Project	**Financial Statement Presentation**
Topic	**Proposed Presentation Objectives**

Purpose

1. At the July joint meeting, the staff will ask the IASB and the FASB [collectively, boards] whether they continue to support the objectives of financial statement presentation proposed in the October 2008 discussion paper, *Preliminary Views on Financial Statement Presentation* (FSP discussion paper), and what modifications, if any, should be made to those objectives. In addition, the staff will ask the boards their leaning on whether the presentation model should apply to all business entities, including financial services entities. (A *financial services entity* is an entity that provides primarily financial services, such as a bank, an asset management firm, and an insurer).

2. This agenda paper summarizes the comments received on the proposed objectives and recommends a set of core presentation principles to use in deliberating the presentation model proposed in the FSP discussion paper. A summary of the staff recommendations is at the end of this paper. This paper is organized as follows:

   Issue 1: How the proposed objectives relate to the Framework

   Issue 2: Cohesiveness objective

   Issue 3: Disaggregation objective

   Issue 4: Liquidity and financial flexibility objective

   Issue 5: Other possible presentation objectives

   Issue 6: Application of the presentation model to financial services entities.

The proposed presentation objectives

3. The presentation objectives proposed in the FSP discussion paper are as follows:

   (a) Cohesiveness: An entity should present information in its financial statements in a manner that portrays a cohesive financial picture of its activities.

   (b) Disaggregation: An entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing, and uncertainty of its future cash flows.

   (c) Liquidity and Financial Flexibility: An entity should present information in its financial statements in a manner that helps users to assess the entity's ability to meet its financial commitments as they become due and to invest in business opportunities.

4. Question 1 in the FSP discussion paper asked if the proposed presentation objectives **improve the usefulness of the information** provided in an entity's financial statements and help users make better decisions in their capacity as capital providers. About 75 percent of the comment letters responded to that question.

5. The majority of those respondents agree with the three proposed objectives, with respondents classified as "users of financial statements" (user respondents) advocating that application of the objectives would greatly assist in their analysis.

> …. Investors and analysts currently have considerable problems in understanding information presented in financial statements. Much effort is spent on reclassifying statements into a more convenient form in order to evaluate management performance and value shares. In particular we support the cohesiveness objective and the disaggregation objective. We believe if the various statements are articulated better with more detail it would save additional efforts by investors in dissecting the financials. …

6. However, as described later in this paper, more than half of the respondents are concerned about the **application** of the cohesiveness and disaggregation objectives. Many respondents note that adherence to the cohesiveness and disaggregation objectives should not be at the expense of providing decision-useful information.

7. The companies that participated in the financial statement presentation (FSP) field test expressed similar concerns with application of the cohesiveness and

disaggregation objectives. Their concerns will be addressed as we deliberate the proposals in the FSP discussion paper.

8. A few respondents to the FSP discussion paper note that the current financial statements achieve the proposed objectives and therefore do not support a complete redesign of the financial statements.

9. In addition to answering the question posed in the FSP discussion paper, most respondents provided their views on the proposed objectives individually. Before discussing those specific comments, the staff would like the boards to address the objectives overall and their relation to the boards' joint work on developing a conceptual framework for financial reporting (Framework).

Issue 1: How the proposed objectives relate to the Framework

10. A standard-setting body was not alone in stating that in their view "the objectives of financial statement presentation should not differ from the objectives of financial reports as a whole." A number of those responding to Question 1 mentioned the relationship of the proposed objectives to the Framework. Some suggest that the proposed presentation objectives be better linked to the financial reporting objectives in the Framework:

> In this context, we are concerned that the DP proposes three new and separate objectives for financial statement presentation (cohesiveness, disaggregation, and liquidity and financial flexibility) that do not appear sufficiently linked to the overall objective of financial reporting. While we do not object to using these three items as 'building blocks' for the overall model, we believe they should be described as principles rather than as objectives. This should help ensure that these three items are applied to the extent that they do result in more decision useful information. By describing these building blocks as objectives in themselves, we believe that the Boards have tended towards excessive detail at the application level that we do not see as decision-useful.

11. Others suggest that the financial reporting objectives in the Framework replace the presentation objectives (as the latter are in essence underlying principles or ways to achieve the Framework objectives).

> We believe, however, that the Boards should articulate better how the objectives set out in the Discussion Paper follow from and relate to the objectives and qualitative characteristics set out in the Conceptual Framework ED, and how the Boards have assessed the potential tensions between the different objectives, for example:

- between use of a management approach to classify items in the financial statements and the qualitative characteristic of comparability, and
- between disaggregation and the qualitative characteristic of understandability.

