IFRS

STAFF PAPER

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IASB® meeting

Project	**Primary Financial Statements**		
Paper topic	How to present the Exposure Draft and the number of illustrative examples		

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Purpose of the paper

1. In July 2019, the Board gave the staff permission to start the balloting process for the publication of the Exposure Draft. The staff have prepared and circulated a pre-ballot draft of the Exposure Draft to the Board. As a result of comments received on the pre-ballot draft, the staff have identified two issues on which we would like the Board's input:
   - (a) presenting the Exposure Draft as a [draft] new IFRS Standard rather than as amendments to IAS 1 *Presentation of Financial Statements*; and
   - (b) the number of illustrative examples of the statement(s) of financial performance to include in the Exposure Draft.

2. We are seeking your feedback on these issues because:
   - (a) a Board member and some stakeholders have expressed concerns about our decision to present the Exposure Draft as a [draft] new IFRS Standard rather than amendments to IAS 1.
   - (b) the Board tentatively decided which illustrative examples should accompany the Exposure Draft during its November 2018 meeting. However, the staff are now suggesting a different approach.

3. We have not identified any additional issues that we need to discuss with the Board at this stage but we are continuing to work through the comments received on the pre-ballot draft.

Summary of staff recommendations

4. The staff recommend the Board:

   (a) present the Exposure Draft as a [draft] new IFRS Standard rather than as amendments to IAS 1.

   (b) reduce the number of illustrative examples of the statement(s) of financial performance included in the Exposure Draft to a handful of examples needed to illustrate the Board's main proposals. This recommendation would change the tentative decision made at the November 2018 Board meeting.

Structure of the paper

5. This paper is structured as follows:

   (a) how to present the Exposure Draft (paragraphs 6–22);

   (b) number of illustrative examples (paragraphs 23–26);

   (c) appendix A—notes of the July 2019 Accounting Standards Advisory Forum (ASAF) discussion on structuring the new requirements resulting from the PFS project; and

   (d) appendix B—paragraphs of IAS 1 which are proposed to be included in the Exposure Draft largely unchanged.

How to present the Exposure Draft

Past discussions about the structure of the Exposure Draft

6. Agenda Paper 21A in the May 2019 Board meeting included a brief discussion of possible approaches to how to present the Exposure Draft. The Paper suggested that the project proposals could be presented as either amendments to IAS 1 or as a new IFRS Standard.[1] The staff did not ask the Board for a decision on this issue.

7. To ensure that we considered all the advantages and disadvantages of the different approaches to the structure of the Exposure Draft, we asked ASAF members for input at their July 2019 meeting. In summary, ASAF members:

   (a) had different views on whether the proposals should be presented as amendments to IAS 1 or as a new IFRS Standard.

   (b) thought timing is an important factor in deciding which approach to adopt.

   (c) were of the view that splitting the requirements of IAS 1 into two or more Standards would be confusing, noting that the issues covered by IAS 1 logically belong in a single Standard. However, a few members commented that if the Board were to split the requirements in IAS 1, it should move the remaining parts of IAS 1 to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and withdraw IAS 1.

8. ASAF members also provided some comments on the approach to those IAS 1 paragraphs which are unaffected by the Board's proposals in this project. Again, their views were mixed:

   (a) some advised keeping changes to a minimum, because unnecessary drafting changes to existing requirements create work for stakeholders who need to understand the effects of the changes. ASAF members commented that this is likely to be the case, even if the Board explains it does not intend to change the requirements. This is a particular problem for those jurisdictions that have to translate any new requirements.

[1] Paragraphs 16–18 of Agenda Paper 21A in the May 2019 Board meeting.

(b) some thought that that updating the drafting of the existing requirements of IAS 1 could be beneficial. IAS 1 was developed a long time ago and some of the drafting could be improved. The Board could minimise the risk of unintended consequences by making only substantial improvements, and by clearly indicating and asking questions about the proposed changes in the Exposure Draft.

