-740-45-4 (FASB Statement No. 123(R), ¶ 63); FASB Statement No. 123(R), ¶¶ B210, B269.*
[484] *IFRS 2, ¶ BC326.*

Finally, contrary to IFRS 2, Topic 718 (FASB Statement No. 123(R)) does include the time value component of the instrument, due to the use of fair value for financial reporting versus intrinsic value for tax purposes, in computing deferred taxes for an award of share options. In fact, it computes deferred tax based on the grant-date fair value of the award, or calculated value for certain nonpublic entities. At recognition of the tax benefit, IFRS 2 computes the deferred tax based on the intrinsic value of the award that can be deductible for tax purposes. Therefore, for example, Topic 718 (FASB Statement No. 123(R)) recognizes deferred taxes for an at-the-money share option, while IFRS 2 does not do this until that award is in the money. IFRS 2 considers the recognition of a deferred tax asset whose recovery is not likely, as may be the case under Topic 718 (FASB Statement No. 123(R)) of share options that are significantly out of the money, to be against the recognition criteria of IAS 12, the definition of asset in the IASB Framework, and the impairment rules.[485]

5.6.28 Value Added Tax and Sales and Use Tax

The IFRIC confirmed that an entity cannot offset (i.e., report net) value added tax cash inflows and outflows, but must either state them separately or include them in the cash receipts and payments to which they refer, especially when using the direct method of reporting cash flows from operating activities. In any case, it suggested the disclosure of the accounting policy followed.[486]

Comment: Paragraph 4.5.1.5 previously explains the differences in the presentation of value added tax in the statement of comprehensive income between IFRSs and U.S. GAAP. Under IAS 18, an entity does not recognize revenue and costs for amounts collected or paid on behalf of third parties, such as value added tax. Under U.S. GAAP, this is not necessarily the case. Conversely, from the perspective of the statement of cash flows they are real cash transactions of the entity, as it has an obligation to pay a third party (the government authority) in its quality as agent. Therefore, the argument for net reporting based on agency transaction rationale (see Paragraph 5.5.10.3 previously) appears not to apply here. The IFRS prohibition of net reporting refers to offsetting the VAT collections from customers and the VAT payments due to suppliers in its capacity as agent, not to the combining of the payment of VAT with the payment to a vendor, or the combining of the collection of the VAT amount with the collection from the customer's receivable. The net VAT remitted to the tax authorities is a gross cash outflow per se.

Comment: The amount involved in value added tax payments or refunds might be substantial for certain companies or those that have particular tax statuses.

Planning Point: An issue arises on whether VAT on the purchase and sale of property, plant and equipment, and other productive assets generates operating or investing cash flows. Based on the definitions in IAS 7,[487] those VAT cash flows would seem a necessary element of the acquisition or disposal of investing assets, suggesting a leaning toward classification as investing. On the other hand, under IAS 16 only nonrefundable purchase taxes are part of the cost of an item of property, plant, and equipment, suggesting an independent evaluation of the nature of VAT cash flows.[488] Taxes

[485] *FASB Statement No. 123(R), ¶¶ B219-B220, B268; IFRS 2, ¶ BC325.*
[486] *IFRIC Update, April 2005; IFRIC Update, August 2005.*
[487] *IAS 7, ¶ 6.*
[488] *IAS 16, ¶ 16(a).*

not based on income or employee benefit plans are within the scope of IAS 37.[489] Unfortunately, IAS 37 does not provide guidance to this sort of liabilities that are not provisions within the meaning of the standard. The guidance in IAS 7 about intraperiod allocation of tax cash flows is not conclusive, because it explicitly relates to income taxes only (Paragraph 5.6.26 previously). An entity that follows the permitted policy of combining the payment of the vendor's invoice with the payment of the applicable VAT and the collection of the customer's invoice with the collection of the applicable VAT may argue that those VAT cash flows must follow the investing nature of the underlying items. A different reasoning would shift towards operating activity classification. A collection of VAT from a customer originates an account payable to tax authorities. A payment of VAT to a supplier creates an account receivable from tax authorities. As Paragraph 5.5.3.6 previously explains, the indirect method requires the separation of accounts payable and accounts receivable that are operating from those that are investing in nature. Then, the issue is to understand the nature of the net VAT tax position. The net VAT tax position due to or from government authorities is a basket of all VAT credits and debits from both operating, investing, and sometimes financing transactions. However, this is a current account payable or account receivable of an operating nature.

Planning Point: As mentioned, under IAS 18, an entity does not recognize revenue and costs for amounts collected or paid on behalf of third parties, such as value added tax. Therefore, under the indirect method profit or loss does not include any refundable VAT amounts. The change in net VAT tax position simply includes the net cash flows to or from government authorities. Therefore, to be compliant with the nonauthoritative position expressed by the IFRIC, the indirect method must show a gross cash inflow for the VAT amount collected and a gross cash outflow for the VAT amount paid during the period. Alternatively, the adjustments for changes in operating assets and liabilities must separately show the following two elements in addition to the clearance of the net VAT tax position. The credit side of the VAT account payable to tax authorities corresponds to the gross VAT amount collected in the period. The debit side of the VAT account payable to tax authorities and debit side of any VAT account receivable from tax authorities correspond to the gross VAT amount paid in the period. As Paragraph 4.5.1.5 previously explains, U.S. GAAP entities may adopt a policy to include VAT in revenue and costs. This choice simplifies the statement of cash flows under the indirect method.

The Staff Draft of the *Financial Statement Presentation Project* would instead require a separate net amount of value added tax collected from customers and remitted to the tax authorities. However, if an entity adopts a policy of including value added tax collected from customers into revenue, it would report the collected VAT amount together with cash receipts from customers. The disbursement of value added tax or any other indirect taxes or fees due to the government authority would be a self-standing gross cash outflow.[490]

5.6.29 Insurance Claim Proceeds

Under U.S. GAAP, insurance proceeds of noninsurance companies are operating activities unless they directly derive from investing or financing activities. For example, reimbursements for the loss or damage of productive property or equipment owned or under capital lease are investment cash inflows, while cash proceeds received under a business interruption policy are operating cash flows. Conversely, cash premiums paid are generally operating cash outflows.[491]

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[489] *IFRIC Update, March 2006.*

[490] *Staff Draft, ¶ 189.*

[491] *FASB ASC 230-10-45-12, 230-10-45-16, 230-10-45-25, 230-10-55-10, 230-10-55-20 (FASB Statement No. 95, ¶¶ 16.a, 22.c, 27.d, 131, 134.m).*

As interpreted by the SEC Staff, the nature of the insured loss determines the classification of the related insurance proceeds. Again, insurance proceeds relating to loss or damage of inventory or of property and equipment under operating lease are operating activities. Although the planned or actual use of refunds received is irrelevant for the classification, Management's Discussion and Analysis of SEC registrants must disclose cash settlements received together with the reason and planned use, the classification in the statement of cash flows, and the impact on earnings.[492]

> **Comment:** IAS 7 does not provide specific guidance on this aspect. On a different but related issue of recognition, IAS 16 suggests considering compensation from third parties, for example insurance companies, as separate events from the loss, damage, or other impairment of the underlying tangible asset.[493]

5.6.30 Corporate-Owned Life Insurance

Corporate- or company-owned life insurance (also known as COLI), business-owned life insurance, bank-owned life insurance (BOLI), or key-man insurance are insurance policies where the policyholder company is either the owner or the beneficiary and are used, in part, as a mechanism to fund employee benefits cost and to protect against the loss of key personnel.[494]

U.S. GAAP does not generally regard the cash surrender value of life insurance policy as plan assets, where the employer is the owner or beneficiary and the entity holds the policy to fund a pension plan.[495] U.S. GAAP reports its cash surrender value as an asset, while period changes in cash surrender or contract value affect net income as an adjustment of premiums paid. A part of the premium of the life insurance builds up the cash surrender value of the contract, while another part covers the insurance for mortality risk and recovers contract acquisition, initiation, and maintenance costs.[496] Under Subsection 230-10-45-25 (FASB Statement No. 95) cash payments of insurance premiums are generally operating.[497] However, U.S. practice again sees diverse treatment of premiums paid, i.e., as operating activities, or as investing outflows to the extent of the portion that corresponds to the accumulation of cash surrender value.

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[492] *Levine, J. (2005)* Speech by SEC Staff: Remarks before the 2005 Thirty-Third AICPA National Conference on Current SEC and PCAOB Developments. *[Online] Washington, DC: SEC, Division of Corporate Finance. Available at: www.sec.gov/news/speech/spch120605jl.htm [last accessed: November 26, 2010]; Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance, *¶ II.C.2. [Online] Washington, DC: SEC. Available at: www.sec.gov [last accessed: February 5, 2007].*

[493] *IAS 16, ¶ 66.*

[494] *FASB ASC 325-30-05-6 (EITF Issue No. 06-5,* Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, *¶ 1); FASB ASC 325-30-35-1 (EITF Issue No. 88-5, Recognition of Insurance Death Benefits, ¶ Issue).*

[495] *FASB Staff Position No. FSP FAS 158-1,* Conforming Amendments to the Illustrations in FASB Statement No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides, *¶ E11.*

[496] *FASB ASC 325-30-05-3, 325-30-25-1, 325-30-35-2 (FASB Technical Bulletin No. 85-4,* Accounting for Purchases of Life Insurance, *¶¶ 2, 5).*

[497] *FASB ASC 230-10-45-25 (FASB Statement No. 95, ¶ 27.d).*

Section 230-10-45 (FASB Statement No. 95) considers all insurance proceeds as operating activities, unless directly inherent to investing or financing activities.[498] Thus, the driver for cash flow classification of proceeds from insurance benefits becomes the determination of whether the dominant objective of the cash surrender value asset is investing or operating in nature. Such determination may translate into full classification of cash proceeds as operating or investing activities, or combinations of the two.

Under U.S. GAAP, when a third party, not the policyholder, invests in a life settlement contract, i.e., a contract with the insured company linked to the life insurance policy, its statement of cash flows must present cash receipts and payments based on the nature and purpose of the acquisition of the contract. This would be consistent with whether the investor chooses the so-called "investment method" or the "fair value method" to account for the life settlement contract, which in turn will depend on the reasons the investor entered into the contract, e.g., investment, estate planning, or compensation arrangements. Disclosure must include classification criteria.[499]

An employer may pay the premiums related to the employees to fund its employee benefit plan through the insured benefits. Conversely, under IFRSs, this is a defined contribution plan if the employer does not maintain a legal or constructive obligation. If the employer maintains a legal or constructive obligation for an insurance policy in the name of the employees, the benefits insured are contributions to a defined benefit plan. Under certain conditions (i.e., the insurance is a so-called qualifying insurance policy), the insured benefits are plan assets. Other insurance policies that qualify as reimbursement rights are separate assets (i.e., not plan assets).[500] Under IFRSs, all the above insured benefits generally have an operating characterization in the statement of cash flows, to the extent they are functional to cash payments for the benefit of employees.[501]

5.6.31 Derivatives and Hedging

This paragraph first discusses the nature of nonhedging derivative instruments. Then, it deals with derivative instruments designated as hedging instruments.

Under IAS 7, an entity that holds nonhedging derivative instruments for dealing or trading classes their cash flows as operating activities.[502]

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[498] *FASB ASC 230-10-45-16 (FASB Statement No. 95, ¶ 22.c).*

[499] *FASB ASC 325-30-25-2, 325-30-45-5, 235-30-50-2 (FASB Staff Position No. FSP FTB 85-4-1,* Accounting for Life Settlement Contracts by Third-party Investors*, ¶¶ 5, 11, 12); FASB Staff Position No. FSP FTB 85-4-1, ¶¶ 1, 4.*

[500] *IFRS 4, ¶ IG Example 1, 1.22.; IAS 19 (2007),* Employee Benefits*, ¶¶ 7, 41, 42, 104A, 104B, 104C; IAS 19 (2011), ¶¶ 8, 48, 49, 116, 117, 118.*

[501] *IAS 7, ¶ 14(d).*

[502] *IAS 7, ¶¶ 16(h), 16(g).*

> **Comment:** U.S. GAAP is not so explicit on whether the operating classification of securities held for trading or acquired specifically for resale[503] also includes derivatives instruments held for trading. However, in general, when nonhedging derivative instruments are of an operating nature their cash flows assume operating classification.[504]

Under IAS 7, if an entity holds derivative instruments not designated for trading, it classifies their cash flows as investing activities, unless it considers them to be financing. Under U.S. GAAP, cash flows from the purchase or sale of futures contracts are investing activities.[505] Cash flows from derivatives that include a financial element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments, are financing activities (Subtopic 230-10 states forward points in an at-the-money forward contract as an example). This classification applies to all cash flows from the derivative, not only those of its financing element.[506] The existence of off-market terms in rates, prices, or other conditions at inception or up-front cash payments is generally a symptom of the existence of a financing element, although this must be determined based on the specific facts and circumstances.[507]

> **Comment:** Thus, U.S. GAAP identifies the criteria for labeling derivative instruments as financing. It gives some examples of investing cash flows relating to derivatives, but is silent on the situations that may result in the classification of their cash flows as operating activities. Conversely, IFRSs define when cash flows from derivatives are operating, while investing becomes the residual class. However, IAS 7 does not provide a criterion to categorize derivative cash flows as financing neither does it have a criterion similar to U.S. GAAP regarding the existence of a financing element.

IFRSs require that the classification of cash flows of a hedging instrument reflect that of the cash flows of the hedged item.[508] Conversely, under U.S. GAAP, the classification of cash flows of hedging instruments, whether derivatives or not, is based on the nature of cash flows, irrespective of the nature of the cash flows of the hedged item. As an exception, under certain circumstances an entity may classify cash flows from derivative hedging instruments in a fair value hedge or cash flow hedge in the same way as the cash flows from the hedged items. The derivatives cannot include an other-than-insignificant financing element at inception, except one that is inherently included in an at-the-market derivative instrument with no prepayments. In addition, unlike under IAS 7, as a prerequisite the entity must disclose the accounting policy chosen. Alternatively, an entity may classify cash flows from hedging instruments according to their nature (the general rule). Under this second option, the cash flows from interest rates

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[503] *FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, 23a, Footnote 8c, Footnote 8.d); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*

[504] *FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶ 14, Footnote 4).*

[505] *FASB ASC 230-10-45-27 (FASB Statement No. 95, ¶ 14, Footnote 4); FASB Statement No. 104, ¶ 30.*

[506] *FASB ASC 230-10-45-14, 230-10-45-15 (FASB Statement No. 95, ¶¶ 19.d, 20.d); FASB Statement No. 159, ¶¶ A38, A39.*

[507] *FASB ASC 815-10-45-11 (FASB Statement No. 133, ¶ 45A, as amended by FASB Statement No. 149,* Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, ¶ 18); FASB Statement No. 149, ¶ A39.*

[508] *IAS 7, ¶ 16; IAS 39, ¶ IG.G.2.*

swaps are operating.[509] The discontinuation of hedge accounting for an instrument that hedges an identifiable transaction or event reinstates the general rule for post-discontinuation cash flows. A borrower must classify cash flows from a derivative instrument as financing when the derivative includes an other-than-insignificant financing element at inception.[510]

Comment: U.S. GAAP excludes a hedge of a net investment in a foreign operation from the discussion above because the foreign operation may have operating, investing, and financing cash flows and therefore the cash flows of this type of hedge do not clearly identify the nature of the cash flows involved in the hedged item.[511] IFRSs do not tackle this topic in the case of a hedge of a net investment in a foreign operation. IAS 7 refers to an identifiable position, even though IAS 39 clarifies that IAS 7 does not reflect updated terminology regarding hedging. On one hand, it does not explicitly exclude a hedge of a net investment from the treatment of this topic, as the total amount hedged is identifiable. On the other hand, the portion of the hedge that is attributable to operating, investing, and financing elements is not so easily immediate to determine.

Exhibit 5-10 reports examples of classification of cash flows from hedging instruments under IFRSs and U.S. GAAP.

5.7 CAPTIONS AND LINE ITEMS

5.7.1 Minimum Line Items and Separate Presentation

In addition to the mandatory threefold classification of cash flows (see Paragraph 5.5.1 previously), accounting pronouncements dictate some additional presentation content. Both IAS 7 and Subtopic 230-10 (FASB Statement No. 95) indicate certain items to be displayed separately.

Comment: Unlike IFRSs, Subtopic 230-10 (FASB Statement No. 95) also indicates a minimum content under the direct method.

Diverse practice exists about the length of the statement of cash flows. A survey reports that IFRS companies in 2006 presented statements of cash flows containing between 14 and 86 items, with an average of about 36.[512] Exhibits 5-4 to 5-7 list the major items of the statement of cash flows. This is not a comprehensive inventory because it comprises only items that accounting pronouncements mention. They also show items for which separate presentation is required. Exhibit 5-11 lists items relating to certain specialized industries.

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[509] *FASB Statement No. 104, ¶ 40.*
[510] *FASB ASC 230-10-45-23, 230-10-45-27 (FASB Statement No. 95, ¶¶ 14, Footnote 4, 24).*
[511] *FASB Statement No. 104, ¶ 38.*
[512] *Ineum 2008 Survey, ¶ 5.2.*

Exhibit 5-10 Examples of Classification of Cash Flows Arising from Hedging Instruments

	Nature of Hedged Item		*Nature of Hedging Instrument*		*Classification*		
					U.S. GAAP		
Example	*U.S. GAAP*	*IFRSs*	*U.S. GAAP*	*IFRSs*	*Option 1*	*Option 2*	*IFRSs*
Fair value hedges:							
Forward purchase contract to hedge payable for inventory	Operating	Operating	Investing	Investing	Investing	Operating	Operating
Forward purchase contract to hedge payable for PP&E	Investing	Investing	Investing	Investing	Investing	Investing	Investing
Borrowing to hedge payable for PP&E	Investing	Investing	Financing	Financing	Financing	Investing	Investing
Forward sale contract to hedge AFS financial asset	Investing	Investing	Investing	Investing	Investing	Investing	Investing
Purchased put option on T-Bonds to hedge AFS bonds price decrease	Investing	Investing	Investing	Investing	Investing	Investing	Investing
Plain vanilla interest rate swap for the fixed rate receiver	Operating	Operating or financing	Investing	Investing	Investing	Operating[1]	Operating or financing
Cash flow hedges:							
Purchase of commodity futures to hedge an anticipated purchase of a commodity	Operating	Operating	Investing	Investing	Investing	Operating	Operating
Forward purchase contract to hedge a forecasted purchase of PP&E	Investing	Investing	Investing	Investing	Investing	Investing	Investing
Currency swap to hedge cash flows from sales in foreign currency	Operating	Operating	Investing	Investing	Investing	Operating	Operating
Plain vanilla interest rate swap for the fixed rate payer	Operating	Operating or financing	Investing	Investing	Investing	Operating[1]	Operating or financing

Option 1: cash flows of a hedging instrument reported based on their nature.
Option 2: cash flows of a hedging instrument reported as those from the hedged item.
Assumption: no derivative includes an other-than-insignificant financing element at inception.
[1]*FASB Statement No. 104, ¶ 40.*

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries

Banks and Other Financial Institutions

IFRSs	*U.S. GAAP and SEC Guidance*[1]
Cash flows from operating activities[2]	
– Interest and commissions received[3]	– Fees and commissions received[4]
– Interest paid[5]	– Interest paid[6]
– Dividends received[7]	
– Recoveries of loans previously written off[8]	
– Cash flows relating to deposits held for regulatory and monetary control purposes[9]	
– Cash flows from contracts and securities held for dealing or trading purposes[10]	– Cash flows relating to purchases and sales of securities and other assets acquired specifically for resale and carried at market value in a trading account by banks[12]
– Cash flows relating to short-term negotiable securities[11]	– Banks and other financial institutions are allowed to treat cash flows from instruments carried in trading accounts, that would otherwise qualify as cash and cash equivalents, as operating activities[13]
	– Principal cash flows of a repurchase agreement by a seller-borrower, if the trading activities exception applies[14]
	– Principal cash flows of a reverse repurchase agreement by a buyer-lender, if the trading activities exception applies

This Exhibit reports only items that are specific to certain specialized industries. All items common to companies irrespective of the type of industry may apply, as appropriate. These Exhibits do not include any statutory accounting practices.

#*Items for which separate presentation on the face of the statement of cash flows is mandatory. In addition, FASB ASC 230-10-45-25, 230-10-45-28, 230-10-45-26 (FASB Statement No. 95, ¶v 27, 28, 31) and IAS ¶¶ 18, 19, 21 require reporting of major classes of gross operating, investing, and financing cash inflows and outflows.*

[1]*This column also includes SEC guidance, when specifically referred to banks and similar financial institutions. FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations. FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1, 2, 3, 3A, and 4 of Regulation S-X to bank holding companies.*

[2]*For a financial institution, IAS 7, ¶ IE.B illustrates a subtotal for net cash from operating activities before income taxes.*

[3]*IAS 7, ¶ IE.B. IAS 7, ¶ 19(b) considers operating classification more suitable to financial institutions.*

[4]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*

[5]*IAS 7, ¶ IE.B. IAS 7, ¶ 19(b) considers operating classification more suitable to financial institutions.*

[6]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*

[7]*IAS 7, ¶ 33. IAS 7, ¶ 19(b) considers operating classification more suitable to financial institutions.*

[8]*IAS 7, ¶ IE.B.*

[9]*IAS 7, ¶ IE.B.*

[10]*IAS 7, ¶ 14(g).*

[11]*IAS 7, ¶ IE.B shows this in the form of net reporting.*

[12]*FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, Footnote 8c, 23.a, Footnote 8d); FASB ASC 230-10-45-18, 230-10-45-20 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*

[13]*FASB Statement No. 95, ¶¶ 55, 56.*

[14]*FASB ASC 230-10-45-19, 230-10-45-12 (FASB Statement No. 102, ¶¶ 8, 9).*

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries (*Continued*)

Banks and Other Financial Institutions

IFRSs	*U.S. GAAP and SEC Guidance*
– Cash flows relating to cash advances and loans made by financial institutions to customers[15]	– Cash flows from loans that are originated or purchased specifically for resale and carried at market value[16] – Cash flows relating to loans and trade receivable held for sale and carried at the lower of cost or market value by mortgage banks[17] – Cash flows relating to loans held for sale and carried at market value by finance companies and any other (not-mortgage banking) company that provides lending or financing activities to others[18]
– Cash flows relating to net change in items with quick turnover, large amount, and short maturities, for which net reporting is allowed:[19] • principal amounts on credit card receivables • purchase and sale of investments • other short-term borrowing with a maturity not in excess of three months • deposits held for regulatory or monetary control purposes – Cash receipts and payments for which net reporting is allowed because they reflect activities of the customers:[20] • demand deposit – Cash flows relating to specific items that financial institution may report net:[21] • deposits with a fixed maturity date, such as negotiable certificates of deposit • cash advances and loans to customers	
Cash flows from investing activities	
– Cash flows relating to nondealing securities[22]	– Cash flows relating to investment securities[23]

[15]*IAS 7, ¶ 15. IAS 7, ¶ IE.B shows net reporting of cash flows relating to cash advances and loans to customers.*
[16]*FASB ASC 230-10-22, 230-10-45-12, 230-10-45-13, 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 15, 16.a, 17.a, 22.a, 23.a); FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB Statement No. 102, ¶¶ 10, 27, 30.*
[17]*FASB ASC 948-310-35-1 (FASB Statement No. 65, ¶ 4); FASB ASC 230-10-45-21 (FASB Statement No. 102, ¶ 9, Footnote 4).*
[18]*FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB ASC 310-10-35-47, 310-10-35-48, 310-10-35-49 (AICPA Statement of Position No. 01-6, ¶¶ 8.a, 8.b, 8.c).*
[19]*IAS 7, ¶¶ 22, 23A. IAS 7, ¶ IE.B also shows deposits held for regulatory or monetary control purposes.*
[20]*IAS 7, ¶¶ 22, 23. FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates the net change in demand deposit and other short-term borrowings of a financial institution in financing activities. Conversely, IAS 7, ¶ IE.B shows deposits from customers in operating activities.*
[21]*IAS 7, ¶¶ 24, 16(e), 16(f), IE.B. IAS 7, ¶ IE.B shows certificates of deposit in operating activities. It also shows net reporting of cash flows relating to cash advances and loans to customers.*
[22]*IAS 7, ¶ IE.B.*
[23]*FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*

(continued)

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries (*Continued*)

Banks and Other Financial Institutions

IFRSs	*U.S. GAAP and SEC Guidance*
	– Banks and other financial institutions are allowed to treat cash flows from instruments carried in investing accounts and that form part of a larger pool of investments that qualify as investing activities, that would otherwise qualify as cash and cash equivalents, as investing activities[24] – For banks, thrifts, and finance companies that are SEC registrants:[25#] • separate display or note disclosure of proceeds from sales of debt securities from those from their maturities • proceeds relating to sale of held-to-maturity securities • proceeds relating to sale of available-for-sale securities – Cash flows relating to loans acquired with the intention of holding for the foreseeable future or until maturity or payoff by finance companies and any other (non-mortgage banking) company that has lending or financing activities to others[26] – Principal cash flows of a reverse repurchase agreement where the buyer-lender is a depository and lending institution, if the agreement qualifies for secured borrowing treatment and the trading activities exception does not apply and net reporting does not apply[27] – Cash flows relating to longer term loans to customers[28] – Disbursement for a customer loan not originated for resale in connection to seller-financed sales of inventory by the parent company of the finance company[29] – Net change in items with quick turnover, large amount, and short maturities, for which net reporting is allowed:[30] • net change in investments other than cash and cash equivalents • net change in credit card receivables payable within one month without interest and not arising from sales of goods or services by the entity • net change in loans receivable • net change in debt assets or debt liabilities with original maturity of three months or less, including amounts due on demand

[24] *FASB ASC 230-10-45-6 (FASB Statement No. 95, ¶ 10); FASB Statement No. 95, ¶¶ 55, 56, 65; FASB ASC 320-10-45-13 (FASB Statement No. 115, ¶ 117).*
[25] *SEC, 2001. Division of Corporate Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance, ¶ I.E.*
[26] *FASB ASC 230-10-45-12 (FASB Statement No. 102, ¶ 9); FASB ASC 310-10-35-47, 310-10-35-48, 310-10-35-49 (AICPA Statement of Position No. 01-6, ¶¶ 8.a, 8.b, 8.c).*
[27] *AICPA Audit and Accounting Guide, DEP, ¶ 6.20.*
[28] *FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147).*
[29] *FASB ASC 230-10-20, 230-10-45-13, 230-10-45-16 (FASB Statement No. 95, ¶¶ 15, 17.a, 22.a, Footnote 8c).*
[30] *FASB ASC 230-10-45-9; 942-230-55-2 (FASB Statement No. 95, ¶¶ 13, Footnote 3, 147); FASB Statement No. 95, ¶ 80.*

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries (*Continued*)

Banks and Other Financial Institutions

IFRSs

Cash flows from financing activities

- Cash flows relating to items that an entity may report net:[32]
  - cash flows relating to deposits with other financial institutions

U.S. GAAP and SEC Guidance

- Principal cash flows of a repurchase agreement where the seller-borrower is a depository and lending institution, if the agreement qualifies for secured borrowing treatment and the trading activities exception does not apply and net reporting does not apply[31]
- Cash flows relating to items that a bank, a saving institution or a credit union may report net:[33#]
  - net change in demand deposits
  - net change in time deposits and savings accounts
  - net change in certificates of deposit
  - net change in Federal funds purchased
  - net change in inter-banking accounts
  - net change in principal of loans to customers and other short-term borrowings

IFRSs

Supplemental disclosure of noncash investing and financing activities

U.S. GAAP and SEC Guidance

- Renewals or modifications of loans, unless the entities applies net reporting[34]

Investment Companies

IFRSs

Cash flows from operating activities

- Cash flows relating to net change in items with quick turnover, large amount and short maturities, for which net reporting is allowed:[35]
  - purchase and sale of investments
  - other short-term borrowing with a maturity not in excess of three months
- Cash receipts and payments for which net reporting is allowed because they reflect activities of the customers:[36]
  - funds held for customers by an investment entity
  - rents collected or paid on behalf of owners of properties

U.S. GAAP

[31] *AICPA Audit and Accounting Guide, DEP, ¶ 6.20.*
[32] *IAS 7, ¶ 24. IAS 7 does not illustrate the classification of this item. However, IAS 7, ¶ IE.B also shows deposits held for regulatory or monetary control purposes as operating activities.*
[33] *FASB ASC 942-230-45-1, 942-230-45-2, 230-10-45-8, 942-230-55-2 (FASB Statement No. 95, ¶¶ 12, 13A, 147). FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates the net change in demand deposit, in Federal funds purchased, and in other short-term borrowings of a financial institution in financing activities.*
[34] *FASB Statement No. 104, ¶ 16.*
[35] *IAS 7, ¶¶ 22, 23A.*
[36] *IAS 7, ¶ 23.*

(continued)

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries (*Continued*)

Investment Companies

IFRSs	*U.S. GAAP*
Cash flows from investing activities	
	– Investment companies are allowed to treat cash flows from instruments carried in investing accounts and that form part of a larger pool of investments that qualify as investing activities, that would otherwise qualify as cash and cash equivalents, as investing activities[37] – Acquisition or the disposal of an unconsolidated subsidiary by an investment company[38]
– Cash payment from obtaining control of to-be-consolidated subsidiaries by investment companies, net of cash and cash equivalents acquired[39#] – Cash payment from losing control of consolidated subsidiaries by investment companies, net of cash and cash equivalents disposed of#	
Supplemental disclosure of noncash investing and financing activities	
	– Reinvestment of dividends and distributions[40] – Changes in time-sharing notes receivable and sales of these notes[41]

Brokers and Dealers

IFRSs	*U.S. GAAP*
Cash flows from operating activities	
	– Cash flows relating to purchases and sales of securities and other assets acquired specifically for resale and carried at market value in a trading account by brokers and dealers in securities[42] – Trading securities activities[43] – Cash flows relating to net change in customer accounts payable items that a broker-dealer may report net:[44#]

Insurance Entities

IFRSs	*U.S. GAAP*
Cash flows from operating activities	
– Cash flows arising from insurance contracts[45] – Cash receipts of an insurance entity for premiums[46] – Cash payments of an insurance entity for claims, annuities, and other policy benefits[47]	

[37]*FASB ASC 230-10-45-6 (FASB Statement No. 95, ¶ 10); FASB Statement No. 95, ¶¶ 55, 56, 65; FASB ASC 320-10-45-13 (FASB Statement No. 115, ¶ 117).*
[38]*U.S. GAAP, apart from certain exceptions, excludes the consolidation of a noninvestment company by an investment company (FASB ASB 810-10-15-10, 946-810-45-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.04)).*
[39]*IAS 7, ¶¶ 39, 41, 42; IAS 27 (2010), ¶ 16.*
[40]*FASB ASC 946-230-55-1 (AICPA Audit and Accounting Guide, INV, ¶ 7.75).*
[41]*FASB ASC 978-230-45-1 (AICPA Statement of Position No. 04-2, ¶ 62).*
[42]*FASB ASC 230-10-45-16, 230-10-45-17 (FASB Statement No. 95, ¶¶ 22.a, Footnote 8c, 23.a, Footnote 8d); FASB ASC 230-10-45-18, 230-10-45-20 (FASB Statement No. 102, ¶ 8); FASB Statement No. 102, ¶¶ 4, 10, 26, 30.*
[43]*FASB ASC 940-320-45-7 (AICPA Audit and Accounting Guide,* Brokers and Dealers in Securities *(BRD), ¶ 4.10).*
[44]*FASB ASC 942-230-45-1 (FASB Statement No. 95, ¶ 12, 147); FASB Statement No. 95, ¶ 77. FASB ASC 942-230-55-2 (FASB Statement No. 95, ¶ 147) illustrates the net change in demand deposit of a bank or other financial institution in financing activities.*
[45]*IFRS 4, ¶ 37(b).*
[46]*IAS 7, ¶ 14(e).*
[47]*IAS 7, ¶ 14(e).*

Exhibit 5-11 Examples of Items of the Statement of Cash Flows Specific to Certain Specialized Industries (*Continued*)

Insurance Entities

IFRSs	*U.S. GAAP*
Cash flows from investing activities	
	– For insurance companies that are SEC registrants:[48#] • separate display or note disclosure of proceeds from sales of debt securities from those from their maturities • proceeds relating to sale of held-to-maturity securities • proceeds relating to sale of available-for-sale securities

Real Estate Entities

IFRSs	*U.S. GAAP*
Cash flows from operating activities	
– Cash receipts and payments for which net reporting is allowed because they reflect activities of the customers:[49] • rents collected or paid on behalf of owners of properties	
	– Cash payments to purchase real estate by a real estate developer[50] – Changes in time-sharing notes receivable and sales of these notes[51]

[48]*SEC, 2001. Division of Corporate Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance, ¶ I.E.*
[49]*IAS 7, ¶ 23.*
[50]*FASB ASC 970-230-45-1 (FASB Statement No. 102, ¶ 25).*
[51]*FASB ASC 978-230-45-1 (AICPA Statement of Position No. 04-2, ¶ 62).*

5.7.2 Disaggregation Guidance

Cash flow classification must identify major sources and major uses of cash and cash equivalents, i.e., major classes of gross receipts and payments, and major classes of reconciling items under the indirect method.[513]

> **Comment:** However, what *major* means is undefined. Unlike for the other financial statements, accounting guidance on presentation in the statement of cash flows is less explicit.

IAS 7 is not strictly prescriptive on the display of the statement of cash flows. It emphasizes that an entity should determine the best fit with its operations. It also encourages additional information if relevant for an understanding of financial position and liquidity,[514] in addition to

[513] *FASB ASC 230-10-45-25, 230-10-45-29 (FASB Statement No. 95, ¶¶ 27, 29); CON 5, ¶ 52; IAS 7, ¶¶ 18(a), 21.*
[514] *IAS 7, ¶¶ 11, 50.*

the IAS 1 general requirement in this sense applicable to all financial statements.[515] Subsection 230-10-45-29 (FASB Statement No. 95) encourages meaningful disaggregation beyond major classes, such as changes in operating receivables other than receivables from sales of goods or services.[516] The discussion in Section 230-10-55 (FASB Statement No. 95) infers that the level of detail of major classes depends to a high degree on the availability of information and on the entity's capability to elaborate available data.[517] Similarly, The Staff Draft of the *Financial Statement Presentation Project* acknowledges that extant GAAP accepts a single line for changes in net receivables. One of the reasons for its proposal to start the indirect method reconciliation from operating income is to disaggregate changes in operating assets and operating liabilities.[518]

The SEC Staff requested registrants to provide quantified disclosure of other acceptable classifications in the statement of cash flows different from that adopted by the issuer.[519] Under Regulation S-X, financial statements should not show captions that have no items.[520]

The *Financial Statement Presentation Project* identifies two basic principles for disaggregating or aggregating cash flows. The first criterion is a meaningful representation of sources and uses of cash that reflects the nature of income, expense, or return on equity. Of basic importance to this determination is the analysis of the size, variability, and timing of the relationship between noncash items in the statement of comprehensive income and their realization as cash in the statement of cash flows. The second decisive factor is the reflection of the nature of the assets, liabilities, or equity changes underlying the cash transaction. An entity would report nonrecurring items separately (see Paragraph 5.6.23 previously). Under the direct method, the entity would disaggregate cash flows by nature, not function, but without necessarily the same disaggregation detail as the statement of comprehensive income.[521]

5.7.3 Liquidity and Capital Resources

As part of Liquidity and Capital Resources in Management's Discussion and Analysis, an SEC registrant must comment material aspects of the statement of cash flows including, among other items, material trends, demands, commitments, events or uncertainties on liquidity, material deficiencies, internal and external sources of liquidity, and material unused liquid assets. It must also discuss material commitments for capital expenditures and related sources of funds, as well as trends and material changes in the mix and cost of capital resources.[522] An entity should not simply repeat the figures presented in the statement of cash flows. On the contrary, it must enhance the analysis, including explanation of items that do not show up

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[515] *IAS 1, ¶¶ 17(c), 112(c).*
[516] *FASB ASC 230-10-45-29 (FASB Statement No. 95, ¶ 29).*
[517] *FASB ASC 230-10-55-1, 230-10-55-2, 230-10-55-3, 230-10-55-4 (FASB Statement No. 95, ¶¶ 115–118).*
[518] *Staff Draft, ¶ BC187.*
[519] *Accounting Staff Members in the Division of Corporation Finance U.S. Securities and Exchange Commission, November 30, 2006.* Current Accounting and Disclosure Issues in the Division of Corporation Finance*, ¶ II.C. [Online] Washington, DC: SEC. Available at:* www.sec.gov *[last accessed: February 5, 2007].*
[520] *FASB ASC 205-10-S99-3 (Regulation S-X, ¶ 210.4-03).*
[521] *Staff Draft, ¶¶ 177–184, BC180.*
[522] *Regulation S-K, ¶ 229.303(a).*

under the indirect method of the statement of cash flows (see Paragraph 5.4 previously).[523] Finally, Paragraph 5.6.24 previously mentions specific requirements regarding cash flows from discontinued operations.

In Liquidity and Capital Resources, SEC registrants must discuss, among other items, any inability to access the cash flows of subsidiaries, not necessarily foreign ones, and any related impact. In addition, they must highlight material trends or uncertainties deriving from discretionary capital spending policies.[524] Form 20-F requires information about liquidity and capital resources in Operating and Financial Review and Prospects, in part including unused sources of liquidity, subsidiary's fund transfer restrictions, restrictions on use of borrowing facilities, and material commitments for capital expenditures.[525]

Financial statements of foreign private issuers must prominently indicate any material exchange restrictions or external controls of their reporting currency, the currency of their domicile, or that of dividend remittances.[526] Furthermore, they must describe home country exchange controls on remittance of dividends, interests, or other payments to nonresidents, and any other dividend restriction.[527] Consolidated financial statements of SEC registrants that include foreign subsidiaries must give information of applicable foreign exchange restrictions.[528] The notes to the financial statements must explain the terms of any significant restriction on distributions of retained earnings, as well as any restriction on transfers of funds by consolidated or unconsolidated subsidiaries.[529] In condensed consolidating financial information of guarantors and issuers of guaranteed securities, SEC registrants must disclose any restrictions on the ability to obtain funds from subsidiaries through dividend or loans.[530] Paragraph 6.5.5 following mentions other disclosures relating to dividend restriction.

Somewhat similarly, IAS 7 requires the disclosure of significant cash and cash equivalents not available for use, including those relating to foreign subsidiaries in countries that restrict transfers of funds. In addition, either the IFRS statement of changes in equity or the statement of financial position or the notes must disclose dividend restrictions.[531] The notes to consolidated financial statements must indicate the nature and extent of any significant restrictions on fund transfers by subsidiaries and associates.[532] IFRS 12 requires information on significant restrictions to the transfer of cash and other assets within the group (including joint ventures), the effecting of loans and advances, and the payment of dividends or other capital distributions.[533] Encouraged voluntary disclosures on liquidity may include, in part, material unused

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[523] *SEC, 2003. Release No. 33-8350,* Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, ¶¶ I.D, IV.B.*
[524] *SEC, 2003. Release No. 33-8350,* Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, ¶¶ IV.B.1, IV.D.*
[525] *Form 20-F, Item 5.B.*
[526] *Regulation S-X, ¶ 210.3-20(b).*
[527] *Form 20-F, Item 10.D.2, Item 10.F.*
[528] *FASB ASC 810-10-S99-2 (Regulation S-X, ¶ 210.3A-02(d)).*
[529] *FASB ASC 235-10-S99-1 (Regulation S-X, ¶¶ 210.4-08(e)(1), 210.4-08(e)(3)(i)); Regulation S-K, Instruction 6 to ¶ 209.303(a).*
[530] *FASB ASC 470-10-S99-1 (Regulation S-X, ¶ 210.3-10(i)(9)).*
[531] *IAS 1, ¶ 79(a)(v).*
[532] *IAS 27 (2010), ¶ 41(d); IAS 28 (2010), ¶ 37(f).*
[533] *IFRS 12, ¶¶ 13, 22(a).*

borrowing facilities and any applicable restrictions, and cash needs for maintaining as opposed to increasing operating capacity.[534] U.S. GAAP rejects a requirement of such information because of its undue cost and arbitrariness.[535] Finally, U.S. GAAP does not require disclosure of cash and cash equivalents not available for use by the group.

> **Planning Point:** IFRSs place such information within financial statements but with management's commentary. This implies that certification of such disclosures is part of the scope of auditing of financial statements.

The *Financial Statement Presentation Project* would also require disclosure of cash not available for current use and related reasons, as well as of undrawn borrowing facilities and any applicable restrictions.[536]

5.8 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating IFRS financial statements arising from the issues discussed in this chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraph 5.2.1
Even when accounting pronouncements permit alternative terminology, opt for titles of financial statements that clearly identify GAAP used.

Paragraph 5.2.2
Make sure that the location of the statement of cash flows places such a statement as an integral part of basic financial statements.

Paragraph 5.2.3
Consider that IAS 7, unlike U.S. GAAP, does not exempt any entity from the presentation of the statement of cash flows.

Paragraph 5.3.1
Review the minimum line items for cash and cash equivalents in the statement of financial position, also taking into consideration the guidance applicable to specific industries;
Check the correspondence and reconciliation of amounts and titles of cash and cash equivalents with the statement of cash flows.

Paragraph 5.4.1
Decide whether to adopt the direct method or the indirect method of reporting cash flows from operating activities.

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[534] *IAS 7, ¶¶ 48–50.*
[535] *FASB Statement No. 95, ¶¶ 97-99; IAS 7, ¶¶ 50–51.*
[536] *Staff Draft, ¶¶ 257–259, BC230–BC231.*

Paragraph 5.4.2

Structure the chart of accounts or statistical codes to facilitate data gathering for the statement of cash flows. For example, segregate revenue, expenses, respective receivables, and payables for sale of goods versus those related to rendering of services. Track payables relating to long-lived assets separately from operating payables and identify their cash settlement with respective dates;

Consider building forecasting procedures according to the direct method for cash flow planning and budgeting. This entails gathering data from purchasing, customer ordering, payroll, and other departments. Articulate actual cash flows in accordance with the same method, in order to be able to compare with budgeted or forecasted figures;

Implement strong procedures to reconcile direct method actual figures to indirect method actual figures.

Be aware that, for SEC registrants, certain variants of the statement of cash flows may represent non-GAAP measures subject to specific rules.

Paragraph 5.4.4

Avoid using the starting point of the statement of cash flows under the indirect method different from profit or loss or profit or loss before taxes.

Paragraph 5.5.3

Realize that different criteria exist to justify the classification of cash flows from operating activities and that they may sometimes conflict with each other. Understand the different rationales and how to argue on these grounds.

Paragraph 5.5.4

Check that the statement of cash flows reports gross amounts for all investing cash flows, apart from allowed exception;

Do not apply an investing cash flow classification to items that are not recognized assets under IFRSs;

Analyze any inconsistencies between investing cash flow classification and current asset classification in the statement of financial position.

Paragraph 5.5.5

Check that the statement of cash flows reports gross amounts for all financing cash flows, apart from allowed exception.

Paragraph 5.5.8

Check that all cash flows fall into either operating, or investing, or financing activities and avoid using other subtotals, apart from the effect of exchange rate changes on cash and cash equivalents and the impact of inflation on cash flows in price-level adjusted statement of cash flows.

Paragraph 5.5.11

Be aware that the choice of proportionate consolidation versus equity method is not neutral on the statement of cash flows;

Elect the aggregated or the expanded format of proportionately consolidated statement of cash flows under IFRSs.

Paragraph 5.7.1

Review the content of the statement of cash flows that accounting pronouncements mention;

Identify those line items that accounting pronouncements require to display separately;

Identify those line items for which accounting pronouncements give the option of note disclosure;
Identify those line items for which accounting pronouncements require note disclosure.