In particular, the Boards should articulate the trade-off between maintaining cohesiveness between financial statements and maximising the decision-usefulness of each financial statement. In some particular cases, we believe that strict adherence to the principle of cohesiveness could reduce the decision-usefulness of the financial statements.

Staff observations and recommendations

12. The staff agrees with respondents that the proposed objectives for financial statement presentation should flow from or be linked to the Framework. That is, the overall notions of cohesive financial statements, more disaggregation, and information about liquidity and financial flexibility are meant to fulfil the objective of financial reporting. The FSP discussion paper should have more fully explained the interaction between the "presentation objectives" and the objectives and qualitative characteristics in the Framework.

13. Therefore, the **staff recommend** that:

    (a) in the financial statement presentation Exposure Draft (FSP ED), the **objectives of financial statement presentation be rewritten as principles** that should be used in applying the financial reporting objectives and qualitative characteristics to the form and content of individual financial statements. The "proposed presentation objectives" will be referred to from here on as "core presentation principles."

    (b) the FSP ED should **explain how the core presentation principles relate to the objectives of financial reporting** and the qualitative characteristics and constraints of decision-useful information.

User focus

14. A handful of respondents question whether the boards had the right "user focus" in the FSP discussion paper, with many noting that the focus seemed to be on a narrow definition of a *user of financial statements*. For example, one respondent stated, "we are left with the impression that the discussion paper proposals are focussed on the specialist needs of a very specific user population, perhaps large institutional investment managers, with little or no regard or understanding of the

implications for the wider universe of users and the preparers of financial statements." Others made similar comments:

> … We would like to point out that the proposed approach tends rather to a business valuation perspective than to an accounting approach. So, it seems that these improvements are required rather by analysts than by shareholders. In contrast, according to the Framework, financial statements serve the needs of a wide range of users having different information needs.
>
> In addition, these proposed changes focus on assisting users make better decisions in their capacity as capital providers; however, capital providers are not the only stakeholders and therefore it should be considered if undue emphasis is being placed on this one category of users of the financial statements.

15. If the core presentation principles are to flow from the Framework, the users referred to in the FSP ED should be the same as those described in the May 2008 Phase A Framework ED[1]. The Phase A Framework ED discusses the objectives of financial reporting and the qualitative characteristics and constraints of decision-useful information. It states that:

> Because present and potential capital providers have the most direct and immediate interest in an entity's ability to generate net cash inflows and management's ability to protect and enhance capital providers' investments, the Boards decided to designate them as the primary users of financial reporting information (paragraph BC1.19).

16. Paragraph OB6 of the Phase A Framework ED explains that capital providers include equity investors, lenders, and other creditors who have common information needs.

> Equity investors include holders of equity securities, holders of partnership interests, and other equity owners. …
>
> Lenders, including purchasers of traded debt instruments, provide financial capital to an entity by lending it economic resources (usually cash). …
>
> Other creditors include other groups that provide resources as a consequence of their relationship with an entity, even though the relationship is not primarily that of a capital provider. Therefore, to the extent that employees, suppliers, customers, or other groups make decisions relating to providing capital to the entity in the form of credit, they are capital providers.

[1] See the exposure draft *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision–useful Financial Reporting Information,* IASB (May 2008) [hereafter **Phase A Framework ED**].

17. The staff believes that one of the many underlying goals of the FSP project is to provide users of financial reports with information that only “privileged” users have easy access to today. As noted in paragraph OB4 of the Phase A Framework ED:

> General purpose financial reporting is directed to the needs of a wide range of users rather than only to the needs of a single group. General purpose financial reporting stems from the information needs of users who lack the ability to prescribe all the financial information they need from an entity and therefore must rely, at least partly, on the information provided in financial reports.

18. The **staff recommend** that in deliberating the various aspects of the proposed presentation model, the **boards keep in mind that the primary users** of the financial reports (as defined in the Phase A Framework ED) **include a broad range of capital providers**, including but not limited to “sophisticated analysts.”

Question for the boards
Question 1: Do the boards agree that the FSP Exposure Draft should explain how the core presentation principles relate to and should be used to fulfil the objective of financial reporting and the qualitative characteristics and constraints of decision-useful information? **Question 2:** Do the boards agree that the users of financial statements referred to in the FSP Exposure Draft should include more than “sophisticated analysts,” consistent with how the term “users of financial reporting information” is defined in the Phase A Framework ED?