9. Appendix A includes a summary of the discussion at the ASAF meeting.

Staff's proposed approach to drafting of IAS 1 paragraphs not affected by the project

10. Considering the ASAF advice, the staff proposed in the pre-ballot draft of the Exposure Draft the following approach to drafting IAS 1 paragraphs not affected by the project proposals:

(a) we aligned the terminology used with the *Conceptual Framework of Financial Reporting* (*Conceptual Framework*):

(i) replacing 'reliable' with 'faithfully represent', 'statement(s) of profit or loss and other comprehensive income' with 'statement(s) of financial performance', and 'owners' with 'holders of equity claim'; and

(ii) replacing 'relevant' with 'pertinent' when it is not used with the meaning defined in the *Conceptual Framework*.

(b) we made minor drafting improvements such as changing 'IFRSs' to 'IFRS Standards'

(c) consistent with the proposals and the feedback on the Discussion Paper: *Disclosure Initiative—Principles of Disclosure* published in 2017, we made changes to ensure that we consistently use:

(i) 'present' to mean 'present in the primary financial statements'; and

(ii) 'disclose' to mean 'disclose in the notes'.

(d) we made other changes necessary for consistency with the new requirements added by the project proposals—this resulted in some paragraphs being amended and others being deleted.

11. The staff considered making further changes, to clarify and improve the drafting of the requirements in these paragraphs. The staff also considered whether we should review these paragraphs to identify any changes needed to align the concepts underpinning them with the *Conceptual Framework*. However, the staff do not recommend making such changes or reviewing these paragraphs, because:

(a) we have not heard significant concerns about the drafting of those requirements;

(b) there are risks that changes intended to improve the drafting might change the requirements, contrary to the Board's intention;

(c) to avoid such unintended consequences, the staff would need further research and analysis, which would lead to a delay in the publication of the improvements proposed in this project; and

(d) making further changes, for example to align the concepts underpinning those paragraphs with the *Conceptual Framework*, might require the Board to substantively reconsider the existing requirements, which would go beyond the scope of this project.

12. Appendix B lists those paragraphs of IAS 1 we are proposing to include in the Exposure Draft largely unchanged.

Staff's proposed approach to presenting the Exposure Draft

13. The staff took the following approach to drafting the pre-ballot draft of the Exposure Draft:

(a) we drafted the proposals as a [draft] new IFRS Standard that includes the proposed new requirements as well as the existing presentation and disclosure requirements of IAS 1.

(b) we proposed moving from IAS 1 to IAS 8 those paragraphs dealing with the definition of material, fair presentation and compliance with IFRS Standards, going concern and the accrual basis of accounting. We proposed moving these paragraphs as we believe that they fit better and be more understandable as part of IAS 8.

(c) we proposed moving from IAS 1 to IFRS 7 *Financial Instruments: Disclosures* paragraphs relating to disclosures about puttable financial instruments classified as equity to IFRS 7 because we thought the requirement would fit better as part of IFRS 7.

As a result of this approach, IAS 1 would be withdrawn.

14. In addition:

(a) we drafted the proposed changes to the statement of cash flows as amendments to IAS 7 *Statement of Cash Flows*.

(b) we drafted proposals related to earnings per share as amendments to IAS 33 *Earnings per Share*.

(c) we included the proposed definition of integral and non-integral associates and joint ventures (including the guidance to help entities apply the definition) as an amendment to IFRS 12 *Disclosure of Interests in Other Entities*. We thought it would be helpful to include the definition in IFRS 12 because that Standard sets out the disclosure requirements relating to associates and joint ventures and would include proposed disclosures relating to integral and non-integral associates and joint ventures.

15. The staff drafted the pre-ballot draft as a [draft] new Standard rather than as amendments to IAS 1 because a [draft] new Standard helps to communicate to stakeholders that the Board is making significant changes to the presentation and disclosure requirements of IFRS Standards.