Paragraph 5.7.2

Review what constitutes a major class of gross receipts and payments and a major class of reconciling items for your entity;
Review any need for disaggregation beyond major classes or for additional disclosure that would be relevant for an understanding of financial position and liquidity.

OTHER CONTROL POINTS

Paragraph 5.2.1

Use "statement of cash flows" as opposed to "cash flow statement", in line with the post-2007 versions of IAS 1, although this standard permits alternative titles.

Paragraph 5.2.4

For foreign private issuers: consider the alternative types of statement of cash flows allowed in SEC filings, and related disclosure requirements.

Paragraph 5.3.2

Review which items meet the criteria for unrestricted cash and which ones require separate presentation, also considering the guidance applicable to specific industries.

Paragraph 5.3.3

Define and justify an accounting policy for bank overdrafts under IFRSs.

Paragraph 5.3.4

Check the compliance with the definition criteria of cash equivalents;
Be able to demonstrate that the risk of changes in value of cash equivalents is insignificant;
Distinguish cash equivalents from held-to-maturity securities sold within three months of maturity date;
Exclude equity instruments from cash equivalents, apart from specific exceptions;
Define an accounting policy for cash equivalents, also considering guidance applicable to specific industries. Explain composition of cash and cash equivalents;
Exclude restricted cash from cash and cash equivalents;
Compare the 12-month criterion under IFRSs to the current operations concept under U.S. GAAP;
Compare the treatment of cash and cash equivalents to be used in the current period to settle current liabilities under IFRSs versus the treatment under U.S. GAAP;
Review presentation and disclosure requirements of cash and cash equivalents under IFRSs and under U.S. GAAP.

Paragraph 5.3.6

An entity that decides to comment net debt should avoid displaying it on the face of basic financial statements.

Paragraph 5.4.1

Understand the different formats of the indirect method under IFRSs versus U.S. GAAP.

Paragraph 5.4.3

Consider the different presentation formats and disclosures of interest paid and taxes paid under IFRSs and U.S. GAAP;

Avoid, or take particular care in, using an aggregate for cash flows from operating activities before change in net working capital under the indirect method;
Disaggregate changes in operating assets and operating liabilities.

Paragraph 5.4.2

Management's Discussion and Analysis of SEC registrants that use the indirect method must include, among other points, items that are not evident from the statement of cash flows.

Paragraph 5.5.1

Understand the "allocation" criterion under IFRSs versus the "predominant cash flow" criterion under U.S. GAAP for cash flows that have a mixed nature.

Paragraph 5.5.3

Compare changes in accounts payable and accounts receivable balances in the statement of financial position to the amounts shown as adjustments in the statement of cash flows under the indirect method;
Explain causes of any difference.

Paragraph 5.5.4

For financial institutions: unlike under U.S. GAAP, under IFRSs report certificates of deposit, cash advances, and loans to customers, even if nontrading, as operating activities.

Paragraph 5.5.5

For financial institutions: unlike under U.S. GAAP, under IFRSs report demand deposit and other short-term borrowings as operating activities.

Paragraph 5.5.6

In presence of foreign operations, do not consolidate the statement of cash flows starting from the other consolidated individual statements;
Consider the formats available to display the effect of exchange rate changes on cash and cash equivalents;
Cross-check the effect of exchange rate changes on cash and cash equivalents through a disaggregated computation.

Paragraph 5.5.7

Use an additional specific category to segregate the impact of inflation on cash flows in price-level adjusted statement of cash flows.

Paragraph 5.5.9

Do not show noncash investing and financing activities on the face of the statement of cash flows;
Review allowed options to disclose noncash investing and financing activities;
Reviews examples of noncash investing and financing activities provided by accounting pronouncements and consider disclosing other situations, such as those listed in this paragraph, or otherwise state a sound justification for not disclosing them as part of cash flow reporting.

Paragraph 5.5.10

Review criteria for net reporting;
Do not confuse short-term investments that an entity may report net with cash equivalents and with other marketable investments;
Review different classifications of items reported net by financial institutions versus other entities;
Develop a sound accounting policy for cash flow reporting of transactions where the entity acts as an agent.

Paragraph 5.5.11

Consolidated statement of cash flows that includes foreign operations requires using the separate financial statements of those foreign operations;

Review the items that are specific to the consolidated statement of cash flows;

Do not show an adjusting item for noncontrolling interests in profit or loss under the indirect method of reporting cash flows from operating activities;

Display separate lines of investing cash flows for obtaining, and separately, losing control of a subsidiary or other businesses, net of cash and cash equivalents of the business acquired or disposed;

The changes in net working capital shown in the operating section of the statement of cash flows under the indirect method should not consider assets and liabilities of the company acquired or disposed;

Review the additional disclosure of operating, investing, and financing cash flows relating to proportionately consolidated joint ventures under IFRSs, U.S. GAAP, and SEC guidance;

Review the presentation of preacquisition dividends in separate financial statements under IFRSs as opposed to U.S. GAAP;

Review the presentation of consolidated cash flows for intra-year business combinations.

Paragraph 5.6.1

Consider the options available for presenting interest and dividends received, and interest and dividends paid;

Ensure consistency with the location in the statement of comprehensive income;

Consider the illustrative examples for financial institutions;

Display interest received, dividends received, interest paid, and dividends paid separately in the statement of cash flows under IFRSs and understand the differences with U.S. GAAP;

Under IFRSs, do not leave profit or loss unadjusted for interest expense under the indirect method while showing changes in interest payable as part of changes in operating capital accounts;

Consider separately presenting interest or dividends paid on shares subject to mandatory redemption where no other equity instruments exist.

Paragraph 5.6.2

Review the different theories for classifying debt discounts and premiums in the statement of cash flows;

For SEC registrants: consider the SEC position on the operating classification of payments of the excess of principals of zero-coupon instruments and pay-in-kind interest instruments.

Paragraph 5.6.3

Review the classification of payment of debt issue costs.

Paragraph 5.6.4

Review the classification policy of capitalized interest and its interactions with premiums or discounts and deferred and accrued interest.

Paragraph 5.6.6

Review the classification of cash flows on property, plant, and equipment and other productive assets to be used or rented to others and then sold, and the slight differences between IFRSs and U.S. GAAP, including the different presentation under the indirect method.

Paragraph 5.6.7

Disclosure finance leases at inception in noncash investing and financing activities;

Review the appropriate presentation of cash flows relating to finance leases, operating leases, and sale-leasebacks, including expenditures and incentive for leasehold improvements.

Paragraph 5.6.9

Review the cash flow treatment of payments relating to costs of oil and gas producing activities that are expensed and those that are capitalized.

Paragraph 5.6.10

Distinguish between cash receipts from long- or short-term accounts and notes receivable from customers and those from originated or purchased loans or long-term credit not in relation with the entity's revenue-producing activities.

Paragraphs 5.6.11, 5.6.12, 5.6.13, and 5.6.14

Check the operating nature of installment notes receivable and installment notes payable relating to the sales or the purchase of goods or services of the entity, even when effected through a captive finance company, or by way of a dealer's floor plan financing arrangement. Understand the implications of the different accounting under IFRSs and U.S. GAAP on the statement of cash flows.

Paragraphs 5.6.15 and 5.6.16

Report third-party financing arrangements of purchases into financing activities in the consolidated statement of cash flows.

Paragraph 5.6.16

Report seller financing of productive assets as financing activities in the statement of cash flows.

Paragraph 5.6.17

Check that cash flows from financial assets held for trading are operating activities under IFRSs, even if not necessarily under U.S. GAAP;

Classify cash flows from held-to-maturity and available-for-sale securities as part of investing activities;

Review the classification of cash flows from retained interests in securitized loans;

Review the classification of securities and other assets acquired specifically for resale and carried at market value in a trading account by brokers and dealers in securities or banks;

Review disclosures by banks and thrifts, and finance and insurance companies.

Paragraph 5.6.18

Review the classification of loans held for trading and loans held for investment, also considering the guidance applicable to banks and financial institutions.

Paragraphs 5.6.19 and 5.6.20

Report cash flows from a transfer of accounts receivable that is a sale as operating activities in the statement of cash flows. Report cash flows related to transfers accounted for collateralized borrowings as financing activities;

Analyze if repurchase agreements or reverse repurchase agreements fall into the trading activities exception. Otherwise, review specific guidance, also considering that applicable to banks and financial institutions.

Paragraph 5.6.21

Present cash purchase and sale of an equity interest in associates and joint ventures as investment activities. Consider the differences between IFRSs and U.S. GAAP in the scope of using the equity method for associates and joint ventures in consolidated and separate financial statements;

Consider the cash flow effect of the different scope of consolidation of investment companies between IFRSs and U.S. GAAP;

Review the adjustment for equity income in investees under the indirect method. Consider consistency with the classification in the statement of comprehensive income;

Review the classification of dividends paid by an investee to the investor, and of payments and receipts between the investor and the investee;

Consider the impact of using the equity method, full consolidation, and proportionate consolidation on consolidated cash and cash equivalents and on the consolidated statement of cash flows.

Paragraph 5.6.22

Restate any cash flows from extraordinary items under U.S. GAAP to the ordinary operating, investing, and financing activities to which they refer under IFRSs.

Paragraph 5.6.23

Consider the appropriateness to separately present or disclose items that are unusual or infrequent, but not both (under U.S. GAAP) or material items (under IFRSs) in the statement of cash flows, to the extent permitted by the disaggregation guidance principles. Do not report aggregates that include or extract such items. SEC registrants should avoid non-GAAP measures that are not expressly permitted in SEC filings.

Paragraph 5.6.24

Consider that IFRSs requires separate presentation or disclosure of cash flows relating to discontinued operations, while U.S. GAAP permits it;

Consider which of the options allowed by the SEC to present cash flows relating to discontinued operations are acceptable under IFRSs, as well as those variations existing in IFRS practice that may be consistent with the SEC guidance.

Paragraph 5.6.26

Review the difference in intraperiod tax allocation of income tax cash flows between IFRSs and U.S. GAAP;

Check the appropriate location of income tax cash flows in the statement of cash flows under the indirect method under IFRSs and U.S. GAAP.

Paragraph 5.6.27

Review the classification of cash inflows relating to equity-settled excess tax benefits of share-based payment arrangements.

Paragraph 5.6.28

Under IFRSs, do not offset value added tax and other indirect tax cash inflows and outflows;

Define an appropriate format under the indirect method;

Ensure consistency with the treatment of value added tax and other indirect taxes in the statement of comprehensive income and compare with the different policies permitted by U.S. GAAP.

Paragraph 5.6.29

Analyze the nature of the insured loss that drives the classification of the related insurance proceeds under SEC guidance. Develop an appropriate policy under IFRSs.

Paragraph 5.6.30

Consider the different characterization under IFRSs from U.S. GAAP of certain company-owned life insurance to fund employee benefits plans as plan assets, and the different characterization of related cash flows.

Paragraph 5.6.31

Understand the different operational detail and focus of IFRSs and U.S. GAAP, respectively, in classifying cash flows of nonhedging derivative instruments;

Develop an accounting policy under IFRS as to when cash flows of derivative instruments are financing activities, as opposed to the criterion of significant financing element at inception under U.S. GAAP;

Review the classification of cash flows of a hedging instrument based, under IFRSs, on the classification of the cash flows of the hedged item (an option allowed under certain conditions under U.S. GAAP).

Paragraph 5.7.3

Compare IFRSs, U.S. GAAP, and SEC guidance on commentary of cash restrictions, discretionary investing activities, unused cash, and borrowing facilities;

Review what information is mandatory and what is elective;

Be aware of the consequences of the different locations of such disclosures under IFRSs, U.S. GAAP, and SEC guidance.

6 DUAL REPORTING FOR THE STATEMENT OF CHANGES IN EQUITY

6.1 CHAPTER PREVIEW

This chapter provides ready-made dual reporting tools to assist financial statement preparers in designing the structures of the statements of changes in equity under IFRSs, U.S. GAAP, and SEC rules and regulations, as well as to reconcile respective captions and line items.

This chapter first discusses which circumstances warrant a statement of changes in equity and when note disclosures suffice. It highlights major differences for SEC registrants and foreign private issuers. It also explains the IFRS accommodation available to small and medium-sized entities, as well as the perspective of certain specialized industry guidance.

Next, it moves to the conceptual ground of the statements of changes in equity. Depending on the body of standards, such a statement may have the purpose of reconciling equity balances, analyzing changes in retaining earnings, or reporting comprehensive income. Unlike U.S. GAAP, IFRSs recently moved to a radical distinction between such a statement, as a means of reporting owner changes in equity, and the statement of comprehensive income, which presents nonowner changes in equity. The interaction of those three elements creates complex presentation and disclosure alternatives.

The chapter goes on to discuss the structure of the statements of changes in equity. The format introduced by the 2007 revision of IAS 1 innovates dramatically with reference to previous IFRS practice and U.S. GAAP. By inhibiting disaggregation of comprehensive income, the statement gets to an unreconciled format. With the recognition of noncontrolling interests as components of equity, both U.S. GAAP and IFRSs call for a process of attribution of equity balances. Yet, behind the curtains, intricate differences between the two bodies of standards remain. Specific paragraphs explain the gross versus net presentation of reclassification adjustments and the gross-of-tax versus net-of-tax display or items of other comprehensive income.

Further, the chapter explains specific problematic points: the presentation of accumulated other comprehensive income, the reporting of dividends, certain issues relating to associates and held-for-sale subsidiaries, and the disaggregation of equity reserves, including jurisdictional implementation.

Finally, the chapter also includes Exhibits that provide a listing of line items that an entity must display on the face of the statements of changes in equity under IFRSs, U.S. GAAP, and SEC rules and regulations, those for which note disclosure as opposed to display is an option, and those that allow parenthetical explanation. Furthermore, it mentions requirements applicable to certain specialized industries. However, this chapter does not repeat the list of items of other comprehensive income under IFRSs and U.S. GAAP, because Chapter 5 already includes this inventory.

6.2 CONTEXT OF THE STATEMENT OF CHANGES IN EQUITY

6.2.1 Whether a Statement is Required

6.2.1.1 Linkage with the Elements of the Financial Statements The U.S. Concepts consider investments by and distributions to owners during the period among the elements of the financial statements. Therefore, the U.S. Concepts require a statement to that effect.[1] Conversely, the IASB Framework has no similar element of the financial statements, and does not deal with the statement of changes in equity. It instead refers to a generic concept of *changes in financial position* that mainly stands for changes in cash flows, changes in funds, or changes in financial resources in general.[2] The new common conceptual framework keeps the reference to changes in economic resources and claims not resulting from financial performance.[3]

6.2.1.2 From Elements to Statements However, the U.S. Concepts are not prescriptive on the form of such a statement of investments by and distributions to owners. In fact, as Exhibit 2-6 illustrates, U.S. practice has a plurality of ways of reporting information on changes in equity, alone or in combination with net income and retained earnings. Paragraph I.A.1 above explains that the U.S. Concepts follow the approach of defining the content that a set of financial statements must represent rather than prescribing specific statements.

6.2.1.3 When a Statement is Optional and When Mandatory Disconnecting from the IASB Framework, IAS 1 is very clear in requiring a statement of changes in equity as part of basic financial statements.[4]

Planning Point: This may represent a major change for companies migrating from certain local GAAPs to IFRSs. For example, the Italian Civil Code and the Italian accounting standards place the statement of changes in equity in the notes.[5]

U.S. GAAP sanctions the results of operations as being integral to a complete set of financial statements.[6] Results of operations consist of a statement of income and a statement of retained earnings, or a combination of these two statements, such as the statement of income and retained earnings.[7] Subsection 505-10-50-2 (APB 12) reports a longstanding practice of reporting changes in equity accounts other than retained earnings either in a separate statement or in the notes, and concludes that entities that present a statement of financial position and results of operations can continue this

[1] *CON 5,* Recognition and Measurement in Financial Statements of Business Enterprises*, ¶¶ 13, 55, 56; CON 6,* Elements of Financial Statements*, ¶¶ 65.B.2, 66, 67.*

[2] The Conceptual Framework for Financial Reporting 2010*, ¶ 4.2; IASB Framework, ¶ 18 (superseded).*

[3] *CON 8,* Conceptual Framework for Financial Reporting, Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information, *¶¶ OB12, OB15, OB21;* The Conceptual Framework for Financial Reporting 2010, *¶¶ OB12, OB15, OB21.*

[4] *IAS 1,* Presentation of Financial Statements, *¶ 10(c).*

[5] *OIC, Organismo Italiano di Contabilità, Principio Contabile 28,* Il patrimonio netto*, ¶ IV.*

[6] *FASB Statement No. 95,* Statement of Cash Flows*, ¶ 152.*

[7] *APB 9,* Reporting the Results of Operations*, ¶ 7.*

practice or otherwise disclose changes in equity accounts in the basic financial statements.[8] Under Section 220-10-15 (FASB Statement No. 130), entities that present a full set of financial statements comprising a statement of financial position, results of operations, and a statement of cash flows that have items of other comprehensive income may choose the statement of changes in equity as a means of reporting comprehensive income. In such a case, such a statement becomes part of the complete set of financial statements.[9] Therefore, the issue of under what circumstances U.S. GAAP entities must present a statement of changes in equity or to what extent they can use note disclosures derives from the dual connotation of such a statement as a means of reporting comprehensive income and of reconciling equity balances. Paragraphs I.A.1 below and I.A.2 below explore the ramifications of these two concepts. It is worth noticing that the Model Business Corporation Act includes the statement of changes in equity in the financial statements of a corporation, unless the entity presents related information in another form.[10] However, effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, under U.S. GAAP the statement of changes in equity cannot be used to report comprehensive income and other comprehensive income any longer.[11]

Planning Point: The wording of Form 20-F, both on an annual and interim basis,[12] is compatible with both IAS 1 prior to and after the 2007 release, as well as note disclosure of changes in equity under Regulation S-X. Under IAS 1 (2003), an entity might opt for either a statement of changes in equity (SOCIE) or a statement of recognized income and expense (SORIE) plus notes on capital transactions.[13] The 2007 version of the standard eliminated the SORIE and made the SOCIE mandatory. It also permits a single- or two-statement of income approach (Paragraph I.A.2 above).

The ASU on reporting comprehensive income definitely includes a statement of investments by and distributions to owners during the period into a full set of financial statements.[14] The FASB and IASB *Financial Statement Presentation Project* proposes the statement of changes in equity as an integral part of a complete set of financial statements, so that reporting all changes in equity in the notes would no longer be permitted.[15]

6.2.2 Title of Statement

The U.S. Concepts refer to investments by and distributions to owners and a related statement.[16] They also mention the statement of changes in owners' equity or the statement of

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[8] *FASB ASC 505-10-50-2 (APB 12,* Omnibus Opinion – 1967*, ¶¶ 9, 10).*
[9] *FASB ASC 220-10-15-2, 220-10-15-3 (FASB Statement No. 130,* Reporting Comprehensive Income*, ¶¶ 6, Footnote 3); FASB Statement No. 130, ¶ 65.*
[10] *American Bar Foundation, 2003.* Model Business Corporation Act*, Subchapter B, ¶ 16.20.*
[11] *FASB ASC 220-10-45-8 superseded by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶¶ 8, BC6.*
[12] *Form 20-F, Item 8.A.1, Item 8.A.5.*
[13] *IAS 1 (2003), ¶ 96.*
[14] *FASB ASC 205-10-45-1A (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 12).*
[15] *Staff Draft, ¶ 9, 95.b; DP on Presentation, ¶ 3.87.*
[16] *CON 5, ¶¶ 13, 55.*

changes in stockholders' equity,[17] the statement of transactions with owners,[18] and the statement of changes in net assets of not-for-profit organizations.[19] The old-fashioned title *changes in financial position* mainly used to refer to cash flows (see Paragraph I.A.1 above). However, the U.S. Concepts also use this expression as a general concept with no reference to a specific statement.[20] Some U.S. GAAP literature and SEC guidance use the title statement in stockholders' equity[21] or statement in shareholders' equity.[22] Some SEC guidance sometimes uses the expression changes in financial position in lieu of changes in equity.[23] Subtopic 954-10 (AICPA Audit and Accounting Guide, HCO) uses the title of statement of changes in net assets for not-for-profit entities.[24] The ASU on reporting comprehensive income mentions a statement of investments by and distributions to owners during the period. Thus, this ASU still uses the old title, although it also mentions the statement of changes in equity.[25]

> **Comment:** Arguably, the avoidance of a specific title for this statement transitorily grandfathers other pre-existing titles.

IAS 1 acknowledges that, in general, titles of IFRSs financial statements are subject to change depending on the situation of the specific entity.[26] Paragraph I.A.3 below explains that alternative titles may apply in certain specialized industries.

6.2.3 SOCIE in Certain Specialized Industries

IAS 1, which provides guidance on the statement of changes in equity, does not scope any specific industry out.[27] However, the following paragraph highlights certain differences between IFRSs and U.S. GAAP. Paragraph I.A.3 above lists examples of the types of companies included in the below mentioned industries. The Exhibits in Paragraph VI.F report items related to certain specialized industries. This Book does not deal with any statutory accounting practices.

6.2.3.1 Insurance Companies IFRS 4 has no specific instructions for the statement of changes in equity of insurance entities, but indirectly mentions the statement of changes in equity for those enterprises.[28]

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[17] *CON 1,* Objectives of Financial Reporting by Business Enterprises *(superseded), ¶ 6.*
[18] *CON 5, ¶ 55.*
[19] *CON 6, ¶ 3, Footnote 3.*
[20] *CON 5, ¶ 5, Footnote 1; CON 6, ¶ 20, Footnote 13.*
[21] *FASB ASC 715-20-55-5, 715-20-55-10, 715-20-65-1, FASB Statement No. 158,* Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, ¶¶ A2, A7, A16, A22, A30); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04); Regulation S-X, ¶ 210.8-02).*
[22] *SEC,* Financial Reporting Manual*, ¶ 6340.1.*
[23] *SEC Release No. 33-8982, ¶ Footnote 136.*
[24] *FASB ASC 954-10-05-3 (AICPA Audit and Accounting Guide,* Health Care Organizations*, (HCO)).*
[25] *FASB ASC 205-10-45-1A (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 12).*
[26] *IAS 1, ¶¶ 10, IG1.*
[27] *IAS 1, ¶¶ 2, 4.*
[28] *IFRS 4,* Insurance Contracts*, ¶¶ BC93, BC180.*

6.2.3.2 Financial Institutions Article 9 of Regulation S-X has no specific requirements for the statement of changes in equity of bank holding companies. However, Subsection 942-10-S99-2 (Rule 9-02 of Regulation S-X) extends the general rules of Articles 1, 2, 3, 3A, and 4 of Regulation S-X to bank holding companies, including Rule 3-04 for changes in stockholder equity and noncontrolling interest (see Paragraph I.A.2 below). Subsection 942-10-S99-4 (SAB 11-K) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations.[29] Although the superseded IAS 30 had no specific provision for the statement of changes in the equity of banks and similar financial institutions, it referred to other IFRSs pronouncements.[30]

6.2.3.3 Investment Companies IAS 1 is explicit in stating that an entity to which regulatory capital requirements apply must disclose them and its compliance with them in the financial statements.[31] Likewise, Section 220-10-15 (FASB Statement No. 130) does not exempt investment companies, employee benefit plans, and any other type of entities that present a full set of general purpose financial statements from providing a statement of changes in equity when they chose it as a means of reporting comprehensive income (Paragraph I.A.1 below).[32]

For registered and unregistered investment companies, U.S. GAAP names such a statement as the statement of changes in net assets.[33] As Paragraph e above explains, a statement of changes in net assets is one of the prerequisites for certain registered and unregistered investment companies to be exempted from presenting a statement of cash flows. Subsection 946-225-S99-3 (Regulation S-X) prescribes a specific content for the statement of changes in net assets of registered investment companies.[34] Investment partnerships may combine the statement of changes in net assets with the statement of changes in partners' capital.[35] The statement of changes in equity under IAS 1 also applies to investment companies. However, IFRSs permit the amendment of terminology as appropriate. Therefore, entities such as certain mutual funds whose net assets do not meet the classification of equity under IAS 32 or whose shares are entirely puttable instruments classified as liabilities under IAS 32 could use a statement of changes in net assets: in fact, technically they have no equity.[36] However, this is not possible if they have other components of net assets, such as items of accumulated other comprehensive income, to which equity classification applies under IAS 32 as the entity has no obligation to deliver them to its unitholders. Information on classes of shares that IAS 1 requires either in the statement of changes in equity, in the statement of financial position or

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[29] *Regulation S-X, ¶ 210.9-03; FASB ASC 942-10-S99-4 (SEC Staff Accounting Bulletin, Topic 11-K,* Application of Article 9 and Guide 3*).*

[30] *IAS 30,* Disclosures in the Financial Statements of Banks and Similar Financial Institutions *(superseded), ¶ 4.*

[31] *IAS 1, ¶¶ 135(a)(ii), 135(d), 136.*

[32] *FASB ASC 220-10-15-2, 220-10-15-3 (FASB Statement No. 130, ¶¶ 6, Footnote 3); FASB Statement No. 130, ¶ 65.*

[33] *FASB ASC 946-205-45-1 (AICPA Audit and Accounting, Guide,* Investment Companies *(INV), ¶ 7.01); Regulation S-X, ¶ 210.3-18(a)(4).*

[34] *FASB ASC 946-225-S99-3 (Regulation S-X, ¶ 210.6-09).*

[35] *FASB ASC 946-205-45-6 (AICPA Audit and Accounting Guide, INV, ¶ 7.07).*

[36] *IAS 1, ¶¶ 6, 80; IAS 32,* Financial Instruments: Presentation, *¶¶ 18, IE32, BC7, BC8.*

in the notes (see Paragraph I.A.3 below) also holds for such entities, partnerships, or trusts, adjusted as appropriate.[37]

6.2.3.4 Benefit Plans Under U.S. GAAP, benefit pension plans use a statement of changes in net assets available for benefits. They include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans.[38] Defined benefit pension plans may adopt either a separate statement of changes in net assets available for benefits and a statement of changes in accumulated plan benefits, combine the two into a statement of changes in accumulated plan benefits and net assets available for benefits, or disclose changes in actuarial present value of accumulated plan benefits in the notes.[39] Health and welfare defined benefit plans may combine information on changes in benefit obligations with those on changes in net assets in a statement of benefit obligations and net assets available for benefits. Alternatively, they may disclose benefit obligations in the notes, use a separate statement, or combine such information with another statement.[40] Subsection 962-205-S99-1 (Regulation S-X) has a statement of income and changes in plan equity for employee stock purchase, savings, and similar plans.[41] IAS 26 applies to retirement benefit plans, including defined benefit and defined contribution plans. For defined benefit plans, a statement of changes in net assets available for benefits is required.[42] IAS 26 permits defined benefit plans either to present changes in the actuarial present value of promised retirement benefits as part of the statement of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits or to disclose such information in the notes. Placement of such information in a separate actuarial report is possible to the extent that this actuarial report accompanies the financial statements and is incorporated by reference into the financial statements.[43]

6.2.3.5 Health Care Entities Under U.S. GAAP, not-for-profit, business-oriented, and investor-owned health care entities present a statement of changes in equity (or net assets). They include investor-owned health care entities and not-for-profit, business-oriented entities.[44] Under U.S. GAAP, the statement of changes in net assets of not-for-profit organizations coincides with the statement of activities, or statement of unrestricted revenues, expenses, and other changes in unrestricted net assets, or statement of operations.[45] As mentioned, not-for-profit entities and governmental organizations fall outside of the scope of this Book.

6.2.3.6 Real Estate Under U.S. GAAP, financial statements of common interest realty associations include a statement of changes in members' equity when the association uses

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[37] *IAS 1, ¶ 80.*

[38] *FASB ASC 962-205-45-1, 960-30-45-1, 960-205-45-4 (FASB Statement No. 35, ¶¶ 6, 7, 15, 236); FASB ASC 960-10-05-1 (FASB Statement No. 87, ¶ 7); FASB ASC 965-205-45-1, 965-205-45-3, 965-20-45-3 (AICPA Statement of Position No. 92-6, ¶¶ 20, 23, 39); FASB ASC 962-205-45-6 (AICPA Statement of Position No. 94-4, ¶ 15).*

[39] *FASB ASC 962-205-45-1, 960-20-45-2, 960-205-55-1 (FASB Statement No. 35, ¶¶ 6, 8, 282).*

[40] *FASB ASC 965-205-45-2, 965-205-55-6 (AICPA Statement of Position No. 92-6, ¶¶ 20, Exhibit B).*

[41] *FASB ASC 962-205-S99-1 (Regulation S-X, ¶ 210.6A-04).*

[42] *IAS 26, ¶¶ 13, 34.*

[43] *IAS 26, ¶¶ 28–31.*

[44] *FASB ASC 954-10-05-2, 954-205-45-1 (AICPA Audit and Accounting, Guide,* Health Care Organizations, *(HCO) ¶¶ 1.02, 1.05).*

[45] *FASB ASC 958-205-45-4 (FASB Statement No. 117, ¶ 6); FASB ASC 825-10-15-7 (FASB Statement No. 159, ¶ 23.a).*

nonfund reporting. If it uses fund reporting it presents a statement of changes in fund balances. Cooperatives present a statement of changes in shareholders' equity.[46]

6.2.4 SOCIE of SEC Domestic Registrants and Foreign Private Issuers

This paragraph highlights certain peculiarities of the statement of changes in equity for SEC registrants and foreign private issuers as opposed to other companies subject to U.S. GAAP. Unless differently regulated, all other U.S. GAAP requirements described in this chapter also apply to these registrants. Other paragraphs in this chapter may mention specific requirements of SEC rules and regulations, as appropriate.

Subsection 505-10-S99-1 (Regulation S-X) requires the analysis of changes in each caption of stockholders' equity and noncontrolling interests either in the form of a separate reconciling statement of beginning and ending balances or in the notes. In particular, including the amendments by the SEC Release 33-9026 and ASU 2010-21 to align with FASB Statement No. 160,[47] it requires separate display of contributions from and distributions to owners, of retrospective adjustment to retained earnings or other equity components, and of the aggregate and per share amounts of dividends for each class of share.[48] Therefore, domestic registrants must present a statement of changes in stockholders' equity, although they may place it in a note.[49]

> **Planning Point:** Rule 3-04 now requires the analysis of changes of each caption of stockholders' equity, no longer other stockholders' equity only. Under Subsection 220-10-S99-1 (Regulation S-X), other stockholders' equity only includes additional paid-in capital, other paid-in capital accounts, and retained earnings.[50] Paragraph I.A.5 below explains the implication to the attribution of balances to controlling and noncontrolling interests and the specific issues of SEC registrants in reporting controlling and noncontrolling interests in redeemable preferred stock.

If an entity has items of other comprehensive income, this reconciliation analysis also includes other comprehensive income and comprehensive income. As Paragraph I.A.1 below explains, Subtopic 220-10 (FASB Statement No. 130) requires reporting comprehensive income in a statement, not in the notes. Therefore, prior to ASU 2011-05, if the entity has items of other comprehensive income and elects to use the statement of changes in equity, this statement becomes integral to basic financial statements. If an entity elects another statement to report comprehensive income, the reconciliation may remain in a note or another separate schedule.

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[46] *FASB ASC 972-205-45-6, 972-205-45-14 (AICPA Audit and Accounting Guide,* Common Interest Realty Associations *(CIR), ¶¶ 4.05, 9.09).*

[47] *Amendment to FASB ASC 505-10-S99-1 (FASB Accounting Standards Update No. 2010-21,* Accounting for Technical Amendments to Various SEC Rules and Schedules*, ¶ 1); SEC, 2009. Release 33-9026,* Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies*, ¶ VIII, Part 210, 4.*

[48] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[49] *FASB Statement No. 130, ¶ 64; SEC,* Financial Reporting Manual*, ¶¶ 1110.1, 1120.1.*

[50] *FASB ASC 220-10-S99-1 (Regulation S-X, ¶ 210.5-02.30).*

Regulation S-X requires the statement of changes in equity of smaller reporting companies.[51]

Form 20-F of a foreign private issuer that registers securities with the SEC and that periodically reports under Section 13(a) or 15(b) of the Exchange Act must include a statement of changes in equity that is part of its full set of financial statements or a note.[52] Form 20-F does not require a reconciliation of the statement of changes in equity to U.S. GAAP of registrants that must present U.S. GAAP reconciliations. However, the SEC Staff notes that they should consider preparing a supplemental statement of changes in equity under U.S. GAAP to cross check with shareholders' equity in the statement of financial position.[53]

For a foreign private issuer that reports comprehensive income, both Item 17 and Item 18 of Form 20-F accept one of the options allowed by Subtopic 220-10 (FASB Statement No. 130), including the statement of changes in equity, using either U.S. GAAP or home-country GAAP. In any case, as stated, in such a case a statement is required. Reconciliation of comprehensive income to U.S. GAAP is encouraged but not required for a registrant presenting comprehensive income under local GAAP.[54] Conversely, the SEC Staff views the IFRS statement of changes in equity in line with Subtopic 220-10 (FASB Statement No. 130).[55]

When the differences between U.S. GAAP and local GAAP in accounting for business combinations are so pervasive as to make normal reconciliation confusing, a foreign private issuer may need to prepare a complete set of full or condensed supplemental U.S. GAAP financial statements. Under those circumstances, the minimum disclosure required also comprises a condensed statement of changes in equity for the period of the business combination and any prior period presented.[56]

The SEC Roadmap makes two alternative proposals for domestic issuers electing to report under IFRSs. One option is the disclosure of U.S. GAAP information along with an annual three-year reconciliation of IFRSs to U.S. GAAP, including the statement of changes in equity.[57]

As explained in Paragraph I.A.1 below, under Subsection 220-10-45-14 (FASB Statement No. 130), companies must display accumulated other comprehensive income separately from both retained earnings and additional paid-in capital on the equity section of the statement of financial position.[58] Item 17 of Form 20-F does not require this. However, effective for fiscal years ending on or after December 15, 2011, all issuers have to comply with Item 18 of Form 20-F rather than Item 17. Furthermore, under U.S. GAAP companies must show each component of the accumulated balances of other comprehensive income either on the

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[51] *Regulation S-X, ¶ 210.8-02.*
[52] *Form 20-F, Item 8.A.1.*
[53] *Form 20-F, Item 17(c)(2); SEC,* Financial Reporting Manual*, ¶ 6510.2.*
[54] *IPTF, May 28, 1998, ¶ XII; SEC, International, November 1, 2004, ¶ VI.A; SEC,* Financial Reporting Manual*, ¶ 6530.1.*
[55] *SEC, International, November 1, 2004, ¶ VI.A.*
[56] *SEC, International, November 1, 2004, ¶ VI.B; SEC,* Financial Reporting Manual*, ¶ 6520.2.*
[57] *SEC Release No. 33-8982, ¶ IV.D.2, page 71.*
[58] *FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26).*

face of the statement of financial position, of the statement of changes in equity, or in the notes. The SEC Staff exempts a foreign private issuer that under local GAAP reports items of accumulated other comprehensive income in retained earnings from reclassifying them in case it finds this reconstruction impracticable and it discloses this fact.[59]

6.2.5 SOCIE of Small and Medium-Sized Entities

IFRS for small and medium-sized entities provides these type of companies with an accommodation, i.e., an additional option versus full IFRSs. Under certain circumstances, they may avoid presenting a statement of changes in equity and a statement of comprehensive income, and instead prepare a statement of income and retained earnings. Such entities may elect this simplification when no capital transactions, apart from dividends, have affected equity in the reporting periods presented. Therefore, in addition to the items of profit or loss, this statement is limited to the presentation (actually it requires separate display) of dividends declared and paid or payable during the period, restatement of retained earnings for corrections of errors, restatement of retained earnings for changes in accounting policy˙ and beginning and ending retained earnings.[60] Paragraph I.A.4 above illustrates the combined statement of income and retained earnings.

The purpose of the statement of changes in equity for small and medium-sized entities does not reiterate the prohibition to present profit or loss and items of other comprehensive income on the face of the statement of changes in equity (see Paragraph I.A.3 below).[61]

Comment: This apparently seems a major difference with full IFRSs, because it is conceptual in nature. Probably this is due to the accommodation mentioned above. In fact, the coexistence of profit or loss and retained earnings is the foundation of the statement of income and retained earnings. Arguably, from a scrupulous reading it would appear that the wording of the paragraph relating to the purpose of the statement inadvertently forgot to distinguish between the statement of changes in equity and the statement of income and retained earnings. In fact, while the purpose of the statement of changes in equity mentions the reporting of profit or loss and items of other comprehensive income, the explanation of its content does not do so.

With reference to the statement of changes in equity, the IFRS for small and medium-sized entities also has some minor differences with full IFRSs. As part of the reconciliation of ending to beginning balances of each component of equity, it specifically requires separate presentation of dividends, issuance of shares, and transactions in own shares.[62] Unlike IAS 29, it specifies that an entity operating in a hyperinflationary economy must show the restatement of equity components in the statement of changes in equity.[63]

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[59] *SEC, International, November 1, 2004, ¶ VI.A; SEC, Release No. 33-8959, 2008, ¶ II.E; SEC,* Financial Reporting Manual, *¶ 6530.*
[60] IFRS for SMEs, *¶¶ 3.18, 6.1, 6.4, 6.5, BC155(c).*
[61] IFRS for SMEs, *¶ 6.3(c).*
[62] IFRS for SMEs, *¶ 6.3(c).*
[63] IFRS for SMEs, *¶ 31.10.*

6.3 DIFFERENT CONCEPTS OF THE STATEMENT OF CHANGES IN EQUITY

6.3.1 SOCIE in the Context of Reporting Comprehensive Income

Subtopic 220-10 (FASB Statement No. 130) places the statement of changes in equity in the context of reporting comprehensive income. A specific statement of comprehensive income, a combined statement of income and comprehensive income, or a statement of changes in equity are the alternatives allowed. In July 2009, the IASB and the FASB decided to sponsor a separate project on the presentation of comprehensive income. In October 2009, they decided to develop a convergent, although separate, guidance. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, under U.S. GAAP the statement of changes in equity cannot be used to report comprehensive income any longer.[64] This is in line with the Staff Draft of the *Financial Statement Presentation Project*.[65]

Exhibit 4-3 illustrates these options under U.S. GAAP. Paragraph IV.B above analyzes the income statement, the statement of income and comprehensive income, and the statement of comprehensive income in the context of the statements of income.

U.S GAAP has largely considered the statement of changes in equity as less transparent and less practical. In fact, under Subsection 505-10-50-2 (APB 12) when both financial position and results of operations are presented (see Paragraph I.A.1 above), a statement of changes in equity is not mandatory, as it can be substituted by note disclosure or by one of the basic financial statements. If presented, it may be a separate statement and not part of the basic financial statements. However, an entity that chooses the statement of changes in equity to report comprehensive income must include such a statement in the basic financial statements and not as a separate statement, or note disclosure.[66]

Paragraph VI.D below includes an explanation of the technical requirements and the interactions among those statements to report comprehensive income.

Comment: Despite the FASB preference for a specific statement of comprehensive income or a statement of income and comprehensive income, most U.S. and Japanese[67] companies use the statement of changes in equity to report comprehensive income. According to the *AICPA Accounting Trends & Techniques*, in 2009 approximately 82% (in 2005, 83%) of the U.S. GAAP companies surveyed that reported comprehensive income did so in the statement of changes in equity, 15%

[64] *FASB ASC 220-10-45-8 superseded by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8, BC6.*

[65] *Staff Draft, ¶ BC154.*

[66] *FASB Statement No. 130, ¶¶ 64-65; FASB ASC 505-10-50-2 (APB Opinion No. 12, ¶ 10); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[67] *Joint International Group on Financial Statement, June 14, 2005.* Presentation*, presentation by Hiroshi Yamada. [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007].*

(in 2005, 13%) in a separate statement of comprehensive income, and the remainder in the combined statement of income and comprehensive income.[68] After some years, the FASB and the IASB acknowledged that the statement of changes in equity had become a general practice.[69]

Comment: Paragraph I.A.4 explains that under IAS 1 (2005) the former statement of recognized income and expense was a variant of the statement of changes in equity. The 2007 Revision of IAS 1 innovates to recognize other comprehensive income in the statement of comprehensive income and no longer directly in equity. Therefore, now the statement of comprehensive income is not an alternative format of the statement of changes in equity and does not deal with equity to any extent.

6.3.2 SOCIE in the Context of Equity Reconciliation

The statement of changes in equity also has a connotation of reconciliation of equity balances. Paragraph I.A.5 below and Paragraph I.A.6 below expand on this aspect. The interaction between the view of this statement as a means of reporting comprehensive income and as equity reconciliation is quite intricate.

Under U.S. GAAP, the statement of changes in equity is not mandatory, unless the entity elects to report comprehensive income through that statement (prior to ASU 2011-05). In fact, a nonpublic entity that presents a statement of financial position, a statement of income, and a statement of retained earnings (or a combined statement of income and retained earnings) can, but is not obliged to, present a separate statement of changes in equity. Alternatively, it can include information on changes in equity accounts other than retained earnings in the basic financial statements or in the notes.[70] Limited Liability Companies may use a statement of changes in members' equity or show period changes in members' equity in the statement of operations or disclose them in the notes.[71] Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160) also gives entities the alternative of note disclosure versus the statement of changes in equity to reconcile equity balances.[72] However, as Paragraph I.A.1 above explains, prior to ASU 2011-05, an entity that has some items of other comprehensive income in any period reported must report comprehensive income in one of the three statements allowed.[73] If an entity that presents a complete set of financial statements elects to report comprehensive income through a statement of changes in equity, such statement becomes a mandatory component of basic financial statements.[74]

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[68] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 4-1.*

[69] *Financial Accounting Standards Advisory Council, June 2005.* Financial Performance Reporting by Business Enterprises, *Attachment E - Appendix 1, ¶ 3(b). [Online] FASB. Available at: www.fasb.org [last accessed June 21, 2007].*

[70] *APB 12, ¶ 9; FASB ASC 505-10-50-2 (APB 12, ¶ 10).*

[71] *FASB ASC 272-10-45-1 (Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships, *¶ 8).*

[72] *FASB ASC 810-10-50-1A, 810-10-55-AL (ARB 51,* Consolidated Financial Statements, *¶¶ 38(c), A6, as amended by FASB Statement No. 160,* Noncontrolling Interests in Consolidated Financial Statements*).*

[73] *FASB ASC 220-10-15-3, 220-10-45-6 (FASB Statement No. 130, ¶¶ 6, 15).*

[74] *FASB ASC 220-10-15-2, 220-10-15-3 (FASB Statement No. 130, ¶ 6); FASB Statement No. 130, ¶ 65.*

Planning Point: This means that under U.S. GAAP an entity may disclose changes in equity accounts other than retained earnings in the notes. However, it cannot simply disclose comprehensive income in the notes.[75] If (prior to ASU 2011-05) it chooses not to use the statement of changes in equity, it must use either the statement of comprehensive income or the statement of income and comprehensive income. Finally, an entity that has no item of other comprehensive income in any period presented is exempted from reporting comprehensive income (ASU 2011-05 adds other comprehensive income).[76]

About benefit plans, U.S. GAAP gives a limited exemption from displaying certain other comprehensive items on the face of the statement of changes in equity, by permitting cross-reference to the notes.[77]

Exhibit 6-1 illustrates how the interlock of the requirements for reporting comprehensive income and equity reconciliation may affect the statements available to a company under U.S. GAAP. The *AICPA Accounting Trends & Techniques* illustrates that, in 2002–2009, 98% of surveyed U.S. GAAP companies with changes in additional paid-in capital during the year reported them in the statement of changes in equity. Some of the remaining companies used a disclosure or a schedule in the notes.[78]

6.3.3 The Statement of Recognized Income and Expenses

Prior to the 2007 amendments to IAS 1, effective for annual periods beginning on or after January 1, 2009, an entity could choose to report comprehensive income either in the statement of changes in equity (SOCIE) or in the so-called statement of recognized income and expense (SORIE). Actually, the statement of recognized income and expense was one of the two allowed types of the statement of changes in equity.[79] It also permitted note disclosure of changes in capital accounts, including retained earnings. Now IAS 1 no longer permits this option.

