Project	**Financial statement presentation**
Topic	**Statement of financial position—disaggregation**

Introduction

1. The purpose of this paper is for the IASB and the FASB (collectively, the boards) to consider disaggregation on the face of the statement of financial position (SFP) in the broader context of the disaggregation principle tentatively agreed to at the October 2009 Joint meeting. This paper revisits the boards' proposal in the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation* that an entity should **not** combine similar assets or similar liabilities measured on different bases into a single line item in the SFP. Additionally, this paper considers whether the minimum line item requirements for the SFP in IAS 1 *Presentation of Financial Statements* should be included in the exposure draft.

2. This paper addresses the following issues:

   (a) Issue 1: disaggregation of the SFP: function, nature and measurement bases (paragraphs 12–21)

   (b) Issue 2: minimum line item requirements for the SFP (paragraphs 22–29).

Summary of staff recommendations

3. We recommend that the exposure draft:

   (a) retain the requirement that, if assets and liabilities are of the same nature and are measured differently, the measurement basis should be used for further disaggregation on the SFP.

   (b) include the minimum line item requirements for the SFP in IAS 1 (as modified in this paper) for the SFP (with appropriate changes in the FASB's exposure draft to reflect US GAAP references).

Discussion paper proposal—disaggregation by measurement bases

4. The discussion paper proposed that an entity should disaggregate similar assets and similar liabilities that are measured on different bases and present them on separate lines in the SFP. The boards decided that presenting items on an entity's SFP separately according to the basis on which they are measured is consistent with the disaggregation objective because the additional information will help financial statement users in assessing the amount, timing and uncertainty of an entity's future cash flows.

5. The boards considered requiring disaggregation of assets and liabilities according to their measurement bases only in the notes to financial statements. However, providing that information on the SFP is more straightforward and avoids making users go back and forth between the statement and the notes to find important information. Separate presentation on the SFP is also unlikely to impose undue costs on an entity.

Feedback on disaggregation by measurement bases (specifically) and disaggregation (generally)

Comments from respondents to the discussion paper

6. Question 13 in the discussion paper asks respondents whether presenting separately similar assets and liabilities that are measured on different bases provides information that is more decision useful than a presentation that permits line items to aggregate similar assets and liabilities measured on different bases.

7. Over three-fourths of respondents support the concept of separately presenting similar assets and liabilities that are measured on different bases on the SFP. However, many of those respondents think that separately presenting similar assets and liabilities that are measured on different bases will result in too much information on the face of the SFP. Those respondents suggest that the information about measurement bases be presented in the notes to financial statements, rather than on the SFP.

8. Respondents speculate that the level of disaggregation proposed in the discussion paper will result in financial statements that have 'a lot of lines.' Those

respondents think that the additional detail on the face of the financial statements that results from the application of the disaggregation principle will **reduce** the usefulness of those statements.

Feedback from field test participants

9. Increased disaggregation of line items was cited by analyst participants in the field test as the single most useful aspect of the proposed presentation model. Those participants think that disaggregation by measurement bases and disaggregation by function and by nature have equivalent levels of usefulness to inform their analyses.

10. However, after reviewing the financial statements provided to them, the analyst participants indicate disaggregation by function (70 percent) and disaggregation by nature (68 percent) are more useful than disaggregation by measurement bases (56 percent). When comparing the non-recast and recast statements, analyst participants indicate that application of the disaggregation principle enhanced their understanding of the income statement (81 percent) and the statement of cash flows (70 percent) the most.

11. In contrast, 54 percent of the preparer participants in the field test thought the proposed presentation model resulted in too much disaggregation and generally did not help in communicating their entity's results. Additionally, the preparer participants think that the guidance for disaggregation by function on the statement of comprehensive income (SCI) and by measurement bases on the SFP is less difficult to apply (68 percent and 50 percent respectively) than disaggregation by nature.