Concerns expressed about the proposed approach

16. Some stakeholders and one Board member have said that the Board should not present the new requirements as a [draft] new Standard unless it reviews and updates those paragraphs of IAS 1 included in the [draft] new Standard. Those with this view are concerned that stakeholders might expect that all requirements included in the [draft] new Standard were developed by the Board as part of the Primary Financial Statements project, using the concepts in the revised *Conceptual Framework*.

17. When this concern was discussed at the July 2019 ASAF meeting, some ASAF members suggested that careful communication could address the concern, for example, by making it clear in the Basis for Conclusions which paragraphs are taken from IAS 1 largely unchanged.

18. If the Board does not think the concerns could be addressed with careful communication, there are two approaches the Board could consider:

    (a) presenting the proposals as amendments to IAS 1 rather than as a [draft] new Standard. The staff think that this approach would not require significant changes to the drafting.

    (b) changing the project scope to improve the drafting of and align with the *Conceptual Framework* those paragraphs of IAS 1 that are unaffected by the existing project proposals.

19. The staff do not recommend the approach described in paragraph 18(a) because:

    (a) proposals presented as amendments to a Standard might be misinterpreted as only minor changes to presentation and disclosure, discouraging preparers from providing feedback on the proposals or making significant changes to the way in which they report. To counter this concern, we would need to put additional effort into communications to explain that even though we are presenting the proposals as amendments to a Standard, they are expected to result in significant changes to financial reporting.

    (b) the proposals require very significant amendments to how paragraphs are currently organised in IAS 1. This would result in a revised IAS 1 that would be very different to current IAS 1 which may be confusing for stakeholders.

20. We note that there is some precedent for including 'old' requirements in a new IFRS Standard, for example, lessor accounting requirements in IFRS 16 *Leases* were largely unchanged from IAS 17 *Leases*.

21. The staff do not recommend the approach described in paragraph 18(b) because it would:

    (a) constitute a change of scope without evidence of user demand for change; and

    (b) mean the planned publication of the Exposure Draft would be delayed significantly thus delaying implementation of improvements to presentation and disclosure that users have told are needed now.

22. Consequently, the staff recommend presenting the Exposure Draft as a [draft] new IFRS Standard rather than as amendments to IAS 1 (that is, we recommend retaining the approach to presenting the Exposure Draft used in the pre-ballot draft).

Question 1 for the Board
Does the Board agree with the staff recommendation to present the Exposure Draft as a [draft] new IFRS Standard rather than as amendments to IAS 1?

Number of illustrative examples

23. In its November 2018 meeting, the Board tentatively decided to develop non-mandatory illustrative examples to accompany the Exposure Draft.[2] In that meeting, the Board also tentatively decided to include illustrative examples for the statement(s) of financial performance for the following types of entity:

    (a) a non-financial entity (both by function and by nature);

[2] See IASB *Update* for the November 2018 Board meeting.

(b) an investment property company;

(c) an insurer;

(d) a traditional bank with no material investing activities;

(e) a bank engaged in both investing and customer financing activities;

(f) a bank-insurer;

(g) a manufacturer that conducts investing activities; and

(h) a manufacturer that provides financing to customers.

24. Having gone through the exercise of preparing these illustrative examples, the staff think these examples may be excessive. In addition, there is a risk that these very specific examples could be viewed by preparers as templates. For example, both the insurer example and the investment property company example illustrate one proposal, which is when income from investments is included in operating category. Having two or more examples illustrating a single proposal could lead preparers to view these examples as industry specific templates instead of a simple illustration of when income should be included in the operating category. The Board specifically decided not to provide templates in its November 2018 meeting.

25. We acknowledge that stakeholders find illustrative examples and educational materials useful. However, the staff think we could reduce the number of examples provided and still successfully illustrate the Board's proposals. For example, instead of nine examples of the statement(s) of financial performance, we could provide three or four examples illustrating a non-financial entity, an entity that invests and provides financing to customers, a conglomerate and maybe an entity that invests but provides no financing to customers. These examples would illustrate the main points of our proposals without running the risk that the examples be viewed as templates.