Comment: The statement of comprehensive income has a different meaning and is not, as was the former statement of recognized income and expense, a format alternative to the statement of changes in equity. Paragraph I.A.4 above expands on this concept.

6.3.4 The Statement of Retained Earnings

The U.S. Concepts acknowledge the use of the statement of retained earnings.[80] Under U.S. GAAP, the statement of income and the statement of retained earnings together or their combination in the form of a combined statement of income and retained earnings reflect results of operations.[81] Subtopic 230-10 (FASB Statement No. 95) gives results of operations

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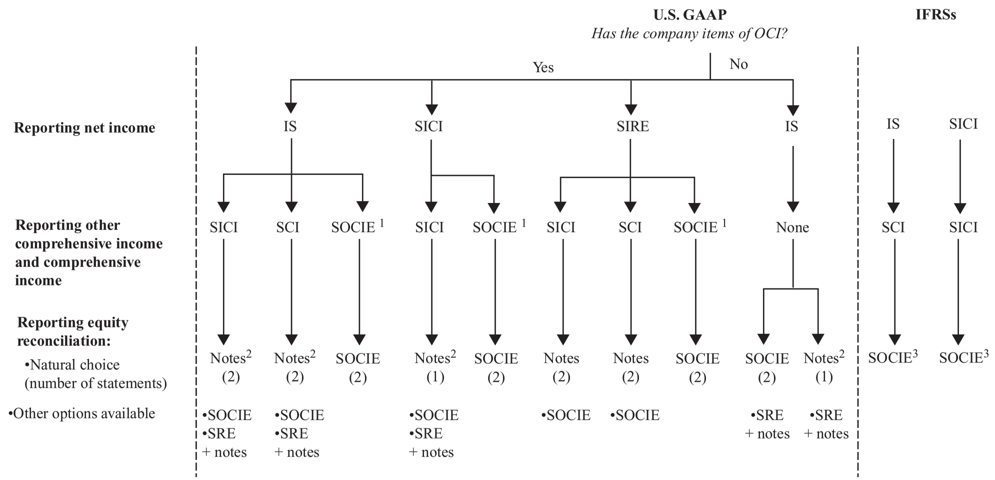
[75] *FASB Statement No. 130, ¶ 63.*
[76] *FASB ASC 220-10-15-3, 220-10-45-6 moved to 220-10-45-1A by ASU 2011-05 (FASB Statement No. 130, ¶¶ 6, 15).*
[77] *FASB Statement No. 158, ¶ B63.*
[78] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 5-5.*
[79] *IAS 1 (2005), ¶ 96.*
[80] *CON 6, ¶ 20, Footnote 13.*
[81] *APB 9, ¶ 7.*

Exhibit 6-1 Alternatives for Reporting Net Income, Comprehensive Income, and Equity Reconciliation



IS = Income Statement; SICI= Statement of Income and Comprehensive Income; SCI = Statement of Comprehensive Income; SIRE = Statement of Income and Retained Earnings; SRE = Statement of Retained Earnings; SOCIE = Statement of Changes in Equity.

[1] *From the effective date of ASU 2011-05, the statement of changes in equity is no longer an option to present comprehensive income.*

[2] *Under a strict interpretation of Subtopic 230-10 (FASB Statement No. 95, ¶¶ 3, 152, 153), APB 9, ¶ 7 and Subsection 505-10-50-2 (APB 12, ¶ 10), a complete set of financial statements must include results of operations (i.e., a statement of income and a statement of retained earnings). If the entity does not present a statement of retained earnings or a statement of income and retained earnings, changes in retained earnings should be in the basic financial statements. This may arise from their inclusion either in the statement of financial position, or in a statement of changes in equity that has become an integral part of a complete set of financial statements. On the other hand, CON 5, ¶¶ 13, 14 does not include the statement of retained earnings into a full set of financial statements. It considers the statement of income and retained earnings simply as a way of differently combining mandatory information.*

[3] *Under IAS 1, ¶¶ 106(d), 108 an entity must separately display beginning and ending balances and changes in retained earnings in the statement of changes in equity.*

Exhibit 6-2 Sample Statement of Retained Earnings under U.S. GAAP

Retained earnings, beginning[1]
  As previously reported
  +/− Prior period adjustments:
    Correction of error . . . , net of tax of . . .[2]
  As restated
  +/− Net income (loss)
  Deduct (2) dividends
    Preferred stocks
    Common stocks
  – Deficit eliminated in quasi reorganization
Retained earnings, ending

[1]*Elaborated based on APB 9, Exhibit C (superseded).*
[2]*Including cash/property/script/stock dividends/split-ups effected in the form of dividends, and certain treasury stock transactions declared in the year.*

the status of a necessary constituent of a complete set of financial statements.[82] APS 4, which is no longer in force, considered the statement of [changes in] retained earnings as one of the basic financial statements.[83] Exhibit 6-2 illustrates a sample statement of retained earnings under U.S. GAAP, when presented as a stand-alone statement.

Planning Point: Paragraph I.A.2 above explains that under U.S. GAAP the statement of changes in equity is not mandatory for companies that present the statement of financial position, a statement of income, and a statement of retained earnings (or a combined statement of income and retained earnings) and, prior to ASU 2011-05, that have no item of other comprehensive income. On the other hand, whether or not U.S. GAAP requires a statement of retained earnings (or a combined statement of income and retained earnings) is arguable. Strictly, following the definition of a complete set of financial statements in Subtopic 230-10 (FASB Statement No. 95), simple note disclosure of changes in retained earnings would not suffice to represent results of operations, unless the statement of financial position (i.e., one of the basic financial statements) displays changes in retained earnings. Conversely, a statement of changes in equity would be enough, as it includes changes in retained earnings. On the other hand, CON 5[84] does not include the statement of retained earnings in a full set of financial statements. It considers the statement of income and retained earnings as simply a way of differently combining mandatory information. Conversely, as Paragraph I.A.4 above explains, Subsection 505-10-S99-1 (Regulation S-X) requires the analysis of beginning and ending balances and changes of each caption of equity and noncontrolling interests, as note disclosure or as a separate statement of changes in other stockholders' equity.[85] In U.S. practice, changes in retained earnings may be shown either as a separate statement of retained earnings, or as a combined statement of income and retained earnings, or as part of the statement of stockholders' equity (corresponding to the statement of changes in equity, under IFRSs), or as note disclosure. According to the *AICPA Accounting Trends & Techniques*, in 2002–2009 about 97–98% of U.S. companies surveyed used the statement of changes in equity to display changes in retained earnings. The remaining companies were equally scattered among the options of the statement of retained earnings, the combined statement of income and retained earnings, and note disclosure.[86]

[82] *FASB ASC 230-10-15-3 (FASB Statement No. 95, ¶ 3); FASB Statement No. 95, ¶¶ 152, 153.*
[83] *Accounting Principles Board Statement No. 4,* Basic Concepts and Accounting Principles Underlying Financial Statements in Business Enterprises *(superseded), ¶¶ 13, 191.*
[84] *CON 5, ¶¶ 13, 14.*
[85] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*
[86] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 5-1.*

Planning Point: The statement of retained earnings shows comparative periods in columns. Therefore, there is an easy and quick cross-reference between the opening and closing balances of retained earnings. Conversely, the use of a statement of changes in equity shows equity components in columns, including retained earnings. Therefore in order to display comparative information, an entity must compile one format of statement for each comparative period presented.

The statement of retained earnings is not one of the statements within the set of the basic financial statements under IFRSs. IAS 1 separately displays beginning and ending balances and changes in retained earnings in the statement of changes in equity, as for each of the other components of equity.[87]

Example: In its review of Form 20-F for the year ended December 31, 2005 of a Spanish foreign private issuer, the SEC Staff requested separate presentation, not simply within the heading "other reserves", of balances and changes in retained earnings in the statement of changes in equity.[88]

Comment: Under the pre-2007 revision of IAS 1, reconciling changes in retained earnings used to be part of either the statement of changes in equity or a note disclosure, if the entity presented a statement of recognized income and expenses.[89] SEC's Form 20-F adapted the presentation formats to IFRSs.[90]

Comment: In the United Kingdom, the "movements on reserves" is a tabular form in addition to the "reconciliation of movements in shareholders' funds", required by FRS 3, *Reporting Financial Performance*, a statement that reports the changes in components of equity. The two statements are somehow equivalent to the statement of changes in equity under IFRSs. Reverses typically include accounts such as share premium, revaluation reserve, and retained earnings.

6.4 THE STRUCTURE OF THE STATEMENT OF CHANGES IN EQUITY

6.4.1 Alternative Formats of SOCIE Under U.S. GAAP

Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160) and Subtopic 220-10 (FASB Statement No. 130) provide examples but do not mandate a specific format of the statement of changes in equity.[91] Exhibit 6-3 shows sample formats of such a statement in columnar and in rolling formats under U.S. GAAP.

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[87] *IAS 1, ¶¶ 106(d), 108.*
[88] *SEC IFRS Reviews. Letter by the SEC, September 20, 2006. File Nos 1-09531 and 1-15158, Comment 14.*
[89] *IAS 1, ¶ 97(b).*
[90] *Form 20-F, Part I, Item 8.A.1*
[91] *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22).*

Exhibit 6-3 Sample Formats of the Statement of Changes in Equity under U.S. GAAP

The following formats are adapted from FASB ASC 810-10-55-AL (ARB 51 ¶ A6, as amended by FASB Statement No. 160).

The Implementation Guidance does not show a column for total equity attributable to controlling interest. However, this appears necessary to present the reconciliation of total equity balances of controlling interest, as requested by FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160) unless they are presented in the notes.

The format in FASB ASC 810-10-55-AL (ARB 51, ¶ A6, as amended by FASB Statement No. 160) attributes each component of other comprehensive income to controlling and noncontrolling interests, as required by FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22). This Exhibit adds the allocation of total comprehensive income to controlling and noncontrolling interests, as required by FASB ASC 220-10-45-5 (FASB Statement No. 130, ¶ 14, as amended by FASB Statement No. 160). However, ASU 2011-05 supersedes FASB ASC 220-10-45-8, amends FASB ASC 220-10-45-5 and deletes column and row for comprehensive income and the details of other comprehensive income (FASB ASC 220-10-55-11, 810-10-55-4L). It also adds the presentation of the allocation of net income to controlling and noncontrolling interests. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

Layout 1:

The column for total equity shows net income (NI), other comprehensive income (OCI), and comprehensive income (CI) (prior to ASU 2011-05).

A separate column totalizes retained earnings.

			Controlling Interest						
	Total Equity	*Comprehensive Income (*)*	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Common Stock*	*Preferred Stock*	*Paid-In Capital*	*Total Equity Attributable to Controlling Interest*	*Noncontrolling Interest*
Beginning balance	x		x	x	x	x	x	x	x
Capital transactions	x			x	x	x	x	x	x
….									
Comprehensive income:									
Net income	**NI**	x →	x					x	x
Specific items other comprehensive income, net of tax (*)		x		x				x	x
….									
Total other comprehensive income, net of tax	**OCI** ←	x							
Total comprehensive income: (*)	**CI** ←	x						x	x
Dividends	x		x					x	
Ending balance	x		x	x	x	x	x	x	x
			↑ **RE**	↑ **AOCI**					

(*) ASU 2011-05 deletes column and row for comprehensive income and the details of other comprehensive income (FASB ASC 220-10-55-11, 810-10-55-4L). It also adds the presentation of the allocation of net income to controlling and noncontrolling interests. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

(*continued*)

A separate column adds net income and each item of other comprehensive income and reports comprehensive income (CI) (prior to ASU 2011-05).

A separate column sums each item of other comprehensive income (prior to ASU 2011-05) to beginning balance of accumulated other comprehensive income (AOCI) and reports the ending balance of AOCI.

Layout 2:

The column for total equity shows net income (NI), other comprehensive income (OCI), and comprehensive income (CI) (prior to ASU 2011-05).

A separate column totalizes retained earnings.

A separate column sums each item of other comprehensive income (prior to ASU 2011-05) to beginning balance of accumulated other comprehensive income (AOCI) and reports the ending balance of AOCI.

		Controlling Interest					*Total Equity Attributable to Controlling Interest*	*Noncontrolling Interest*
	Total Equity	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Common Stock*	*Preferred Stock*	*Paid-In Capital*		
Beginning balance	x	x	x	x	x	x	x	x
Capital transactions	x		x	x	x	x	x	x
….								
Comprehensive income:								
Net income	**NI**	x					x	x
Specific items other comprehensive income, net of tax (*)			x				x	x
….								
Total other comprehensive income, net of tax	**OCI**		x					
Total comprehensive income (*)	**CI**						x	x
Dividends	x	x					x	
Ending balance	x	x	x	x	x	x	x	x
		RE	**AOCI**					

(*) ASU 2011-05 deletes column and row for comprehensive income and the details of other comprehensive income (FASB ASC 220-10-55-11, 810-10-55-4L). It also adds the presentation of the allocation of net income to controlling and noncontrolling interests. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

(*continued*)

Exhibit 6-3 Sample Formats of the Statement of Changes in Equity under U.S. GAAP *(Continued)*

Layout 3:

The column for total equity shows comprehensive income (CI) only (prior to ASU 2011-05).

A separate column totalizes retained earnings.

A separate column adds net income to each item of other comprehensive income and reports comprehensive income (CI) (prior to ASU 2011-05).

A separate column sums each item of other comprehensive income (prior to ASU 2011-05) to beginning balance of accumulated other comprehensive income (AOCI) and reports the ending balance of AOCI.

			Controlling Interest						
	Total Equity	*Comprehensive Income (*)*	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Common Stock*	*Preferred Stock*	*Paid-In Capital*	*Total Equity Attributable to Controlling Interest*	*Noncontrolling Interest*
Beginning balance	x		x	x	x	x	x	x	x
Capital transactions	x			x	x	x	x	x	x
….									
Comprehensive income:									
Net income		**NI**	x					x	x
Specific items other comprehensive income, net of tax (*)		x		x				x	x
….									
Total other comprehensive income, net of tax		**OCI**							
Total comprehensive income (*)	**CI**	x						x	x
Dividends	x		x					x	
Ending balance	x		x	x	x	x	x	x	x
			RE	**AOCI**					

(*) ASU 2011-05 deletes column and row for comprehensive income and the details of other comprehensive income (FASB ASC 220-10-55-11, 810-10-55-4L). It also adds the presentation of the allocation of net income to controlling and noncontrolling interests. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

(*continued*)

Layout 4:

The column for total equity shows net income (NI), other comprehensive income (OCI), and comprehensive income (CI) (prior to ASU 2011-05).

A separate column totalizes retained earnings.

Separate columns refer to each component of other comprehensive income (prior to ASU 2011-05).

The statement of financial position reports ending balance of total accumulated other comprehensive income.

		Controlling Interest						
	Total Equity	*Retained Earnings*	*A Column for Each Other Comprehensive Income Item (*)*	*Common Stock*	*Preferred Stock*	*Paid-In Capital*	*Total Equity Attributable to Controlling Interest*	*Noncontrolling Interest*
Beginning balance	x	x	x	x	x	x	x	x
Capital transactions	x		x	x	x	x	x	x
….								
Comprehensive income:								
Net income	**NI**	x					x	x
Specific items of other comprehensive income, net of tax (*)	x		x				x	x
….								
Total other comprehensive income, net of tax	**OCI**							
Total comprehensive income (*)	**CI**						x	x
Dividends	x	x					x	
Ending balance	x	x	x	x	x	x	x	x
		RE						

(*) ASU 2011-05 deletes column and row for comprehensive income and the details of other comprehensive income (FASB ASC 220-10-55-11, 810-10-55-4L). It also adds the presentation of the allocation of net income to controlling and noncontrolling interests. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and ubsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.

(*continued*)

Exhibit 6-3 Sample Formats of the Statement of Changes in Equity under U.S. GAAP *(Continued)*

Rolling format:

Retained Earnings			
Beg balance	x		
Net income attributable to noncontrolling interest (*)	x	x	**NI**
Dividends	x		
End balance	x		
Accumulated Other Comprehensive Income			
Beg balance	x		
Specific item …. (*)		x	
Specific item …. (*)		x	
Other Comprehensive Income	x	x	**OCI**
Subtotal of Comprehensive Income (*)		x	**CI**
End balance	x **AOCI**		
Common Stock			
Beg Balance	x		
…	x		
End Balance	x		
Additional Paid-In Capital			
Beg Balance	x		
…	x		
End Balance	x		
Total Equity attributable to noncontrolling interest (*)	x		
Noncontrolling Interests (*)			
Beg Balance			
Net income attributable to noncontrolling interest			
OCI attributable to noncontrolling interest			
End balance			
Total Equity			

Elaborated based on Subtopic 220-10 (FASB Statement No. 130, Appendix B, as amended by FASB Statement No. 160).
(*) Starting from its effective date, ASU 2001-05 adds the presentation of the allocation of net income to controlling and noncontrolling interests, deletes the display of details of other comprehensive income, and deletes the presentation of comprehensive income.

Planning Point: Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160) does not propose the two types of columnar format of FASB Statement No. 130 unamended. The Exhibit presents four options in columnar formats that arise from a combination of the old and new formats, aligned to comply with the requirements of Subtopic 810-10 (ARB 51) and Subtopic 220-10 (FASB Statement No. 130), including those relating to allocation to noncontrolling and controlling interests (see Paragraph I.A.5 below). They differ as to the type of columns presented. They all have subtotal rows for other comprehensive income and comprehensive income. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, the statement of changes in equity shows lines for total net income and total other comprehensive income but does not show any row or column for comprehensive income.[92] By contrast, as explained in Paragraph I.A.3 below, the IFRS statement of changes in equity cannot have a subtotal for other comprehensive income. Nevertheless, although not shown in the Implementation Guidance of IAS 1, it might have a column for accumulated other comprehensive income.

6.4.2 The New Formats of SOCIE Under IFRSs and U.S. GAAP

The 2007 Revision of IAS 1 innovates the concept of the statement of changes in equity. The new format has certain new characteristics. Firstly, it has a single line for other comprehensive income versus the previous detailed format. Secondly, there is a new theoretical notion of retrospective accounting adjustments (see Paragraph I.A.4 below). Thirdly, the attribution of balances to controlling and noncontrolling interests is mandatory (Paragraph I.A.5 below). Finally, the 2007 Revision of IAS 1, the 2008 Revision of IAS 27, and finally the 2010 *Improvements* amended the display of transactions with owners (Paragraph I.A.6 below). The following paragraphs explain these features. Exhibit 6-4 illustrate a sample statement of changes in equity under IFRSs. In 2011, ASU 2011-05 innovates the format of the statement of changes in equity under U.S. GAAP.

The *Financial Statement Presentation Project* treats the statement of changes in equity differently from the other statements: as it focuses on equity only, it does not need the sections and categories common to the other statements.[93]

6.4.3 Prohibition on Reporting Details of Comprehensive Income

IFRSs prohibit the presentation of details of comprehensive income on the face of the statement of changes in equity, apart from what is strictly necessary to compute totals of rows and columns. The reason is that, in order to implement a working principle that the *Financial Statement Presentation Project* initially identified as the categorization principle, the statement of changes in equity cannot mix changes in equity from nonowner sources with transactions with owners in their capacity as owners.[94] Under the working principle of categorization, financial statements should separate transactions with owners in their capacity as owners

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[92] *FASB ASC 220-10-55-11, 220-10-55-12, 810-10-55-4L (ASU 2011-05).*
[93] *Staff Draft, ¶ BC77.*
[94] *IAS 1, ¶¶ IN2, IN6, IN13, BC37, BC49.*

Exhibit 6-4 Sample Format of the Statement of Changes in Equity under IFRSs

	Share Capital	*Retained Earnings*	*Translation Reserve*	*Revaluation Surplus*	. . . . . .	*Total Equity Attributable to Controlling Interest*	*Noncontrolling Interest*	*Total Equity*
Beginning Balance	x	x	x	x	x	x	x	x
Changes in Accounting Policy		x				x	x	x
Beginning Balance, as Restated	x	x	x	x	x	x	x	x
Capital transactions	x					x		x
. . . . .								
Dividends		x				x		x
Total comprehensive Income for the period		x	x	x	x	x	x	x
Tranfers of revaluation surplus to retained earnings		x		x				
Endins Balance	x	x	x	x	x	x	x	x

Elaborated based on IAS 1, Implementation Guidance.

from business, other financing, and other activities. Additionally, this permits a less congested statement of changes in equity.[95]

Comment: Hence, the statement of changes in equity under IFRSs is not a way of representing comprehensive income. By contrast, under U.S. GAAP, an entity that has other comprehensive income items must show net income as a component of comprehensive income, irrespective of whether it reports comprehensive income in the statement of comprehensive income, in the statement of income and comprehensive income, or in the statement of changes in equity. This is because any form of representation of comprehensive income must have the same prominence.[96]

Planning Point: Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, under ASU 2011-05 the statement of changes in equity is no longer an option to report comprehensive income. A statement of changes in equity under U.S. GAAP can no longer show details of other comprehensive income. However, unlike IAS 1, it must show a total for other comprehensive income. Unlike IAS 1, the examples shown in ASU 2011-05 do not display a total or a column for comprehensive income.[97]

The following discussion highlights how the presentation effects of this principle under IFRSs may be confusing to some users of financial statements. Hence, the necessity of clarifying footnotes to the statement of changes in equity itself arises.

Planning Point: The statement of changes in equity under IFRSs has no row for total other comprehensive income. It embeds other comprehensive income of the period into the single row of total comprehensive income. On the other hand, the statement must include columns for specific items of accumulated other comprehensive income, so as to report their beginning and ending balances. However, missing a row for other comprehensive income, the totalization column gives a figure for total comprehensive income, not total other comprehensive income or total accumulated other comprehensive income.

Planning Point: This may produce somehow misleading presentation effects. For example, the Implementation Guidance of IAS 1 shows a row for total comprehensive income that crosses a column for retained earnings. Of course, profit or loss for the period attributable to owners of the parent determines a change in retained earnings, and it falls at the intersection of the total comprehensive income row and retained earnings column. However, here the statement cannot make the transfer

[95] *IASB,* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements*, ¶ BC18 (March 2006); IASB, July 21, 2006. Financial Statement Presentation, Agenda Paper 17,* Application of Working Principles*, ¶ 50. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007]; IASB, December 14, 2006. Agenda Paper 14,* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 44. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007]; IASB, January 25, 2007. Financial Statement Presentation Project, Agenda Paper 13D,* Statement of Changes in Equity and Other Equity-Related Issues*, ¶¶ 5, 14, 22. [Online] IASB. Available at:* www.iasb.org *[last accessed June 21, 2007].*

[96] *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22) .*

[97] *FASB ASC 220-10-55-11, 220-10-55-12, 810-10-55-4L (ASU 2011-05).*

from profit or loss to retained earnings explicit, as certain jurisdictional legal requirements mandate. Moreover, other factors may contribute to the reported figure. The example in IAS 1, valid under pre-2011 IAS 19, illustrates an amount that includes actuarial gains or losses on defined benefit plans, net of tax attributable to owners of the parent, after their transfer from other comprehensive income to retained earnings. This layout of the statement of changes in equity would not be understandable without footnotes to the statement of changes in equity itself. The 2011 revision of IAS 19 prohibited this treatment in defined benefit plans.

Planning Point: IAS 1 introduces a separate row of the statement of changes in equity for the subsequent transfer of revaluation surplus to retained earnings, as the Implementation Guidance of the Standard shows. Again, the lack of a summation of total comprehensive income after that transfer is clearly observable.

Planning Point: Must a company, prior to the 2011 revision of IAS 19, show a transfer of gains or losses on defined benefit plans to retained earnings as other comprehensive income or as retained earnings? In the statement of comprehensive income, IAS 1 shows the gain or loss as other comprehensive income. IAS 1 shows retained earnings in the statement of financial position, because this transfer is immediate and no ending balance of a separate actuarial gain or loss component exists within equity. The statement of changes in equity reflects this compromise of a flow without a stock: it embeds this transfer at the intersection of the comprehensive income row and retained earnings. It does not display the transfer separately in the statement of changes in equity, as it does in the case of a transfer of revaluation surplus.[98]

Paragraph I.A.6 below explains the reconciliation of equity balances that an entity must show in the statement of changes in equity. In May 2010, the Annual Improvements amendments to IAS 1 permitted an entity either to present the analysis of each item of other comprehensive income in the statement of changes in equity or to disclose it in the notes. Nonetheless, the company must present the changes in equity resulting from total other comprehensive income on the face of the statement.[99]

Comment: In effect, this reflects what the Implementation Guidance of IAS 1 already suggested. There was a perceived inconsistency between the requirement to detail all changes in each class of accumulated other comprehensive income and the general principle that the statement of changes in equity must not present non-owner changes in equity. This results in a compromise, that is, a single row for total comprehensive income but explanations of changes in the footnotes to the statement. In practice, given all the constraints, footnotes are the only option available.

Comment: IAS 26 includes certain income and expense items in the statement of changes in net assets available for benefits of employee benefit plans. In fact, this statement has a dual role of income statement and statement of changes in equity.

[98] *IAS 1, ¶ IG, Part I.*

[99] Improvements to IFRSs, Amendments to IAS 1 Presentation of Financial Statements, *¶¶ 106, 106A (May 2010); IASB Update, page 4 (February 2009).*

The *Financial Statement Presentation Project* would substantially duplicate the IAS 1 approach of the statement of changes in equity. Under the latest proposed approach for reporting comprehensive income, the statement of changes in equity would no longer display reclassification adjustments of other comprehensive income. Only the statement of comprehensive income would present reclassification adjustments. However, the illustration in the Staff Draft shows a statement that shows net income, other comprehensive income, and comprehensive income.[100]

6.4.4 Retrospective Accounting Adjustments

Under IAS 1, the statement of changes in equity must show the effect of changes in accounting policy and correction of errors (accounted for by a retrospective approach under IAS 8) as reconciling items of opening balances.[101] The statement of comprehensive income cannot show these adjustments, because IAS 1 regards them as not arising from changes in net assets during the period and therefore not being part of comprehensive income. Conversely, the pre-2007 version of IAS 1 included this in the previously existing statement of recognized income and expense or in the statement of changes in equity.[102]

> **Comment:** The standard clarifies this point in reply to some comment letters to the Exposure Draft of the amendments to IAS 1.[103] These are neither transactions with owners acting in their capacity as owners, or components of profit or loss, or components of other comprehensive income. However, the IASB did not consider it necessary to remove the inconsistency in the definition of total comprehensive income, which does not explicitly exclude such adjustments.[104] For the first time, a distinction is made between other comprehensive income and other items that are credited or charged directly to equity.[105]

U.S. GAAP generally accounts for cumulative effects of changes in accounting principles and corrections of errors retroactively.[106] It does not report retroactively accounted prior period adjustments in comprehensive income for the period as, in effect, they recast comprehensive income of prior periods.[107] Instead, CON 5 classifies a change in accounting principle as being part of net income but not of earnings, while prior period adjustments, such as corrections of errors, are outside both.[108] CON 5 and FASB Statement No. 130 consider cumulative

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[100] *Staff Draft, ¶¶ 201, BC199, Example 10.*
[101] *IAS 1, ¶ 106(b).*
[102] *IAS 1 (2005) (superseded), ¶ 96.*
[103] *IASB, Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 53. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*
[104] *IAS 1, ¶ 7; IASB Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis*, ¶ 55. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*
[105] *IAS 1, ¶¶ 106, 109–110, BC74, Implementation Guidance.*
[106] *FASB Statement No. 16,* Prior Period Adjustments*, ¶ 11; FASB Statement No. 130, ¶ 106; FASB ASC 250-10-45-5, 250-10-45-23 (FASB Statement No. 154,* Accounting Changes and Error Corrections*, ¶¶ 7, 25); FASB ASC 250-10-45-24, 250-10-50-9 (APB 9, ¶¶ 18, 26).*
[107] *FASB Statement No. 130, ¶¶ 106.*
[108] *CON 5, ¶¶ 34, 42.*

accounting adjustments (which, prior to FASB Statement No. 154 – Section 250-10-45, U.S. GAAP used to report in the income statement under the "current method") as part of comprehensive income, as they meet the definition of comprehensive income under the U.S. Concepts.[109]

Comment: Arguably, here a different way of accounting (by a retroactive approach or by the catch-up method) for like transactions or events determines a different scope of an element of the financial statements, i.e., comprehensive income, by the simple fact that focus shifts from the period of occurrence of the original transaction to the period of reporting of the adjustment.

Example: A French private issuer replied to the SEC, in the context of its review of Form 20-F for the fiscal year ended December 31, 2005 containing financial statements prepared for the first time based on IFRSs. The company applied the treatment under FASB Statement No. 130 (based on which prior period adjustments affecting other comprehensive income must not be displayed in comprehensive income for the period as they recast the comprehensive income of prior periods) to the IFRS financial report.[110] At the time of these letters, the IASB had not yet issued the 2007 Revision of IAS 1.

IAS 1 explains that the effects of retrospective application or retrospective restatement are visible in the statement of changes in equity in accordance with IAS 8.[111] The interlocking between IAS 1 and IAS 8 creates some inconsistencies, though.

Planning Point: As Paragraph I.A.3 above mentions, under IFRSs the statement of changes in equity has no line for profit or loss or its restatement. Instead, it simply reports a line for changes in accounting policy and a line for total comprehensive income of the year, as illustrated by the Implementation Guidance of IAS 1. However, this is inconsistent with Example No. 1 for a correction of errors and the former Example No. 2 for a change in accounting policy (now deleted) of the Implementation Guidance of IAS 8. IAS 8 shows a restatement of profit or loss, not simply of the respective beginning balances of retained earnings. It shows the original opening balance and the restatement of retained earnings only for the beginning of the first period presented. By contrast, illustration No. 1 of Section 250-10 (FASB Statement No. 154) details beginning and ending balances and respective adjustments for all lines of affected financial statements, with columns for unrestated, restated amounts and effect of changes, for both the current and the prior period.

Comment: Finally, IAS 8 illustrates the presentation of a change in accounting policy with retrospective application in a statement of changes in equity as part of the basic financial statements. By contrast, Illustration No. 1 of Section 250-10 (FASB Statement No. 154) shows unrestated amounts, restated amounts, and effect of changes in the statement of financial position, income statement, and statement of cash flows (but not the statement of changes in equity) as part of the notes. In effect, both pronouncements require the "adjustment" of accounts and certain note disclosures but are not clear about specific presentation or disclosure formats.

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[109] *FASB Statement No. 130, ¶ 79; CON 5, ¶ 39.*
[110] *SEC IFRS Reviews. Letters by the SEC, September 7, 2006. File No. 1-15234, Comment 36. Reply by the company, November 24, 2006.*
[111] *IAS 1, ¶ 106(b).*

Exhibit 6-5 Retroactive Restatement for Correction of Errors

Correction of Errors under U.S. GAAP		*Current year*
Beginning retained earnings, as previously reported		x
Correction of errors . . . in prior periods, net of tax (see note . . .)		(1+2)
Adjusted beginning retained earnings, as restated		
Net income		(3)
Ending retained earnings		
Comparative Statements	*Current Year*	*Year −1 restated*
Beginning retained earnings, as previously reported		x
Correction of errors . . . in prior periods, net of tax (see note . . .)		(1)
Adjusted beginning retained earnings, as restated	x	
Net income	(3)	(2)
Ending retained earnings		x

(1) Pre-year-1 cumulative effect of correction.
(2) Restated for current year impact of correction.
(3) Technically there is no correction, as result includes the impact of correction for the current year.

Correction of Errors under IAS 8

	Share capital	*Retained Earnings*	*Total*
Balance as of end of year Y-2			
Profit or loss for the year Y-l, as restated			
Balance as of end of year Y-l (*)			
Profit or loss for the year Y			
Balance as of end of year Y			

(*) The Example 1 of the Guidance on Implementing IAS 8 shows the restated balance of retained earnings, without reporting the original opening balance and the restatement.

Exhibit 6-5 and Exhibit 6-6 illustrate presentation formats of retroactive restatement for correction of errors and retrospective application of a change in accounting principle under U.S. GAAP and IFRSs. Paragraph I.A.14 above expands on cumulative effect of a change in accounting policy.

6.4.5 Attribution to Controlling and Noncontrolling Interests

Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160) requires that an entity that presents a consolidated statement of changes in equity displays a reconciliation of beginning and ending total equity balances, as well as those attributable to the owners of the parent company and to noncontrolling interest. As its illustrative example shows, such an allocation must separately reconcile net income, each item of other comprehensive income, and transactions with owners, and distinguish their contributions and distributions, respectively. An entity that does not use that statement must give all such information in the notes.[112] Subsection 958-810-50-4 (FASB Statement No. 164) replicates these provisions for the statement of changes in net assets or in the notes of not-for-profit entities.[113]

[112] *FASB ASC 810-10-50-1A, 810-10-55-AL (ARB 51, ¶¶ 38(c), A6, as amended by FASB Statement No. 160).*

[113] *FASB ASC 958-810-50-4 (FASB Statement No. 164,* Not-for-Profit Entities: Mergers and Acquisitions*, ¶ B3).*

Exhibit 6-6 Retrospective Application of Changes in Accounting Principles

Statement of Changes in Equity under IAS 8 (based on Example 2 – superseded)

	Share capital	*RE*	*Total*
Balance at Y-2 as previously reported			
Change in accounting policy of . . . (net of income taxes of . . .)			
Balance at Y-2 as restated			
Net profit for Y-l restated			
Balance at Y-l (*)			
Net profit for Y			
Balance at Y			

(*) The balance in retained earnings is also restated without showing the original opening balance and the restatement.

Income statement

	Year	*Y-l (restated)*
Sales		
Costs		
. . .		
Net profit		

Example under Section 250-10-45 (FASB Statement No. 154), (based on Appendix A, Illustration 1)

Current period (*)	*As computed under prior principle*	*As reported under new principle*	*Effect of change*
Item . . .			
. . .			

Prior period	(*) *As originally reported*	*As adjusted*	*Effect of change*
Item			
. . .			

(*) The notes report such comparison for balance sheet, income statement and statement of cash flows.

Planning Point: Subtopic 810-10 (ARB 51, as amended) does not require the attribution of each item of other comprehensive income to controlling and noncontrolling interests in the statement of changes in equity. However, Subsection 220-10-45-8 (FASB Statement No. 130, as amended) does.[114] In any event, virtually every possible format of the statement is likely to reach this outcome for all equity items (including capital accounts) in order to show the allocation of equity balances. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, ASU 2011-05 supersedes FASB ASC 220-10-45-8. ASU 2011-05 shows the attribution of only net income and the total of other comprehensive income to noncontrolling interests on the face of the statement of changes in equity. It deletes column and row for comprehensive income and the details of other comprehensive income.[115]

[114] *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22, as amended by FASB Statement No. 160).*
[115] *FASB ASC 220-10-45-8 superseded, 220-10-55-11, 220-10-55-12, 810-10-55-4L as amended by ASU 2011-05.*

Subsection 220-10-45-5 (FASB Statement No. 130, as amended by FASB Statement No. 160) requires the display of comprehensive income attributed to controlling and noncontrolling interests on the face of the statement that presents comprehensive income. In other terms, this provision may also affect the statement of changes in equity.[116] ASU 2011-05 amends it to include the attribution of net income. However, the statement of changes in equity can no longer present comprehensive income.

Comment: Prior to ASU 2011-05, Subtopic 220-10 (FASB Statement No. 130) considers this as a direct application of Subsection 810-10-50-1A (Paragraph 38(a) of ARB 51), which however refers to the financial statements in general. Its Implementation Guidance cross-references the statement of comprehensive income, not the statement of changes in equity.[117] The fact that Subtopic 220-10 (FASB Statement No. 130) does not refer to Paragraph 38(c) of ARB 51 (which allows equity reconciliation in the notes) might lead to conclude that note disclosure is not an option. In fact, an entity cannot simply disclose comprehensive income in the note. On the other hand, an entity that has no item of other comprehensive income would be able to disclose equity reconciliation in the notes.[118]

Planning Point: The example in Subtopic 810-10 (ARB 51) does not show a column for total equity attributable to controlling interest. However, this appears necessary to present the mandatory reconciliation of total equity balances of controlling interest.[119] The format in the example attributes each component of other comprehensive income to controlling and noncontrolling interests, as required by Subsection 220-10-45-8 (Paragraph 22 of FASB Statement No. 130). However, it does not show the allocation of total comprehensive income to controlling and noncontrolling interests, as required by Subsection 220-10-45-5 (Paragraph 14 of FASB Statement No. 130). However, ASU 2011-05 supersedes FASB ASC 220-10-45-8 and deletes column and row for comprehensive income and the details of other comprehensive income.

Planning Point: Subtopic 810-10 (ARB 51) requires the attribution of net income to controlling and noncontrolling interests in the financial statements. Its Implementation Guidance shows this allocation in the income statement, but not in the statement of comprehensive income.[120] Arguably, a combined statement of income and comprehensive income should also show this allocation. Consequently, an entity that has no item of other comprehensive income will be able to present such an analysis in the income statement. Even so, it must also report equity reconciliation either in the statement of changes in equity or in the notes.[121] An entity that does have items of other comprehensive income will be able to present this analysis in the combined statement of income and comprehensive income and the equity reconciliation either in the statement of changes in equity or in the notes. Alternatively, it could present a statement of comprehensive income, while showing the attribution of net income

[116] *FASB ASC 220-10-45-5 (FASB Statement No. 130, ¶ 14, as amended by FASB Statement No. 160, ¶ C9).*
[117] *FASB ASC 810-10-55-AK (ARB 51, ¶ A5, as amended by FASB Statement No. 160).*
[118] *FASB ASC 220-10-45-6 (FASB Statement No. 130, ¶ 15); FASB Statement No. 130, ¶ 65.*
[119] *FASB ASC 810-10-50-1A, 810-10-55-AL (ARB 51, ¶¶ 38(c), A6, as amended by FASB Statement No. 160).*
[120] *FASB ASC 810-10-50-1A, 810-10-55-AJ (ARB 51, ¶¶ 38(a), A4, as amended by FASB Statement No. 160).*
[121] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160).*

to controlling and noncontrolling interests in the statement of changes in equity as part of equity reconciliation. As mentioned, after ASU 2011-05, an entity cannot present comprehensive income in the statement of changes in equity.

Planning Point: Unlike Subtopic 810-10 (ARB 51), Subsection 210-10-S99-1 (Rule 3-04 of Regulation S-X) specifically requires an analysis of changes in noncontrolling interests, not in controlling interests. Of course, changes in controlling interests arise from deducting changes in noncontrolling interests from changes in equity. However, in practice this may translate into a different formatting of the statement of changes in equity.

Comment: Unlike Subtopic 810-10 (ARB 51) and Subtopic 220-10 (FASB Statement No. 130), Subsection 210-10-S99-1 (Rule 3-04) refers to changes in noncontrolling interest balances from the perspective of the statement of financial position, not from that of net income or comprehensive income. Consequently, the reconciliation comprises all items that affect such balances.

Subsection 210-10-S99-1 (Rule 3-04) now requires an analysis of changes of each caption of stockholders' equity, no longer other stockholders' equity only. Under Subsection 210-10-S99-1 (Regulation S-X), other stockholders' equity includes additional paid-in capital, other paid-in capital accounts, and retained earnings.[122] Regulation S-X does not require a reconciliation of total equity balances, because Subsection 480-10-S99-1 (CFRR 211) prohibits SEC registrants that have redeemable preferred stock to use a stockholders' equity heading inclusive of redeemable preferred stock.[123] The SEC Staff identified two methods for SEC registrants to comply with this rule and at the same time effect the equity reconciliation required by Subtopic 810-10 (ARB 51) and Subsection 210-10-S99-1 (Rule 3-04). A separate column for redeemable preferred stock in the equity reconciliation should not add up to total equity. A row or supplemental table can show the allocation of net income to controlling interests, nonredeemable noncontrolling interests, and redeemable noncontrolling interests. Alternatively, if the equity reconciliation excludes redeemable preferred stock, a supplemental table would reconcile beginning and ending balances of redeemable noncontrolling interests. Net income would parenthetically explain the portion allocated to redeemable noncontrolling interests.[124]

In the year of adoption of FASB Statement No. 160 an entity must disclose pro forma consolidated net income attributable to the parent and pro forma earnings per share as computed previously under ARB 51 unamended, if significantly different.[125] Nonregistered investment

[122] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.30).*

[123] *FASB ASC 480-10-S99-1 (Codification of Financial Reporting Release, CFRR 211,* Redeemable Preferred Stock, *¶¶ 1, 3).*

[124] *AICPA, SEC Regulations Committee, 2009.* Joint Meeting with SEC Staff, June 23, 2009. *Washington, DC, AICPA, ¶ V.B. [Online] AICPA. Available at: www.aicpa.org [last accessed July 9, 2010] (hereinafter SEC Regulations Committee, June 23, 2009).*

[125] *FASB ASC 810-10-65-1 (FASB Statement No. 160, ¶¶ 6); ARB 51, ¶ B74.*

partnerships that report capital by investor class must include cumulative unrealized gains and losses into the ending balances of each class of shareholders' or partners' interest in that entity at the balance sheet date, as if net assets were realized and distributed based on the partnership's governing documents.[126]

IAS 1 simply requires the display of total comprehensive income attributable to controlling and noncontrolling interests on the face of the statement of changes in equity. It does not require the attribution of other equity balances in this statement to controlling and noncontrolling interests, although the Implementation Guidance shows it.[127]

Planning Point: IAS 27 generically adds a requirement for the attribution of profit or loss and each component of other comprehensive income to controlling and noncontrolling interests, but does not state in which statement.[128] IFRS 10 adds that the entities must also allocate each item of other comprehensive income.[129] Of course, because of the prohibition explained in Paragraph I.A.3 above, an entity cannot show profit or loss and other comprehensive income in the statement of changes in equity, although it must show the components of accumulated other comprehensive income in that statement. The Implementation Guidance of IAS 1 also shows the attribution of profit or loss to controlling and noncontrolling interests on the face of both the income statement and the statement of comprehensive income. Instead, it does not show the attribution of each component of other comprehensive income, but only of total comprehensive income. Arguably, the requirement in IAS 27 refers to consolidation procedures rather than statement presentation. Conversely, 810-10 (ARB 51, as amended) shows the attribution of net income only in the income statement and the attribution of only comprehensive income in the statement of income and comprehensive income.[130] The 2011 Amendments to IAS 1 and ASU 2011-05 allocate both profit or loss (net income) and comprehensive income in the statement of comprehensive income (under IFRSs, renamed as the statement of profit or loss and other comprehensive income).[131]

Planning Point: In a columnar format, the allocation of equity components to controlling interest may occur in two ways: 1) showing columns with the full amounts of each component of equity, and one column for noncontrolling interest; and 2) directly showing only the portion of each component of equity allocated to controlling interest and one column for noncontrolling interest. Both the methods permit showing the allocation of total equity balances to noncontrolling interest. The first approach is theoretically more correct: as noncontrolling interests are part of equity, the statement should represent each equity component entirely, and then its allocation. However, only the second layout shows the allocation to controlling interest, as requested by Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160). Under the former method, the allocation to controlling interests is by difference. In reality, the example in Subtopic 810-10 (ARB 51) does not show a column for

[126] *AICPA, TIS Section 6910,* Investment Companies, *¶ 29.*
[127] *IAS 1, ¶¶ 106(a), 106(d), BC59, IG6.*
[128] *IAS 27 (2010),* Consolidated and Separate Financial Statements, *¶ 28.*
[129] *IFRS 10, ¶ B94.*
[130] *FASB ASC 810-10-55-AJ, 810-10-55-AK (ARB 51, ¶¶ A4, A5, as amended by FASB Statement No. 160).*
[131] *FASB ASC 220-10-45-5, 220-10-55-8, 220-10-55-9, as amended by ASU 2011-05; Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income, *¶¶ IG5, IG5A.*

total equity attributable to controlling interest, as the pronouncement requires. It is worth comparing the formats of the statement of changes in equity in FASB Statement No. 130 before and after the amendments by FASB Statement No. 160 and in IAS 1 before and after the amendments by its 2007 Revision. The example in Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160) among other columns shows one for total equity and one for the total comprehensive income. It notes that the latter is optional as it is already part of total equity. It details the attribution to controlling interest in several columns, while it collects all amounts relating to noncontrolling interests in a single column. Of course, retained earnings are an account entirely attributable to controlling interest. Interestingly, while comprehensive income is subject to allocation to controlling and noncontrolling interests, this layout displays all other equity components including accumulated other comprehensive income as fully accruing to controlling interest only, as the part allocable to noncontrolling interests is already part of the single column. In other words, this follows the second layout mentioned above. This type of format is similar to the one that IAS 1 (2005) used. The current version of IAS 1 is similar, except that it adds a column for total equity attributable to controlling interest.