Issue 2: Cohesiveness objective

19. The majority of respondents agree that presenting financial information in a manner that better articulates the linkage of that information across the financial statements is a worthy goal. For example, a user respondent stated that “[providing clarity on the interactions between these statements] is essential since users spend considerable time estimating information that is not currently provided, understanding the relationships between the numbers in the various financial statements, and then fitting this information into an analytically useful format.”

20. However, many respondents state that the cohesiveness objective should be applied in a pragmatic way, with quite a few specifying that it should not be applied at the line item level. A preparer respondent noted that “cohesiveness

applied at the line level generates too detailed information, because the lowest level of detail needed in each statement commands the same levels of detail in other statements where they have not been identified as useful."

21. Other respondents observe that the current financial statements are sufficiently cohesive—even though the categories do not line-up, "they do interact and support one-another, and stand together as a whole."

22. Some respondents provide examples of when or why line-item cohesiveness may not be practical or desirable because it will increase the complexity of the financial statements or reduce the decision usefulness of the information, such as:

    (a) Cash items or income/expense without a related item in the statement of financial position (for example premiums)

    (b) When both the depreciation and finance expenses associated with an asset held on a finance lease are presented as operating expenses because the asset is classified in the operating category in the statement of financial position

    (c) When all items of income and expense related to defined benefit pension plans are presented as operating costs because the obligation is classified in the operating category in the statement of financial position

    (d) The treatment of dividends—even though dividends payable are a liability, this categorization should not automatically be carried into the cash flow statement causing dividend payments to be classified as financing rather than equity

    (e) The treatment of equity-settled share-based payments, which would be within equity in the balance sheet but must be presented elsewhere in the income statement

    (f) When a single item in the statement of financial position will have various corresponding categories in the statement of comprehensive income and vice-versa. For example, available-for-sale investments can relate to dividend income, interest income, impairment losses, realized gains/losses, and other comprehensive income

    (g) Arbitrary allocation of a gain/loss on a single transaction to different categories does not reflect the reality of the transaction.

23. There are a number of respondents who question whether application of the cohesiveness objective should start with the statement of financial position because not all businesses are managed on the basis of assets and liabilities. A

user respondent questions “whether using balance sheet classification as a driver for cashflow statement and income statement disaggregation satisfies [the disaggregation objective of providing decision useful information], since flow statement data requirements are not always aligned with balance sheet items.”

24. Some respondents suggest that classification be driven off of the statement of comprehensive income because:

    (a) the income statement is the basis of users’ analyses

    (b) management evaluates and manages the businesses by reference to operating income or cash flows, not assets and liabilities.

25. Other respondents suggest that the cohesiveness objective should apply **only** to the “flow” statements and not to the statement of financial position because “cohesiveness between the statement of comprehensive income and cash flows is sufficient.”

26. Still others went as far as to say that management should decide how to apply the cohesiveness objective or that application of that objective should be flexible. One respondent suggested that “the starting point could be different for each company.”

27. Some respondents raise the issue of whether the cohesiveness objective can be reached in the notes to financial statements rather than on the face of the financial statements. For example, one respondent observed that “an increase in the number of line items to meet the cohesiveness objective [may] cause the primary statements to become unnecessarily long and cluttered. As long as users can easily access the information, the management should be able to determine which information should be disclosed on the face of the primary statements and which information should be disclosed in the notes to the financial statements.”

28. A preparer respondent had an interesting perspective on this idea.

> If cohesiveness is to be introduced as a guiding objective, we consider that it would be far better applied in the ‘second tier’ supporting notes. A suggestion is that the notes to financial statements should be more themed and fully integrated so that they become a ‘one-stop’ location for all information on a particular primary statement number (or group of related numbers). For example, in relation to property plant and equipment, have a single note that brings together the relevant accounting policies, the opening and closing positions with intervening movements, income

> statement and cash flow movements, segment analyses, even reconciliations between the different components, and management narrative explanations and analyses, including expectations for the forthcoming year.

Staff observations and recommendation

29. Many respondents to the FSP discussion paper support the notion of having a cohesive set of financial statements as long as the statements don't have to be cohesive at the line-item level. In explaining why cohesiveness should not apply at the line item level, a field test company noted that "key financial ratios are usually calculated on the basis of relevant subtotals, rarely on a line-by-line basis."

30. The **staff recommend that the boards retain cohesiveness as one of the core presentation principles** but modify application of that principle to focus on cohesiveness at a higher level than the line-item level.