Issue 1: Disaggregation of the SFP: function, nature and measurement bases

12. At the October 2009 Joint meeting, the boards tentatively decided that the core disaggregation principle will be written so that an entity is required to consider disaggregation by function, nature and measurement bases in the financial statements as a whole. Specifically:

> An entity should disaggregate information and provide line item descriptions in its financial statements in a manner that provides

transparency to that entity's business model(s). An entity should consider and apply the disaggregation attributes of function, nature and measurement bases both individually and in concert with each other to provide the best representation of how the entity uses its resources to generate income and cash flows. An entity should present the disaggregated information so that:

(a) the activities the entity performs to conduct its business and generate income are clear;

(b) the relationship between significant or material assets, liabilities, income, expenses, gains, loses and cash are faithfully represented; and

(c) the significant or material cash flows of the entity from its business and financing activities are apparent.

How does disaggregation by-function and by-nature apply to the SFP?

13. The discussion paper proposals for disaggregation by function and nature are used in reference to the SCI. However, those disaggregation attributes are also applicable to the SFP. In the discussion paper, **function** refers to the primary activities that an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration.

14. On the SFP, disaggregation by function also refers to the primary activities in which an entity is engaged—specifically, business activities and financing activities. Business activities are further disaggregated by function into two categories: operating and investing activities. In that context, by-function disaggregation means determining the section (or category within the section [ie operating or investing]) that the asset or liability is best presented based on the definitions of those sections (and categories).

15. The second order of disaggregation for the SFP is disaggregation by **nature**. By-nature disaggregation means separately presenting economically similar assets and liabilities that respond **differently** to economic events. An example of the application of by-nature disaggregation to the SFP is the separate presentation of property, plant and equipment within the operating category of the business section. Current presentation guidance allows for the aggregation of property, plant and equipment into one line item on the SFP. The boards' tentative decisions in the FSP project require the presentation of those tangible fixed assets in separate line items. The basis for that presentation is that, while property, plant

and equipment might serve the same (or similar) function when used as part of an entity's operating activities, those tangible fixed assets are different in nature (ie each responds differently to economic events and therefore are distinct inputs in a predictive model).

16. Another example of the application of by-nature disaggregation on the face of the SFP is the presentation of marketable securities. It is common practice for a non-financial services entity to present all financial assets that meet the definition of a marketable security in one line item on the SFP. However, the nature of the investments reported in the aggregate in the marketable securities line item may differ—that is, the marketable securities line item may include investments in common stock and fixed income investments. The boards' tentative decisions in the FSP project would require the separate presentation of investments in common stock and fixed income investments on the SFP.

Disaggregation by measurement bases—staff analysis and recommendation

17. The third order disaggregation for the SFP is disaggregation by measurement bases. The staff continue to think that, if assets and liabilities are of the same nature and are measured differently, the measurement basis should be used for further disaggregation on the face of the SFP.

18. In the May 2008 exposure draft, *An improved Conceptual Framework for Financial Reporting: the Objective of Financial Reporting and the Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*, the boards state that information has predictive value 'if it has value as an input to predictive processes used by capital providers to form their own expectations about the future' (QC4). The basis for conclusions states that 'information has predictive value if it can be used in making predictions about the eventual outcomes of past, present or future events or their effects on future cash flows' (BC2.9). Disaggregation by measurement bases can be said to enhance predictive value because it provides users of financial statements with information to better understand the inputs (ie the assets and liabilities) in a predictive model.

19. The staff think that the disaggregation of information on the SFP into line items that are economically homogenous could provide users of financial statements

with a better starting point to make forecasts, evaluate trends and provide useful information in making comparisons of SFP items between entities. Further, disaggregation by measurement bases should also be useful in identifying when a change in the value of a SFP item from one period to the next relates to either external market effects, changes in management's assumptions or internal activities of the entity.

20. The staff acknowledge the preference of many respondents to disclose disaggregated measurement bases information in the notes rather than on the face of the SFP. However, the staff think that displaying that information on the SFP produces a result that is in line with the findings of the Financial Accounting Standards Research Initiative (FASRI) experiment undertaken to test aspects of the FSP discussion paper proposals. Specifically, the FASRI experiment used experienced credit analysts to test whether disaggregation is useful and whether the location of information makes a difference in their judgements and forecasts. The experiment results indicate that there is a benefit to an entity presenting related information together, in either the primary financial statements or in the notes, rather than spreading that information across the primary financial statements and the notes.