IAS 32 requires liability classification of noncontrolling interests of certain puttable financial instruments and other instruments classified as equity, typically used by certain investment funds.[132]

Paragraph I.A.6 below expands on the effects of other balances and transactions on the allocation to controlling and noncontrolling interests.

6.4.6 Reconciling Balances

As mentioned in Paragraph I.A.5 above, under U.S. GAAP, a parent with one or more less-than-wholly-owned subsidiaries must disclose a reconciliation of beginning and ending balances of total equity and its allocation to controlling and noncontrolling interests either in the consolidated statement of changes in equity or in the notes. Net income, other comprehensive income, contributions from and distributions to owners, and other capital transactions warrant separate presentation.[133] Subsection 958-810-50-5 (FASB Statement No. 164) replicates these provisions for the statement of changes in net assets of not-for-profit entities.[134]

Subsection 505-10-S99-1 (Regulation S-X) requires the analysis of changes of each caption of stockholders' equity and noncontrolling interests either in the form of a separate reconciling statement of the beginning and ending balances, or in the notes. In particular, it requires separate display of contributions from and distributions to owners, retrospective adjustment to retained earnings or other equity components, and aggregate and per share amount of dividends for each class of share.[135]

IAS 1 requires the display of beginning and ending balances of each component of equity on the face of the statement of changes in equity.[136]

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[132] *IAS 32, ¶ AG29A.*
[133] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160).*
[134] *FASB ASC 958-810-50-5 (FASB Statement No. 164, ¶ B4).*
[135] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*
[136] *IAS 1, ¶ 106(d).*

Comment: Unlike IFRSs, U.S. GAAP allows note disclosure as an option. One reason for permitting note disclosure is that a private company is not obligated to present the statement of changes in equity.[137]

Planning Point: The wording of IAS 1 literally calls for showing the change in equity balances arising from profit or loss, other comprehensive income, and transactions with owners, not these items per se. The illustration of changes in balances with an explanation in footnotes is in effect a means to reach the disclosure objective without violating the prohibition to show details of comprehensive income (see Paragraph I.A.3 above). Conversely, the wording of Subtopic 810-10 (ARB 51) requires showing net income, each component of other comprehensive income, and transactions with owners. The Implementation Guidance shows these differences.

Planning Point: In the context of reconciliation of total equity balances, Subtopic 810-10 (ARB 51) requires either display of net income in the statement of changes in equity or disclosure in the notes.[138] In the context of reporting comprehensive income, Subsection 220-10-45-8 (FASB Statement No. 130) requires separate display of net income in one of the statements allowed to report comprehensive income.[139] Therefore, an entity that elects not to use the statement of changes in equity and has no item of other comprehensive income would be able to report net income in the income statement and simply disclose it in the note as part of the reconciliation of total equity. From the effective date of ASU 2011-05, Subsection 220-10-45-8 is superseded and the statement of changes in equity is no longer an option to report other comprehensive income and comprehensive income.

As part of the equity reconciliation, the 2007 revision of IAS 1 required a separate presentation in the statement of changes in equity of contributions by, and distributions to, owners (as opposed to the requirement of the previous revision of the standard to separately disclose distributions to owners, either on that statement or in the notes).[140] The 2008 Revision of IAS 27, effective for annual periods beginning on or after July 1, 2009, amended IAS 1 to require separate indication of changes from transactions with owners, including contributions, distributions, and changes in ownership interests in subsidiaries that do not result in a loss of control.[141] In May 2010, the Annual Improvements amendments to IAS 1 permitted an entity either to present the analysis of each item of other comprehensive income in the statement of changes in equity or to disclose it in the notes. Nonetheless, the company must present the changes in equity resulting from total other comprehensive income on the face of the statement.[142] In effect, this reflects what the Implementation Guidance of IAS 1 already suggested. The Exposure Draft on hedge accounting proposes to enrich the IAS 1 reconciliation of accumulated other comprehensive income in the statement of changes in equity or in the

[137] *FASB ASC 505-10-50-2 (APB 12, ¶ 10); FASB ASC 810-10-55-AL (ARB 51, ¶ A6, as amended by FASB Statement No. 160); ARB 51, ¶ B66.*

[138] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c) as amended by FASB Statement No. 160).*

[139] *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22), then superseded by ASU 2011-05.*

[140] *IAS 1, ¶ 106(c); IAS 1 (Revised 2005), ¶ 97(a).*

[141] *IAS 27 (2010), ¶ A4.*

[142] Improvements to IFRSs, Amendments to IAS 1 Presentation of Financial Statements*, ¶¶ 106, 106A (May 2010); IASB Update, February 2009.*

notes, in order to highlight the effects of hedge accounting on equity and the statement of comprehensive income. Such disclosure would comprise information on amounts arising from changes in the value of hedging instruments, reclassification of hedging gains or losses in net position hedges, reclassification adjustments in cash flow hedges, and the amounts related to time value of options that hedge transaction related hedged items and time period related hedged items. The Exposure Draft would also require additional information in tabular format of the effects of hedge accounting segregated by hedge type.[143]

Subtopic 810-10 (ARB 51) requires a separate schedule in the notes to the consolidated statements to explain how changes in a parent's ownership interest in subsidiaries affect the equity attributable to the parent.[144] To converge with U.S. GAAP, IAS 27 proposes a similar requirement when there is no loss of control of the subsidiary. IFRS 12 confirms such a schedule.[145] Subsection 505-10-S99-1 (Regulation S-X) also requires a separate schedule in the notes about the impact of changes in interest in a subsidiary on the registrant's equity.[146]

Planning Point: IAS 27 limits this schedule to interests in subsidiaries without loss of control. Therefore, it excludes a deconsolidation: separate note disclosures already include information on loss of control.[147] Subtopic 810-10 (ARB 51, as amended by FASB Statement No. 160), has no such restriction in wording, although it also requires separate note disclosures on loss of control.[148] Unlike Subtopic 810-10 (ARB 51, as amended) IAS 1 includes changes in interest in subsidiaries with no loss of control on the face of the statement of changes in equity. It refers to changes in ownership interests in subsidiaries, while Subtopic 810-10 (ARB 51) mentions changes in a parent's ownership interests in subsidiaries. Unlike IAS 27, IAS 1 represents the effects on total equity, not only equity attributable to the parent.

Comment: The *Financial Statement Presentation Project* had noted that the current statement of changes in equity does not provide information about changes between ownership interests (which would require a detailed display of equity instruments).[149]

Planning Point: Some local GAAP require reconciliation between net income and shareholders' equity in a parent's separate financial statements and those in consolidated financial statements. For example, Italian accounting standards require this statement in the notes to the consolidated financial statements.[150] The Italian Consob requires listed parent companies to include such a statement in

[143] *Exposure Draft,* Hedge Accounting, *¶¶ IN41, 51, 52, BC201, BC203 (December 2010).*

[144] *FASB ASC 810-10-50-1A, 810-10-55-AM (ARB 51, ¶¶ 38(d), A7, as amended by FASB Statement No. 160).*

[145] *IFRS 12, Disclosure of Interests in Other Entities, ¶ 18.*

[146] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[147] *IAS 27 (2010), ¶¶ 41(e), 41(f), BC68-BC71.*

[148] *FASB ASC 810-10-50-1B (ARB 51, ¶ 39, as amended by FASB Statement No. 160).*

[149] *IASB, January 25, 2007. Financial Statement Presentation Project, Agenda Paper 13D,* Statement of Changes in Equity and Other Equity-Related Issues*, ¶¶ 33. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

[150] *OIC – Organismo Italiano di Contabilità, Principio Contabile No. 17,* Il Bilancio Consolidato, *¶ 8.4.*

the management commentary to the consolidated financial statements.[151] IFRSs and U.S. GAAP do not require such a statement. This is unfortunate, as it results in being quite informative and a valid consolidation control tool.

Example: In response to the review of Form 20-F of an Italian foreign private issuer for the year ended December 31, 2005, the company explained to the SEC Staff that this form is required by Italian Standards.[152]

6.4.7 Reconciled versus Unreconciled Formats

Paragraph I.A.1 above illustrates the statement of changes in equity in the context of reporting comprehensive income. U.S. GAAP adopts reconciled formats of the three statements mentioned, i.e., the statement of comprehensive income, the statement of income and comprehensive income, and the statement of changes in equity. U.S. GAAP calls these layouts "reconciled formats", because comprehensive income is reconciled to net income through other comprehensive income. In order to have a reconciled format, the statement of changes in equity must permit the totalization of net income and other comprehensive income to arrive at comprehensive income.[153]

Planning Point: The statement of changes in equity in IAS 1 is not a "reconciled statement": entities must not display net income in such a statement. The 2008 amendments by IAS 27 do not result in a "reconciled statement", because they introduced the display of the impact of net income and other comprehensive income on each component of equity in the footnotes to the statement. From its effective date, ASU 2011-05 no longer permits the presentation of comprehensive income on the face of the statement of changes in equity, which therefore loses its characteristic of reconciled format under U.S. GAAP.

Comment: Some commenters have criticized the statement of changes in equity for not presenting other comprehensive income with the same prominence as net income in a statement of performance.[154] However, the innovation is that IAS 1 does not intend this as a statement of performance.

6.4.8 Reclassification Adjustments

As regards IFRSs, recycling and reclassification adjustments concern the statements of income (Paragraph I.A.16 above), because of the prohibition on presenting other comprehensive income in the statement of changes in equity (see Paragraph I.A.3 above). This paragraph mentions this topic simply because U.S. GAAP permits the presentation of reclassification adjustments in the statement of changes in equity. This paragraph limits itself to the explanation of the gross versus net presentation of reclassification adjustments.

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[151] *Consob, July 2006. DEM/6064293.*
[152] *SEC IFRS Reviews. Letter by the SEC, September 28, 2006. File No. 001-14090, Comment 23. Reply by the company, October 28, 2006.*
[153] *FASB Statement No. 130, ¶¶ 98–99.*
[154] *FASB Statement No. 130, Dissenting Opinions.*

Planning Point: Under the FASB new approach for reporting comprehensive income, the statement of changes in equity cannot any longer display other comprehensive income (as previously was under U.S. GAAP). In this respect, it converges with IAS 1. However, unlike IAS 1, ASU 2011-05 requires the presentation of the effects of reclassification adjustments both in net income and other comprehensive income. In effect, this prohibits net presentation of reclassification adjustments. ASU 2011-05 is effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities.[155]

A reclassification adjustment avoids double hitting comprehensive income, once as other comprehensive income in the current or prior periods, a second time as net income when other comprehensive income is recycled to the income statement. For example, this happens in case of the disposal of available-for-sale securities (under IFRSs, prior to IFRS 9) or of a foreign operation, or when the hedged forecast cash flows in a cash flow hedge affect profit or loss.[156] Therefore the accounting entry will debit a loss (or credit a gain) in net income and credit (or debit) a "reclassification adjustment" in other comprehensive income. Recently, IAS 1 converged to Subtopic 220-10 (FASB Statement No. 130) in using the expression *reclassification adjustment*.[157] Under IFRSs, reclassification adjustments do not apply to other comprehensive income items that an entity transfers or may transfer directly to retained earnings, such as certain actuarial gains or losses of employee defined benefit plans prior to the 2011 revision of IAS 19 and revaluation surplus.

The 2005 Revision of IAS 1 did not require general disclosure of recycling. However, IAS 32[158] and IFRS 7 (prior to amendments by IFRS 9) used to prescribe separate disclosure on the face of the financial statements (now on the face of the statement of comprehensive income) or in the notes of the current period reclassification adjustments of available-for-sale financial assets and of cash flow hedges (the latter only in the notes).[159] IAS 1 currently requires either gross or net presentation of reclassification adjustments in the statement of comprehensive income.[160]

IFRSs and U.S. GAAP (prior to ASU 2011-05) permit either separate lines for reclassification adjustments in the financial statement that shows comprehensive income or their combination with current-period change in the specific other comprehensive income item, with disclosure in the notes.

Comment: U.S. GAAP refers to the former as "gross display", and IFRSs as "gross presentation". U.S. GAAP calls the latter "net display", and IFRSs "net presentation" or "aggregated presentation".[161]

[155] *FASB ASC 220-10-45-8 superseded, 220-10-45-17 (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8, BC6).*
[156] *FASB ASC 220-10-45-15 (FASB Statement No. 130, ¶ 18); IAS 1, ¶¶ 93, 95.*
[157] *FASB 220-10-20 (FASB Statement No. 130, ¶ 18); IAS 1, ¶ 7.*
[158] *IAS 32 (Revised 2003), ¶ 94(h).*
[159] *IFRS 7,* Financial Instruments: Disclosures*, ¶¶ 20(a)(ii) (deleted by IFRS 9, Financial Instruments), 23(d).*
[160] *IAS 1, ¶¶ 92, 94.*
[161] *IAS 1, ¶¶ BC65, IG6(b).*

Planning Point: For pension plans and other post-retirement benefit plans Section 220-10-55 (FASB Statement No. 130) shows gross-method disaggregation of other comprehensive income into gain or loss arising in the period, prior service cost or credit arising in the period, reclassification adjustments including the reclassification of prior service cost and of net transition asset or obligation. Conversely, FASB Statement No. 158 requires note disclosure of these elements. Not-for-profit organizations can use separate line(s) or note disclosure. In the former case, they must show those items within changes in unrestricted net assets, and health care organizations must display them outside a performance indicator of operations.[162]

Gross display may place either each reclassification adjustment, labeled as appropriate, next to the respective item of other comprehensive income or all together in a single section.

Planning Point: IAS 1 does not indicate these two formats of gross display in the statement of comprehensive income. The Implementation Guidance shows a gross presentation with reclassification adjustments next to each item of other comprehensive income. In any case, IAS 1 requires disclosure of reclassification adjustments per item of other comprehensive income.[163]

The purpose of disclosing those adjustments is to reconcile the amounts that are included as income and expenses in different periods through net income and other comprehensive income and permit a computation of total gain or loss associated with the specific asset or liability. Furthermore, depending on jurisdictions, tax rates applicable to items of other comprehensive income may differ from those of components of net income, and this may be significant information.[164] Gross display has the advantage of directly tracing the reclassification adjustment from other comprehensive income to the income statement items, which are on a before-tax basis, without the need for additional disclosure. On the other hand, net display is consistent with the equity section of the statement of financial position and with equity in the statement of changes in equity, as on an after-tax basis.[165] Finally, net display avoids cluttering the face of the financial statements.[166]

Comment: Gross display follows an income view. Net display has a balance sheet orientation. The disclosures refer to each item of other comprehensive income, not to net income. Thus, the income statement does not distinguish the portion of realized gains or losses that are due to reclassification adjustments.[167] Note that IAS 1 defines reclassification adjustments as an integral part of other comprehensive income.[168]

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[162] *FASB ASC 715-20-50-1, 715-20-50-5, 958-715-50-1 (FASB Statement No. 132R, ¶¶ 5.i, 8.h, 10A, 10B, 10C); 10D; FASB Statement No. 158, ¶¶ 7.a, 7.b, 8.c, 8.d, 10.a, 10.b; FASB ASC 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 130, 131, as amended by FASB Statement No. 158); AICPA Audit and Accounting Guide, HCO).*

[163] *IAS 1, ¶¶ IN8, IN14.*

[164] *IAS 1, ¶¶ IN14, BC66, BC68, BC69.*

[165] *FASB Statement No. 130, ¶¶ 100, 103; IAS 1, ¶ BC65.*

[166] *IASB, Meeting, December 14, 2006. Agenda Paper 14:* Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – Comment Letter Analysis, *¶ 76. [Online] IASB. Available at: www.iasb.org [last accessed June 21, 2007].*

[167] *IAS 1, ¶ 93.*

[168] *IAS 1, ¶ 7.*

Under the FASB and IASB new approach for reporting comprehensive income, the statement of changes in equity no longer displays other comprehensive income (as currently under IAS 1).[169] Reclassification adjustments remain in the statement of comprehensive income. Under the 2011 Amendments to IAS 1, companies present the components of other comprehensive income that, according to current standards, are subject to reclassification into profit or loss separately from those that are not.[170] Due to the difference between the two bodies of standards, ASU 2001-05 presents no requirement for distinguishing items of other comprehensive income into these two categories. The Feedback Statement explains that this gives an indication of the future impact of recycling on profit or loss.[171]

6.4.9 Gross versus Net-of-Tax Display

Regarding IFRSs, the subject of gross versus net presentation of items of other comprehensive income concerns the statements of comprehensive income (Paragraph I.A.16 above), because of the prohibition on presenting other comprehensive income in the statement of changes in equity (see Paragraph I.A.3 above). This paragraph mentions this topic simply because U.S. GAAP permits this alternative form of presentation in the statement of changes in equity.

An entity must separately disclose income tax relating to each component of other comprehensive income, including those attributable to reclassification adjustments, in the statement of comprehensive income (under IFRSs), or in one of the statements that report those components (under U.S. GAAP) or in the notes.[172] Under both U.S. GAAP and IFRSs, a net-of-tax (also called "post-tax" display or "net presentation", under IFRSs) or "gross-of tax" presentation (also known as "pre-tax" display or "gross presentation", under IFRSs) is possible. The former combines the items of other comprehensive income and the related income tax expenses or benefits. The latter reports the gross amount of the components of other comprehensive income, with the aggregated income tax effects in one line. The notes disclose the detail of tax for each component, both in gross presentation and in net presentation.[173] Exhibit 6-7 compares these different formats.

Planning Point: Unlike IAS 1, Section 220-10-55 (FASB Statement No. 130) contemplates the alternative of parenthetical explanation of tax amounts on the face of the statement that reports other comprehensive income. ASU 2011-05 removes the characterization of parenthetical explanation.[174]

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[169] *FASB ASC 220-10-45-8 superseded by FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, ¶ 8.*

[170] *Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, ¶ 82A; IASB Update, October 2009.*

[171] *Project Summary and Feedback Statement, Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income*, page 9.*

[172] *FASB ASC 220-10-45-12 (FASB Statement No. 130, ¶ 25); IAS 1, ¶¶ IN8, IN14, 90, 91; IAS 12, ¶ 81(ab).*

[173] *FASB ASC 220-10-45-11 (FASB Statement No. 130, ¶ 24); IAS 1, ¶¶ 91, BC65.*

[174] *FASB ASC 220-10-55-13, 220-10-55-14, 220-10-55-26 (FASB Statement No. 130, ¶¶ 131, 138); IAS 1, Guidance on Implementing, Part I; FASB ASC 220-10-55-8B, as amended by ASU 2011-05.*

Exhibit 6-7 Gross-of-Tax versus Net-of-Tax Presentation of Other Comprehensive Income

Gross-of-Taxt Format
Specific OCI item . . . .
Current-period gain or loss
Less: Reclassification adjustment
. . . .

Income tax effects (*)
Total other comprehensive income

Parenthetical Explanation (**)
Specific OCI item . . . . , **net of tax of $** . . .
Current-period gain or loss . . . , **net of tax of $** . . .
Less: Reclassification adjustment . . . , **net of tax of $** . . .
Total other comprehensive income . . . . . , **net of tax of $** . . .

Net-of-Tax Format (*)
Specific OCI item . . . .
Current-period gain or loss **net of tax** . . .
Less: Reclassification adjustment **net of tax** . . .
. . . . .

Total other comprehensive income **net of tax** . . .

(*) The notes must present the allocation of tax effects (before tax, tax, and after tax amounts) for the current period portion and the reclassification adjustment of each other comprehensive income item.
(**)FASB ASC 220-1 0-55-8B, as amended by ASU 201 1-05 removes the characterization of parenthetical explanation.

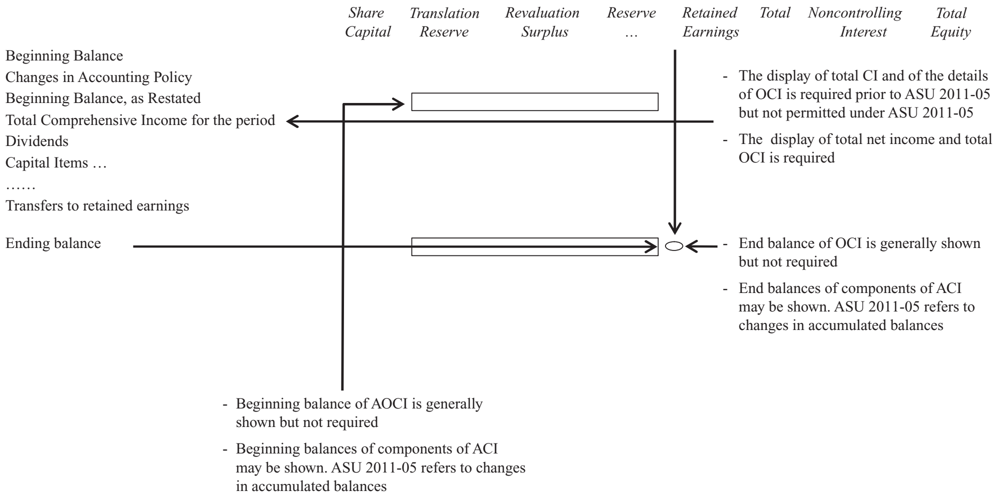
The identification of tax impact must refer to each individual item of other comprehensive income. The pros include clarity and transparency of information, especially for financial analysis, and inference of different tax rates that may be applicable depending on jurisdiction. The cons comprise the fact that tax allocation, depending on sector, may be relatively arbitrary and its determination not immediately available. Furthermore, there is a lack of consistency in applying such a treatment to other comprehensive income and not to all other items of profit or loss from continuing operations.[175]

Planning Point: The note disclosure of the tax effects distinguishes the before-tax, tax, and after-tax amounts of each component of other comprehensive income for the current and comparative periods. However, unlike Subtopic 220-10 (FASB Statement No. 130), the example of note disclosure in the Implementation Guidance of IAS 1 does not detail the income tax effect of reclassification adjustments. IFRSs reach the same outcome only when an entity opts for gross display of reclassification adjustments and net display of tax.

In addition, an SEC registrant must reconcile the tax amount to the applicable statutory Federal income tax rate or rates.[176]

[175] *IAS 1, ¶¶ BC66–BC68.*
[176] *FASB ASC 210-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-H, ¶ 4.I.3,* Net of Tax Presentation*).*

Exhibit 6-8 U.S. GAAP-Equivalent Design of the Statement of Changes in Equity under IFRSs



(*) Elaborated based on IAS 1, Implementation Guidance.

According to the *AICPA Accounting Trends & Techniques*, in 2006–2009 approximately 52% of the U.S. GAAP companies surveyed that disclosed tax effects on other comprehensive income did so on the face of a statement (net presentation).[177]

Under the 2011 Amendments to IAS 1, an entity that adopts the gross-of-tax method of presenting other comprehensive income is required to give a separate display of income tax related to the two aggregated categories of the components of other comprehensive income that, according to current standards, are subject to reclassification into profit or loss separately from those that are not.[178] The 2011 Amendments to IAS 1 and ASU 2011-05 maintain the current options of gross versus net-of-tax presentation of items of other comprehensive income.

6.4.10 U.S. GAAP-IFRSs Equivalent Design of SOCIE

Exhibit 6-8 shows how the design of the statement of changes in equity under IFRSs may reconcile to the one under U.S. GAAP for main items. Paragraph VI.F below illustrates the specific items that characterize the statement of changes in equity under the two sets of standards. Exhibit 6-9 gives the same illustration with reference to IFRSs prior to and after the amendments made by the 2007 Revision of IAS 1.

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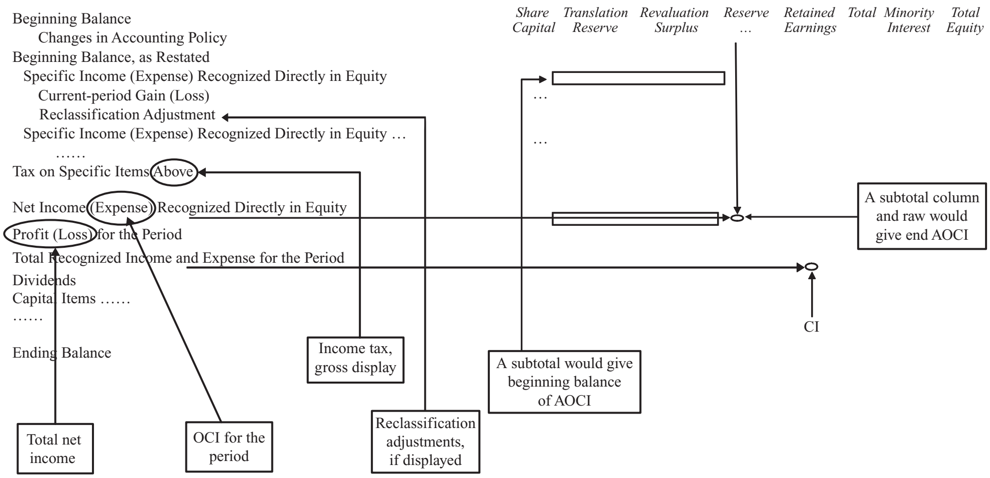
[177] *AICPA ATT 2010, ¶ Table 4-1.*

[178] *Amendments to IAS 1,* Presentation of Items of Other Comprehensive Income, *¶ 82A; IASB Update, October 2009.*

Exhibit 6-9 U.S. GAAP-Equivalent Design of the Statement of Changes in Equity under IFRSs Prior to the Amendments by the 2007 Revision of IAS 1



(*) Arrows indicate U.S. GAAP items. Elaborated based on IAS 1, Implementation Guidance.

> **Planning Point:** This provides a view of reconciliation under a dual reporting environment and layout interventions in the accounting information system to allow both formats of presentation.

6.4.11 Development Stage Enterprises

Under U.S. GAAP, the statement of changes in equity of a development stage enterprise, or of a group of development stage enterprises, must report some information for each issuance of stock since inception. Such disclosures include date and number of shares, warrants, rights, and other equity securities, distinguishing when issued for cash and when for other means, the aggregate and per share cash or noncash amounts received, and the type and the measurement basis of any noncash consideration. An entity may combine such information by cash or noncash issuances, respectively, when made in the same financial year and at the same unit value. The statement of changes in equity also includes changes in net losses accumulated in the development stage.[179]

Paragraph I.A.8 above and Paragraph I.A.12 above expands on development stage enterprises.

> **Comment:** IFRSs do not provide guidance on presentation or disclosure requirements of development stage enterprises.

[179] *FASB ASC 915-210-45-1, 915-215-45-1, 915-215-45-2 (FASB Statement No. 7,* Accounting and Reporting by Development Stage Enterprises*, ¶¶ 11.a, 11.d, Footnote 9).*

6.5 SPECIFIC ELEMENTS

6.5.1 Accumulated Other Comprehensive Income

Under Subtopic 220-10 (FASB Statement No. 130), an entity must display accumulated other comprehensive income separately from both retained earnings and additional paid-in capital on the equity section of the statement of financial position. Furthermore, it must show each component of the accumulated balances either on the face of the statement of financial position, statement of changes in equity or in the notes. The classification must follow the same detail of classification of other comprehensive income. The example of note disclosure in Subtopic 220-10 (FASB Statement No. 130) also shows a line for current-period net change in balances of each component of accumulated other comprehensive income, in addition to the balances themselves.[180] Paragraph I.A.4 above explains specific rules applicable to SEC registrants in this respect. Such a requirement for separate presentation of accumulated other comprehensive income in the statement of financial position does not exist for not-for-profit organization.[181]

> **Planning Point:** Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, ASU 2011-05 mentions changes in balances of AOCI and not the balances by themselves. Furthermore, it simply refers to financial statements or the notes as opposed to the statement of financial sposition, the statement of changes in equity, or the notes. However, the examples in ASU 2011-05 consider only the statement of changes in equity and the notes, not the statement of financial position. The statement of changes in equity may also display total AOCI .[182]

The *AICPA Accounting Trends & Techniques* shows that 60% of the U.S. GAAP companies surveyed in 2009 (55% in 2005 and 36% in 2002) displayed balances of components of accumulated other comprehensive income in the notes, while 18%, 15%, and 32%, respectively, in the statement of changes in equity. About 5%, 9%, and 8%, respectively, used the statement of financial position, no more than 2% in the statement of comprehensive income, and 15% in 2009 (16% in 2005 and 19% in 2002) did not present any component. 2–4% had no accumulated other comprehensive income at all.[183]

Under FSP FAS 115-2 and FAS 124-2, the statement that reports the components of accumulated other comprehensive income, i.e., including the statement of changes in equity, if appropriate, must separately display the amounts of other-than-temporary impairment of held-to-maturity and available-for-sale securities that the entity has recognized in earnings. This new format of presentation applies to both debt held-to-maturity and available-for-sale securities and equity available-for-sale securities.[184] For insurance companies, Regulation S-X requires the display of unrealized appreciation or depreciation of equity securities less applicable deferred taxes on the face of the statement of financial position.[185]

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[180] *FASB ASC 220-10-45-14, 220-10-55-15 (FASB Statement No. 130, ¶¶ 26, 131).*

[181] *AICPA Statement of Position No. 02-2, Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator, ¶ 24.*

[182] *FASB ASC 220-10-45-14A, 220-10-55-11, 220-10-55-15, 220-10-55-16 (ASU 2011-05).*

[183] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-40.*

[184] *FASB Staff Position No. FAS 115-2 and FAS 124-2,* Recognition and Presentation of Other-Than-Temporary Impairments, *¶¶ 18, 37.*

[185] *FASB ASC 944-210-S99-1 (Regulation S-X 210.7-03.23).*

IFRSs use the expression *accumulated balance of each class of other comprehensive income*, as opposed to accumulated other comprehensive income.[186] Although IFRSs requires the separate recognition of each class of other comprehensive income, IAS 1 does not require separate presentation of total accumulated other comprehensive income on the face of the statement of financial position. Paragraph III.E above illustrates specific requirements to display the accumulated balances of certain items of other comprehensive income in the statement of financial position. However, as part of the analysis of opening and closing balances, and changes thereof, of each component of equity (see Paragraph I.A.6 above), the statement of changes in equity must separately display the reconciliation of the accumulated balances of each class of other comprehensive income or the notes must disclose it.[187] IAS 1 requires a subclassification of reserves (e.g., accumulated other comprehensive income) either in the statement of financial position or in the notes. In addition, it requires a description of the nature and purpose of each reserve within equity either in the statement of changes in equity, in the statement of financial position, or in the notes.[188] IFRS for small and medium entities is more specific and requires either presentation or disclosure of items of accumulated other comprehensive income.[189]

Comment: The wording of IFRS for small and medium-sized entities on this point is confusing. In fact, it gives an option for presentation or disclosure of items of other comprehensive income for which the IFRS requires separate presentation in equity.

6.5.2 Equity Method Investees

Under U.S. GAAP, an investor presents its share of an equity method investee's prior period adjustments as a prior period adjustment in its investor's financial statements, if it is material for the investor's income statement.[190] It displays its proportionate share in other comprehensive income of an investee or an adjustment in the accumulated other comprehensive income of an investee either separately or combined with its own other comprehensive income items in the statement where it presents other comprehensive income, including the statement of changes in equity. However, from the effective date of ASU 2011-05, the latter statement is no longer an option. The statement in which the investee presents its other comprehensive income is irrelevant to the choice of a statement by the investor.[191]

Under IAS 1, an investor separately presents its proportionate share of an equity method investee's other comprehensive income (also see Paragraph j above) in its consolidated statement of comprehensive income or in its individual statement of comprehensive income when it has no subsidiary or jointly controlled entity and thus presents no consolidated financial statements.[192]

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[186] *IAS 1, ¶ 108.*
[187] *IAS 1, ¶¶ 106(d), 108.*
[188] *IAS 1, ¶¶ 77, 78(e), 79(b).*
[189] IFRS for SMEs, *¶ 4.11(f).*
[190] *FASB ASC 250-10-60-2 (APB 18,* The Equity Method of Accounting for Investments in Common Stock, *¶ 19.d).*
[191] *FASB ASC 323-10-45-3 (FASB Statement No. 130, ¶¶ 121–122).*
[192] *IAS 1, ¶¶ 82(g), 82(h); IAS 27 (2010), ¶ 38; IAS 28 (2010),* Investments in Associates*, ¶¶ 4, 11, 35, 39; IAS 31,* Interests in Joint Ventures*, ¶ 46.*

Comment: Of course, the statement of changes in equity embeds this item in the comprehensive income row and explains it in a footnote. However, the illustration in IAS 1 shows that it affects the column of the component of accumulated other comprehensive income relating to the specific item adjusted by the investee (e.g., revaluation surplus, etc.).

Comment: IAS 1 and IAS 28 are specific with reference to other comprehensive income, but not to retrospective adjustments. IAS 8 does not specifically mention situations that require the retroactive approach, such as changes in accounting policies and corrections of errors, in relation to associates. However, an associate's retroactive adjustment would be reflected in the investor's financial statements based on general principles in IAS 8, i.e., retrospectively. The issue is whether this warrants separate presentation of the adjustment. IAS 28 prior to the amendments made by the 2007 Revision of IAS 1 used to refer to changes in the investee's equity recognized directly in the investee's equity, and not only to other comprehensive income. It used to require separate presentation of those adjustments in the statement of changes in equity. Therefore, arguably separate presentation also applies to changes in accounting policies and corrections of errors.

6.5.3 Held-for-Sale Subsidiaries

Under IFRS 5, a subsidiary that a parent acquires and holds exclusively with a view to resale would ordinarily meet the criteria for classification as held for sale. IFRS 5 requires that the cumulative other comprehensive income relating to a noncurrent asset (or disposal group) classified as held for sale be separately presented.[193]

Planning Point: The Implementation Guidance of IFRS 5 provides an example of such a separate presentation in the statement of financial position.[194] The standard does not mention the statement of changes in equity. As IAS 1 requires reconciliation of each class of other comprehensive income on the face of the statement of changes in equity,[195] an issue may arise as to whether the statement of changes in equity should separately show a column for accumulated other comprehensive income relating to assets, disposal groups, or subsidiaries classified as held for sale. The statement of comprehensive income sorts components (not classes) of other comprehensive income generally by the by nature criterion[196]. However, IAS 1 defines classes of items in the financial statements by reference to nature or function.[197] A disaggregation by nature of cumulative other comprehensive income relating to held-for-sale items would be incompatible with showing a single item in the statement of financial position.

Planning Point: Again, the standard refers to other comprehensive income. Prior to the amendments made by IAS 1, IFRS 5 used to mention cumulative income or expense recognized directly in equity, not only other comprehensive income. Therefore, arguably separate presentation also applies to changes in accounting policies and corrections of errors.

[193] *IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, ¶ 38.*
[194] *IFRS 5, ¶ IG Example 12.*
[195] *IAS 1, ¶ 108.*
[196] *IAS 1, ¶ 82(g).*
[197] *IAS 1, ¶¶ 29, 30.*

U.S. GAAP does not mandate specific presentation in equity of accumulated other comprehensive income of a subsidiary classified as held for sale.

> **Comment:** Furthermore, FASB Statement No. 144 deleted a provision of ARB 51 that required separate presentation in consolidated financial statements of the parent's interest in the pre-disposal earnings of a deconsolidated subsidiary that had been disposed of during the year.[198]

6.5.4 Specific Equity Components

In certain jurisdictions, IFRS implementation has been posing certain specific issues about the classification of equity components, sometimes referred to as equity reserves, usually involving items of accumulated other comprehensive income.

As a general guideline, IAS 1 requires the reconciliation of each component of equity in the statement of changes in equity, including different classes of stock, retained earnings, and the several classes of accumulated other comprehensive income.[199] Depending on the specific company, IFRSs may require components of equity, such as foreign currency translation adjustment, revaluation surplus, accumulated other comprehensive income related to available-for-sale investments (prior to IFRS 9), cash flow hedges, net investment hedges in foreign operations. Sometimes, previous jurisdictional frameworks did not contemplate those accounts. Paragraph I.A.3 below expands on the presentation and disclosures of such items.

Certain revaluation reserves existing under previous GAAP may not comply with IFRSs. In the United Kingdom, for example, an entity should pay careful attention not to present revaluation reserves existing under previous GAAP as a revaluation surplus.[200]

> **Example:** In Italy, entities have reversed revaluation reserves that existed before transition to IFRSs to revaluation surplus to retained earnings where they had been determined on different bases. They have reversed reserves for own shares to retained earnings. The same thing happened for reserves previously used to account for government grants in equity following a capital approach. The capital approach is inconsistent with the income approach adopted by IAS 20.[201] Reclassification to subledgers of retained earnings has occurred for reserves previously used to segment profit or loss of prior years, interim dividends paid, or losses offset before the close of the reporting period. Companies have been able to maintain only those reserves that proved to be consistent with IFRSs, and presented in the statement of changes in equity. However, in banking financial statements, Italy's Banca d'Italia requires the disclosure of revaluation reserves, which existed prior to the first-time adoption of IFRSs, in a note and in the statement of changes in equity.[202]

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[198] *FASB Statement No. 144,* Accounting for the Impairment or Disposal of Long-Lived Assets*, ¶ C2; ARB 51, ¶ 12 (deleted).*

[199] *IAS 1, ¶¶ 106(d), 108.*

[200] *TECH 21/05, page 35.*

[201] *IAS 20,* Accounting for Government Grants and Disclosure of Government Assistance*, ¶¶ 13–14.*

[202] *Banca d'Italia, December 30, 2005. Circolare No. 262,* I bilanci delle banche: schemi e regole di compilazione*, published in Supplemento ordinario n. 12 alla Gazzetta Ufficiale n. 11, Serie generale (January 14, 2006).*

Some jurisdictions have mandated the use of additional reserves in conjunction with the first-time adoption of IFRSs, or have made some of the reserves required by IFRSs not distributable. This is because IFRSs make use, to a certain extent, of fair value and recognize some items of income and expense in other comprehensive income or directly in equity, a treatment that certain prior local standards did not permit. Insofar as they label those items as unearned, local laws may forbid their distributability under the principle of defense of capital.

Example: In the United Kingdom, the Companies Act of 2006 establishes the rules for distributable profits. A gain or loss on hedging instruments is considered unrealized, and therefore not distributable, when the corresponding gain or loss on the hedged item is deemed so.[203] In substance, the adoption of IFRSs has not changed those principles, but they are better detailed in the context of IFRSs.[204]

6.5.5 Dividends

IAS 1 requires the presentation of dividends accounted for in equity (in aggregate and per share amounts) either in the statement of changes in equity or in the notes. It prohibits their presentation in the statement of comprehensive income. In fact, the statement of changes in equity presents owner changes in equity, while the statement of comprehensive income shows non-owner changes in equity.[205] This is in line with the prohibition on detailing comprehensive income in the statement of changes in equity, as Paragraph I.A.3 above explains. The *Financial Statement Presentation Project* would confirm this approach.[206] Conversely, the 2005 version of IAS 1 permitted presentation of aggregate and per share amounts of dividends on the face of the income statement.[207]

Comment: This option was similar to that adopted in UK practice, which resulted in a sort of the statement of income and retained earnings, which is still permitted under IFRS for small and medium-sized entities (see Paragraph I.A.4 above).