31. Respondents raise a number of reasons why strict line item cohesiveness may not result in an improvement in financial reporting (see excerpts in paragraph 22). If the boards support retaining a cohesiveness principle, the staff will explore the issues raised in the comment letters, including what many referred to as "rigid application" of the cohesiveness objective and whether application of the cohesiveness principle should start with assets and liabilities.

Question for the boards
Question 3: Do the boards agree that cohesiveness of the financial statements (not at the line-item level) should be one of the core presentation principles?

Issue 3: Disaggregation objective

32. The majority of respondents agree that separating information with different economic characteristics will improve the financial statements, particularly the statement of comprehensive income. A user respondent summed it up well in their letter:

> … the objective of enhanced disaggregation of information [is] a worthwhile objective as this could provide users with additional information permitting improved analysis and insight. We also believe more detail will provide additional confidence in the understanding of the entity that is the subject of the financial reporting and provide a better basis upon which to make more informed investment decisions.

33. However, some respondents disagree with the disaggregation objective and, as with the cohesiveness objective, almost all respondents are concerned about its application—primarily the resulting level of detail. For example, a preparer respondent said, "while we agree that more disaggregation can be useful in certain circumstances, such as on the statement of comprehensive income, we believe that the level of disaggregation required in the proposed model is unwarranted and, in fact, has the potential to distract users from an overall view of the financial position and management's stewardship of the entity." Another preparer said that disaggregation is "difficult to argue with in principle but it is the practical application that matters." They and other respondents ask that appropriate consideration be given to materiality and clarity in the financial statements and that disaggregation be balanced against understandability.

34. A standard-setting body stated that a balance of disaggregation has to be struck between the benefits it brings to the users of financial statements vis-à-vis the cost to the reporting entities. They note that one of the potential costs is erosion of competitive advantage due to the "release of too granular an amount of information."

35. Some respondents suggest that the detailed information be presented in the notes to financial statements. The following two excerpts from the comment letters are representative of the views expressed:

> We support the discussion of disaggregation in paragraphs 2.8-2.11, particularly the need to report separately items with different economic characteristics while achieving a balance between too much and too little information. We consider that, in some instances, disclosure in the notes, as opposed to a requirement for disaggregation in the primary statement, may be the best way to achieve this balance.
>
> The Boards should be cautious about the level of disaggregation required and should consider whether a balance could be achieved between providing the users of financial statements with sufficient information and overloading them. By requiring significant disaggregation on the face of the each financial statement, they could become too long and complex, making it more difficult for the users to understand what the basic result and position is. In our minds each component of the financial statements should provide users with a summary of the income and expenses, assets and liabilities. The notes to the financial statements should provide the users with the detailed information.

36. It was apparent that at least some respondents misunderstood that information should be disaggregated and presented separately **only** if it would be useful in determining amount, timing, and uncertainty of cash flows. Several respondents picked up on the sentence in paragraph 2.10 that "...it is important that application of the disaggregation objective should lead to sufficient but not excessive disaggregation" and voiced support for a principled approach.

37. Some respondents explicitly stated their support for the above comment and agree that a "balance needs to be struck between the need to disaggregate information and the need to aggregate and present only material information." A few respondents mention that this is consistent with the discussion on aggregation and materiality in IAS 1 *Presentation of Financial Statements* (paragraph 30).

38. Respondents suggest that the disaggregation objective be reworded to:

(a) clarify that information should be disaggregated in a manner that makes it decision-useful to users

(b) require that preparers provide the level of detail necessary to aid users in understanding an entity's financial performance and position

(c) provide information that is useful not only for assessing cash flow prospects but for meeting the other objectives of financial reporting outlined in the conceptual framework..

39. A few respondents suggest that a management approach apply to disaggregation as well as classification.

> …The manner in which management chooses to run its business should dictate the appropriate level of disaggregation presented in the primary financial statements.

> … management should decide whether an information should be provided in the primary financial statements or should become a disclosure in the notes in order to comply with the 'delicate balance between having too much information and having too little information'.

40. However, a field test company raised a concern with comparability and application of the disaggregation objective.

> The new format may result in financial statements being less comparable between companies due to the amount of additional detail companies will need to supply coupled with the subjectivity and management discretion in classifying such information. Regardless of the [Boards'] intention, analysts will try to compare the level of detail from one company to another, which is not

> comparable. We are concerned that this will create confusion and misinformation.