21. The staff think that separately presenting disaggregated measurement bases information on the SFP places that information in context—that is, information about measurement bases is prominently displayed, thereby providing insight to the measurement decisions made by management. It is that insight that has the potential to provide decision-useful information to financial statement users. Further, the staff is not convinced by comment letter respondents that additional line items on the SFP reduces the utility of that statement. Analyst participants in the field test indicated **no** difficulty in using the recast financial statements on the basis of the number of line items displayed on each statement.

Question for the boards

Q1. The staff recommend that the exposure draft retain the requirement to separately present on the SFP assets (or liabilities) with the same nature that are measured on different bases. **Do the boards agree with that recommendation?**

Issue 2: Minimum line item requirements for the SFP

Background

22. In developing a converged Standard on financial statement presentation, the boards are starting at different places in their respective accounting literature. Specifically, the IASB already has an IFRS on the presentation of financial statements, IAS 1. In the context of the SFP, the staff need to determine whether the minimum line items specified in IAS 1 for the SFP should be included in the exposure draft.

Staff analysis and recommendation

23. At the time IAS 1 was drafted, the minimum line item requirements were compiled from the accounting requirements in force in many other jurisdictions. The list of minimum line items is used by an entity as a starting point for presenting information on the face of the SFP.

24. In April 2009 the staff met with its IASB Board advisers and discussed, among other topics, whether the minimum line item requirements in IAS 1 and IAS 7 for the SFP, SCI and SCF should be included in the financial statement presentation exposure draft. The IASB Board advisers expressed their expectation that the exposure draft will retain the minimum line item requirements from those IFRSs.

25. Board members that support the inclusion of minimum requirements do so for the following reasons:

    (a) they are concerned that, without minimum line item requirements, information that is currently separately presented will no longer be separately presented; and

    (b) they consider minimum line item requirements to be a good starting point for an entity to think about how it should put the financial statement presentation principles into practice.

26. The counter argument to including minimum line item requirements in the exposure draft is that jurisdictions with a robust regulatory system will look to their respective regulator for minimum line item requirements, rather than the accounting standards-setter. For example, the US Securities and Exchange Commission (SEC) already provides detailed minimum line item requirements for registrants as part of Regulation S-X. However, not all of the constituents that the IASB serves have robust regulatory frameworks to rely on. Consequently, those constituents look to the IASB (specifically, IFRS) to fulfil that role. Additionally, the detailed minimum line item requirements provided by the SEC only apply to SEC registrants—those regulations do not apply to all of the constituents that the FASB serves.

27. IAS 1.54 requires that an entity shall present, at a minimum, several line items in the SFP. The line items listed below have been modified to reflect the application of the boards' disaggregation principle (see Issue 1) to those minimum line item requirements. Original text has been struck through and new text (or the separation of line items previously shown together) is underlined.

(a) property;

(b) plant;

(c) equipment;

(d) investment property;

(e) intangible assets;

(f) financial assets (excluding amounts shown under (~~e~~g), (~~h~~j), (k), (l) and (~~i~~m);

(g) investments accounted for using the equity method;

(h) biological assets;

(i) inventories;

(j) trade receivables; ~~and~~

(k) other receivables;

(l) cash;

(m) short-term investments;

(n) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(o) trade payables; ~~and~~

(p) other payables;

(q) provisions;

(r) financial liabilities (excluding amounts shown under (~~k~~o), (p) and (~~l~~q));

(s) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;

(t) deferred tax liabilities and deferred tax assets, as defined in IAS 12;

(u) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

(v) non-controlling interest, presented within equity; and

(w) issued capital and reserves attributable to owners of the parent.

28. IAS 1.55 goes on to explain that an entity shall present additional line items, headings and subtotals in the SFP when such presentation is relevant to an understanding of the entity's financial position.

29. The staff acknowledge that it may seem contradictory to include a list of minimum requirements for the financial statements when we are trying to develop a principles-based standard on financial statement presentation. However, the staff think that the minimum line item requirements—when coupled with the disaggregation criteria in Issue 1—will provide a good starting point for management as it considers how best to present information in its SFP.

Question for the boards
Q2. The staff recommend that the exposure draft include the minimum line item requirements in IAS 1 (as modified in this paper) for the SFP (with appropriate changes in FASB's version of the exposure draft to reflect US GAAP references). **Do the boards agree with that recommendation?**