As Paragraph I.A.5 above mentions, IFRS for small and medium-sized entities requires separate presentation of dividends in the statement of changes in equity, or separate display of dividends declared and paid or payable during the period in the statement of income and retained earnings if the entity can, and elects to, use this statement.[208]

Subtopic 220-10 (FASB Statement No. 130) does not explain where to present dividends, but its examples show them on the face of the statement of changes in equity.[209] Subtopic 810-10

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203 *The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Accountants of Scotland, TECH 7-03,* Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Companies Act of 1985.
204 *TECH 21-05.*
205 *IAS 1, ¶¶ 107, 109, BC75.*
206 *Staff Draft, ¶ 204.*
207 *IAS 1 (2005), ¶ 95.*
208 IFRS for SMEs, *¶¶ 6.3(c), 6.5.*
209 *FASB ASC 220-10-55-11, 220-10-55-12 (FASB Statement No. 130, ¶ 131).*

(ARB 51, as amended) requires separate indication of distributions to owners either in the statement of changes in equity or in the notes,[210] and this comprises dividends. Of course, an entity may also disaggregate changes in retained earnings, including dividends, on the face of the statement of financial position. When presented, the combined statement of income and retained earnings (Paragraph I.A.4 above) or the statement of retained earnings (Paragraph I.A.4 above) shows dividends. According to the *AICPA Accounting Trends & Techniques*, in 2009, 2005, and 2002 about 54%, 57%, and 62% of surveyed U.S. GAAP companies, respectively, reported per share amounts of cash dividends paid to common shareholders in the statement of retained earnings. Those figures change to 32%, 24%, and 37%, respectively, concerning cash dividends paid to preferred shareholders.[211]

Subsection 505-10-S99-1 (Regulation S-X) requires dividends in the separate statement that effects the analysis of changes in equity (i.e., a statement of changes in equity) or in the notes. An entity must include separate indication of the aggregate and per share amounts of dividends for each class of share.[212] Interim income statements of SEC registrants must display dividends per share.[213] The SEC Staff requires pro forma information when an SEC registrant pays dividends from the proceeds of an offering or when dividends exceed earnings of the current year.[214] Selected financial data of foreign private issuers must include dividends declared per share in the local and the reporting currencies.[215]

Under IFRSs, only the notes must disclose the aggregate and per share amounts of dividends proposed or declared after the reporting date but before the date of authorization for issue of the IFRS financial statements.[216] This reflects the fact that at the reporting date there is no dividend obligation that meets the criteria for recognition in the statement of financial position. If those declared dividends are in kind, the notes must include the nature, the carrying amount, and the estimated fair value of those assets at the end of the reporting period, including the valuation method used.[217] By contrast, according to the SEC Staff, SEC registrants should retroactively include dividends declared by a subsidiary after the reporting date in the statement of financial position with explanation in the notes or, alternatively, add a statement of financial position on a pro forma basis.[218]

Under IFRSs, the notes must disclose cumulative dividends not recognized. Under U.S. GAAP, either the statement of financial position or the notes inform on cumulative preferred dividends in arrears. Unlike IFRSs, U.S. GAAP adds per share amounts.[219] SEC registrants must give

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[210] *FASB ASC 810-10-50-1B (ARB 51, ¶ 39(c), as amended by FASB Statement No. 160).*
[211] *AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 5-2.*
[212] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*
[213] *Regulation S-X, ¶ 210.8-03(a)(2); FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(b)(2)).*
[214] *SEC Staff Accounting Bulletin, Topic 1-B.3,* Other Matters.
[215] *Form 20-F, Item 3.A.2.*
[216] *IAS 1, ¶ 137; IAS 10, ¶¶ 13, BC6.*
[217] *IFRIC 17, Distributions of Non-cash Assets to Owners, ¶ 17.*
[218] *SEC Staff Accounting Bulletin, Topic 1-B.3,* Other Matters.
[219] *FASB ASC 505-10-50-5 (FASB Statement No. 129,* Disclosure of Information about Capital Structure*, ¶ 7.b); FASB ASC 440-10-50-1 (FASB Statement No. 5,* Accounting for Contingencies*, ¶ 19).*

separate note disclosure of the dividend requirements of material preferred stock of noncontrolling interest.[220] Foreign private issuers must indicate the title and the class of preferred stock of significant subsidiaries with dividends in arrears and the arrearage nature and amount in Form 20-F.[221]

The IFRS statement of changes in equity, the statement of financial position, or the notes must disclose dividend rights, preferences, and restrictions.[222] Under the 2005 version of IAS 1 the statement of changes in equity was not among the options for this.[223] In addition, the notes to consolidated financial statements must indicate the nature and extent of any significant restrictions on cash dividends by subsidiaries and associates.[224] Subsection 505-10-50-3 (FASB Statement No. 129) generically requires the disclosure of dividend preferences of securities outstanding within the financial statements.[225] Lessees must disclose dividend restrictions pursuant to the lease contract in their financial statements or in the notes.[226] Foreign private issuers must give note disclosure of any dividend currency of publicly held securities that is different from the reporting currency. Their financial statements must prominently indicate, in part, any material exchange restrictions or external controls of the currency of dividend remittances.[227] Furthermore, they must describe dividend rights, respective expiry periods, beneficiary parties, as well as home country exchange controls on remittance of dividends to nonresidents, and any other dividend restrictions.[228] Foreign private issuers that register debt securities must also include information on dividend restrictions in Form 20-F.[229] Foreign private issuers must also describe limitations on dividend payments arising from material modifications to the rights of securities.[230] The notes to consolidated financial statements of SEC registrants must explain the terms of any significant restriction on distributions of retained earnings[231]. In condensed consolidating financial information of guarantors and issuers of guaranteed securities, SEC registrants must disclose any restrictions on the ability to obtain funds from subsidiaries through dividends or loans.[232]

In the presence of puttable shares, as is typical for certain investment funds, the classification of dividends as equity deduction versus interest expense depends on whether the entity classifies such instruments as equity or liabilities under IFRSs.[233] For finance companies, U.S. GAAP

[220] *FASB ASC 210-10-S99-1 (Regulation S-X, ¶ 210.5-02.31).*
[221] *Form 20-F, Item 13.B.*
[222] *IAS 1, ¶ 79(a)(v).*
[223] *IAS 1 (2005), ¶ 76(a)(v).*
[224] *IAS 27 (2010), ¶ 41(d); IAS 28 (2010), ¶ 37(f).*
[225] *FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 4).*
[226] *FASB ASC 840-10-50-2 (FASB Statement No. 13,* Accounting for Leases*, ¶ 16.d.iii); IAS 17, ¶¶ 31(e)(iii), 35(d)(iii).*
[227] *Regulation S-X, ¶ 210.3-20(b).*
[228] *Form 20-F, Item 10.B.3, Item 10.D.2, Item 10.F.*
[229] *Form 20-F, Item 14.A.4.*
[230] *Form 20-F, Instruction to Item 14.B.*
[231] *FASB ASC 235-10-S99-1 (Regulation S-X, ¶¶ 210.4-08(e)(1), 210.4-08(e)(3)(i)); Regulation S-K, Instruction 6 to ¶ 209.303(a).*
[232] *FASB ASC 470-10-S99-1 (Regulation S-X, ¶ 210.3-10(i)(9)).*
[233] *IAS 32, ¶¶ 16A-16F.*

requires the inclusion of redeemable preferred stock dividends of a parent in the statement of changes in equity, when the company classifies preferred stock in temporary equity.[234]

6.6 CAPTIONS AND LINE ITEMS

6.6.1 Display and Disclosure Requirements of the Statement of Changes in Equity

As Paragraph I.A.1 above explains, the statement of changes in equity is one of the options available under U.S. GAAP, prior to ASU 2011-05, to report comprehensive income and other comprehensive income. Exhibit 6-10 shows the minimum display or disclosure requirements of the statement of changes in equity under U.S. GAAP and SEC guidance as opposed to the alternative statements. It illustrates the items that entities must present on the face of the statement of changes in equity, those that they must not present there, those that they may present in that statement or disclose in the notes, and those that they may show in the statement of changes in equity as well as in other statements. Under Subsection 205-10-S99-3 (Regulation S-X), financial statements should not show captions that have no items.[235] Exhibit 6-11 proposed the same analysis under IFRSs. Exhibit 6-12 illustrates the situation under IFRSs before the 2007 Revision of IAS 1. Exhibit 6-13 reports items specific to certain specialized industries.

These Exhibits do not repeat the list of items of other comprehensive income for which U.S. GAAP requires separate display, or parenthetical explanation, or for which it permits separate presentation in a statement or note disclosure. Paragraph IV.G above and its Exhibits include this inventory.

Under U.S. GAAP, the statement of changes in equity, a separate statement entitled "equity adjustment from foreign currency translation" or similar headline, or the notes must report at least the beginning and ending balances of the accumulated translation adjustment, the adjustment arising in the period, the related income taxes, and the reclassification adjustments. Those disclosures are in addition to the ordinary analysis of changes in all equity accounts.[236] IAS 21 requires a note disclosure of amounts and of balances reconciliation of net exchange differences that are recognized in accumulated other comprehensive income and other comprehensive income.[237]

Subtopic 830-30 (FASB Statement No. 52) requires the disclosure of intercompany foreign transactions (monetary items, under IFRSs) that are in substance part of a net investment in a foreign operation in the reconciling note relating to accumulated foreign currency translation adjustments.[238]

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[234] *FASB ASC 942-405-45-2 (AICPA Statement of Position No. 01-6,* Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others, *¶ 14.l).*
[235] *FASB ASC 205-10-S99-3 (Regulation S-X, ¶ 210.4-03).*
[236] *FASB ASC 830-30-50-1, 830-30-45-19, 830-30-45-20 (FASB Statement No. 52,* Foreign Currency Translation*, ¶¶ 31, 142.*
[237] *IAS 21, The Effects of Changes in Foreign Exchange Rates, ¶ 52(b).*
[238] *FASB ASC 830-30-50-1, 830-30-45-20 (FASB Statement No. 52, ¶ 31).*

Exhibit 6-10 The Statement of Changes in Equity under U.S. GAAP: Display and Disclosure Requirements Contrasted with Other Statements

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Cumulative retroactive adjustments[1]			#a	2	a
An investor's share of an equity method investee's prior period adjustments, if material for the investor's income statement			3		
Net income:					
Net income (in the context of reporting comprehensive income)[4]	Or#	Or#	Or#		As part of retained earnings
Net income (in the context of reconciling equity balances)[5]			Or#	Or	
Net income attributable to controlling and noncontrolling interests, separately (in the context of reconciling equity balances)[6,7]		Here or in the income statement	In SOCIE or in the notes	In SOCIE or in the notes	
Each item of other comprehensive income (OCI):[8]					
Net change in each item of OCI during the period, if the entity elects net display, classified based on nature[9]	Or#	Or#	Or#[10]	Detail of gross amounts of OCI arising in the period and of reclassification adjustments, separately	

[1] *"Or" identifies alternative means of presentation or disclosure.*

This Exhibit does not repeat the list of items of other comprehensive income for which U.S. GAAP requires separate display, or parenthetical explanation, or for which it permits separate presentation in a statement or note disclosure. The chapter on the statements of income and its Exhibits include this inventory. This Exhibit does not include additional items that entities may decide to disclose based on disaggregation guidance.

[#] *Items for which separate presentation on the face of the appropriate statement under the option selected is mandatory.*

[*] *Parenthetical explanation is also an option.*

[a] *FASB Statement No. 16, ¶ 11; FASB Statement No. 130, ¶ 106; FASB ASC 250-10-45-5, 250-10-45-6, 250-10-50-1, 250-10-45-23, 250-10-50-7 (FASB Statement No. 154, ¶¶ 7, 8, 17b, 25, 26b); FASB ASC 250-10-45-24, 250-10-50-9 (APB 9, ¶¶ 18, 26); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[2] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04) requires the disclosure of retroactive adjustments to retained earnings in a separate statement of changes in stockholders' equity but permits note disclosure.*

[3] *FASB ASC 250-10-60-2 (APB 18, ¶ 19.d).*

[4] *FASB ASC 220-10-45-6 moved to 220-10-45-1A, 220-10-45-8 superseded by ASU 2011-05, 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 15, 22, 130, 131). An entity that has other comprehensive income items must show net income as a component of comprehensive income. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-55-11, 220-10-55-12, 810-10-55-4L (ASU 2011-05) in any event show a total for net income on the face of the statement of changes in equity.*

[5] *In the context of reconciliation of total equity balances, FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c) as amended by FASB Statement No. 160) requires either display of net income in the statement of changes in equity or disclosure in the notes. In the context of reporting comprehensive income, FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22) requires separate display of net income in one of the statements allowed to report comprehensive income. Therefore, an entity that elects not to use the statement of changes in equity and has no item of other comprehensive income would be able to report net income in the income statement and disclose it in the note as part of the reconciliation of total equity. From the effective date of ASU 2011-05, Subsection 220-10-45-8 is superseded and the statement of changes in equity is no longer an option to report comprehensive income.*

[6] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(a), as amended by FASB Statement No. 160) requires the attribution of net income to controlling and noncontrolling interests in the financial statements. Its Implementation Guidance shows this allocation in the income statement, but not in the statement of comprehensive income (FASB ASC 810-10-55-AJ (ARB 51, ¶ A4)). Arguably, a combined statement of income and comprehensive income should show this allocation. Consequently, an entity that has no item of other comprehensive income will be able to present such analysis in the income statement. However, under FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c)), it must also report equity reconciliation either in the statement of changes in equity or in the notes. An entity that does have items of other comprehensive income will be able to present such analysis in the combined statement of income and comprehensive income and the equity reconciliation either in the statement of changes in equity or in the notes. Alternatively, it could present a statement of comprehensive income, while showing the attribution of net income to controlling and noncontrolling interests in the statement of changes in equity as part of equity reconciliation. FASB ASU 2011-05 shows the attribution of net income to noncontrolling interest on the face of the statement of changes in equity.*

[7] *Unlike Subtopic 810-10 (ARB 51), FASB ASC 505-10-S99-1 (Rule 3-04 of Regulation S-X) specifically requires an analysis of changes in noncontrolling interests (not in controlling interests) in a note or separate statement. Of course, changes in controlling interests arise at least by difference from the analysis of changes in equity. It refers to noncontrolling interests balances in the statement of financial position. Consequently, the reconciliation comprises all items that affect such noncontrolling interests.*

[8] *Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, the statement of changes in equity is no longer an option to present the details of other comprehensive income (FASB ASC 220-10-45-8 superseded, 220-10-55-11, 220-10-55-12, 810-10-55-4L (FASB Accounting Standards Update No. 2011-05,* Comprehensive Income (Topic 220) – Presentation of Comprehensive Income, *¶ 8, 9, BC6, BC9)).*

[9] *FASB ASC 220-10-55-2, 220-10-45-13, 220-10-45-17, 220-10-55-7, 220-10-55-9, 220-10-55-11 (FASB Statement No. 130, ¶¶ 17, 20, 131); FASB Statement No. 130, ¶¶ 88, 90.*

[10] *After the implementation date of ASU 2011-05, the statement of changes in equity is no longer an option.*

(continued)

Exhibit 6-10 The Statement of Changes in Equity under U.S. GAAP: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Each item of other comprehensive income (OCI) (*Continued*):					
If the entity elects gross display:[11] – each item of OCI arising in the current period, classified based on nature – reclassification adjustments	Or#	Or#	Or#[12]		
Income tax expense or benefit related to items of OCI, if the entity elects gross-of-tax display[13]	Aggregated income tax expense or benefit related to items of OCI, in the statement where the components of OCI are displayed#* If the entity elects net-of-tax display, current period portion of each component of OCI and reclassification adjustments are shown net of tax in the statement where the components of OCI are displayed[14]			Detail of tax, before-tax, and after-tax amounts allocated to the current period portion of each component of OCI and to each reclassification adjustment	
An investor's proportionate share in other comprehensive income of an investee, presented[15]	In the statement where the components of OCI are displayed (either separately or combined with its own other comprehensive income items)[16]				
Each component of OCI attributable to controlling and noncontrolling interests, separately (in the context of reconciling equity balances)[17a]			Or#	Or	

Total other comprehensive income (OCI):	
Total OCI (in the context of reporting comprehensive income)[18]	In the statement where the components of OCI are displayed[#]
Total OCI attributable to noncontrolling interests	Yes[19]

[11] *FASB ASC 220-10-55-2 moved to 220-10-45-10A, 220-10-45-13 moved to 220-10-45-1C, 220-10-45-17, 220-10-55-8 superseded by ASU 2011-05, 220-10-55-10 superseded by ASU 2011-05, 220-10-55-11 (FASB Statement No. 130, ¶¶ 17, 20, 131); FASB Statement No. 130, ¶¶ 88, 90. Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-17 (ASU 2011-05) requires the presentation of the effects of reclassification adjustments both in net income and other comprehensive income.*

[12] *After the implementation date of ASU 2011-05, the statement of changes in equity is no longer an option.*

[13] *FASB ASC 220-10-45-11, 220-10-45-12, 220-10-55-8 (FASB Statement No. 130, ¶¶ 23, 24, 131); FASB Statement No. 130, ¶ 104.*

[14] *FASB ASC 220-10-55-13 (FASB Statement No. 130, ¶ 131) indicates the alternative to display details of tax parenthetically. FASB ASC 220-10-55-8B, as amended by ASU 2011-05, removes the characterization of parenthetical explanation. FASB Statement No. 130, ¶ 25 also mentions the option to display income tax allocated to the current-period portion of each component of other comprehensive income and to each reclassification adjustment on the face of the statement that shows other comprehensive income. After the implementation date of ASU 2011-05, the statement of changes in equity is no longer an option.*

[15] *FASB ASC 323-10-45-3 (FASB Statement No. 130, ¶¶ 121-122); FASB Technical Bulletin No. 79-19, Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee, ¶ 6.*

[16] *After the implementation date of ASU 2011-05, the statement of changes in equity is no longer an option.*

[17] *FASB ASC 220-10-45-8 (FASB Statement No. 130, ¶ 22); FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c) as amended by FASB Statement No. 160). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, ASU 2011-05 supersedes FASB ASC 220-10-45-8.*

[18] *FASB ASC 220-10-45-8, superseded by ASU 2011-05 (FASB Statement No. 130, ¶ 22). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-55-11, 220-10-55-12, 810-10-55-4L (ASU 2011-05) in any event show a total for other comprehensive income on the face of the statement of changes in equity.*

[19] *FASB ASC 810-10-55-AL (ARB 51, ¶ A6) and ASU 2011-05 show the attribution of total other comprehensive income to noncontrolling interest on the face of the statement of changes in equity.*

(continued)

Exhibit 6-10 The Statement of Changes in Equity under U.S. GAAP: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Total comprehensive income (CI):					
Total comprehensive income (CI)[20]	In the statement where the components of OCI are displayed#				Not required, but not prohibited
CI attributable to controlling and noncontrolling interests, separately (in the context of reporting comprehensive income)[21]	In the statement where the components of OCI are displayed#				
CI attributable to controlling and noncontrolling interests, separately (in the context of reconciling equity balances)[22a]			Or#	Or	
Accumulated other comprehensive income (AOCI):					
Total AOCI			Possible		Yes[23#]
Beginning and ending balances of each item of AOCI, classified based on nature and with the same detail of components of other comprehensive income (OCI)[24]			Or#	Or	Or#

[20] *FASB ASC 220-10-45-5 (prior to ASU 2011-05), 220-10-45-8 superseded by AS 2011-05, 220-10-55-5, 220-10-55-7 (FASB Statement No. 130, ¶¶ 14, 22, 130, 131); FASB ASC 810-10-50-1A (ARB 51, ¶ 38(a)). Absent other items of other comprehensive income, an enterprise need not report comprehensive income (FASB ASC 220-10-45-6 (FASB Statement No. 130, ¶ 15)). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-55-11, 220-10-55-12, 810-10-55-4L (ASU 2011-05) eliminates the presentation of a total for comprehensive income on the face of the statement of changes in equity.*

[21] *FASB ASC 220-10-45-5 (FASB Statement No. 130, ¶ 14); FASB ASC 810-10-50-1A, 810-10-55-AK, 810-10-55-AL (ARB 51, ¶¶ 38(a), A5, A6, as amended by FASB Statement No. 160). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, ASU 2011-05 deletes this requirement.*

[22] *Subtopic 810-10 (ARB 51) does not specifically mention the attribution of comprehensive income to controlling and noncontrolling interests on the face of the statement of changes in equity, although it shows it in its Implementation Guidance.*

[23] *FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26) requires the presentation in the statement of financial position. The statement of changes in equity may also display total AOCI, as FASB ASC 220-10-55-11 illustrates. FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c)) simply mentions the separate disclosure of total equity balances and each component of AOCI. For foreign private issuers, Item 17 of Form 20-F does not require the display of total AOCI in the statement of financial position. However, effective for fiscal years ending on or after December 15, 2011, all issuers have to comply with Item 18 rather than Item 17 (SEC, International, November 1, 2004, ¶ VI.A; SEC, Release No. 33-8959, ¶ II.E; SEC,* Financial Reporting Manual, *¶ 6530).*

[24] *FASB ASC 220-10-55-2 then moved to 220-10-45-10A, 220-10-45-14 (prior to ASU 2011-05), 220-10-45-14A as amended by ASU 2011-05, 220-10-55-15 (FASB Statement No. 130, ¶¶ 17, 26, 131); FASB Statement No. 130, ¶ 88. The example of note disclosure in FASB Statement No. 130 also shows a line for current-period net change in balances of each component of accumulated other comprehensive income. A foreign private issuer that under local GAAP reports items of accumulated other comprehensive income in retained earnings is exempted from reclassifying the components of accumulated other comprehensive income in case this reconstruction is impracticable and it discloses this fact (SEC, International, November 1, 2004, ¶ VI.A; SEC, Release No. 33-8959, ¶ II.E; SEC,* Financial Reporting Manual, *¶ 6530). Effective for fiscal years ending after December 15, 2012 and subsequent annual and interim periods, with early adoption permitted, and for fiscal years (and related interim periods) beginning after December 15, 2011 for public entities, FASB ASC 220-10-45-14A (ASU 2011-05) mentions changes in balances of AOCI and not the balances by themselves. Furthermore, it simply refers to financial statements or the notes as opposed to the statement of financial position, the statement of changes in equity or the notes. However, the examples in FASB ASC 220-10-55-15 and 220-10-55-16 consider only the statement of changes in equity and the notes, not the statement of financial position. AICPA ATT 2010 and AICPA ATT 2006, ¶ Table 2-40 reports that 60% of the U.S. GAAP companies surveyed in 2009 (55% in 2005 and 36% in 2002) displayed balances of component of accumulated other comprehensive income in the notes, while 18%, 15%, and 32%, respectively, in the statement of changes in equity. About 5%, 9%, and 8%, respectively, used the statement of financial position, no more than 2% in the statement of comprehensive income, and 15% in 2009, 16% in 2005, and 19% in 2002 did not present any component. 2–4% had no accumulated other comprehensive income at all.*

(continued)

Exhibit 6-10 The Statement of Changes in Equity under U.S. GAAP: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Accumulated other comprehensive income (AOCI) (*Continued*):					
Analysis of period changes in the equity adjustment from foreign currency translation, separately including beginning and ending balances, current-period translation adjustment, current-period gains and losses from intercompany foreign currency transactions that are in substance part of a net investment in a foreign operation, related income taxes for the period, and reclassification adjustment[25]			Or#	Or	Or in a separate statement#
An investor's proportionate share in an investee's equity adjustments for other comprehensive income			Either separately or combined with its own accumulated other comprehensive income items[26]		
Other equity accounts:					
Changes in retained earnings[27]		Or in the statement of income and retained earnings	Or	Or	Or in the statement of financial position or in the statement of retained earnings
Changes in equity accounts other than retained earnings during at least the latest year and subsequent interim periods[28]			Or SOCIE (either as separate statement or as part of the basic financial statements)	Or	Or in basic financial statements

Number of shares during at least the latest year and subsequent interim periods,[29] including those issued upon actual conversion, exercise, or satisfaction of required conditions[30] and rights and privileges of various securities outstanding[31]	Or SOCIE[32] (either as separate statement or as part of the basic financial statements)	Or	Or in basic financial statements
Reconciliation of total equity balances[33]	Or[#]	Or	
Reconciliation of equity balances attributable to controlling and noncontrolling interests, separately[34a]	Or[#]	Or	

[25] *FASB ASC 830-30-50-1, 830-30-45-19, 830-30-45-20 (FASB Statement No. 52, ¶¶ 31, 142). The separate statement is not necessarily the statement of financial position.*

[26] *FASB ASC 323-10-45-3 (FASB Statement No. 130, ¶¶ 121-122); FASB Technical Bulletin No. 79-19, ¶ 6.*

[27] *FASB ASC 220-10-45-14 (FASB Statement No. 130, ¶ 26) mentions the statement of financial position. APB 9, ¶ 7 mentions the statement of retained earnings and the statement of income and retained earnings.*

[28] *FASB ASC 505-10-50-2 (APB 12, ¶ 10).*

[29] *FASB ASC 505-10-50-2 (APB 12, ¶ 10).*

[30] *FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 5) mentions disclosure within the financial statements.*

[31] *FASB ASC 505-10-50-3 (FASB Statement No. 129, ¶ 5) mentions disclosure within the financial statements.*

[32] *Some companies insert such information in a separate column in the statement of changes in equity.*

[33] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160) refers to reconciliation of total equity balances. Reconciliation of equity balances may include certain items presented as separate components of equity, for example unearned compensation expense related to stock-based payment arrangements.*

[34] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160) refers to reconciliation of total equity balances. FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04) refers to analysis of changes of each caption of stockholders' equity, not a reconciliation of total equity balances. FASB ASC 480-10-S99-1 (CFRR 211, ¶¶ 1, 3) prohibit SEC registrants that have redeemable preferred stock to use a stockholders' equity heading inclusive of redeemable preferred stock. According to the SEC Regulations Committee, June 23, 2009, ¶ V.B, redeemable preferred stock in the equity reconciliation should not add up to total equity. A raw or supplemental table can show the allocation of net income to controlling interests, nonredeemable noncontrolling interests, and redeemable noncontrolling interests. Alternatively, if the equity reconciliation excludes redeemable preferred stock, a supplemental table would reconcile beginning and ending balances of redeemable noncontrolling interests. Net income would parenthetically explain the portion allocated to redeemable noncontrolling interests.*

(continued)

Exhibit 6-10 The Statement of Changes in Equity under U.S. GAAP: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Other equity accounts (*Continued*):					
Contributions from, and distributions to, owners, separately, and other transactions with owners in their capacity as owners[35]			Or#	Or	
Dividends[36]			Or#	Or	Not prohibited
The effects of changes in parent's ownership interest in a subsidiary on the equity attributable to the parent[37]				Separate schedule in the notes	
For LLCs, period changes in members' equity[38]		Or statement of operations		Or	Or a separate statement
Other transactions with owners in their capacity as owners[39]			Or#	Or	

[35] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[36] *FASB ASC 220-10-55-11, 220-10-55-12 (FASB Statement No. 130, ¶ 131) show dividends on the face of the statement of changes in equity. FASB ASC 810-10-50-1B (ARB 51, ¶ 39(c), as amended by FASB Statement No. 160) requires separate indication of distributions to owners either in the statement of changes in equity or in the notes. U.S. GAAP companies may also show dividends in the combined statement of income and retained earnings, or the statement of retained earnings, or in the notes. Of course, an entity may also disaggregate changes in retained earnings, including dividends, on the face of the statement of financial position. FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04) requires information of the aggregate and per share amounts of dividends for each class of shares in either the separate statement that effects the analysis of changes in equity (i.e., a statement of changes in equity) or in the notes.*

[37] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(d), as amended by FASB Statement No. 160); FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*

[38] *FASB ASC 272-10-45-1 (Practice Bulletin No. 14,* Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships, *¶ 8). Such information is due either in a separate statement, or together with the statement of operations, or in the notes.*

[39] *FASB ASC 810-10-50-1A (ARB 51, ¶ 38(c), as amended by FASB Statement No. 160).*

Exhibit 6-11 The Statement of Changes in Equity under IFRSs: Display and Disclosure Requirements Contrasted with Other Statements

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Cumulative retroactive adjustments[1]			Yes[#]		
An investor's share of an associates' retroactive adjustments			[2]		
Profit or loss:					
Profit or loss[3]	Yes[#]	Here or in the income statement[#]			As part of retained earnings
Attribution of profit or loss to controlling and noncontrolling interests, separately[4]	Yes[#]	No, only in the income statement[#]			
Changes in the balances of each component of equity (such as each class of contributed equity, retained earnings, and each class of AOCI) resulting from profit or loss[a]			Yes [#]		

"Or" identifies alternative means of presentation or disclosure.
[#]Items for which separate presentation on the face of the appropriate statement under the option selected is mandatory.
This Exhibit does not repeat the list of items of other comprehensive income for which IFRSs require separate display, or parenthetical explanation, or for which it permits separate presentation in a statement or note disclosure. The chapter on the statements of income and its Exhibits include this inventory. This Exhibit does not include additional items that entities may decide to disclose based on disaggregation guidance.
[1]IAS 1, ¶¶ 89, 106(b), 110; IAS 8, ¶¶ 22, 26, 42.
[2]IAS 28 prior to the amendments made by the 2007 Revision of IAS 1 used to refer to changes in the investee's equity recognized directly in the investee's equity, and not only to other comprehensive income. It used to require separate presentation of those adjustments in the statement of changes in equity. Therefore, arguably that separate presentation also applies to changes in accounting policies and corrections of errors.
[3]IAS 1, ¶¶ 83(b), 84, 106(a), IG Part I.
[4]IAS 1, ¶¶ 83(a), 84, IG Part I; IAS 27 (2010), ¶ 28.
[a]IAS 1, ¶¶ 106(d), 108, IG Part I.

(continued)

Exhibit 6-11 The Statement of Changes in Equity under IFRSs: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Each item of other comprehensive income (OCI):					
Each item of OCI during the period, if the entity elects net display, classified based on nature[b]	Yes #	Yes #	Detail of gross amounts of OCI arising in the period and of reclassification adjustments, separately		
The portion of each item of OCI arising in the current period, if the entity elects gross display, classified based on nature[b]	Or#	Or#			
Reclassification adjustments of each item of OCI, if the entity elects gross display[b]	Or#	Or#			
Income tax related to OCI, if an entity elects gross display of tax. If the entity elects net-of-tax display, it shows each component of OCI net of tax[5]	Yes#	Yes#		Detail of tax, before-tax, and after-tax amounts relating to each component of OCI	
Attribution of each component of other comprehensive income to controlling and noncontrolling interests[6]	No requirement	No requirement	No requirement	No requirement	

Changes in the balances of each component of equity (such as each class of contributed equity, retained earnings, and each class of AOCI) resulting from each item of other comprehensive income[7]			Or#	Or
Total other comprehensive income (OCI):				
Total OCI	Shown in IAS 1, IG but not required	Shown in IAS 1, IG but not required		
Changes in the balances of each component of equity (such as each class of contributed equity, retained earnings, and each class of AOCI) resulting from other comprehensive income[a]			Yes#	
Total comprehensive income (CI):				
Total CI[8]	Yes#	Yes#	Yes#	
Attribution of total CI to controlling and noncontrolling interests, separately[9]	Yes#	Yes#	Yes#	

[b]IAS 1, ¶¶ 82(g), 82(h), 84, 92, 94, IG Part I.
[5]IAS 1, ¶¶ 90, 91, IG Part I. The example of note disclosure in the Implementation Guidance of IAS 1 does not detail income tax effect of reclassification adjustments.
[6]IAS 27 (2010), ¶ 28. However, IAS 1 does not show the attribution of each component of other comprehensive income, but only of total comprehensive income. Arguably, the requirement in IAS 27 refers to consolidation procedures.
[7]IAS 1, ¶¶ 106A, 108, IG Part I.
[8]IAS 1, ¶ ¶82(i), 106(a), IG Part I.
[9]IAS 1, ¶¶ 83(b), 106(a), IG Part I.

(continued)

Exhibit 6-11 The Statement of Changes in Equity under IFRSs: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Accumulated balance of each class of other comprehensive income (AOCI):					
Total AOCI[10]			Or	Or	Or
Reconciliation of the accumulated balance of each class of other comprehensive income (AOCI)[a]			Yes[#]		
Cumulative other comprehensive income relating to a noncurrent asset, disposal group, or subsidiary classified as held for sale			Yes[11#]		
Other equity accounts:					
For each class of share capital:[12] • number of shares authorized, issued and fully paid, issued and not fully paid • par value per share, or the fact that there is no par value • a reconciliation of number of outstanding shares • rights, preferences, and restrictions on dividends and repayment of capital • own shares held by the entity, subsidiaries or associates			Or	Or	Or

• shares reserved for issue under options and similar contracts an respective terms and amounts			
For small and medium-sized entities: issue of shares and treasury shares transactions	Yes[13#]		
For small and medium-sized entities operating in a hyperinflationary economy: restatement of equity components	Yes[14#]		
Nature and purpose of each equity reserve[15]	Or	Or	Or
Reconciliation of the balances of retained earnings[a]	Yes[#]		
Reconciliation of the balances of each class of contributed equity arising from transactions with owners and contributions from, and distributions to, owners, separately[16a]	Yes[#]		

[10]*IFRSs use the expression "accumulated balance of each class of other comprehensive income", not accumulated other comprehensive income (for example, IAS 1, ¶ 108). There is no specific separate display requirement for total AOCI. The chapter on the statement of financial position and its Exhibits illustrate specific requirements to display the accumulated balances of certain items of OCI. However, IAS 1, ¶¶ 77, 78(e) requires a subclassification of equity capital and reserves, such as paid-in capital, share surplus, and reserves, either in the statement of financial position or in the notes. In addition, IAS 1, ¶ 79(b) requires a description of the nature and purpose of each reserve within equity either in the statement of changes in equity, in the statement of financial position, or in the notes.*

[11]*IFRS 5, ¶ 38.*

[12]*IAS 1, ¶ 79(a). Some companies insert such information in a separate column in the statement of changes in equity.*

[13]IFRS for SMEs, *¶ 6.3(c).*

[14]IFRS for SMEs, *¶ 31.10.*

[15]*IAS 1, ¶ 79(b).*

[16]*Reconciliation of equity balances may include certain items presented as separate components of equity, for example the equity component of a compound instrument under IAS 32, ¶ AG 32.*

(continued)

Exhibit 6-11 The Statement of Changes in Equity under IFRSs: Display and Disclosure Requirements Contrasted with Other Statements *(Continued)*

	Statement of Comprehensive Income	*Statement of Income and Comprehensive Income*	*Statement of Changes in Equity*	*Notes*	*Statement of Financial Position*
Other equity accounts (*Continued*):					
Aggregate and per share amounts of dividends recognized in the period[17]			Or[#] For small and medium-sized entities: separate presentation of dividends declared and paid or payable during the period either in SOCIE or in the statement of income and retained earnings[18#]	Or	
Adjustment of the carrying amount of dividends payable for the change in fair value of noncash assets to be distributed to owners				[19]	
Changes in ownership interests in subsidiaries with no loss of control[a]			Yes[#]		
Reconciliation of the balances of other components of equity[a]			Yes[#]		

[17] *IAS 1, ¶¶ 107, IG Part I.*
[28] IFRS for SMEs, *¶¶ 6.3(c), 6.5.*
[19] *IFRIC 17, ¶¶ 13, 16(b) simply mentions disclosure without specifying whether this may include presentation and in which statement.*

Exhibit 6-12 The Statement of Changes in Equity Contrasted with Other Statements under IFRSs before the 2007 Revision of IAS 1

	IFRSs (*) Prior To 2007 Amendments			
	SORIE	*SOCIE*	*Notes*	*Balance Sheet*
Total AOCI (1)			Or (2)	Or (2)
Beginning and ending amount of each item in AOCI, classified based on nature of each item	Or (3)		Or (3)	
Each item of OCI for the period (each item of net income/expense recognized directly in equity) (4)	Or	Or	No	
Total OCI for the period (net income/expense recognized directly in equity)	Or	Or	No	
Reclassification adjustments, if gross display	Not required but shown in IAS 1 IG		Display	
Reclassification adjustments, if net display	Not required but shown in IAS 1 IG			
Income tax related to OCI, gross display	Shown as single line in IAS 1 IG		Display	
Total CI (total recognized income and expense) (5)	Or	Or		As part of RE
Total net income (profit or loss for the period)	Or	Or		Segregated between RE and other reserves

SORIE: Statement of Recognized Income and Expense.
SOCIE: Statement of Changes in Shareholders' Equity.
CI: comprehensive income. OCI: other comprehensive income. AOCI: accumulated other comprehensive income.
(1) IFRSs had no term equivalent to AOCI.
(2) Description of the nature and purpose of each reserve within equity was required (IAS 1, Para. 76(b)). In addition, disclosure was permitted as a subclassification (IAS 1, Para. 75(e)).
(3) Also including separate disclosure of period changes (IAS 1, Para. 97(c))). Certain items had to be presented as separate components of equity.
(4) IAS 28, Para. 39 requires disclosure of the investor's share of changes recognized directly in the associate's equity, but IAS 1 did not mandate separate presentation.
(5) Showing separately total amounts attributable to equity holders of the parent and to minority interest.

Exhibit 6-13 Items of the Statement of Changes in Equity Specific to Certain Specialized Industries

Statement of Changes in Equity or Changes in Net Assets of Investment Companies

Category or Caption	*IFRSs*[1]	*U.S. GAAP*[2]	*SEC Guidance*[3]
Changes in net assets resulting from operations due to net investment income	Detail of comprehensive income is prohibited	– Changes in net assets resulting from operations:[4] • net investment income or loss[#]	– Item 1, Operations[#] • investment income-net[#]
Changes in net assets resulting from operations due to net realized gains and losses	As above	– As part of changes in net assets resulting from operations: • net realized gains (losses) from investments[#] • net realized gains (losses) from foreign currency transactions	– As part of Item 1: • realized gain (loss) on investments – net of any Federal or other income taxes[#]

This Exhibit reports only items that are specific to certain specialized industries. All other items common to other companies irrespective of the type of industry may apply, as appropriate. This Exhibit do not repeat those items. Occurrences mentioned are based on requirements in accounting pronouncements, although they should not be construed as being exclusive. This Exhibit does not include any statutory accounting practices.

[#] *Items for which separate presentation on the face of the appropriate statement is mandatory.*

**Parenthetical explanation.*

[1] *IFRSs have no specific requirements for the statement of changes in equity of investment companies. The general rules for all types of companies apply. This Exhibit simply includes references to specific topics that may affect investment companies. IFRSs permit the amendment of terminology as appropriate. Therefore, under IAS 1, ¶¶ 6, 80 and IAS 32, ¶¶ 18, IE32, BC7, BC8, entities such as certain mutual funds that have net assets that does not meet the classification of equity under IAS 32 or whose shares are entirely puttable instruments classified as liabilities under IAS 32 could use a statement of changes in net assets, as technically they have no equity. However, this is not possible if they have other components of net assets, such as items of accumulated other comprehensive income, to which equity classification applies as the entity has no obligation to deliver them to its unitholders.*

[2] *Based on FASB ASC 946-205-45-3, 946-205-45-4, 946-205-45-5 (AICPA Audit and Accounting Guide, INV, ¶¶ 5.28, 5.31, 5.40, 5.41, 7.65, 7.66, 7.67); FASB ASC 946-830-55-11 (AICPA Statement of Position No. 93-4,* Foreign Currency Accounting and Financial Statement Presentation for Investment Companies, *¶ Appendix B), unless differently stated.*

[3] *Based on FASB ASC 946-225-S99-3 (Regulation S-X, ¶ 210.6-09), unless differently stated. The SEC column indicates requirements in addition to what U.S. GAAP requires for nonpublic entities.*

[4] *FASB ASC 946-830-45-36, 946-830-45-37, 946-830-55-11 (AICPA Statement of Position No. 93-4, ¶¶ 34, 35, Appendix B.) An entity may either separately report the foreign currency effect of realized gains or losses from investments into foreign currency transactions or combine it with net realized gains or losses from investments. A company may report unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies separately or combine it with unrealized gains and losses on investments. However, the company must separately report all other realized or unrealized foreign currency gains and losses. Therefore, it must include realized gains or losses on interest and dividends in the realized gain or loss component of net realized gain or loss. It must include all unrealized foreign currency gains and losses other than those on investments in unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies. A note must disclose the accounting policy followed.*

(continued)

Exhibit 6-13 Items of the Statement of Changes in Equity Specific to Certain Specialized Industries *(Continued)*

Statement of Changes in Equity or Changes in Net Assets of Investment Companies

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Changes in net assets resulting from operations due to net unrealized gains and losses	Detail of comprehensive income is prohibited	– As part of changes in net assets resulting from operations: • net increase (decrease) in unrealized appreciation (depreciation) on investments[#] • net increase (decrease) in unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies • for nonregistered investment partnerships: changes in cumulative unrealized gains (losses) reported in the changes in net assets value and partners' capital for the reporting period[5] • net increase (decrease) in net assets resulting from operations[#]	– As part of Item 1: • appreciation or depreciation – net of any Federal or other income taxes[#] • net increase (decrease) in net assets resulting from operations[#]
Net equalization charges and credits	No specialized industry requirement	– Undistributed investment income included in the price of capital shares issued or reacquired, if the entity uses equalization accounting	– Item 2, Net equalization charges and credits: net amount of accrued undivided earnings separately identified in the price of capital shares issued and repurchased[#]
Distributions to shareholders	[6] [7]	– Less changes in net assets resulting from distributions to shareholders: (multiple class funds must present amounts for each class or disclose them in the notes) • dividends[8#] • tax return of capital distributions[#] • from net investment income[#] • from net realized gains on investments and foreign currency transactions[#]	– Item 3, Distributions to shareholders[#] • from investment income-net[#] • from realized gain from investment transactions-net[#] • from other sources[#]

[5]*AICPA, TIS Section 6910,* Investment Companies, *¶ 29.*
[6]*In presence of puttable shares, the classification of dividends as equity deduction or interest expense depends on whether such instruments are classified as equity or liabilities under IAS 32, ¶¶ 16A–16F.*
[7]*IAS 1, ¶¶ 135(a)(ii), 135(d), 136 require entities to disclose the type of any applicable regulatory capital requirements and their compliance with them in the financial statements. IAS 1, ¶¶ 79(a)(v), 80 require the disclosure of restrictions on distribution of dividends and repayment of capital for each class of share capital or equity interest.*
[8]*FASB ASC 946-20-50-8 (AICPA Audit and Accounting Guide, INV, ¶ 12.37).*

(continued)

Exhibit 6-13 Items of the Statement of Changes in Equity Specific to Certain Specialized Industries *(Continued)*

Statement of Changes in Equity or Changes in Net Assets of Investment Companies

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Capital share transactions	9	– Changes in net assets resulting from capital share transactions: (multiple class funds must present amounts for each class or disclose them in the notes) • net proceeds from sale of shares# • cost of shares repurchased# • dividends reinvested# • net change in net assets derived from share transactions# – For each class of shares, either in the statement or in the notes:[10] • the number and value of shares sold • the number and value of shares issued in reinvestment of distributions • the number and cost of shares reacquired • the net change – Changes in net assets resulting from capital contributions:# • master funds must report capital transactions from feeder funds as contributions# • master funds must report capital transactions to feeder funds as withdrawals#	– Item 4, Capital share transactions • the number and amount received for shares sold (either in the statement or in the notes) • the number and amount paid for shares redeemed (either in the statement or in the notes) • the number and value of shares issued in reinvestment of dividends (either in the statement or in the notes) • increase or decrease in net assets derived from the net change in the number of outstanding shares or units#

[9] *Funds that hold repurchased shares in treasury before reselling to investors would show repurchases of own shares and sales of treasury shares. Funds that cancel repurchased shares and issue new ones would show items for repurchase and cancellation of shares, and issue of new shares. IAS 32, ¶ AG36 excludes holdings of own equity on behalf of third parties based on an agency relationship from treasury share presentation in the financial statements. IAS 1, ¶ 136A requires certain disclosures about puttable financial instruments classified as equity. In particular, they include objectives, policies, and processes relating to obligations to repurchase or redeem those instruments. In addition, IAS 1, ¶¶ 136A(c), 136A(d) require information of the expected cash outflow on their redemption or repurchase and the computation method used. Under IAS 39, ¶ IG E.2.1 this may translate into disclosing these figures calculated according to redemption requirements of the fund and contrasting them with those calculated under IFRS 9, ¶¶ B5.4.4, B5.4.5 (former IAS 39, ¶¶ AG72, AG73). IAS 1, ¶ 80A also requires disclosure about reclassifications of puttable financial instruments and similar instruments between equity and liabilities, and related timing and reasons. IAS 32, ¶ AG29A requires liability classification of noncontrolling interests of those instruments that are classified as equity.*

[10] *FASB ASC 946-505-50-2 (AICPA Audit and Accounting Guide, INV, ¶ 7.66). Some companies insert such information in a separate column in the statement of changes in equity.*

(continued)

Exhibit 6-13 Items of the Statement of Changes in Equity Specific to Certain Specialized Industries *(Continued)*

Statement of Changes in Equity or Changes in Net Assets of Investment Companies

Category or Caption	*IFRSs*	*U.S. GAAP*	*SEC Guidance*
Total change in net assets	– Changes in total equity, for entities whose only shares or interest instruments are classified as equity under IAS 32 and the entity has other components of equity that embody no obligation to deliver to its shareholders – Changes in net assets attributable to unitholders, for entities (mutual funds, unit trusts, etc.) with only share or interest instruments that are not classified as equity under IAS 32 or with only share capital repayable on demand or similar puttable instruments that do not meet the criteria for equity classification under IAS 32[11] – Memorandum note totalization, for entities with both shares or interest instruments classified as liability under IAS 32 and other components of equity that embody no obligation to deliver to its shareholders[12]	– Net increase (decrease) in net assets[#]	– Item 5, Total increase (decrease)
Net assets	No specialized industry requirement	– Net assets • beginning of period[13#] • end of period (including undistributed net investment income of $ . . . .)[14#*]	– Item 6, Net assets at the beginning of the period[#] – Item 7, Net assets at the end of the period (including undistributed net investment income of $ . . . .)[#*]

[11] *Under IAS 32, ¶¶ IE32, 18, BC7, BC8 this may apply to entities whose net assets do not meet the requirements for equity classification under IAS 32 or whose shares are entirely puttable instruments classified as liabilities under IAS 32. In addition, investment companies are subject to the capital disclosures under IAS 1, ¶¶ 134–136.*
[12] *IAS 32, ¶¶ IE33.*
[13] *FASB ASC 946-505-50-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.66).*
[14] *FASB ASC 946-505-50-3 (AICPA Audit and Accounting Guide, INV, ¶ 7.66). The figure must match with ending net assets in the statement of net assets or in the statement of assets and liabilities.*

(continued)

Exhibit 6-13 Items of the Statement of Changes in Equity Specific to Certain Specialized Industries *(Continued)*

Statement of Changes Equity of Financial Institutions

IFRSs	*U.S. GAAP and SEC Guidance*[15]
Other equity accounts:	
No specialized industry requirement	– Dividends on redeemable preferred stock of a parent, when it classifies preferred stock in temporary equity[16]

Statement of Changes Equity of Insurance Entities

IFRSs	*U.S. GAAP*
Accumulated balance of each class of other comprehensive income (AOCI):	
– As part of the reconciliation of the accumulated balance of each class of other comprehensive income: under an election of shadow accounting, if there is a direct contractual link between payments to policyholders and the carrying amount of, or returns from, owner-occupied property measured at revaluation model under IAS 16, an entity recognizes the changes in the insurance liability (or related deferred acquisition costs or related intangible assets) resulting from revaluations of the property in revaluation surplus[17]	
Other equity accounts:	
	– Reclassification of retained earnings to capital stock and additional paid-in capital as of the date of a distribution-form demutualization[18] – A distribution of cash or credits to policyholders in lieu of capital stock as part of a distribution-form demutualization, presented as a direct reduction to the appropriate capital account

Statement of Changes in Net Assets Available for Benefits of Employee Benefit Plans

See Exhibit 4-16 and Exhibit 4-17.