26. Therefore, the staff recommend that the Board reduce the number of illustrative examples of the statement(s) of financial performance included in the Exposure Draft to a handful of examples needed to illustrate the Board's main proposals.

Question 2 for the Board
Does the Board agree with the staff recommendation to reduce the number of illustrative examples of the statement(s) of financial performance included in the Exposure Draft to a handful of examples needed to illustrate the Board's main proposals?

Appendix A—Note from July 2019 ASAF discussion on structuring the new requirements resulting from the PFS project

A1. The technical staff outlined three approaches to structuring the proposed requirements:

a. Approach 1—withdraw IAS 1 Presentation of Financial Statements and replace it with a new Standard;

b. Approach 2—amend IAS 1 to remove requirements on the structure and content of the primary financial statements and on disaggregation of financial information, and include those requirements in a new Standard; or

c. Approach 3—amend IAS 1 without developing a new Standard.

A2. The technical staff presented an analysis of the advantages and disadvantages of Approach 1 and Approach 2 and asked for comments.

A3. The technical staff did not present a detailed analysis of Approach 3 because they considered this approach to have significant disadvantages. However, the ASBJ, EFRAG and OIC members suggested the technical staff also consider Approach 3.

A4. Some members (FRC, EFRAG, OIC and AcSB) said that timing is an important factor in deciding which approach to adopt.

A5. The ASBJ, OIC and AcSB members said unnecessary drafting changes to existing requirements create work as stakeholders try to understand the effects of the change. This is likely to be the case, even if the Board explains it does not intend to change the requirements. The ASBJ member said this problem is amplified by translation process.

A6. The FRC, KASB and AOSSG members said that updating the drafting of existing requirements of IAS 1 could be beneficial. IAS 1 was developed a long time ago and some of the drafting could be improved. The FRC member also said that the Board could minimise the risk by making only substantial improvements, and by clearly indicating and asking questions about the proposed changed paragraphs in the Exposure Draft.

A7. Most members said that splitting the requirements of IAS 1 into two Standards would be confusing, noting that the issues covered by IAS 1 logically belong in a single Standard. A few commented that if the Board were to split the requirements in IAS 1, it should move the remaining parts of IAS 1 to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

A8. The KASB and AOSSG members commented the identified disadvantages of Approach 1—that users might not know what is updated and what remains unchanged in IAS 1—could be overcome by clear communication in the Basis for Conclusions.

A9. The ANC member asked whether the presentation requirements of other Standards would be included in a new or revised Standard. The technical staff said they will consider including such requirements in a new or revised Standard.

Appendix B—paragraphs of IAS 1 which are proposed to be included in the Exposure Draft largely unchanged

- Paragraphs 2–6 (scope)
- Part of paragraph 7 (definition)
- Paragraph 8 (use of terms)
- Paragraph 11 (equal prominence)
- Paragraph 31 (materiality)
- Paragraphs 32–34 (offsetting)
- Paragraphs 36–37 (frequency of reporting)
- Paragraphs 38–44 (comparative information)
- Paragraphs 45–46 (consistency of presentation)
- Paragraphs 49–53 (identification of the financial statements)
- Paragraph 56–59 (information to be presented in the statement of financial position)
- Paragraph 60–76 (current/non-current distinction, current assets and current liabilities)
- Paragraph 79–80 (presentation/disclosure of share capital)
- Paragraphs 88–89 (profit or loss for the period)
- Paragraphs 90 and 92–96 (other comprehensive income for the period)
- Paragraph 98 (circumstances causing separate disclosure of income/expense)
- Paragraphs 106–110 (statement of changes in equity)
- Paragraphs 112–116 (structure of notes)
- Paragraphs 117–124 (disclosures of accounting policies)
- Paragraphs 125–133 (sources of estimation uncertainty)
- Paragraphs 134–136 (capital)
- Paragraphs 137–138 (other disclosures)