[15]*Article 9 of Regulation S-X has no specific requirements for the statement of changes in equity of bank holding companies. However, FASB ASC 942-10-S99-2 (Regulation S-X, ¶ 210.9-02) extends the general rules of Articles 1, 2, 3, 3A, and 4 of Regulation S-X to bank holding companies, including Rule 3-04 for changes in stockholder equity and noncontrolling interest (see Paragraph 1.A.2). FASB ASC 942-10-S99-4 (SAB 11-K) extends Article 9 of Regulation S-X and Industry Guide 3 to other registrants with material lending and deposit activities, to the extent they are relevant to the understanding of their operations.*
[16]*FASB ASC 942-405-45-2 (AICPA Statement of Position No. 01-6, ¶ 14.l).*
[17]*IFRS 4, ¶¶ 30, IG10, BC180.*
[18]*FASB ASC 944-805—45-4. However, it does not mention any manner of presentation or disclosure and the respective statement.*

6.6.2 Parenthetical Explanation

The Exhibits mentioned above state when parenthetical explanation is an option. Those occurrences are marked with an asterisk.

6.6.3 Disaggregation Guidance

Paragraph I.A.1 above illustrates the minimum presentation and disclosure requirements of the statement of changes in equity. Under both U.S. GAAP and IFRSs, additional items may warrant presentation, as materiality governs the aggregation in classes of similar items or the disaggregation of items of a dissimilar nature or function. In addition, IAS 1 acknowledges that descriptions and order of presentation are subject to change depending on the situation of the specific entity.[239]

IAS 1 requires the reconciliation of each component of equity in the statement of changes in equity, including different classes of contributed capital, retained earnings, and the several items of accumulated other comprehensive income.[240]

Planning Point: The Implementation Guidance of IAS 1 appears not to be so rigid. The Implementation Guidance of the December 2005 revision of IAS 1 showed share capital, retained earnings, and other reserves (or each separately, if material) in columns. The Implementation Guidance of the 2007 revision of IAS 1 showed separate columns for individual components of accumulated other comprehensive income (such as translation of foreign operations, available-for-sale financial assets, cash flow hedges, revaluation surplus) in place of the former term reserves. Arguably, the level of disaggregation of the columns of the statement of changes in equity depends on relevance and materiality. Conservatively, an entity would do better to separately indicate each component of equity. Paragraph I.A.3 above illustrates this point with reference to cumulative other comprehensive income relating to a noncurrent asset, a disposal group, or a subsidiary classified as held for sale.

Example: The SEC, in its review of the Form 20-F of a Spanish foreign private issuer for the year ended December 31, 2005 containing financial statements prepared for the first time on the basis of IFRSs, required separate disclosure of retained earnings, legal reserve, and revaluation reserve that were combined under the heading "Other reserves".[241]

Comment: On the other hand, the statement of financial position or the notes may break down equity capital into share capital and share premium, and further disaggregate reserves.[242] But this refers to the ending balances themselves, not to the explanation of the movements that determined ending equity balances.

[239] *IAS 1, ¶ IG1.*
[240] *IAS 1, ¶¶ 106(d), 108.*
[241] *SEC IFRS Reviews. Letter by the SEC, September 20, 2006. File Nos 1-09531 and 1-15158, Comment 14. Replies by the company, October 18, 2006 and February 2, 2007.*
[242] *IAS 1, ¶ 78.*

An entity may explain the nature and purpose of each equity reserve either in the statement of changes in equity, or in the statement of financial position, or in the notes.[243] The IASB version of the *Financial Statement Presentation Project* would confirm this.[244]

Example: The SEC, in its review of the Form 20-F of a French foreign private issuer for the year ended March 31, 2006 containing financial statements prepared for the first time on the basis of IFRSs, required disclosure of nondistributable reserves, and the nature and computation of the statutory reserve balance. The company explained that statutory reserve included appropriations made by annual shareholders' meetings, and disclosed that nondistributable reserves comprised cash flow hedge reserve, available-for-sale securities reserve, and undistributed earnings of consolidated subsidiaries.[245]

The statement of changes in equity, or in the statement of financial position, or in the notes must also disclose certain details on each class of share capital, as Exhibit 6-11 illustrates.[246] Some companies insert such information in a separate column in the statement of changes in equity.

Depending on jurisdiction, additional disclosures of reserves from other perspectives, such as defense of capital, may be required. Sometimes, they may be framed within general requirements in IFRSs.

Example: The Italian Civil Code and Italian accounting principles require the disclosure of the sources of reserves, their actual use in the last three annual periods, and their future availability and distributability.[247] While IFRSs have no such requirement, it indeed requires information on the nature and purpose of each equity reserve, as mentioned above.

Each country may have introduced specific display or disclosure requirements for reserves required by IFRSs.

Example: In Italy, the operating guidelines by OIC,[248] the Italian standard setter, required that IFRS first-time adopters displayed changes in the opening balance of retained earnings under IFRS 1 as separate subreserves, with appropriate disclosures, based on the nature of items that determined such changes (such as prior period profit or loss, translation adjustments, fair value measurement). It required separate presentation of a fair value reserve based on the type of instruments or transactions from which it arose (such as available-for-sale financial assets, etc.).

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[243] *IAS 1, ¶ 79(b).*
[244] *Staff Draft, ¶ 132.b.*
[245] *SEC IFRS Reviews. Letter by the SEC, December 1, 2006. File No. 001-32139, Comment 26.4. Reply by the company, January 12, 2007.*
[246] *IAS 1, ¶ 79(a).*
[247] *Italian Civil Code, Art. 2427.7-bis; OIC – Organismo Italiano di Contabilità, Principio Contabile No. 28,* Il Patrimonio Netto*, ¶ IV.*
[248] *OIC – Organismo Italiano di Contabilità, October 2005.* Guida Operativa per la Transizione ai Principi Contabili Internazionali (IAS/IFRS)*, pages 102–103.*

6.7 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating IFRSs financial statements arising from the issues discussed in the chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraphs I.A.1, I.A.3, I.A.1, and I.A.2

Place the IFRS statement of changes in equity within a complete set of financial statements, irrespective of the type of industry;

Understand under what circumstances the statement of changes in equity would be required under U.S. GAAP and whether alternative statements or note disclosure would be possible;

Compare the combinations of statements available under IFRSs and U.S. GAAP to report profit or loss, comprehensive income and reconcile equity balances.

Paragraphs I.A.4 and I.A.5

Understand the display or disclosure alternatives for reporting changes of equity by an SEC registrant depending on whether or not it has items of other comprehensive income;

Understand what items of changes in equity an SEC registrant must separately display or disclose;

Check that an SEC registrant with redeemable preferred stock does not report a total equity balance;

Understand the options available to SEC registrants to present or disclose controlling and noncontrolling interests in redeemable preferred stock;

Understand the impact on U.S. GAAP reconciliation and on U.S. GAAP supplemental statements of presenting a statement of changes in equity under IFRSs or local GAAP by foreign private issuers;

Understand the accommodations given to certain foreign private issuers for reporting accumulated other comprehensive income and each component of the accumulated balances of other comprehensive income.

Paragraph I.A.5

Qualifying small and medium-sized entities must decide whether to use the IFRS accommodation to present a statement of income and retained earnings.

Paragraph I.A.4

Show changes in retained earnings separately in the IFRS statement of changes in equity;

Compare the combinations of statements available under U.S. GAAP to report changes in retained earnings.

Paragraphs I.A.1, I.A.2, and I.A.7

Review available formats of the statement of changes in equity under IFRSs and U.S. GAAP;

Understand and compare the different concepts underlying those different formats;

Understand how the statement of changes in equity under IFRSs follows an unreconciled format.

Paragraph I.A.3
Unlike under U.S. GAAP, IFRSs do not display details of comprehensive income in the statement of changes in equity;
Understand the formatting implications of such a prohibition.

Paragraph I.A.4
Understand the nature of retrospective accounting adjustments as reconciling items;
Understand the presentation and disclosure implications.

Paragraph I.A.5
Understand the intricacies of attributing net income, other comprehensive income, and comprehensive income to controlling and noncontrolling interests in different statements under IFRSs and U.S. GAAP;
Understand the formatting implications.

Paragraph I.A.6
Compare equity reconciliation presentation and disclosure alternatives under IFRSs, U.S. GAAP, and SEC guidance;
Understand the presentation and disclosure implications;
Understand the subtleties of disclosing interests in subsidiaries with no loss of control under IFRSs, U.S. GAAP, and SEC guidance.

Paragraph I.A.10
Figure out how an accounting information system could move from U.S. GAAP to IFRS format of presentation of the statement of changes in equity.

Paragraph I.A.11
Review specific presentation and disclosure requirements for development stage enterprises.

Paragraph I.A.3
Review the separate display requirements of cumulative other comprehensive income relating to a noncurrent asset, disposal group, or subsidiary classified as held for sale under IFRSs.

Paragraph I.A.4
Review local laws and jurisdictional accounting rules on defense of capital, distributability of profits, segregation and appropriations of equity reserves, including their tax impact, and related presentation and disclosure requirements that may arise in connection with the adoption of IFRSs.

OTHER CONTROL POINTS

Paragraphs I.A.2 and I.A.3
Under IFRSs, use the title "statement of changes in equity", except under specific circumstances in certain specialized industries.

Paragraphs I.A.5
Figure out what additional items small and medium-sized entities using the statement of changes in equity have to present separately as compared to full IFRSs.

Paragraph I.A.8
Select the gross or net display formats of presenting reclassification adjustments.

Paragraph I.A.9
Select the gross-of-tax or net-of-tax display formats of presenting items of other comprehensive income;
Understand the differences in presentation and disclosure under IFRSs and U.S. GAAP.

Paragraphs I.A.1 and I.A.4
Review the presentation differences concerning balances of total accumulated other comprehensive income and of each component thereof under IFRSs, U.S. GAAP, and SEC guidance.

Paragraph I.A.2
Review the differences between IFRSs and U.S. GAAP in presenting an investor's share of other comprehensive income and retrospective adjustments of an equity method investee.

Paragraph I.A.5
Compare the presentation and disclosure options under IFRSs, U.S. GAAP, and SEC guidance for:

- aggregate dividends;
- dividends per share;
- dividends of puttable shares;
- dividends proposed or declared after the reporting date;
- cumulative dividends in arrears;
- dividend rights, preferences, restrictions, and currency and other features;

Consider the accommodation, under certain circumstances, to present dividends in the statement of income and retained earnings under IFRS for small and medium-sized entities.

Paragraph I.A.1
Review items that an entity must display on the face of the statement of changes in equity, those that it may not present there, those that it may present in this statement or disclose in the notes, and those that it may show in the statement of changes in equity as well as in other statements;
Compare above points under IFRSs, U.S. GAAP, and SEC guidance.

Paragraph I.A.3
Review the applicability of general disaggregation guidance criteria to the statement of changes in equity;
Review additional disclosures related to items of changes in equity;
Be aware of jurisdictional disclosure requirements.

7 DUAL REPORTING FOR INTERIM FINANCIAL STATEMENT

7.1 CHAPTER PREVIEW

This chapter analyzes and compares interim reporting under IFRSs, U.S. GAAP, and SEC rules and regulations. It should be read in conjunction with Paragraph 2.15 previously, which focuses on first IFRS interim financial statements.

The chapter first explains where interim reports depart from generally accepted accounting principles. This way, it distinguishes recognition and disclosure from presentation and disclosure, and the election for complete versus summarized financial information.

Then, it goes in depth into the effects of using IAS 34, concerning the simplified reporting under IFRSs and the effects on Form 20-F for foreign private issuers, on the U.S. GAAP reconciliations, the use of the U.S. GAAP condensed information option in the year of transition to IFRSs, and the application of Section 270-10-S99 (Rule 10-01 of Regulation S-X).

It explains the use of interim information in reports to shareholders, quarterly reports, and Form 20-F according to the age requirements and the update of more current information.

Furthermore, the chapter catalogs different types of entities and their use of interim information. It compares the definition of a publicly held company in several IFRSs, U.S. GAAP, and SEC pronouncements. It also explains the effect for companies reporting under IFRS for small and medium-sized entities that make up part of a group reporting under full IFRSs. It compares interim reporting in consolidated versus separate versus entity's financial statements. Finally, it explains the SEC guidance for interim reporting of other entities included in a registrant's document.

After comparing the discrete approach of IAS 34 to the integral approach Subtopic 270-10 (APB 28) and specific implications, the chapter continues with analyzing the effects of using IASB-IFRS versus a jurisdictional version of IFRSs in SEC filings.

It provides important tools for dual reporting to compare periods, comparative information, and the set of financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations.

Finally, it explains the meaning of condensed interim financial statements and their implications, and instructs the reader on their compilation. The analysis of specific items in interim reports falls outside the scope of this chapter.

Exhibit 7-1 Other IFRS Pronouncements that Refer to Interim Reporting

- IFRS 8*, Operating* Segments;
- IFRS 3, *Business Combinations*;
- IFRS 13, *Fair Value Measurement*;
- IAS 1, *Presentation of Financial Statements*;
- IAS 33, *Earnings per Share*;
- IAS 39, *Financial Instruments: Recognition and Measurement*.

7.2 ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL STATEMENTS

7.2.1 Principal Accounting Pronouncements on Interim Financial Information

7.2.1.1 IFRSs IAS 34, Interim Financial Reporting, and IFRIC 10, Interim Financial Reporting and Impairment, are the main IFRS pronouncements on interim reporting. Other authoritative literature that explicitly refers to this subject includes IFRS 1, First-Time Adoption of International Financial Reporting Standards, as well as other Standards and Interpretations that on occasion dictate specific treatments for the purpose of interim financial statements,[1] such as those listed in Exhibit 7-1.

7.2.1.2 U.S. GAAP Under U.S. GAAP, Subtopic 270-10 (Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, as amended), is the main source on interim reporting, complemented by other pronouncements, such as those mentioned in Exhibit 7-2. Of course, under both U.S. GAAP and IFRSs, many authorative pronouncements require or permit specific transitional provisions in the interim periods of their initial application.

7.2.1.3 SEC Rules and Regulations An SEC registrant has to follow Section 270-10-S99 (Regulation S-X § 210.10-01) and appropriate Items of Regulation S-K. In registration statements and prospectuses under the Securities Act of 1933 and initial registration statements under the Exchange Act of 1934, a foreign private issuer will follow the appropriate Items of Form 20-F, also depending on the provisions on age of financial statements (see Paragraph 7.3.4 following). Exhibit 7-3 reports the main SEC sources on interim financial information.

7.2.2 Whether Interim Reports Comply with GAAP

7.2.2.1 General Applicability of GAAP IFRSs, with some exceptions, generally apply to all types of general purpose financial statements, including interim financial statements. In addition, most of the general features of IAS 1 are common to all types of financial statements.[2] However, IAS 34 or IFRIC 10 explicitly override some of the IFRS requirements or limit their disclosures, as the following paragraphs illustrate.

Likewise, Subtopic 270-10 (APB 28) affirms that the results of interim periods must be in accordance with GAAP used for annual financial statements, although it provides for selected modifications.[3]

[1] *IAS 34, ¶ 18, prior to its deletion by* Improvements to IFRSs *(May 2010), also acknowledged that other IFRSs include disclosure for reports other than annual financial statements.*

[2] *IAS 1, ¶ 4.*

[3] *FASB ASC 270-10-45-2 (APB 28, ¶ 10).*

Exhibit 7-2 Other U.S. GAAP Pronouncements that Refer to Interim Reporting

- FASB ASC 250-10 (FASB Statement No. 16, *Prior Period Adjustments*);
- FASB ASC 932-10 (FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*);
- FASB ASC 932-235 (FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*);
- FASB ASC 715-30 (FASB Statement No. 87, *Employer's Accounting for Pensions*);
- FASB ASC 715 (FASB Statement No. 88, *Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*);
- FASB ASC 230-10 (FASB Statement No. 95, *Statement of Cash Flows*);
- FASB ASC 715 (FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*);
- FASB ASC 825-10 (FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*);
- FASB ASC 740 (FASB Statement No. 109, *Accounting for Income Taxes*);
- FASB ASC 718 (FASB Statement No. 123(R), *Share-Based Payment*);
- FASB ASC 260-10 (FASB Statement No. 128, *Earnings per Share*);
- FASB ASC 505-10 (FASB Statement No. 129, *Disclosure of Information about Capital Structure*);
- FASB ASC 220-10 (FASB Statement No. 130, *Reporting Comprehensive Income*);
- FASB ASC 280-10 (FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*);
- FASB ASC 715 (FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*);
- FASB ASC 805 (FASB Statement No. 141R, *Business Combinations*);
- FASB ASC 350 (FASB Statement No. 142, *Goodwill and Other Intangible Assets*);
- FASB ASC 250-10 (FASB Statement No. 154, *Accounting Changes and Error Corrections: a replacement of APB Opinion No. 20 and FASB Statement No. 3*);
- FASB ASC 820-10 (FASB Statement No. 157, *Fair Value Measurements*);
- FASB ASC 715 (FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)*);
- FASB ASC 825-10 (FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*);
- FASB ASC 815-10 (FASB Statement No. 161, *Disclosure about Derivative Instruments and Hedging Activities*);
- FASB ASC 944 (FASB Statement No. 163, *Financial Guarantee Insurance Contracts*);
- FASB Accounting Standards Update No. 2009-12, *Topic 820, Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*;
- FASB Accounting Standards Update No. 2009-13, *Topic 605, Multiple-Deliverable Revenue Arrangements*;
- FASB Accounting Standards Update No. 2009-14, *Topic 985, Certain Revenue Arrangements That Include Software Elements*;
- FASB Accounting Standards Update No. 2009-15, *Own-Share Landing Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*;
- FASB Accounting Standards Update No. 2010-6, Topic 820, *Improving Disclosures about Fair Value Measurements*;
- FASB Accounting Standards Update No. 2010-19, *Topic 830, Foreign Currency Issues: Multiple Foreign Currency Exchange Rates*;
- FASB ASC 740-270 (FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*);
- FASB ASC 740-270 (FASB Technical Bulletin No. 79-9, *Accounting in Interim Periods for Changes in Income Tax Rates*);
- FASB ASC 330-10 (EITF Issue No. 86-13, *Recognition of Inventory Market Declines at Interim Reporting Dates*);
- EITF Issue No. 89-8, *Expense Recognition for Employee Stock Ownership Plans*;
- EITF Issue No. 95-7, *Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts*;
- FASB ASC 505 (EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*);
- FASB ASC 840-10 (EITF Issue No. 98-9, *Accounting for Contingent Rent*);
- FASB ASC 605-45 (EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*);
- FASB ASC 605-45 (EITF Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*);

(continued)

Exhibit 7-2 Other U.S. GAAP Pronouncements that Refer to Interim Reporting (*Continued*)

- FASB ASC 720-20 (EITF Issue No. 03-8, *Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity*);
- FASB ASC 605-45 (EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*);
- FASB Staff Position FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*;
- FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*;
- FASB Staff Position FAS 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*.

Exhibit 7-3 Main SEC Rules and Regulations on Interim Financial Information

- Regulation S-X, § 210.3-01, *Consolidated Balance Sheets*;
- Regulation S-X, § 210.3-02, *Consolidated Statements of Income and Changes in Financial Positions*;
- Regulation S-X, § 210.3-05, *Financial Statements of Business Acquired or to Be Acquired*;
- Regulation S-X, § 210.3-09, *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons*;
- FASB ASC 470-10-S99-1 (Regulation S-X, § 210.3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*);
- Regulation S-X, § 210.3-16, *Financial Statements of Affiliates whose Securities Collateralize an Issue Registered or Being Registered*;
- FASB ASC 270-10-S99-1 (Regulation S-X, § 210.10-01, *Interim Financial Statements*);
- Regulation S-X, § 210.8-03, *Interim Financial Statements*;
- Regulation S-X, § 210.8-04, *Financial Statements of Business Acquired or to Be Acquired*;
- Regulation S-X, § 210.8-08, *Age of Financial Statements*;
- Regulation S-K, § 229.301, *Selected Financial Data*;
- Regulation S-K, § 229.303, *Management's Discussion and Analysis of Financial Condition and Results of Operations*;
- Regulation S-K, § 229.304, *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*;
- Regulation S-K, § 229.305, *Quantitative and Qualitative Disclosures about Market Risk*;
- Regulation S-K, § 229.307, *Disclosure Controls and Procedures*;
- Regulation S-K, § 229.308, *Internal Control over Financial Reporting*;
- Form 10-Q;
- Form 10-QSB;
- Form 20-F, in particular General Instruction G(f)(2), Item 3.A, Item 5, Item 8.A.5, Item 11(c), Item 16F, Item 17(c)(2)(i);
- FASB ASC 270-10-S99-2 (SEC Staff Accounting Bulletin No. 6-G, Accounting Series Releases 177 And 286-Relating To Amendments To Form 10-Q, Regulation S-K, And Regulation S-X Regarding Interim Financial Reporting).

Planning Point: For ongoing IFRS entities adherence to IAS 34 is not sufficient to claim compliance with IFRSs.[4] Similarly, summarized interim financial information under Subtopic 270-10 (APB 28) is not sufficient to comply with fair presentation under GAAP.[5] IAS 34 is clearer than APB 28 on the consequences of complying with IAS 34 and not with full IFRSs on an interim basis. It explains that whether or not an interim period report complies with IAS 34 or IFRSs does not prevent annual financial statements from complying with IFRSs.[6]

[4] *IAS 34, ¶ 19.*

[5] *FASB ASC 270-10-50-1 (APB 28, ¶ 30, Footnote 7).*

[6] *IAS 34, ¶ 2.*

Under Regulation S-X, the general form and content of presentation of financial statements also governs interim financial statements,[7] although there are some abbreviation features.

7.2.2.2 Impact of Full versus Condensed Interim Financial Statements Both Subtopic 270-10 (APB 28) and IAS 34 distinguish between complete financial statements and summarized interim financial information or data (under IAS 34, condensed).[8] The choice of condensed financial statements as opposed to a full format is a first type of reservation in complying with a complete body of GAAP at interim dates.

> **Planning Point:** The requirements of IAS 1 for the structure and content of annual financial statements do not apply to condensed interim financial statements.[9] On the other hand, IAS 34 simply views the condensed format as a minimum content.[10] However, *Improvements to IFRSs* published in May 2010 deletes this qualification as a minimum content, but only with reference to disclosures other than selected explanatory notes.[11]

> **Planning Point:** Subtopic 270-10 (APB 28) does not provide different guidance relating to presentation in condensed versus complete financial statements. However, it limits the types of disclosures to be reported in summarized interim financial statements in the case of publicly traded companies, as discussed below. However, APB 28 does not say under what circumstances interim financial statements should or could be in summarized format.

7.2.2.3 Recognition and Measurement Subtopic 270-10 (APB 28) modifies certain recognition and measurement practices under U.S. GAAP for the purpose of the application at interim dates, in order to better relate interim to annual results.[12] IAS 34 recognition and measurement apply in the case of complete interim financial statements.

> **Planning Point:** On recognition and measurement, APB 28 does not distinguish publicly traded companies from other entities.

7.2.2.4 Limitation of Disclosures IAS 34 limits disclosures in interim financial statements.

> **Planning Point:** IAS 34 used to call such disclosures selected explanatory notes. The May 2010 amendments rephrase them as significant events and transactions and other disclosures.[13] IAS 34 used to exempt condensed interim financial statements from the full set of disclosures that are contained in other IFRSs. However, *Improvements to IFRSs* (May 2010), effective for annual periods beginning on or after January 1, 2011 (with earlier application permitted), deleted this provision, but not in its

[7] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)).*
[8] *FASB ASC 270-10-05-1 (APB 28, ¶ 2); IAS 34, ¶¶ IN2, 4.*
[9] *IAS 1, ¶ 4.*
[10] *IAS 34, ¶¶ IN5, Objective, 6.*
[11] Improvements to IFRSs *(May 2010), Amendments to IFRS 1, ¶ 16A.*
[12] *FASB ASC 270-10-05-1, 270-10-45-2 (APB 28, ¶¶ 1, 10); APB 28, ¶ 8.*
[13] *IAS 34, ¶¶ 15, 16A.*

substance, to give prominence to the required disclosures rather than to exceptions. Now, the general principle of relevance prevails.[14] On the other hand, IAS 34 requires an interim update of relevant information disclosed in annual financial statements based on the requirements of other IFRSs.[15] Unlike Subtopic 270-10 (APB 28), IAS 34 does not give specific indications to public companies.

Subtopic 270-10 (APB 28) also seeks to define a minimum set of disclosures.[16] However, in doing that, it refers especially to those publicly traded companies that produce summarized interim financial information.[17] It explains that, although such disclosures make reporting meaningful,[18] they are not sufficient to comply with fair presentation under GAAP.[19]

Planning Point: Therefore, the minimum required disclosures in summarized interim data, in addition to appropriate recognition and measurement, would make interim reports of publicly traded companies meaningfully comply with Subtopic 270-10 (APB 28), but not necessarily with U.S. GAAP. Unlike IFRSs (Paragraph 7.2.2.1 previously), APB 28 does not go further to elucidate whether, and what more, public companies presenting summarized interim financial information under APB 28 must do to comply with U.S. GAAP. However, publicly traded companies also have to follow SEC rules and regulations, as applicable.

7.2.2.5 Election of Complete Interim Financial Statements An entity is not prevented from using full IFRSs in interim reporting.

Planning Point: In such a case, it must fully comply with each and every IFRS, also including IAS 34. Compliance with IAS 34, as well as a statement to this effect, is necessary to claim reporting in accordance with IFRSs on an interim basis. If an entity chooses to present complete interim financial statements, it must also include all the disclosures of IAS 34.[20] Similarly, under Subtopic 270-10 (APB 28) an entity may choose to prepare interim financial information through a complete set of financial statements, instead of summarized financial data.[21]

For registration statements filed with the SEC in the year of transition to IFRSs, a complete set of financial statements under IFRSs would also be accepted for the purpose of complying with the so-called “U.S. GAAP condensed information option” under Form 20-F.[22]

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14 *IAS 34, ¶ 18, prior to its deletion by* Improvements to IFRSs *(May 2010);* Improvements to IFRSs *(May 2010), ¶¶ 49, BC4.*
15 *IAS 34, ¶ 15C, as amended by* Improvements to IFRSs *(May 2010).*
16 *FASB ASC 270-10-10-01, 270-10-50-1 (APB 28, ¶¶ 6, 30).*
17 *FASB ASC 270-10-05-1, 270-10-10-01, 270-10-50-1, 270-10-50-2, 270-10-50-3, 270-10-50-4 (APB 28, ¶¶ 1, 2, 6, 30-33); APB 28, ¶ 8.*
18 *FASB ASC 270-10-15-3 (APB 28, ¶ 3).*
19 *FASB ASC 270-10-50-1 (APB 28, ¶ 30, Footnote 7).*
20 *IAS 34, ¶¶ 1, 3.*
21 *FASB ASC 270-10-05-1 (APB 28, ¶ 2).*
22 *Form 20-F, General instruction G(f)(2)(B)(iii); IPTF, May 17, 2005, ¶ Appendix B, Q8.*

7.2.2.6 Management's Discussion and Analysis For the purpose of management's discussion and analysis of financial condition and results of operations, an SEC registrant must not provide information that does not appear in its condensed interim financial statements.[23]

7.2.2.7 Changes in Accounting Principles Subtopic 250-50 (FASB Statement No. 154) and IAS 34 now have an approach on accounting for policy changes for interim reporting purposes that is consistent with that used for annual reporting, that is retrospective application. IAS 34 requires the restating, if practicable, of the financial statements of prior interim periods of the current financial year and of comparable interim periods of prior financial years that will be restated for annual reporting purposes.[24]

> **Comment:** Subtopic 250-50 (FASB Statement No. 154), limits the impracticability exception to prior financial year only. In case of impracticability in prechange interim periods of the current annual period, the change will be postponed to the beginning of the subsequent year. Similarly under IAS 34, if retrospective application of any change in accounting policy is impracticable, prospective application must be applied from no later than the beginning of the current year. Accounting policies must be consistent throughout a financial year. In any other event, the next financial year will reflect the changes.[25]

Previously, under FASB Statement No. 3, the income statement of the first quarter of the reporting annual period (or any year-to-date or other financial statements that included the first quarter) had to show the cumulative effect of the change in a single line item. The comparative prior periods were not restated, while previous interim periods of the year were retrospectively restated. Absolute and per share pro forma income from continuing operations and net income were disclosed, as if the new principle had been applied retrospectively.

> **Comment:** Actual and pro forma amounts were equal only for quarters subsequent to the first quarter of the current annual period because pro forma calculation did not include the cumulative-type effect of the change.[26]

IAS 34 requires the disclosure of changes in accounting principles from the most recent annual financial statements.[27] Subtopic 270-10 (APB 28) requires the disclosure of changes in accounting principles from the comparable interim period of the previous financial year, the prechange interim periods of the current year, and the previous annual report.[28]

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23 *Regulation S-K, Instruction 3 to Paragraph (b) of Item 303.*
24 *IAS 34, ¶ 43.*
25 *FASB ASC 250-50-45-14 (FASB Statement No. 154, ¶ 15); IAS 34, ¶¶ 28, 43, 44.*
26 *FASB Statement No. 3 (superseded),* Reporting Accounting Changes in Interim Financial Statements, *¶¶ 9–11.*
27 *IAS 34, ¶ 16A(a).*
28 *FASB ASC 270-10-45-12 (APB 28, ¶ 23).*

Exhibit 7-4 Applicability of Interim Financial Information

	IAS 34	*IFRS for SMEs*	*APB 28*	*SEC Registrants*	*Foreign Private Issuers*
Publicly traded companies	– No requirement. It is a matter of national governments, securities regulators, stock exchanges, and accountancy bodies	Out of scope	Minimum disclosure requirements in summarized interim financial information	– Form 10-Q – Regulation S-X, § 210.10-01 – Appropriate items of Regulation S-K	Appropriate items of Form 20-F
Nonpublic companies	– A company may elect interim reporting	Not required, but not prohibited, for nonpublic accountability entities	Modified application of certain U.S. GAAP principles and practices	Out of scope	Out of scope

7.2.3 The Use of IAS 34

7.2.3.1 No Obligation to Use IAS 34 An entity that reports under IFRSs and that publishes interim financial statements, because of local regulation or voluntarily, has no obligation to follow IAS 34. This fact is irrelevant to the entity's compliance with IFRSs in its annual financial statements.[29] If interim reports follow IAS 34, the entity must disclose such compliance. If interim financial statements assert their compliance with IFRSs, they must also comply with IAS 34.

> **Planning Point:** An issue arises as to whether an entity reporting under IFRSs that does not elect IAS 34 can maintain local GAAP, Subtopic 270-10 (APB 28), or use other standards at interim dates. Arguably, the account policies chosen must however comply or be compatible with IFRSs.

Exhibit 7-4 summarizes the options concerning accounting standards available to public and nonpublic companies for interim financial reports. Exhibit 7-5 shows how accounting pronouncements on interim reporting affect different reporting entities. The decision to use or not to use IAS 34 has some consequential effects, as explained in the following paragraphs.

7.2.3.2 Regulators' View of IAS 34 The Committee of European Securities Regulators (CESR) encourages the use of IAS 34 in interim reporting, or otherwise under full IFRSs. Issuers adopting divergent conduct are expected to justify this and give reasons. It also pointed out that the preparation of IAS 34-compliant interim financial statements would translate into the advantage of reusability as comparative information in post-transition periods.[30]

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[29] *IFRS 1, ¶ IG 37; IAS 34, ¶¶ 2, 3, 19.*

[30] *The Committee of European Securities Regulators, CESR/04-274 (May 19, 2004); CESR/03-323e,* European Regulation on the Application of IFRS in 2005. Recommendation for Additional Guidance Regarding the Transition to IFRS, *¶ 30 (December 2003); CESR/03-490b, ¶ 5.4.*

Exhibit 7-5 Entities Subject to Interim Financial Information

	IASB-IFRS first-time adopter FPI	*EU-GAAP first-time adopter FPI*	*Jurisdictional-IFRS first-time adopter FPI*	*FPI already reporting under IFRSs*	*U.S. Nonpublic Entity Reporting under IFRS for SMEs*	*U.S. Nonpublic Entity to Report under IFRSs*	*U.S. Domestic Registrant*
	(A)	*(B)*	*(C)*	*(D)*	*(E)*	*(F)*	*(G)*
– IAS 34[1]	Not mandatory						Likely required if allowed to report under IFRSs
– IFRS for SMEs	Not permitted				Interim reporting not required, but permitted under any basis (to be disclosed)	Not applicable	Not permitted
– APB 28	Permitted. Interim reports of entities reporting under IFRSs but not IAS 34 must in any event comply or be compatible with IFRSs.						Minimum disclosure requirements in summarized interim financial information
– Form 10-Q, and Regulation S-K as applicable	Not required						Required
– Interim information when required under Form 20-F	Yes				Not applicable		
S-X, § 210.10-01	Not required (IAS 34 must be used)	Required	Required	As in the case of first-time adopter	Not required	Not required	Required
– U.S. GAAP reconciliation	Not required	Required	Required	As in the case of first-time adopter	Not required	Not required	Proposed one-time or 3-year reconciliations
– Use of U.S. GAAP condensed information option in transition year	IAS 34, statement of compliance with IAS 34, IFRS 1 reconciliation or a complete set of financial statements under IAS 1 are required	Not permitted	Not permitted	Not applicable			

[1]*From the perspective of IFRSs, whether or not IAS 34 is mandatory is a matter for national governments, securities regulators, stock exchanges, and accountancy bodies.*

Finally, it is to be noted that the SEC Roadmap for U.S. domestic registrant, when dealing with interim financial statements, took for granted the use of full IASB-IFRSs, hence including IAS 34.[31]

7.2.3.3 Waiver of U.S. GAAP Reconciliations In registration statements filed with the SEC under IASB-IFRSs, a foreign private issuer must comply with IAS 34 and state compliance with IAS 34 to avoid reconciliation to U.S. GAAP in its interim financial statements.[32]

7.2.3.4 Use of the U.S. GAAP Condensed Information Option Paragraph 2.15.14.3 previously describes the "U.S. GAAP condensed information option" that is available to a foreign private issuer that is an IASB-IFRS first-time adopter and that relies on the two-year accommodation for either updating an existing registration statement or a new registration statement that is effective more than nine months after the end of the last audited financial year.[33] Compliance with IAS 34, including its disclosures, a statement of compliance with IAS 34, and the IFRS 1 interim reconciliations are necessary for a foreign private issuer to elect the option. Alternatively, a complete set of financial statements under IAS 1 would qualify.[34] The SEC Financial Reporting Manual interprets all these conditions as in any case being required to avoid the U.S. GAAP reconciliation in interim periods in pre-effective registration statements and post-effective amendments with annual financial statements more than nine months old.[35]

7.2.3.5 Exemption from Applying Section 270-10-S99 (Rule 10-01 of Regulation S-X) Compliance with IASB-IFRSs and IAS 34, and the presence of an explicit statement of compliance with IAS 34 in the notes to the interim financial statements are the conditions for a foreign private issuer reporting under IASB-IFRSs being exempted from applying Section 270-10-S99 (Regulation S-X Rule 10-01) to interim period financial information in a registration statement or prospectus.[36] Paragraph 7.12 following includes a discussion on condensed interim financial statements under Regulation S-X.

Furthermore, under the U.S. GAAP Condensed information option (Paragraph 2.15.14.3 previously), interim financial information must give at least the level of detail required by Section 270-10-S99 (Regulation S-X § 210.10-01) for interim financial statements. U.S. GAAP interim balance sheet, income statement, and applicable footnotes do not need to reflect the full level of detail under U.S. GAAP but may meet the condensation requirements of Section 270-10-S99 (Article 10 of Regulation S-X) under the following conditions. They must be accompanied by interim statements under IAS 34, the IFRS 1 interim reconciliations, a condensed statement of cash flows under IAS 7, and the issuer reports under IASB-IFRSs.[37] In all other situations, an issuer that provides interim financial statements under that option must give at least the level of detail required by Regulation S-X for interim financial statements.

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31 *SEC Release No. 33-8982, ¶ V.B.1 (page 88).*
32 *Form 20-F, General Instruction G(f)(2)(A); SEC,* Financial Reporting Manual, *¶ 6330.2.*
33 *Form 20-F, General Instruction G(f)(2)(B)(iii); Regulation S-K, ¶ 229.512(a)(4); IPTF, May 17, 2005, ¶¶ Appendix B, Q8, Q9, and Q10.*
34 *Form 20-F, General Instruction G(f)(2)(B)(iii); IPTF, May 17, 2005, ¶ Appendix B, Q8.*
35 *SEC, Financial Reporting Manual, ¶ 6330.2.*
36 *Form 20-F, Instruction 4 to Item 8.A.5.*
37 *IPTF, May 17, 2005, ¶ Appendix B, Q9.*

Finally, the SEC Roadmap also proposes an exemption from applying Section 270-10-S99 (Regulation S-X § 210.10-01) for U.S. domestic issuers using IAS 34. It proposes maintaining certain provisions of Section 270-10-S99 (Regulation S-X § 210.10-01), such as the omission of separate statements of other entities, the omission of schedules, the disclosures on any material accounting changes, and the filing of a preferability letter from the issuer's independent auditor. It also re-proposes the current requirements as to periods to be covered, the interim review by an independent accountant, and the filing of other interim financial information in certain cases.[38]

7.2.3.6 Retrospective Changes in Accounting Policies Paragraph 2.15.11 previously deals with the consequences of using IAS 34 on changes in accounting policies.

7.2.4 Disclosure of Interim Accounting Policies

If interim financial statements comply with IAS 34, an entity must furnish a disclosure to this effect. It must also disclose whether they comply with full IFRSs.[39] Under IAS 34, the entity must also represent that it used the same accounting policies and methods as in the latest annual financial statements. Finally, it must explain the type of changes it has made and the related impact.[40]

Planning Point: Implicitly, IAS 34 grandfathers the common practice of incorporating a summary of significant accounting in interim financial statements by reference to annual financial statements.

Example: The SEC Staff requested a foreign private issuer from The Netherlands to disclose that its 2005 interim reports did not comply with IAS 34 as that was not yet mandatory under Dutch Law.[41]

Conversely, Subtopic 235-10 (APB 22) does not mandate the summary of significant accounting policies as a section of the notes that is integral to the financial statements if interim financial statements are unaudited and there has not been any change in accounting policies from the latest annual period.[42]

Planning Point: Implicitly, Subtopic 235-10 (APB 22) distinguishes behavior depending on whether interim financial statements are audited. In doing that, it does not discriminate whether those interim financial statements are complete or condensed.

Section 270-10-S99 (Regulation S-X 10-01) permits the omission of the disclosure of significant interim accounting policies that replicate the representations made in the latest annual report. However, an entity must state any significant change.[43]

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[38] *SEC Release No. 33-8982, ¶ V.B.1 (pages 88–89).*
[39] *IAS 34, ¶ 19.*
[40] *IAS 34, ¶ 16A(a).*
[41] *SEC IFRS Reviews. Letter by the SEC, January 4, 2007. File No. 0-17444, Comment 11.*
[42] *FASB ASC 235-10-50-2 (APB 22,* Disclosure of Accounting Policies, *¶ 10).*
[43] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(5)).*

7.3 TYPES OF INTERIM FINANCIAL INFORMATION

The specific application of interim reporting relating to registration statements and prospectuses of foreign private issuers depends on the provisions on the age of financial statements. A foreign private issuer must present interim information in Form 20-F when the document that is being prepared using the Form 20-F disclosure requirements is dated more than nine months after the end of the last audited financial year.[44] Form 20-F is used both as registration statement and as an annual report for foreign private issuers under the Exchange Act of 1934. It also lays out the disclosures to be placed in registration statements filed by foreign private issuers under the Securities Act of 1933.[45]

7.3.1 Reports to Shareholders

Reporting to shareholders is different from filing with the SEC or other securities regulators, although financial statements for shareholders are generally the basis for financial information included in the filing documents. For example, separate financial statements of other entities as well as many schedules required by Regulation S-X are ordinarily not part of annual and interim reports to shareholders (see Paragraph 2.5.9 previously).

7.3.2 Quarterly Reports of SEC Registrants

An SEC registrant that is required to file annual reports on Form 10-K must also file quarterly reports on Form 10-Q with the SEC.[46] It may incorporate information required by Part I of the form (which includes financial statements in accordance with Section 270-10-S99 – Rule 10-01 of Regulation S-X) by reference to another document or a statement that is made public by the same deadline and that is filed as an Exhibit to Part I.[47]

A foreign issuer that is not a foreign government and that does not meet the definition of a foreign private issuer must comply with the same requirements as a domestic registrant. Furthermore, if the entity is incorporated in a foreign country other than Canada, it has to use U.S. GAAP in its SEC filings.[48]

7.3.3 Periodic Reporting of Foreign Private Issuers

Conversely, interim financial information is not required of foreign private issuers in terms of periodic (i.e., quarterly) reporting, but only in the case of registration statements and prospectuses under the Securities Act of 1933 and initial registration statements under the Exchange Act of 1934.[49] However, during a financial year, a foreign private issuer may decide or be required to publish material financial information on Form 6-K. Although such a report is not subject to any additional periodic reporting rulings, the interim reporting requirements of General Instruction G to Form 20-F apply when it is incorporated by reference into a

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[44] *Form 20-F, Item 8.A.5.*

[45] *SEC, Release No. 33-8879, ¶ Footnote 145.*

[46] *Under Section 13 or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), filed pursuant to Rule 13a-13 (17 CFR 240.13a-13) or Rule 15d-13 (17 CFR 240.15d-13); Form 10-Q, ¶ A.1.*

[47] *Form 10-Q, ¶ D.1.*

[48] *SEC,* Financial Reporting Manual, *¶¶ 6120.2, 6120.6.*

[49] *SEC,* Financial Reporting Manual, *¶ 6210.2.b.*

registration statement or prospectus.[50] On the other hand, the disclosure of material financial information may trigger the filing of Form 6-K. The SEC Staff gave an example on disclosures on the impact of transition to IFRSs required by the IOSCO in 2003.[51]

7.3.4 Documents Dated More than Nine Months from Year-End of Foreign Private Issuers

Form 20-F serves both as a registration statement and as an annual report for foreign private issuers under the Exchange Act of 1934. It also lays out the disclosures to be placed in registration statements filed by foreign private issuers under the Securities Act of 1933.[52] Form 20-F distinguishes between A) unaudited interim financial statements that a foreign private issue must present in a document (e.g., a registration statement or prospectus) that is dated more than nine months after the end of the last audited financial statements, and B) interim financial information that is more current than otherwise required under Item 8 of Form 20-F.[53]

7.3.5 More Current Information

Although Form 20-F does not require interim financial statements in registration statements and prospectuses that are dated less than nine months after the end of the last financial year, a foreign private issuer must include more current financial information that it has otherwise published. In this way, U.S. investors can have access to information that is as up to date as foreign investors have.[54] In any event, a foreign private issuer may decide to use the registration and reporting forms of domestic registrants, in which case it has no exemptions and exclusions.[55]

Planning Point: In summary, interim reporting may be elective or mandatory depending on the circumstances. It is ordinarily prescribed for publicly traded companies by the specific jurisdiction where the company is incorporated or under which it must report. Requirements mandated by Securities exchanges and by laws are likely to be more stringent than GAAP. However, interim reporting may also become mandatory for a U.S. GAAP company reporting in a foreign country to the extent that the definition of a publicly traded company in Subtopic 270-10 (APB 28) is more demanding than the official requirements in that jurisdiction. This situation would not arise under IAS 34 where the imposition of interim reporting is fully delegated to external authorities.

7.3.6 Pro Forma Financial Information

When inclusion of pro forma information in a registration statement is warranted, the age requirements follow those valid for the financial statements of the registrant (i.e., Item 8 of Form 20-F for a foreign private issuer and Regulation S-X 210.3-12 for a domestic registrant). To avoid adjusting pro forma statements of income of the target company for interim periods,

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[50] *Form 20-F, General Instruction G(f)(2).*
[51] *SEC, Release No. 33-8567, ¶ II.F.1.*
[52] *SEC, Release No. 33-8879, ¶ Footnote 145.*
[53] *Form 20-F, Item 8.A.5.*
[54] *Form 20-F, Item 8.A.5; SEC, Release No. 33-8879, ¶ III.B.2.a (page 40).*
[55] *SEC,* Financial Reporting Manual, *¶ 6120.1.*

93 days is the maximum period gap or overlap allowed between the year-end of the registrant and of the target company.[56]

7.4 REPORTING ENTITIES

7.4.1 Types of Entities

7.4.1.1 Privately versus Publicly Held Companies Interim reporting under IAS 34 may concern any type of entity. In fact, IAS 34 chooses not to define which entities have to publish interim financial statements, although it encourages publicly traded entities to do so.[57]

> **Comment:** This comes from the fact that IFRSs do not marry any special jurisdiction and therefore do not have to abide by, or take into consideration requirements of any specific government or securities regulator.

> **Planning Point:** Therefore, under IAS 34, a nonpublic company may well decide to present interim financial statements. IAS 34 admits that an entity that is within its scope does not fall necessarily within the scope of IAS 33.[58]

Subtopic 270-10 (APB 28) does not limit its scope to publicly traded companies either. It modifies certain practices under U.S. GAAP for the purpose of the application to interim reporting.[59] However, it does not mention whether circumstances exist under which a nonpublic company has to produce interim reports. As mentioned, it postulates minimum disclosure requirements, especially for those publicly traded companies that produce summarized interim financial information.

7.4.1.2 IFRS for SMEs IFRS for SMEs scopes out reporting on an interim basis, segment reporting, and the presentation of earnings per share. Nevertheless, this fact does not entail that such companies are prohibited from issuing (and publishing) interim financial information, but if they do so they must disclose the basis used.[60] A public accountability entity cannot state its compliance with IFRS for SMEs, even though it may be required to apply this standard pursuant to jurisdictional legal requirements.[61]

> **Planning Point:** Electing IFRS for SMEs (when legally permitted) would eliminate interim reporting. Nevertheless, this is not an option for public business enterprises. The inclusion of an enterprise that holds assets in a fiduciary capacity as part of their primary business within the definition of a public accountability entity[62] restricts the domain of companies that may use IFRS for SMEs. However, in most jurisdictions banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, and investment banks would already be subject to interim reporting.

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[56] *Regulation S-X, ¶¶ 210.11-02(c)(2)(i), 210.11-02(c)(3); SEC,* Financial Reporting Manual, *¶ 6220.8.*
[57] *IAS 34, ¶¶ IN3, 1.*
[58] *IAS 34, ¶ 11, as amended by* Improvements to IFRSs *(May 2008).*
[59] *FASB ASC 270-10-05-1, 270-10-45-2 (APB 28, ¶¶ 1, 10; APB 28, ¶ 8).*
[60] IFRS for SMEs, *¶ 3.25.*
[61] IFRS for SMEs, *¶ 1.5.*
[62] IFRS for SMEs, *¶ 1.3(b).*

On the other hand, a U.S. domestic nonpublic company that elects to report under IFRS for SMEs is not required by those standards to produce interim reports. Therefore, if it determines interim reporting appropriate on an elective basis, it can choose between IAS 34, Subtopic 270-10 (APB 28), or any other set of methods and principles, without undermining its compliance with IFRS for SMEs.

7.4.2 Definition of a Publicly Traded Company

Publicly traded companies subject to Subtopic 270-10 (APB 28) include those that have securities traded in a domestic or foreign stock exchange or an over-the-counter market, or are conduit bond obligors for conduit debt securities that are traded in a public market. They also comprise any company that must file or furnish financial statements with the SEC or a regulatory agency to offer its securities to the public.[63]

Planning Point: Such a definition is quite similar to that of a public business enterprise given by FAS Statement No. 131[64] and Subtopic 958-805 (FASB Statement No. 164).[65] The definition in IFRS 8 and IAS 33 as amended by IFRS 8 includes companies that have not yet filed but are in the process of filing financial statements with a securities commission or other regulatory authority in order to issue instruments to the public (as in the definition in Subtopic 260-10 (FASB Statement No. 128)[66]). However, it does not specifically mention conduit bond obligors for conduit debt securities.[67] IFRS for SMEs gives a larger definition of an entity that has public accountability. The first part of this definition[68] in essence summarizes the notion in IFRS 8, although with slightly different terminology.

Of course, the scope of SEC rules and regulations is much wider, as it is not limited to financial reporting, but encompasses other features, such as initial registration under the Exchange Act of 1934 and registration statements and prospectuses under the Securities Act of 1933.

7.4.3 Consolidated versus Separate versus Entity Financial Statements

When the entity presented its most recent annual financial statements in consolidated form, IAS 34 also requires interim financial information at consolidated level. It leaves preparers free to decide whether to extend interim reporting to the parent's separate financial statements.[69] However, Subtopic 270-10 (APB 28) is silent on this issue.

Comment: This is consistent with IAS 27 that is not prescriptive on preparing separate financial statements of a parent, subsidiary, associate, or jointly controlled entity and making them available for public use.[70] IFRS for SMEs follows the same logic.[71] Conversely, the U.S. GAAP approach

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[63] *FASB ASC 270-10-20 (APB 28, ¶ 6, Footnote 1, as amended by FASB Staff Position No. FAS 107-1 and APB 28-1,* Interim Disclosures about Fair Value of Financial Instruments, *¶ A2).*
[64] *FASB ASC 280-10-20 (FASB Statement No. 131, ¶ 9).*
[65] *FASB ASC 958-805-20 (FASB Statement No. 164, ¶ 3.w).*
[66] *FASB ASC 260-10-15-2 (FASB Statement No. 128, ¶ 6).*
[67] *IFRS 8, ¶ 2; IAS 33, ¶ 2.*
[68] IFRS for SMEs, *¶¶ 1.3(a), Glossary of Terms, BC57(a).*
[69] *IAS 34, ¶ 14.*
[70] *IAS 27 (2010), ¶ 39.*
[71] IFRS for SMEs, *¶ 9.24.*

contemplates consolidated financial statements as the general purpose financial statements of a parent company with consolidated subsidiaries, even if it does not prohibit the use of parent-only financial statements for other uses, or when material.[72]

Comment: By contrast, the scope of IFRS 8 covers consolidated, individual, and separate financial statements, to the extent the parent or the single reporting entity (i.e., the parent or an individual entity, not a subsidiary) has elements that fall into its scope. Segment information is not required in a parent's separate financial statements when they are incorporated in consolidated financial statements.[73] Conversely, Subtopic 280-10 (FASB Statement No. 131) does not apply to the separate financial statement of a parent or a subsidiary or other entity of the group that is included in the same document that contains consolidated or combined financial statements.[74] IAS 33 has the same target as IFRS 8 and has an exemption for parent's separate financial statements that are contained in the report of consolidated financial statements.[75] The application of Subtopic 260-10 (FASB Statement No. 128) to the financial statements of a wholly owned subsidiary is not required.[76]

Planning Point: A subsidiary, joint venture, or associate that uses IFRS for SMEs may find itself in the situation of providing interim financial statements under full IFRSs with its parent or investor for the purpose of consolidation. In such a case, it would not have special accommodations even if it reported under, and stated its compliance with, IFRS for SMEs. However, it may adopt full IFRSs in its separate financial statements.[77] The standard does not contain a similar provision for financial statements of an associate or joint venture, but the Basis for Conclusions extends this rationale. Similarly, the separate financial statements of a parent that, by itself, is not publicly accountable may follow IFRS for SMEs even if its consolidated financial statements are in accordance with full IFRSs.[78]

7.4.4 Interim Financial Statements of Other Entities

In registration statements and Exchange Act (1934) reports, under certain circumstances Regulation S-X requires the financial statements of other entities. The financial statements to provide may also include interim statements, where required by Item 301 and Item 302, or Item 803 for smaller reporting companies. Therefore, this paragraph refers to these occurrences to the extent that interim statements may be involved. It is important to note that, unlike filing with the SEC, separate financial statements of other entities are ordinarily not part of annual and interim reports to shareholders.

Regulation S-X gives foreign private issuers, other than registered management investment companies and employee plans, the option to file the financial statements required by

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72 *FASB Statement No. 94,* Consolidation of All Majority-Owned Subsidiaries, *¶ 15; APB 18, ¶ 14; FASB ASC 810-10-45-11 (ARB 51, ¶ 24, as amended by FASB Statement No. 160); AICPA TPA 1400.32,* Parent-Only Financial Statements and Relationship to GAAP.

73 *IFRS 8, ¶¶ 2, 4, BC21, BC23.*

74 *FASB ASC 280-10-15-3 (FASB Statement No. 131, ¶ 9).*

75 *IAS 33, ¶¶ 2, 4.*

76 *FASB ASC 260-10-15-3 (FASB Statement No. 128, ¶ 6).*

77 IFRS for SMEs, *¶¶ 1.6, BC65–BC67.*

78 *SME Implementation Group (SMEIG), Q&A 2011/01,* Use of the IFRS for SMEs in a Parent's Separate Financial Statements.

Item 8.A of Form 20-F.[79] Form 20-F refers to Regulation S-X for the circumstances under which filing of financial statements of other entities is required under Item 17 or Item 18 of Form 20-F.[80] The age requirements of Item 8.A of Form 20-F that, among other provisions, determine whether a foreign private issuer must present interim financial information,[81] apply to financial statements in registration statements not to those in annual reports.[82] The age requirements in Item 8 of Form 20-F also hold for financial statements of certain entities other than the registrant (i.e., "other entities").[83]

For all cases of financial statements of other entities, the SEC Staff may provide relief in situations where other entities would be required to provide more current financial information than those that would be applicable to comparable domestic registrants.[84]

Exhibit 7-6 summarizes interim reporting requirements for other entities.

7.4.4.1 Subsidiaries Section 270-10-S99 (Regulation S-X § 210.10-01) requires condensed interim financial statements of the registrant and its consolidated subsidiaries and permits the omission of separate statements of other entities.[85]

In quarterly reports in Form 10-Q, a reduced disclosure format is available for direct or indirect wholly-owned subsidiaries that during at least the latest 36 calendar months have had no unresolved material default relating to the payment of items such as principal, interest, sinking or purchase fund installments, long-term leases rentals, or any other indebtedness. Based on this exemption, certain information that would be required in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 303 of Regulation S-K, apart from analysis of changes in revenue and expense items, can be omitted. In addition, omitted items include information on changes in securities, defaults upon senior securities, submission of matters to a vote of security holders, and quantitative and qualitative disclosures about market risk.[86]

7.4.4.2 Parent's Interim Financial Statements In addition to the judgment of materiality that may require the inclusion of parent-only financial statements under Subtopic 810-10 (ARB 51),[87] under Regulation S-X parent-only financial statements are presumed to be material when restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets at most recent fiscal year-end. In such a case, a schedule as to the condensed financial information of the registrant must be shown. Here, restricted net assets correspond to the registrant's proportionate share of net assets that may not be transferred to the parent as loans, advances, or cash dividends without the consent of a third party.[88]

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[79] *Regulation S-X, ¶¶ 210.3-01(h), 210.3-02(d).*
[80] *Form 20-F, General Instruction E(c).*
[81] *Regulation S-X, ¶¶ 230.3-01(h), 230.3-02(d).*
[82] *SEC,* Financial Reporting Manual, *¶ 6220.1.*
[83] *SEC,* Financial Reporting Manual, *¶ 6220.4.*
[84] *SEC,* Financial Reporting Manual, *¶¶ 6230.1, 6230.2.*
[85] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(1)).*
[86] *Form 10-Q, General Instruction H.*
[87] *FASB ASC 810-10-45-11 (ARB 51, ¶ 24).*
[88] *FASB ASC 205-10-S99-6, 235-10-S99-3, 942-235-S99-2 (Regulation S-X, ¶¶ 210.5-04(c) Schedule I, 210.12-04, 210.9-06).*

Exhibit 7-6 Interim Reporting for Other Entities

	IASB-IFRS first-time adopter FPI	*EU-GAAP first-time adopter FPI*	*Jurisdictional-IFRS first-time adopter FPI*	*FPI already reporting under IFRSs*	*U.S. Nonpublic Entity Reporting under IFRS for SMEs*	*U.S. Nonpublic Entity*	*U.S. Domestic Registrant*
	(A)	*(B)*	*(C)*	*(D)*	*(E)*	*(F)*	*(G)*
Consolidated interim financial statements	An entity that presented the latest annual statements on a consolidated basis must present consolidated interim statements if it uses IAS 34				Interim reporting not required, but permitted under any basis (to be disclosed)	Yes	Yes
Parent's or investor's interim separate financial statements	– Under IAS 34 permitted but not required (depends on jurisdictional legal framework) – Under APB 28, parent-only statements are permitted but not required, unless material under Subtopic 810-10 (ARB 51) – Form 20-F refers to Regulation S-X					Not required under Subtopic 270-10 (APB 28) unless publicly traded company	Parent-only statements are not required unless material under Subtopic 810-10 (ARB 51). Under Regulation S-X, a condensed statement schedule is required when restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets
Financial statements of a subsidiary for interim reports	– Under IAS 34 and Subtopic 270-10 (APB 28), permitted but not required (depends on jurisdictional legal framework) – Not required under Form 20-F				As above. The entity may decide to use full IFRSs in its separate financial statements	As above	– Form 10-Q permits certain reduced disclosures

Interim statements of a subsidiary in registration statements	– Depending on age requirements of Item 8.A of Form 20-F – Form 20-F refers to Regulation S-X	As above	As above	– Under S-X 3-05 and 8-04 for businesses acquired or to be acquired when interim statements are due, based on age requirements, and significance exceeds 20% – Under S-X 3-10 for certain subsidiary issuer or guarantor – Under S-X 3-16 for certain affiliates that collateralize an issue
Financial statements of an associate or joint venture for interim reports	Under IAS 34 and Subtopic 270-10 (APB 28), permitted but not required (depends on jurisdictional legal framework) – No requirement under Form 20-F	Interim reporting not required, but permitted under any basis (to be disclosed)	As above	– Summarized income statement information in Form 10-Q in certain circumstances
Interim statements of an associate or joint venture in registration statements	– Depending on age requirements of Item 8.A of Form 20-F – Form 20-F refers to Regulation S-X		As above	– Not required under S-X 3-09 and 8-04 when interim statements are due, based on age requirements, and significance exceeds 20%. – Under S-X 3-16 for certain affiliates that collateralize an issue

7.4.4.3 Acquired Businesses Under certain circumstances, Regulation S-X 210.3-05 and 210.8-04 call for the submission of financial statements of businesses acquired or to be acquired in registration statements and Exchange Act (1934) reports specified by Regulation S-X for a registrant, based on determination of certain significance testing. The Rule also applies to purchase of an interest accounted for at equity method. Significance testing, with certain computational annotations, covers three tests. The first refers to the percentage of the issuer's investment in and advances to the entity over the issuer's total consolidated assets (the so-called "investment test"). The second is the entity's equity in the income from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principles of the acquiree, exclusive of amounts attributable to any noncontrolling interests over the issuer's corresponding consolidated income (i.e., the" income test"). The third concerns the entity's proportionate share of total assets of the acquiree after intercompany eliminations over the issuer's consolidated assets (i.e., the "asset test"). With reference to interim financial statements in particular, none of these financial statements is due if none of the tests exceed 20%, unless individually insignificant businesses acquired since the latest audited balance sheet filed have an aggregate significance of over 50%. In such a case, financial statements of at least the substantial majority of the businesses acquired are due for the periods specified in Item 301 and Item 302, or Item 803, respectively.[89] The age requirements of unaudited interim financial statements apply to the acquiree with the same rules as if it were a registrant. No updating is necessary if less than a full quarter has elapsed from its latest financial statements and the date of inclusion in those of the acquirer (i.e., the registrant).

The requirements of S-X 210.3-05 and S-X 210.8-04 also apply to acquisitions made by the predecessor(s) of the acquiree. Financial statements of those businesses do not need to be filed unless their omission would render the acquiree's financial statements misleading or substantially incomplete.[90]

The age requirements of Item 8.A of Form 20-F apply to an acquired or to be acquired foreign business under Regulation S-X 210.3-05 at the time the registration statement is declared effective. The foreign business is not required to produce interim financial statements if this would not also be the case under the rules of its home country and the age requirements for omitting updating financial statements are met. However, the fact that the acquisition dated back to the first nine months of the current year is not considered as a justification for avoiding interim financial statements for the period preceding the acquisition date.[91]

7.4.4.4 Equity Method Investees Under Regulation S-X 210.3-09, the filing of separate financial statements of subsidiaries not consolidated and 50% or less owned persons rests on a 20% threshold for significance testing.[92] This rule includes any subsidiary and equity method investee held by the registrant, by any of its subsidiaries, or by its investees.[93] The SEC Staff interprets a 50% or less owned person as an equity method investee. However, the SEC Staff concludes that S-X 3-09 does not require separate interim financial statements because it refers

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[89] *Regulation S-X, ¶¶ 210.3-05(b), 210.8-04(c).*

[90] *SEC,* Financial Reporting Manual, *¶ 2005.5.*

[91] *Regulation S-X, ¶ 210.3-05; SEC,* Financial Reporting Manual, *¶ 6220.7.*

[92] *Regulation S-X, ¶¶ 210.3-09(a) and (b).*

[93] *SEC Staff Accounting Bulletin, Topic 6-K.4.a,* Application of Significant Subsidiary Test to Investees and Unconsolidated Subsidiaries: Separate Financial Statement Requirements.

to the same dates and periods as the audited consolidated statements that would be required under S-X 3-01 and 3-02 if the investee were a registrant, while those Rules do not impose auditing of interim financial statements.[94]

Conversely, only summarized financial statements footnote information is required when those entities meet any of the tests for definition of a significant subsidiary at 10% under Rule 1-02(w).[95] The inclusion of separate financial statements ordinarily makes summarized financial information unnecessary.[96] However, because of the different number of tests required, this is not a necessary conclusion as summarized financial statements footnote information may be due for the aggregate of some investees. Furthermore, when the registrant has subsidiaries that are not consolidated or 50% or less owned persons, Part I, Item 1 of Form 10-Q (related to financial statements) must include summarized income statement information. This is due separately for each entity or each group of entities that would be subject to filing individual or group statements in Form 10-K under Regulation S-X 210.3-09 and that would not be exempted from quarterly financial statements if they were a registrant.[97] Foreign private issuers are excluded. Smaller reporting companies that choose to report under Article 8 of Regulation S-X do not have a requirement to file separate financial statements of investees.

When a business acquired or to be acquired, or a 50% or less owned person is a foreign business, its financial statements may be presented in accordance with Item 17 of Form 20-F.[98] In the situation of Section 470-10-S99 (Regulation S-X 210.3-10(g)) mentioned above, a foreign business may also present its financial statements in accordance with Item 17 of Form 20-F.[99] Financial statements provided under Regulation S-X 210.3-05 and 210.3-09 are exempted from the application of Item 18 of Form 20-F.[100] In the situations where a foreign private issuer is warranted a relief from presenting financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered, it may follow the age requirements in Item 8.A of Form 20-F instead of Item 301 and Item 302 of Regulation S-X.[101]

7.4.4.5 Issuers of Guaranteed Securities and Guarantors As a general rule under Section 470-10-S99 (Regulation S-X 210.3-10), issuers of guaranteed securities registered or being registered and guarantors must file the financial statements required for a registrant by Regulation S-X. Under certain circumstances, relief to this general rule is granted, in which case modified financial information (i.e., condensed consolidating information) in a note to the financial statements surrogates separate guarantor or issuer financial statements. Simply providing summarized financial information is not permitted. Those issuers and guarantors generally have no Form 10-K or Form 10-Q periodic reporting obligations when modified financial information is part of parent company periodic reports. However, under Rule 3-10(g) this relief is waived. The financial statements of a recently acquired subsidiary issuer or

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94 *SEC,* Financial Reporting Manual, *¶ 2405.3.*
95 *Regulation S-X, ¶ 210.4-08(g).*
96 *FASB ASC 323-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-K.4.b),* Summarized Financial Statement Requirements.
97 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(b)(1)).*
98 *Regulation S-X, ¶¶ 210.3-05(c), 210.3-09(d), 210.8-04(e).*
99 *FASB ASC 470-10-S99-1 (Regulation S-X, ¶ 210.3-10(g)(2)(ii)).*
100 *Form 20-F, Item 18(b).*
101 *FASB ASC 470-10-S99-1 (Regulation S-X, ¶ 210.3-10(a)(3)).*

subsidiary guarantor, including interim financial statements when required by Item 301 and Item 302 of Regulation S-X, must be part of the Security Act registration statement of the parent if the following conditions are met. Its most recent annual audited consolidated results did not reflect the subsidiary for at least nine months of the most recent fiscal year and the greater of the preacquisition net book value of the subsidiary or the purchase price is at least 20% of the principal amount of the securities being registered. They are not required to be included in an annual report or quarterly report.[102]

7.4.4.6 Affiliate Guarantors Under Regulation S-X 210.3-16, when the securities of a registrant's affiliate are a substantial portion of the collateral of any class of securities registered or being registered the financial statements of the affiliate must be filed, of the same type as if it were a registrant, unless they are already separately included in the parent company registrant's filing. A portion is substantial when the greatest of the aggregate principal amount, par value, book value, or market value of the securities amounts to at least 20% of the collateral.[103]

7.5 APPROACHES TO INTERIM REPORTING

7.5.1 Discrete versus Integral Views: The Recognition Perspective

Interim reporting theories typically polarize into two extreme views: the discrete approach (i.e., each interim interval is a stand-alone reporting period), and the integral approach (i.e., an interim period is an integral part of the annual period).

IAS 34 sees each financial period standing in its own right from the point of view of compliance with accounting principles. Therefore accounting policies that are valid for interim periods should be the same as those that apply in annual periods.[104]

Although Subtopic 270-10 (APB 28) acknowledges the existence of these two different views,[105] it marries the integral view,[106] although it also affirms the equivalence of the accounting principles in interim and annual periods, a fact that is the key point of the discrete view. Nevertheless, it concedes certain modifications to accounting principles to the extent that the purpose of interim information, i.e., relating to annual results, is better served.[107]

Comment: The integral view may sometimes depart from the recognition that U.S. GAAP would require at year-end. For examples, in annual financial statements an advertising expense cannot be deferred to the next fiscal year, while under Subtopic 270-10 (APB 28) in certain circumstances it can be delayed to the next interim periods of the current year.[108] By contrast, the discrete approach keeps the definition of elements of financial statements and their recognition criteria.[109]

[102] *FASB ASC 470-10-S99-1 (Regulation S-X, ¶¶ 210.3-10(a), 210.3-10(g)); SEC, Release No. 33-8879, ¶ III.D.3 (page 62).*
[103] *Regulation S-X, ¶ 210.3-16.*
[104] *IAS 34, ¶¶ IN7, 2, 28, 29.*
[105] *APB 28, ¶ 5.*
[106] *FASB ASC 270-10-45-1 (APB 28, ¶ 9).*
[107] *FASB ASC 270-10-45-2 (APB 28, ¶ 10).*
[108] *FASB ASC 270-10-45-9 (APB 28, ¶ 16.d).*
[109] *IAS 34, ¶¶ 29, 30(b), 31–33.*

7.5.2 Reporting versus Accounting Periods: The Disclosure Perspective

While from the perspective of recognition principles IAS 34 and Subtopic 270-10 (APB 28) move from different premises, when discussing disclosures both link interim information to annual information as a continuation and updating of transactions, events, and circumstances that are subsequent to the latest annual reporting period. Interim reports are presumed not to be read in isolation, but to keep yearly information posted.[110]

Comment: This vision is typical of the integral perspective. However, it is adopted by both theories: an interim period is always a reporting period, i.e., in the larger picture of a series of interim reporting periods and ultimately the financial year. Notwithstanding that, under the integral view an interim period is not necessarily a fully-fledged accounting period (i.e., from the standpoint of recognition).

Regulation S-K and Regulation S-X also assume access and understanding of users of financial information to annual financial statements.[111] Furthermore, Form 20-F perceives disclosures of interim financial information in the light of the explanation of events and changes that have occurred since the last annual reporting date.[112]

7.5.3 The Measurement Perspective

7.5.3.1 The Year-to-Date Argument If under the discrete view it is true that an interim period stands alone as an accounting period, the sum of the interim periods must give the same results as the total current year. From here, IAS 34 postulates that, irrespective of the frequency of interim reporting, interim measurements must be based on year-to-date calculations.[113] This way, IAS 34 acknowledges[114] that it promotes a balanced approach to the two perspectives, although it is well rooted in the discrete vision.

Subtopic 270-10 (APB 28) sees the reading of interim periods in relationship to the full year as more useful for a better understanding of the progress of results of operations, and this is the rationale for preferring the integral view.[115]

7.5.3.2 The Link between Recognition and Disclosure In the context of the debate about the philosophy of interim reporting, the measurement angle acts as a liaison between recognition and the disclosure perspective. The following paragraphs show this from two points of view: accounting estimates and the consensus in IFRIC 10.

7.5.3.3 The Accounting Estimate Bridge The immediate consequence of the discrete versus integral theory is apparent from the discussion about development of accounting estimates.

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[110] *FASB ASC 270-10-50-3 (APB 28, ¶ 32); IAS 34, ¶¶ IN6, 6, 15A.*
[111] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(7)); Regulation S-K, ¶ Instruction 2 to 229.303(b).*
[112] *Form 20-F, Item 8.A.5, Item 8.B, Item 11(c).*
[113] *IAS 34, ¶¶ IN7, 28, 29, 34–36.*
[114] *IAS 34, ¶ 29.*
[115] *FASB ASC 270-10-45-1 (APB 28, ¶ 9).*

> **Planning Point:** Both hypotheses are consistent with prospective accounting for changes in estimates. Both sometimes develop estimates using forward-looking information to the extent that an accounting pronouncement demands it (e.g., accounting for defined benefit pension plans). Under both practices, interim measurements continuously incorporate the effect of changes in estimates, i.e., on a year-to-date basis.[116] However, the difference rests with the timing for recognition. The discrete approach claims that accounting measurements must refer to the interim reporting date as if it were the date of closing of books. This is true even when an accounting pronouncement requires a current value measurement that incorporates estimated future values. The integral foundation is instead based on what amount an estimate would be at year-end, but with an eye to apportioning values to the interim periods. The allocation methods may remind techniques used for managerial budgeting and control, such as percentage of sales, time elapsed, or productive and other quantitative bases.[117] In this context, as Subtopic 270-10 (APB 28) phrases it, interim judgments of expected balances at year-end affect the amounts to be deferred or accrued in interim financial statements.[118] In that respect, some may argue that measurements might be biased by forecasting.

7.5.3.4 IFRIC 10 IFRIC 10 settles on the conflict between IAS 34 and IAS 36 regarding an impairment of goodwill, on one hand, and IAS 39 on impairment of available-for-sale equity investments and financial assets carried at cost, on the other hand. IFRS 9, in deleting the available-for-sale category, recently amended IFRIC 10.[119] As postulated by IAS 36 and IAS 39, an impairment loss that is recognized at an interim date may not be later reversed, even when a measurement at subsequent interim dates or at year-end would have resulted in a lower loss or would not have determined any loss at all.[120] This is because according to IAS 36 the portion of a reversal due to acquired goodwill and that portion which is attributable to internally generated goodwill would not be distinguishable.[121] In addition, according to IAS 39 a distinction between reversals of impairment losses and increases in the fair value of an available-for-sale equity investment would not be operational.[122] IFRIC 10 gives prominence to the discrete concept features of IAS 34, while it puts aside the integral characteristic, i.e., the year-to-date measurement approach.

> **Planning Point:** The conclusion of the above is that the frequency of interim reporting, as well as the timing of fiscal year-ends matter as they may indeed affect annual results, while according to IAS 34 this should not happen.[123] Reversal of an impairment loss would reach the year-to-date equivalence sanctioned in IAS 34.

> **Planning Point:** However, IFRIC 10 prohibits analogizing its conclusions.[124] A conflict may also arise between IAS 34 and other standards, such as IAS 16 and IAS 38 with regard to revaluation of assets,

[116] *IAS 34, ¶¶ 35, 36.*
[117] *APB 28, ¶ 5; FASB ASC 270-10-45-4, 270-10-45-8 (APB 28, ¶¶ 12.b, 15.a, 15.d).*
[118] *APB 28, ¶ 5.*
[119] *IFRS 9, ¶ C29.*
[120] *IFRIC 10, ¶ 8.*
[121] *IAS 36, ¶ BC189; IFRIC 10, ¶ BC10.*
[122] *IAS 39, ¶ BC130; IFRIC 10, ¶ BC10.*
[123] *IFRIC 10, ¶ BC7.*
[124] *IFRIC 10, ¶¶ 9, BC11.*

or IAS 19 and IAS 37 with reference to reassessment of certain liabilities.[125] For example, assume that an entity records a decrease in the fair value of a tangible asset at the end of a quarter, reverses the entire existing revaluation surplus, and recognizes an impairment loss for the difference. In the following quarter, it records an increase in fair value as a profit for the corresponding amount that it had recognized as a loss and a revaluation surplus for any difference. The same entity would have recorded no item in profit or loss, but simply a change in revaluation surplus, had it reported on an annual basis only. A similar situation may result from the change in the measurement of decommissioning and similar liabilities under IFRIC 1 relating to tangible assets carried at revaluation model.

7.5.4 Year-to-Date Earnings per Share

In computing year-to-date earnings per share, IAS 33 applies the IAS 34 approach of year-to-date measurement discussed above. The method used is independent of the frequency of interim reporting and results in the same figures irrespective of whether an entity reports on an interim or an annual base. Under this method, year-to-date diluted earnings per share are not a weighted average of earnings per share of each interim period, and the same is true for the number of potential ordinary shares. Conversely, potential ordinary shares are weighted for the corresponding periods: when cancelled, for the portion of the period in which they are outstanding, when converted, from the beginning of the period to the date of conversion. Contingently issuable shares are weighted from the later of the beginning of the period or the date of the contingent share agreement.[126]

On the contrary, Subtopic 260-10 (FASB Statement No. 128) computes the denominator of year-to-date diluted earnings per share by using a weighted average of the number of incremental shares of each interim diluted earnings per share. In addition, it determines contingent shares as a weighted average for the interim periods in which they have been part of interim diluted earnings per share.[127]

7.6 BASES OF ACCOUNTING IN INTERIM FINANCIAL STATEMENTS

Exhibit 7-7 illustrates the implications in interim financial statements of using different bases of accounting.

7.6.1 Bases of Accounting to Use in Interim Financial Statements

Under Form 20-F, the basis of accounting for the purpose of unaudited interim financial statements must generally be consistent with that used for audited annual financial statements contained or incorporated by reference in the document. For example, an IASB-IFRS foreign private issuer will use that basis of accounting in its interim financial statements. A jurisdictional IFRS foreign private issuer that reconciles to U.S. GAAP in its annual financial statements also does so in its interim financial statements.[128]

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[125] *IFRIC Update, August 2005; IFRIC Update, May 2006.*

[126] *IAS 33, ¶¶ 37, BC10-BC14, IE Example 7.*

[127] *FASB ASC 260-10-45-19, 260-10-55-3, 260-10-55-53, 260-10-55-54, 260-10-55-56 (FASB Statement No. 128, ¶¶ 30, Footnote 18, 46, 152; FASB Statement No. 128, ¶ 121; FASB ASC 270-10-50-1 (APB 28, ¶ 30.b).*

[128] *SEC, Release No. 33-8879, ¶ III.B.2.b (pages 39–41).*

Exhibit 7-7 Impact of the Choice of Reporting Basis on Annual Financial Statements of a Foreign Private Issuer

	U.S. GAAP	*IASB-IFRSs*	*EU-GAAP*	*Jurisdictional IFRSs*	*Local GAAP*
Interim reporting basis in a document that is dated more than nine months	U.S. GAAP	IASB-IFRSs	EU-GAAP with reconciliation to U.S. GAAP	Jurisdictional IFRSs reconciliation to U.S. GAAP	Local GAAP reconciliation to U.S. GAAP
Interim reporting options in the transition year in a document that is dated more than nine months	Not applicable	– The IFRS option – The U.S. GAAP condensed information option	Previous GAAP Option	Previous GAAP Option	Not applicable
Compliance of interim financial statements with Regulation S-X § 210.10-01	Required	– Not required – Comparable level of detail is required in the transition year if the issuer chooses the U.S. GAAP condensed information option	Required	Required	Required
U.S. GAAP reconciliation in more current information in registration statements or prospectuses (for differences not already covered in primary financial statements)	– Not applicable if U.S. GAAP is used in both annual and interim statements – Applicable, if U.S. GAAP is used for annual statements, but IFRSs for interim information	Exempted to the extent that all required periods comply with IASB-IFRSs or otherwise prior filings are amended	Required	Required	Required

7.6.2 Effect on Compliance with Section 270-10-S99 (Rule 10-01 of Regulation S-X)

Form 20-F refers to Section 270-10-S99 (Regulation S-X § 210.10-01) for the level of aggregation of the condensed interim financial statements that update more than nine-month old information (Paragraph 7.3.4 previously).[129] Use of IASB-IFRSs is one of the conditions in order for Section 270-10-S99 (Regulation S-X § 210.10-01) not to apply.[130] Paragraph 7.2.3.5 previously expands on the other conditions (i.e., the adoption of IAS 34 and a statement of compliance with IAS 34). As explained in Paragraph 2.10.4 previously, the rationale is that financial statements' form and content under IFRSs apply, although within the framework of SEC rules and regulations. Paragraph 7.12 following goes into detail on condensation under Section 270-10-S99 (Regulation S-X § 210.10-01).

7.6.3 Bases to Use in More Current Information

When more current information is due (see Paragraph 7.3.5 previously), if primary financial statements already explain material differences with U.S. GAAP, reconciliation is not necessary, unless changes in accounting principles or new differences with U.S. GAAP arise in the more current period. The entity must then quantify those adjustments and explain the basis of accounting used.[131]

Reconciliation is due from a foreign private issuer that prepares audited annual financial statements in Form 20-F under U.S. GAAP but has used home-country GAAP in interim financial statements. Reverse reconciliation (i.e., from U.S. GAAP to that different basis) is possible.[132]

When an entity has made available locally unconsolidated more current information under local GAAP, a quantification of the differences due to nonconsolidation is not required.[133]

Conversely, a foreign private issuer reporting under IASB-IFRSs does not have to provide reconciliation to U.S. GAAP for more current interim financial information that is included in financial statements as part of registration statements or a different document from an annual report in Form 20-F.

7.6.4 Selected Financial Historical Data

Paragraph 2.13.10 previously explains the effect of the basis of accounting used in audited financial statements on financial historical summaries. When interim period financial statements are due, selected financial data are also affected as to those interim periods, including comparative periods.[134] When reconciliation to U.S. GAAP is due, it extends to any interim period.[135]

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[129] *Form 20-F, Instruction 2 to Item 8.A.5.*
[130] *Form 20-F, Instruction 4 to Item 8.A.5; SEC, Release No. 33-8879, ¶ III.B.2.b (page 42).*
[131] *Form 20-F, Instruction 3(a) and 3(b) to Item 8.A.5.*
[132] *SEC, Release No. 33-8567, ¶ II.F.2, page 22.*
[133] *AICPA, 2001.* International Practices Task Force Highlights, November 20, 2001, *¶ IX. [Online] AICPA. Available at: www.aicpa.org [last accessed December 24, 2006].*
[134] *Form 20-F, Item 3.A.1.*
[135] *Form 20-F, Instruction 2 to Item 3.A.*

First-time entrants to the U.S. reporting system must also reconcile any interim periods required in the registration statement after the two most recently completed fiscal years.[136]

> **Planning Point:** Interestingly, unlike for the case of the annual horizon, IFRS 1 does not cite interim financial statements as the necessary location for historical summaries to fall within the scope of IFRS 1, but it enlarges the reach of the scope to interim financial reports in general (not interim financial statements).[137]

7.6.5 Operating and Financial Review and Prospects

When interim financial statements are warranted, comments in the Operating and Financial Review and Prospects section of Form 20-F must line up with the basis of accounting adopted under the specific option allowed.

The same principles are valid for interim periods.[138] Item 5 of Form 20-F in particular reaffirms those requisites in interim periods specifically with reference to material commitments for capital expenditures[139] and hyperinflation.[140] Tabular disclosure of contractual obligations is not required in interim periods, apart from any nonordinary material changes.[141]

Paragraphs 4.5.10.7, 2.10.2.7, 5.2.4, and 6.2.4 previously explain additional information requirements when under certain circumstances the differences between home-country GAAP and U.S. GAAP are so pervasive that the reconciliation to U.S. GAAP does not suffice. Depending on the specific case, the Operating and Financial Review and Prospects section may warrant a U.S. GAAP condensed set-up in interim periods.[142]

7.7 PERIODS TO BE COVERED

7.7.1 Time Periods

Exhibit 7-8 compares all the periods that must be shown in interim financial statements, whether condensed or complete, under IAS 34,[143] Subtopic 270-10 (APB 28),[144] and SEC rules and regulations.

> **Planning Point:** In particular, the Illustrative examples of IAS 34 show that the current interim periods and the current financial year to date would coincide when an entity reports on a half-yearly basis.

[136] *SEC,* Financial Reporting Manual, *¶ 6410.2(a).*
[137] *IFRS 1, ¶ BC90.*
[138] *Form 20-F, Item 5.*
[139] *Form 20-F, Item 5.B.3.*
[140] *Form 20-F, Instruction to Item 5.A.*
[141] *Form 20-F, Instruction 1 to Item 5.F.*
[142] *SEC, International, November 1, 2004, ¶ VI.B.*
[143] *IAS 34, ¶¶ 20, 21, A1, A32.*
[144] *FASB ASC 270-10-05-1, 270-10-45-11 (APB 28, ¶¶ 2, 18).*

Exhibit 7-8 Periods in Interim Financial Statements

	IAS 34	*APB 28*	*Regulation S-X and S-K*	*Form 20-F*
Statement of financial position (balance sheet)				
End of current (the most recent) interim period	Yes	No prescriptive guidance	Yes, referred to quarter when for the purpose of Form 10-Q	Yes
Comparative information as of the end of the previous financial year	Yes		– Not explicitly mentioned for the purpose of registration statements – Yes for small business issuers – Yes, referred to quarter when for the purpose of Form 10-Q, but only if necessary because of seasonality	Yes
Statements of income (*)				
Current interim period	Yes	No prescriptive guidance	– Not required	Yes
Comparative interim period of the previous financial year			– Yes for small business issuers after the first quarter	
Current financial year to date	Yes		– Yes, for the purpose of registration statements	Not specifically mentioned. However, IFRSs form and content apply to an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP. Otherwise Regulation S-X applies to the presentation of financial information
Comparative year-to-date period of the previous financial year			– Yes, till the end of the quarter when for the purpose of Form 10-Q or Form 10-QSB	
12-month period ended at the interim date	Encouraged for highly seasonal businesses	Businesses with material seasonal variations should consider it as supplemental information	– Optional, referred to quarter for the purpose of Form 10-Q	Not specifically mentioned. However, IFRSs form and content apply to an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP. Otherwise Regulation S-X applies to the presentation of financial information
Comparative prior 12-month period			– May substitute year-to-date statements for registrants engaged in seasonal production and sale of a single-crop agricultural commodity	
Statement of changes in equity				
Current (the most recent) interim period	No	No prescriptive guidance	Yes	Not specifically mentioned. However, IFRS form and content apply to an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP. Otherwise Regulation S-X applies to the presentation of financial information
Current financial year to date	Yes		Not required	
Comparative year-to-date period of the previous financial year	Yes		Not required	

(continued)

Exhibit 7-8 Periods in Interim Financial Statements (*Continued*)

	IAS 34	*APB 28*	*Regulation S-X and S-K*	*Form 20-F*
Statement of cash flows				
Current financial year to date Comparative year-to-date period of the previous financial year	Yes	No prescriptive guidance	– Yes, for the purpose of registration statements – Yes, till the end of the quarter when for the purpose of Form 10-Q or Form 10-QSB	Not specifically mentioned. However, IFRSs form and content apply to an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP. Otherwise Regulation S-X applies to the presentation of financial information
12-month period ended at the interim date Comparative prior 12-month period	Encouraged for highly seasonal businesses	Businesses with material seasonal variations should consider it as supplemental information	– Optional, referred to quarter for the purpose of Form 10-Q – May substitute year-to-date statements for registrants engaged in seasonal production and sale of a single-crop agricultural commodity	Not specifically mentioned. However, IFRSs form and content apply to an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP. Otherwise Regulation S-X applies to the presentation of financial information

(*) For the purpose of this Exhibit, statements of income may include a single statement of comprehensive income, or an income statement and a statement of comprehensive income under IFRSs, and either an income statement or a combined statement of income and comprehensive income under U.S. GAAP. The 2011 Amendments to IAS 1 change the titles in the statement of profit or loss and other comprehensive income, separate statement of profit or loss, or statement presenting comprehensive income. ASU 2011-05 changes the titles in continuous statement of comprehensive income, statement of net income, and statement of other comprehensive income.

Subtopic 270-10 (APB 28) is not rigid on the periods to be presented. It simply says that interim or cumulative year-to-date periods are the usual intervals.[145] However, it gives specific guidance on periods to which changes in accounting principles should refer (see Paragraph 7.2.2.7 previously).[146]

7.7.2 Comparative Periods

The Exhibit illustrates the time periods required by IAS 34.

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that an issuer did not comply with IAS 34 by not reporting the year-to-date comparatives for the interim income statement and the statement of changes in equity and the statement of cash flows. The enforcer did not accept the justification of the company that its failure to present consolidated financial statements under previous GAAP would constitute a case of impracticability exemption under IAS 1.[147]

Example: The SEC Staff requested a Swedish foreign private issuer to revise its interim statement of changes in equity because it did not include year-to-date comparatives.[148]

Section 270-10-S99 (Rule 3-10 of Regulation S-X), for the purpose of filings on Form 10-Q, requires balance sheet comparative period only when seasonality requires it for a better understanding.[149] It refers to Rules 3-01 and 3-02 for interim periods to be covered in a registration statement.

Planning Point: Although Rule 3-01 refers to the level of detail prescribed by Rule S-X 3-10,[150] it does not explicitly mention comparative information for the balance sheet,[151] while Rule 8-03 for small business issuers does.[152] Conversely, it requires comparative information for the statements of income and cash flows.[153]

Under Form 20-F, unaudited interim financial statements are due when the document is dated more than nine months from the end of the last audited financial year. In such a case, the reported period cannot exceed six months. Comparative information is necessary, except when the annual balance sheet may serve the same purpose.[154]

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[145] *FASB ASC 270-10-05-1 (APB 28, ¶ 2).*
[146] *FASB ASC 270-10-45-12 (APB 28, ¶ 23).*
[147] *Committee of European Securities Regulators (CESR), 2008. CESR/08-966,* 4th Extract from EECS's Database of Enforcement, *Paris: CESR, ¶ Decision ref. EECS/1208-15. [Online] CESR. Available at: www.cesr.eu [last accessed July 20, 2010].*
[148] *SEC IFRS Reviews. Letter by the SEC, November 3, 2006. File No. 0-13722, Comment 11.*
[149] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(c)(1)).*
[150] *Regulation S-X, ¶ 210.3-01(f).*
[151] *Regulation S-X, ¶ 210.3-01(e).*
[152] *Regulation S-X, ¶ 210.8-03.*
[153] *Regulation S-X, ¶ 210.3-02(b).*
[154] *Form 20-F, Item 8.A.5.*

> **Planning Point:** Form 20-F is not specific as to the interim periods that must be reported in each individual statement. Regulation S-X applies to the presentation of financial information in a registration statement or report.[155] However, as mentioned in Paragraph 2.10.4 previously, the SEC clarified that an IFRS foreign private issuer that is not required to reconcile to U.S. GAAP will follow IFRSs relating to financial statements' form and content, rather than Regulation S-X, including provisions relating to interim financial statements.[156] For an IFRS first-time adopter in the transition year, under the previous GAAP option, the IFRS option, or the U.S. GAAP condensed information option (see Paragraph 2.15.14 previously), an entity must show the current interim period and the comparable prior year period.[157]

7.7.3 Statements of the Latest Financial Year

IAS 34 has a by-exception and year-to-date approach to interim reporting.

> **Planning Point:** Consequently, IAS 34 does not replicate the approach of IAS 1 in including a beginning-of-first-comparative-period statement of financial position in a complete set of financial statements in case of retrospective changes in accounting policies or correction of errors or reclassifications.[158] Conversely, the first IFRS interim financial statements replicate the IAS 1 approach. In fact, interim statements must include the IFRS 1 reconciliations,[159] which refer to the beginning of the earliest comparative period presented (i.e., the transition date).

> **Planning Point:** Neither IFRSs, U.S. GAAP, nor SEC guidance require statements of income, statement of cash flows, and statement of changes in equity for the latest annual period, although some companies provide these as additional periods on a voluntary basis.

7.7.4 12-Month Interim Reports

Similarly to IAS 34, Subtopic 270-10 (APB 28) encourages seasonal businesses to present 12-month period interim reports.[160] Section 270-10-S99 (Regulation S-X 10-01) gives an option to that effect to certain businesses.

> **Planning Point:** IAS 34 points out highly seasonal businesses as opposed to material seasonal variations of revenues under APB 28, although the caption of Paragraph 18 of APB 28 also refers to seasonal costs or expenses. Section 270-10-S99 (Regulation S-X 10-01) instead mentions seasonal production and sale of a single-crop agricultural commodity.[161] IAS 34 regards those 12-month interim reports as additional statements (supplemental statements under APB 28), while Regulation S-X 10-01 considers them as substitutes for the financial year-to-date statements of income and cash flows. Section 270-10-S99 (Regulation S-X 10-01) also permits additional 12-month period interim

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155 *Form 20-F, General Instruction B(d).*
156 *SEC, Release No. 33-8879, ¶ III.D.*
157 *Form 20-F, General Instruction G(f)(2)(B).*
158 *IAS 1, ¶¶ 10(f), BC33; IAS 34, ¶ 8.*
159 *IFRS 1, ¶¶ 32(b), 24(a)(i).*
160 *FASB ASC 270-10-45-11 (APB 28, ¶ 18); IAS 34, ¶ 21.*
161 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(c)(4)).*

statements of income and cash flows for any registrant that files Form 10-Q.[162] IAS 34 and APB 28 have no such qualification, although 12-month period interim reports clearly cover the statements of income and cash flows: arguably, they also concern the statement of changes in equity (when presented, under U.S. GAAP).

7.8 FREQUENCY OF REPORTING

IAS 34 does not set the frequency of interim reports, because it perceives this as not being a matter of GAAP. However, it encourages at least half-year reports for publicly traded companies.[163]

In Europe, the Transparency Directive requires listed companies to publish half-year reports.[164]

Subtopic 270-10 (APB 28) is not prescriptive either, accepting monthly, quarterly, or other interim reports.[165] A Form 10-Q is required for each quarter, except for the latest quarter of the fiscal year.[166] An entity must disclose whether quarters do not coincide with calendar dates. They must be consistent across years, or otherwise the entity must warn on the missing comparability.[167] For a foreign private issuer, the age requirements of Form 20-F (Paragraph 7.3.4 previously) dictate when a registration statement must be updated.

7.9 REPORTING DEADLINES

As for frequency, IAS 34 and Subtopic 270-10 (APB 28) do not dictate any prescription on deadlines. IAS 34 suggests making interim reports available at least by 60 days after the end of the interim period.[168] The EC Transparency Directive requires the publication of half-year reports not later than two months after the end of the covered period.[169]

For SEC filings, updating financial statements on an interim basis is required for filings made after 129 and 134 days of the latest balance sheet for large accelerated and accelerated filers, and for other filers, respectively.[170]

Quarterly reports on Form 10-Q are due 45 days (40 days for large accelerated and accelerated filers) after any of the first three quarters of the fiscal year.[171] Furthermore, a Form 10-Q for the quarter following the most recent period included in a registrant's first registration statement is due the later of 45 days after the effective date or the ordinary due date of that Form 10-Q.[172]

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162 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶¶ 210.10-01(c)(2), 210.10-01(c)(3)).*
163 *IAS 34, ¶¶ IN3, 1.*
164 *Directive 2004/109/EC of December 15, 2005, Art. 5.*
165 *FASB ASC 270-10-05-1 (APB 28, ¶ 2).*
166 *Form 10-Q, ¶ General Instruction A.1.*
167 *SEC Staff Accounting Bulletin, Topic 6-G.1.b,* Financial Statements Presented on Other than a Quarterly Basis.
168 *IAS 34, ¶ 1.*
169 *Directive 2004/109/EC of December 15, 2005, Art. 5.*
170 *Regulation S-X, ¶ 210.3-01(e).*
171 *Form 10-Q, ¶¶ General Instruction A.1a, A.1b.*
172 *SEC, Exchange Act, Rule 15d-3.*

With reference to annual reports, large accelerated filers, accelerated filers and all other registrants must file annual reports on Form 10-K within 60, 75, and 90 days after their fiscal year-end, respectively.[173]

Annual reports on Form 20-F must be filed within six months after fiscal year-end. Effective for fiscal years ending on or after December 15, 2011, this changes to four months, regardless of the size of the foreign private issuer.[174] Originally, the delayed deadline was intended as an accommodation for foreign issuers from jurisdictions that permitted longer filing timeframes. Release 33-8959 states as examples other jurisdictions that recently moved to limits not exceeding four months, such as the EU, though the Transparency Directive,[175] Canada, and Israel.[176] If a registration statement is declared effective by operation of law within three months after year-end but no audited financial statements are included, a special report on Form 20-F is due by the later of 90 days from that moment and six months (four months for fiscal years ending on or after December 15, 2011) after year-end.[177] If a foreign private issuer elects to file on Form 10-K and Form 10-Q, accelerated filer rules apply.[178]

When under Regulation S-X 3-09 annual financial statements of an unconsolidated subsidiary and a 50% or less owned person have to be included in the registrant's annual report, the deadline for the investee is 60, 75, and 90 days after its fiscal year-end if it is a domestic large accelerated filer, accelerated filer, or other registrant, respectively, while the period is six months if it is a foreign business. If those due dates fall before the deadline of the registrant's Form 10-K (when the registrant is a domestic issuer) and Form 20-F (when it is a foreign private issuer), that deadline becomes the new due date. Conversely, if those due dates fall after the registrant's deadline, annual financial statements may be filed as an amendment to the registrant's Form 10-K or Form 20-F.[179] In the latter instance, the audited financial statements included in the registrant's Form 10-K must comprise summarized financial information of the unconsolidated subsidiary and the 50% or less owned person.[180]

For the purpose of registration and proxy statements, the age requirements determine the updating of annual financial statements of an unconsolidated subsidiary and a 50% or less owned person, i.e., annual financial statements of a foreign business may not be older than 15 months and, where it is not a foreign business, 60, 75, and 90 days after its fiscal year-end for a large accelerated filer, accelerated filer, or other registrant, respectively.[181]

7.10 AUDITED VERSUS UNAUDITED

This Book does not analyze aspects of auditing in detail. This paragraph simply compares auditing requirements of interim as opposed to annual financial statements.

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173 *Form 10-K, General Instruction A(2).*
174 *Form 20-F, General Instruction A(b).*
175 *Directive 2004/109/EC of the European Parliament and of the Council (Dec. 15, 2004).*
176 *SEC, Release No. 33-8959, ¶¶ I.C, II.B (pages 14, 24, 25).*
177 *SEC, Exchange Act, Rule 15d-2.*
178 *SEC,* Financial Reporting Manual, *¶ 1340.5.*
179 *Regulation S-X, ¶¶ 210.3-09(b)(1), 210.3-09(b)(2); SEC,* Financial Reporting Manual, *¶¶ 2405.7–2405.11.*
180 *SEC,* Financial Reporting Manual, *¶ 2420.5.*
181 *Regulation S-X, ¶¶ 210.3-12(f), 210.3-09(b); 210.3-01(d).*

In general, interim financial statements may be unaudited.[182] Interim financial statements on Form 10-Q must be reviewed by an independent registered public accountant prior to filing. A company is not required to file a review report, unless it mentions this review in a filing.[183] If interim financial statements on Form 20-F, including selected financial data, are unaudited, the fact must be disclosed.[184] Form 20-F encourages but does not require a review for interim financial statements that provide more current information (Paragraph 7.3.5 previously). Again, the review report must be included in a document that refers to that report.[185]

By contrast, an issuer's financial statements included in a filing with the SEC must be audited and a public accounting firm registered with the PCAOB must issue the audit report.[186] The same requirements generally apply to financial statements of a subsidiary guarantor under Section 270-10-S99 (Regulation S-X 3-10), as they must comply with the rules for registrants.[187] Financial statements of other entities included in the registrant's document under Regulation S-X 3-05 and 3-14 must also be audited,[188] except for targets in proxy statements of Form S-4 and Form F-4.[189] Auditing is required for financial statements filed under Regulation S-X 3-09 only for years in which the investment and the income tests are met.[190] The auditor of the financial statements of other entities under Regulation S-X 3-09 and 3-16 must be registered with the PCAOB if, in performing the audit, the auditor played a "substantial role"[191] in the audit of the issuer.

Form 20-F clarifies that the issuer's financial statements must be audited and the audit report must cover each period. Any qualification, refusal, or disclaimer and related reasons must be entirely reported.[192]

Paragraph 2.7.13 previously illustrates the importance of the auditor's opinion in determining compliance with IFRSs and the occurrence of IFRS first-time adoption according to Form 20-F.

7.11 SET OF INTERIM FINANCIAL STATEMENTS

Paragraph 2.13 previously explains the components of financial statements and comparative information in an annual context and analyzes several related issues. This paragraph focuses on an interim context.

Exhibit 7-9 compares the components of interim financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations, including differences in terminology.

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[182] *Regulation S-X, ¶¶ 210.3-01(f), 210.3-02(b), 210.3-12(a), 210.3-18(d), 210.8-03; FASB ASC 225-10-S99-1, 471-10-S99-1, 270-10-S99-1 (Regulation S-X, ¶¶ 210.3-03(d), 210.3-10(g)(2)(i), 210.10-01(a)(1)); Form 20-F, General Instruction G(f)(2)(B).*
[183] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(d)); Regulation S-X, ¶ 210.8-03.*
[184] *Form 20-F, Item 3.A.1, Item 8.A.5.*
[185] *Form 20-F, Item 8.A.5.*
[186] *Regulation S-X, ¶¶ 210.3-01(a), 210.3-02(a).*
[187] *FASB ASC 470-10-S99-1 (Regulation S-X, ¶¶ 210.3-10(a)(1), 210.3-10(g)(2)(i)).*
[188] *Regulation S-X, ¶¶ 210.3-05(a), 210.3-14(a)(1).*
[189] *Regulation S-X, ¶ 210.3-05(b).*
[190] *Regulation S-X, ¶ 210.3-09(b).*
[191] *PCAOB Rule 1001(p)(ii).*
[192] *Form 20-F, General Instruction E(c); Item 8.A.3, Instruction 2 to Item 8.A.2, Instruction to Item 8.A.3.*

Exhibit 7-9 Components of Interim Financial Statements

	IAS 34	*IAS 1*	*U.S. GAAP*	*Regulation S-X and S-K*	*Form 20-F*
Statement of financial position	Condensed	Complete	Financial position	Condensed balance sheet	Condensed balance sheet
Income statement	Option 1, condensed	Option 1, complete	Results of operations	Condensed statements of income	Condensed
Combined statement of income and comprehensive income (*)	Option 1, condensed	Option 1, complete	Total comprehensive income ASU 2011-05 adds components of net income and of OCI		Condensed changes in equity other than from owner transactions, or combined statement of all changes in equity, or analysis in the notes of changes in each caption of equity
Single statement of comprehensive income	Option 2, condensed	Option 2, complete			
Statement of changes in equity	Condensed	Complete	No specific interim requirements	No specific interim requirements	
Statement of cash flows	Condensed	Complete	Cash flow information	Abbreviated	Condensed cash flow statement
Note disclosures	Significant events and transactions, plus other disclosures	Complete notes	APB 28 specific disclosures for summarized financial information of publicly traded companies	Yes	Selected note disclosures
Development stage enterprises	No guidance	No guidance	No specific interim requirements	Condensed cumulative financial statements	No specific interim requirements

(*) For a better understanding, this Exhibit uses the U.S. GAAP term "statement of income and comprehensive income" in lieu of "statement of comprehensive income" as used in IAS 1 to avoid confusion with the single statement of comprehensive income.

7.11.1 Terminology

In an annual context, IAS 1 refers to a complete set of financial statements. The U.S. Concepts use the expression of a full set of financial statements.[193]

> **Comment:** IAS 34 uses unusual terminology versus other IFRSs. It refers to an interim financial report (as opposed to financial statements) and to components as opposed to a complete set of interim financial statements.

7.11.2 Components of Interim Financial Statements

A set of financial statements includes basic financial statements and the notes. This paragraph focuses on basic financial statements, while Paragraph 7.11.6 following gives some indications concerning the notes.

The basic financial statements within a complete set of financial statements under IAS 1 comprise the same statements as mentioned above but in extended, not condensed format. Under IAS 34, condensed financial statements include the statement of financial position, the statement of comprehensive income in either of the two forms permitted (Paragraph 4.2 previously), the statement of changes in equity, the statement of cash flows.[194] The full set of financial statements under IAS 1 also contains another statement of financial position as of the beginning of the earliest comparative period in case of a retrospective change in accounting policy, a retrospective correction of error, or a reclassification.[195]

Subtopic 270-10 (APB 28) generically mentions financial position, results of operations, comprehensive income, and cash flows.[196]

Section 270-10-S99 (Rule 10-01 of Regulation S-X) refers to the general form and content of presentation of financial statements under Regulation S-X. However, it specifically requires the balance sheet, one of the statements of income, and the statement of cash flows.[197] Regulation S-X prescribes the disclosure of specific summarized quarterly financial data.[198]

Under Form 20-F, a set of interim financial statements (whether condensed or not) must include the balance sheet, the income statement, the cash flow statement, and either the statement of changes in equity or the statement showing changes in equity arising from comprehensive income.[199] The AICPA International Practices Task Force interpreted that, under the U.S. GAAP condensed information option, U.S. GAAP condensed balance sheet, condensed income statement and notes, together with condensed statement of cash flows under IAS 7 and interim financial statements under IAS 34 would suffice in Form 20-F of IFRS first-time adopters.[200]

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[193] *CON 1 (superseded), ¶ 2; CON 5, ¶¶ 13, 98; CON 6, ¶ 23; IAS 1, ¶ 10; IAS 34, ¶ 8.*
[194] *IAS 34, ¶ 8.*
[195] *IAS 1, ¶ 10; IAS 34, ¶ 5.*
[196] *FASB ASC 270-10-05-1 (APB 28, ¶ 2).*
[197] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)).*
[198] *Regulation S-K, ¶ 229.302(a)(1).*
[199] *Form 20-F, Item 8.A.5.*
[200] *IPTF, May 17, 2005, ¶ Appendix B, Q9.*

7.11.3 Statements of Income

The use of the income statement in annual reporting as part of the approach to presenting two types of statements of income, as permitted by IAS 1, determines the use of the same statement for interim reporting purposes.[201]

> **Planning Point:** By using the generic terminology of "statements of income", Section 270-10-S99 (Regulation S-X § 210.10-01) leaves the two options contained in the 2007 version of IAS 1 open (i.e., either a single statement of comprehensive income or an income statement plus a statement of comprehensive income).[202]

Paragraph 4.3.1 previously explains the position of Form 20-F with reference to interim statements of income.

7.11.4 Comprehensive Income

Subtopic 220-10 (FASB Statement No. 130) requires a total for comprehensive income, not its components, although it explains that it expects an entity to explain significant other comprehensive income amounts in interim periods.[203]

> **Comment:** Although the Standard does not qualify the type of enterprise to which such a requirement applies, its Basis for Conclusions explains that this is required in condensed interim financial statements of publicly traded enterprises.

From its effective date, ASU 2011-05 extends the presentation of the components of net income and other comprehensive income in condensed interim financial statements.[204]

Unlike annual financial statements, Form 20-F does not provide guidance about comprehensive income in interim reporting. In any case, a statement is required.[205]

7.11.5 Statement of Changes in Equity

Subtopic 270-10 (APB 28) requires the disclosure of stockholders' equity, but does not mention the statement of changes in equity.[206]

Section 270-10-S99 (Regulation S-X § 210.10-01) does not mention the statement of changes in equity in an interim context. However, as part of the general instructions to the financial

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201 *IAS 34, ¶ 8A*
202 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(3)); IAS 1, ¶ 81.*
203 *FASB ASC 220-10-45-18 (FASB Statement No. 130, ¶ 27); FASB Statement No. 130, ¶¶ 124, 125; FASB ASC 270-10-50-1 (APB 28, ¶ 30.a).*
204 *FASB ASC 220-10-45-18, as amended by ASU 2011-05.*
205 *SEC, International, November 1, 2004, ¶ VI.A.*
206 *FASB ASC 270-10-50-4 (APB 28, ¶ 33).*

statements, the analysis of balances and changes of each caption of equity in Rule 3-04 should apply (Paragraph 6.2.4 previously).[207]

Under Form 20-F, a note must analyze changes in each caption of shareholders' equity if it is not part of the primary financial statements.[208] Paragraph 6.2.1.3 previously explains the position of Form 20-F with reference to interim statements of changes in equity.

7.11.6 Notes

IAS 34 used to require selected explanatory notes. The May 2010 *Improvements to IFRSs* rephrased them as significant events and transactions and other disclosures.[209]

Although Subtopic 270-10 (APB 28) does not explicitly mention selected notes in a set of interim financial statements, it lists certain minimum disclosures for summarized financial information of publicly traded companies.[210]

Section 270-10-S99 (Rule 10-01 of Regulation S-X) requires disclosures so that interim information is not misleading.[211]

Form 20-F refers to selected note disclosures.[212]

A more detailed discussion of notes falls outside of the scope of this Book.

7.11.7 Classified Interim Statement of Financial Position

The principles for a classified statement of financial position also apply in interim reports. IAS 34 simply permits a relaxation of the level of precision.[213]

Section 270-10-S99 (Regulation S-X 10-01) has no specific guidance in relation to the classified format of the statement of financial position at interim dates. Smaller reporting companies that use a classified balance sheet must report total current assets and total current liabilities.[214]

> **Planning Point:** Form 20-F refers to Section 270-10-S99 (Regulation S-X 10-01)[215] and Section 270-10-S99 (Regulation S-X 10-01) to other sections of Regulation S-X regarding the form and content of condensed interim financial statements.[216] Therefore, annual financial statements guidance applies. Paragraph 3.3.2 previously includes a discussion about the classified statement of financial position in general.

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[207] *FASB ASC 505-10-S99-1 (Regulation S-X, ¶ 210.3-04).*
[208] *Form 20-F, Item 8.A.5.*
[209] *IAS 34, ¶¶ 15, 16A.*
[210] *FASB ASC 270-10-15-03, 270-10-10-1, 270-10-50-1 (APB 28, ¶¶ 3, 6, 30); APB 28, ¶ 8).*
[211] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(5)); Regulation S-X, ¶ 210.8-03(b)(2).*
[212] *Form 20-F, Item 8.A.5.*
[213] *IAS 34, ¶ IE C2.*
[214] *Regulation S-X, ¶ 210.8-03(a)(1).*
[215] *Form 20-F, Item 8.A.5, Instruction 2 to Item 8.A.5.*
[216] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)).*

Under Rule 8-03 of Regulation S-X, small business issuers must present an interim statement of financial position that includes totals for current assets and current liabilities to the extent that they use the same format for annual periods.[217]

> **Comment:** The Rule in its literal wording does not call for classified statement of financial position, but simply mentions such a totalization.

7.11.8 Development Stage Enterprises

Regulation S-X also requires condensed cumulative financial statements at interim dates for development stage enterprises, while Subtopic 915-205 (FASB Statement No. 7) has no such stipulation.[218]

7.12 CONDENSED FORMAT OF INTERIM FINANCIAL STATEMENTS

7.12.1 The Effect of Using IAS 34 on the Condensed Format

As Paragraphs 2.15.2 previously and 7.2.3 previously mention, IAS 34 is not mandatory under IFRSs as well as during their first-time adoption. In determining the set of basic financial statements, an entity may use IAS 34 or full compliance with IAS 1. IAS 34 requires at least a set of condensed financial statements. When the option goes to the complete set of financial statements, full compliance with IAS 1 becomes mandatory; however, recognition and measurement must also accord with IAS 34.[219]

> **Planning Point:** The AICPA International Practices Task Force acknowledges the use of a complete set of financial statements as a way of satisfying the requirements of the U.S. GAAP condensed information option.[220]

7.12.2 Whether the Condensed Format is Optional

Paragraph 7.12.1 previously explains that under IFRSs the condensed format of interim financial statements is optional.

Subtopic 270-10 (APB 28) also permits complete financial statements or condensed statements.[221]

> **Planning Point:** Unlike IAS 34, with respect to summarized interim financial information, APB 28 only refers to publicly traded companies.[222]

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[217] *Regulation S-X, ¶ 210.8-03(a)(1).*
[218] *Regulation S-X, ¶¶ 210.10-01(a)(7), 210.8-03(b)(6); FASB ASC 915-205-45-2 (FASB Statement No. 7, ¶ 11).*
[219] *IAS 34, ¶¶ 7, 9.*
[220] *IPTF, May 17, 2005, ¶¶ Appendix B, Q9, Q10, and Q14.*
[221] *FASB ASC 270-10-05-1 (APB 28, ¶ 2).*
[222] *FASB ASC 270-10-05-1, 270-10-50-1, 270-10-50-2, 270-10-50-3, 270-10-50-4 (APB 28, ¶¶ 1, 2, 30-33); APB 28, ¶ 8.*

Form 20-F permits interim financial statements in condensed form with a minimum content, and refers to Regulation S-X for detailed instructions.[223]

Section 270-10-S99 (Rule 10-01 of Regulation S-X) governs condensed interim financial statements.[224]

> **Planning Point:** Under a literal reading of Section 270-10-S99 (Regulation S-X § 210.10-01), a condensed balance sheet must include only major captions. Conversely, although a condensed statement of income must also include major captions, the Rule does not specify that it must report only those captions. A statement of cash flows may be abbreviated.[225] Regulation S-X 210.3-02 does not require greater detail for interim financial statements than that required by Rule 10-01.[226] For small business issuers, Regulation S-X states that the condensed format is an option.[227] A publication by the AICPA suggests placing a legend on Form 10-Q to the effect that, also due to condensation, not all disclosures required by U.S. GAAP may be present.[228] Conversely, Form 20-F states that financial statements may be condensed.[229]

7.12.3 Condensed versus Summarized Interim Financial Information

Summarized financial information also has a specialized connotation under SEC rules and regulations with reference to certain information related to other entities, especially investees (Paragraph 7.4.4 previously).

> **Comment:** The meaning of the expression summarized interim financial data in Subtopic 270-10 (APB 28) is equivalent to condensed interim financial statements or even condensed financial interim information.

Rules 10-01 and 4-08 of Regulation S-X require separate summarized interim financial data of unconsolidated or 50% or less owned persons, or their appropriate groupings, for which Rule 3-09 mandates the inclusion of annual financial statements in a document, unless those entities would not be subject to file quarterly financial information if they were registrants.[230] Regulation S-X 210.1-02 gives instructions on separate summarized financial information.[231] Form 20-F (no reference to interim information is made) requires summarized balance sheet, income statement, and cash flows for non-U.S. GAAP financial statements that proportionately consolidate joint ventures that under U.S. GAAP would be accounted for at equity method (see also Paragraph 2.10.3 previously).[232]

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223 *Form 20-F, Item 8.A.5, Instruction 2 to Item 8.A.5.*
224 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)).*
225 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶¶ 210.10-01(a)(2), 210.10-01(a)(3), 210.10-01(a)(4)).*
226 *Regulation S-X, ¶ 210.3-02(b).*
227 *Regulation S-X, ¶ 210.8-03(a).*
228 *Leland, E., et al. (2006)* SEC Reporting. *Lewisville (TX): AICPA, ¶ 6-7 (hereinafter: AICPA,* SEC Reporting*).*
229 *Form 20-F, Item 8.A.5.*
230 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(b)(1)); Regulation S-X, ¶ 210.4-08(g).*
231 *Regulation S-X, ¶ 210.1-02(z)(bb).*
232 *Form 20-F, Item 17(c)(2)(vii).*

7.12.4 Scope of Condensed Financial Statements

For the purpose of disclosure and presentation, Subtopic 270-10 (APB 28) distinguishes between summarized interim financial data and completed interim information. Its minimum disclosure requirements only apply to summarized statements and to publicly traded companies.[233] It was clarified that APB 28 also applies to quarterly reports on Forms 10-Q and 10-QSB.[234] Of course, they also have to follow SEC rules and regulations, as applicable.

> **Planning Point:** Subtopic 270-10 (APB 28) does not say what happens to non-publicly traded companies not presenting summarized interim financial statements. Arguably, they must follow all U.S. GAAP disclosure and presentation requirements for interim periods. For example, this interpretation comes evident from the Basis for Conclusion of FASB Statement No. 107 for the purpose of the application to interim financial statements[235] as well as from Implementation Guide to FASB Statement No. 115.[236] Conversely, IAS 34 clearly states that an entity that presents completed interim financial statements must apply IAS 34 as well as all applicable IFRSs.[237]

> **Planning Point:** Some U.S. GAAP pronouncements other than Subtopic 270-10 (APB 28) may have specific interim presentation requirements; others may have specific transitional provisions for the interim statements presented at their first application, based on this fact it is reasonable to infer that these pronouncements apply to interim reporting. Others do not mention interim reporting at all. Some specifically scope out their application at interim dates. Conversely, IFRSs have no pronouncement that scope out interim reporting. An entity should add those other items that it has shown as headings and subtotals (as opposed to line items) in its preceding annual financial statements.

7.12.5 Effect of the Condensed Format on the Application of Accounting Principles

Paragraph 7.2.2.2 previously explains the consequences of the condensed format on the application of accounting principles.

7.12.6 Disclosure of Condensed Format

IAS 34 does not explicitly require the disclosure of whether a completed or condensed format of interim financial statements is used.

> **Planning Point:** However, this may be considered as part of the note regarding the basis of preparation of the financial statements.[238] Paragraph 7.2.4 previously expands on the statement of significant accounting policies. A publication by the AICPA suggests placing a legend on Form 10-Q to the effect that, also due to condensation, not all disclosures required by U.S. GAAP may be present.[239]

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[233] *FASB ASC 270-10-50-1 (APB 28, ¶ 30; APB 28, ¶ 8).*
[234] *FASB Statement No. 135, ¶ 20(c).*
[235] *FASB Statement No. 107, ¶ 86.*
[236] *FASB ASC 320-10-50-13 (Implementation Guide – Q&A 115, ¶ 52).*
[237] *IAS 34, ¶ 7.*
[238] *IAS 34, ¶¶ 16A(a), 19.*
[239] *AICPA*. SEC Reporting, *¶ 6-7.*

7.12.7 Condensed Interim Financial Statements of IASB-IFRS Foreign Private Issuers

Paragraph 7.2.3.5 previously illustrates the effect of IAS 34 on the exemption from using the condensed format of interim financial statements under Section 270-10-S99 (Rule 10-01 of Regulation S-X).

However, there may be cases where strict compliance with Rule 10-01 of Regulation S-X is mandated. These may encompass situations such as a business combination that is classified as a merger under local GAAP and an acquisition under U.S. GAAP or a reverse versus a direct acquisition, or a disposal that, contrary to U.S. GAAP, is not displayed as discontinued operations under local GAAP. Here, interim balance sheet, condensed income statement, and statement of cash flows must follow the level of detail of Rule 10-01. U.S. GAAP-based preacquisition income statements may be necessary.[240]

7.12.8 Reference to the Latest Annual Financial Statements

A condensed format of basic financial statements under IAS 34 requires not less than the same headings and subtotals as the latest annual financial statements.[241]

> **Planning Point:** IAS 34 does not cite the minimum content under IAS 1, but simply refers to headings and subtotals of the latest annual financial statements. However, it is clear that the minimum headings and subtotals of annual financial statements must adhere to IAS 1, in addition to other IFRSs that require separate presentation of some items. Therefore, the form and content of interim financial statements in any case derives from the analysis of IAS 1. In addition, IAS 34 refers to IAS 1 for guidance on the structure of financial statements, but without specifying whether this must be intended for completed or condensed interim financial statements.[242] On the other hand, IAS 1 states that its guidance on form and content of financial statements do not apply to condensed interim statements.[243] Therefore, the wording of IAS 1 and IAS 34 shows some inconsistencies.

In general terms, Subtopic 270-10 (APB 28) also confirms that interim financial statements must apply U.S. GAAP, especially as used in the latest annual financial statements, unless specific modifications are made by the Standard.[244] However, APB 28 provides little guidance on form and minimum line item display in interim financial statements. Instead, it provides a considerable number of indications on recognition, measurement, and note disclosures.

> **Comment:** Although Subtopic 270-10 (APB 28) is not so explicit, consistency with latest annual financial statements may be considered as given, by the fact that Subtopic 270-10 entails using the accounting principles of the latest annual financial statements, apart from certain modifications.[245]

[240] *SEC,* Financial Reporting Manual, *¶ 6520.2; SEC, International, November 1, 2004, ¶ VI.B,* Business Combinations: Discontinued Operations under US GAAP versus Home-country GAAP.
[241] *IAS 34, ¶¶ 9–10.*
[242] *IAS 34, ¶ 12.*
[243] *IAS 1, ¶ 4.*
[244] *FASB ASC 270-10-45-2 (APB 28, ¶ 10).*
[245] *FASB ASC 270-10-45-2 (APB 28, ¶ 10).*

Form 20-F also refers to the major line items of the latest annual financial statements.[246]

7.12.9 The Meaning of Major Captions

Under Section 270-10-S99 (Rule 10-01 of Regulation S-X), condensed interim financial statements must generally show major captions.[247] Under IAS 34, condensed interim financial statements must contain at least headings and subtotals.[248] For the purpose of Form 20-F major line items must be intended as per Regulation S-X 10-01 (i.e., numbered captions).[249] However, as mentioned in Paragraph 7.2.3.5 previously, an IASB-IFRSs foreign private issuer that uses IAS 34 and includes a statement of compliance with IAS 34 does not apply Regulation S-X § 210.10-01.[250]

Planning Point: Several reasons may exist why the captions may be more than the minimum required. Firstly, an entity may show additional content based on disaggregation guidance in IAS 1.[251] Secondly, under IAS 34, Subtopic 270-10 (APB 28), or Form 20-F the latest annual financial statements may have reported additional headings and subtotals. This depends on whether those items were presented as line items or as headings. A doubt may arise as to whether a "subtotal" (i.e., required to be displayed) would be different from a "subheading" (thus not triggering presentation in interim statements). Furthermore, based on IAS 34, an entity will have to display additional line items or disclose additional information if the condensed statements would otherwise prove to be misleading.[252] Regulation S-X 10-01 and Regulation S-X 8-03 have similar requirements with specific reference to presentation or disclosure. For small business issuers Regulation S-X 8-03 also links additional line items to a concept of usefulness of financial statements.[253]

7.12.10 Minimum Line Items on the Face of the Condensed Interim Financial Statements

7.12.10.1 Condensed Interim Statement of Financial Position Under Section 270-10-S99 (Regulation S-X 10-01), the interim balance sheet must at least show numbered captions, except for inventories.[254] This rule is also valid for smaller reporting companies.[255] It is possible to combine captions that taken singly are less than 10% of total assets and that have not changed by more than 25% from the latest annual financial year-end (for small business issuers there is no such 25% requirement). An entity must give information on raw materials, work in process, and finished goods, with the option to either present this information on the face of the statement of financial position or disclose it in the notes.[256] The latter requirement remains even when the company has used methods, such as the gross method, which do

[246] *Form 20-F, Item 8.A.5, Instruction 2 to Item 8.A.5.*
[247] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)).*
[248] *IAS 34, ¶ 10.*
[249] *Form 20-F, Item 8.A.5, Instruction 2 to Item 8.A.5.*
[250] *Form 20-F, Instruction 4 to Item 8.A.5.*
[251] *IAS 1, ¶¶ 55–59, 82–83.*
[252] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(5)); IAS 34, ¶ 10.*
[253] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(5)); Regulation S-X, ¶¶ 210.8-03(a)(4), 210.8-03(b)(1)); IAS 34, ¶ 10.*
[254] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(2)).*
[255] *Regulation S-X, ¶ 210.8-03(a)(1).*
[256] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(2)).*

not analytically enucleate categories of inventories.[257] Cash and retained earnings of a small business issuer must always be presented separately, as no test of significance applies.[258]

Planning Point: Some inconsistencies between annual financial statements and interim combining guidance come up with reference to some balance sheet numbered captions. Commercial and industrial companies must separately display Item No. 8, *Other current assets*, Item No. 17, *Other assets*, Item No. 20, *Other current liabilities*, and Item No. 24, *Other liabilities* in the annual statement of financial position if the item exceeds 5% of total current assets (note disclosure is the other option). On the other hand, if it is less than 10%, the item may be combined with others in the interim statements. The same diversity exists with the numbered caption Item No. 15, *Intangible assets*, with the difference that there is no note disclosure preference available.[259]

Form 20-F stipulates that a condensed balance sheet must contain, in addition to the major line items of the latest audited financial statements, the major components of assets, liabilities, and equity.[260]

Comment: The disclosure indications of Subtopic 270-10 (APB 28)[261] mainly handle the income statement, and minimally the statement of cash flows and the statement of financial position. Where a publicly traded company does not present the latter statement at interim dates, APB 28 requires the disclosure of net working capital, long-term liabilities, or equity from the last annual period.[262]

7.12.10.2 Condensed Interim Statements of Income Subtopic 270-10 (APB 28) requires the presentation of sales or gross revenues, provision for income taxes, extraordinary items, net income and comprehensive income, basic and diluted earnings per share. It also lists certain disclosures.[263]

Under Regulation S-X, an entity may combine major captions that are less than 15% of average net income (excluding loss years) or average net loss (if all three years are at loss) for the most recent three years and where change exceeds 20% over the corresponding interim period of the previous year. In any case, bank holding companies must show investment securities gains or losses separately.[264] Insignificant items may be combined.[265]

Smaller reporting companies must display net sales or gross revenue (net interest income for financial institutions), each category of costs and expenses of the annual statement that is in excess of 20% of sales or gross revenue, provision for income taxes, discontinued operations,

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257 *FASB ASC 270-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-G.2.a,* Form of Condensed Financial Statements*).*
258 *Regulation S-X, ¶ 210.8-03(a)(1).*
259 *FASB ASC 210-10-S99-1 (Regulation S-X, ¶¶ 210.5-02.8, 210.5-02.15).*
260 *Form 20-F, Item 8.A.5.*
261 *FASB ASC 270-10-50-1 (APB 28, ¶ 30).*
262 *FASB ASC 270-10-50-4 (APB 28, ¶ 33).*
263 *FASB ASC 270-10-50-1 (APB 28, ¶ 30).*
264 *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(3)).*
265 *FASB ASC 205-10-S99-2 (Regulation S-X, ¶ 210.4-02).*

extraordinary items, cumulative effect of changes in accounting principles, and dividends per share.[266]

Form 20-F stipulates that a condensed income statement must contain, in addition to the major line items of the latest audited financial statements, the major components of income and expenses.[267]

In any event, IAS 34 requires the presentation of basic and diluted earnings per share by companies that are within the scope of IAS 33.[268]

7.12.10.3 Condensed Interim Statement of Cash Flows IAS 34 does not define the minimum content of a condensed interim statement of cash flows. IAS 7 requires subtotals for operating, investing, and financing activities. However, IAS 34 states that the granularity of headings and subtotals must not be less than that used in the most recent annual financial statements.[269]

Example: The Corporate Reporting Standing Committee (EECS), a forum of the EU National Enforcers of Financial Information, assessed that an issuer did not comply with IAS 34 by not reporting separate headings for cash flows from operating activities and changes in operating assets and liabilities, because it had used those aggregates in its most recent annual financial statements.[270]

Subtopic 270-10 (APB 28) encourages but does not require interim statements of cash flows. In the case where an entity does not present it, APB 28 requires the disclosure of significant changes in liquid assets.[271]

Under Regulation S-X, abbreviation of the statements of cash flows means reporting an aggregate for net cash flows from operating activities and separate items for investing and financing activities in excess of 10% of the average of net cash flows from operating activities of the latest three years (excluding years with net outflows unless all the three years have a net outflow).[272]

Smaller reporting companies must separately report cash flows from operating, investing, and financing activities, beginning and end balances of cash, and the period change.[273]

Form 20-F stipulates that a condensed statement of cash flows must contain, in addition to the major line items of the latest audited financial statements, the major subtotals of cash flows.[274]

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[266] *Regulation S-X, ¶ 210.8-03(a)(2).*
[267] *Form 20-F, Item 8.A.5.*
[268] *IAS 34, ¶¶ 11, 11A.*
[269] *IAS 7, ¶ 10; IAS 34, ¶ 10.*
[270] *CESR/09-1134, ¶ Decision ref. EECS/1209-10.*
[271] *FASB ASC 270-10-50-4 (APB 28, ¶ 33).*
[272] *FASB ASC 270-10-S99-1 (Regulation S-X, ¶ 210.10-01(a)(4)); FASB ASC 270-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-G.2.a).*
[273] *Regulation S-X, ¶ 210.8-03(a)(3).*
[274] *Form 20-F, Item 8.A.5.*

7.12.10.4 Reclassifications Under Regulation S-X, reclassification of comparatives in Form 10-Q is required when captions previously combined meet the threshold for separate display at a subsequent quarter.[275] In particular, reclassification of captions in the latest annual balance sheet, whether separate or combined, is necessary when a different classification is used at interim dates.[276]

7.13 IMPLICATIONS FOR FINANCIAL STATEMENT PREPARERS

This paragraph highlights the main key decisions and control points relating to IFRS interim financial statements arising from the issues discussed in this chapter. Some of the questions that financial statement preparers should ask themselves follow, together with the reference to the paragraphs that treat each topic.

KEY ELEMENTS AND DECISIONS

Paragraph 7.2

Review in what respect interim financial statements under IAS 34 must comply with and in what respects they need not comply with IFRSs;
Understand the implication of IAS 34 (together with other requisites) on U.S. GAAP reconciliations of foreign private issuers, use of the U.S. GAAP condensed information option for IFRSs first-time adopters, and application of Section 270-10-S99 (Rule 10-01 of Regulation S-X);
Decide whether or not to comply with IAS 34;
Review whether the type of statements of compliance to IFRSs must include IAS 34 or not;
Review in what respect interim financial statements under Subtopic 270-10 (APB 28) must comply and in what they need not comply with U.S. GAAP;
Decide whether to present full or condensed interim statements, taking the implications into consideration;
Review the difference in recognition and measurement of interim versus annual financial statements;
Review the limitations of disclosures in condensed interim reports under IAS 38 as compared to summarized interim financial information under Subtopic 270-10 (APB 28), depending on the public or private status of the company;
Review the implications of changes in accounting policies, especially in the year of transition to IFRSs.

Paragraph 7.3

Understand the different types of interim financial information;
Review the application to your company and related requirements.

Paragraph 7.4

Review whether your company is obliged to report on an interim basis;
Decide whether there are specific indications to elect interim reporting;
Understand the effect of being a publicly traded company on interim reporting;
Review the differences in the definition of a publicly traded company under IFRSs, U.S. GAAP, and SEC rules and regulations;

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[275] *FASB ASC 270-10-S99-2 (SEC Staff Accounting Bulletin, Topic 6-G.2.a).*
[276] *AICPA*. SEC Reporting, *¶ 6-5*.

Understand the disconnections with earnings per share and segment reporting;
Understand the implications of reporting under IFRS for small and medium-sized entities;
Review the different requirements for interim reporting in separate and entity's financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations;
Review the applicability of the SEC's requirements for interim financial information of other entities included in a registrant's document.

Paragraph 7.5
Understand the discrete approach of IAS 34 versus the integral view of Subtopic 270-10 (APB 28);
Review the implications on recognition;
Review the implications on measurement;
Review the implications on disclosures.

Paragraph 7.6
Understand how the use of IASB-IFRSs as opposed to a jurisdictional version of IFRSs affects Form 20-F;

Paragraph 7.11
Understand the differences in components of interim financial statements between IFRSs, U.S. GAAP, and SEC rules and regulations;
Understand how this relates to and how this differs from annual reporting and adopt consistent choices;
Relate the guidance for classified interim statements of financial position to that related to the annual basis.

Paragraph 7.12
Understand the implications of using a complete or condensed format of interim financial statements;
Figure out options available depending on your status as public versus private company;
Do not misunderstand the different meanings of summarized interim financial statements;
Decide which format to use;
Appropriately disclose the choice made.

OTHER CONTROL POINTS

Paragraph 7.5
Apply the specific instructions of IAS 34 versus Subtopic 270-10 (APB 28) to specific items applicable to your accompany;
Review the guidance of IFRIC 10;
Solve any additional conflict between IAS 34 and other standards that is excluded from the scope of IFRIC 10;
Review the computation of year-to-date earnings per share under IFRSs versus U.S. GAAP.

Paragraph 7.7
Review which periods must be covered, comparative periods, reference to the latest financial year, and 12-month interim financial statements under IFRSs, U.S. GAAP, SEC rules and regulations.

Paragraphs 7.8, 7.9, and 7.10

Review the frequency and deadline requirements of interim reporting in your jurisdiction(s);
Review auditing requirements of interim reporting in your jurisdiction.

Paragraph 7.12

Compare the subtle differences of major captions to report in condensed financial statements under IFRSs, U.S. GAAP, and SEC rules and regulations;
Compare the structure used in the latest annual financial statements and how this affects your condensed interim reports;
Review specific instructions concerning minimum line items to display.

TABLE OF EXHIBITS

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Please see Footnotes for:

- Authoritative pronouncements concerning IFRSs, U.S. GAAP, and other local GAAPs;
- IASB Updates and IFRIC Updates;
- Exposure Drafts, Preliminary Views, Discussion Papers, Staff Drafts and other project materials published by accounting standard setters;
- Documents issued by the AICPA, International Practices Task Force and the AICPA, Center for Audit Quality;
- Documents issued by the SEC Regulations Committee;
- SEC rules and regulations;
- SEC review of Form 20-F;
- SEC speeches;
- EECS enforcement decisions;
- Documents published by the CESR, Consob, Autorité des Marchés Financiers, and other securities regulators;
- Local Laws and regulations, including EC Regulations;
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