41. Some respondents suggest that the boards provide guidance on how to apply the disaggregation objective, with a few advocating for a bright line or significance test. Excerpts from representative responses follow:

> … We suggest that application guidance be added on the extent of disaggregation that is required. Amongst other factors, this could include materiality and cost/benefit considerations. Without such guidance, the disaggregation proposals may be inoperable.

> ….[because] clear guidance has not been given on the level at which disaggregation is required, . . . the information provided by two similar entities may be vastly different based on the level at which they choose to disaggregate their financial information, resulting in a loss of meaningful comparison between the entities.

> . . . . Perhaps the boards should consider a 'significance' test, meaning that where an item amounts to approximately 10% or more of the category of item into which it falls, then it should be disclosed separately from other items in that category.

> . . . consider including additional parameters around the appropriate levels of disaggregation (i.e., information that most users find beneficial) to assist preparers in determining how much disaggregation is appropriate. Such an approach could be principle-based and include various examples illustrating appropriate levels of disaggregation. This would allow for a certain level of comparability among similar entities while also maintaining the management approach.

42. Although most respondents are concerned that application of the disaggregation objective will result in too much detail in the financial statements, some are concerned that it will result in **not enough** information.

> The objective of disaggregating financial information also has the potential to improve investors and creditors judgments and decisions. However, disaggregation will enhance the decision usefulness of financial information only if the managerial approach (i.e., the basis for such disclosures) proves to be effective. The Committee acknowledges that the managerial approach has potential to be more informative than a standardized approach, **but only if it encourages managers to provide the granularity presumed in the Illustrations** in the *Preliminary Views.* [Emphasis added]

Staff observations and recommendations

43. Most respondents agree with the notion of having more disaggregation in the financial statements—either on the face or in the notes. Thus, **the staff recommend that the boards retain disaggregation as one of the core**

presentation principles. Issue 5 in this paper addresses whether the FSP ED should include a principle (or application guidance) to help an entity assess when disaggregated information is more effectively presented in the notes rather than on the face of the statements.

44. The staff agree with the respondent who stated that the FSP discussion paper is not "sufficiently explicit in requiring that disaggregation should only be applied to the extent that it is useful for the users of financial statements." Therefore, the **staff recommend that the principle be reworded to be clear that only decision-useful information should be presented in the financial statements**. The related guidance (see Issue 5) would refer back to the qualitative characteristics and constraints of decision-useful information.

Question for the boards
Question 4: Do the boards agree that disaggregation of decision useful information should be a core presentation principle?

Issue 4: Liquidity and financial flexibility objective

45. The majority of respondents agree that the financial statements should present information about liquidity and financial flexibility; however, most note one or more of the following points:

(a) the financial statements already provide information about financial flexibility.

(b) the boards should consider the type of information required in relation to liquidity in conjunction with the current proposals for IFRS 7 *Financial Instruments: Disclosures*. The standards should dovetail and be consistent in their requirements.

(c) the Framework already incorporates the notion of liquidity and financial flexibility.

(d) information about liquidity and financial flexibility is better presented outside the primary financial statements.

46. For those (and other) reasons, a number of respondents question whether the third objective was needed in the proposed standard. Most respondents who addressed this objective think that there is no need to enhance this notion beyond what we have today.

Staff observation and recommendations

47. In drafting the FSP discussion paper, the staff and boards considered excluding the liquidity and financial flexibility, as information about liquidity and financial flexibility is already embodied in the financial statements. The decision to include the objective was made because providing that type of information is important and the staff and the board didn't want to send the signal that it was not.

48. Some respondents who commented on this objective note that paragraph OB10 in Chapter 1 of Framework ED (see below) discusses notions that are similar to the liquidity and financial flexibility objectives. For that reason, they suggest that the objective not be included in a presentation standard.

> OB10. An entity's capital providers are directly interested in the amount, timing, and uncertainty of cash flows from dividends, interest, and the sale, redemption, or maturity of securities or loans. However, the prospects for those cash flows depend on the entity's present cash resources and, of more [importance], on its ability to generate enough cash to pay its employees and suppliers and satisfy its other operating needs, to meet its obligations when due, and to reinvest in operations.

49. If the boards agree that the core presentation principles should flow from (and not repeat) the objectives and qualitative characteristics in the Framework, the **staff recommend that liquidity and financial flexibility <u>not</u> be included in the Exposure Draft as a core presentation principle**.

50. Respondents reminded the IASB that IFRS 7 requires disclosure of information about liquidity and asked the IASB not to duplicate that guidance. To the extent that U.S. GAAP does not include similar provisions, the FASB may want to add similar requirements. However, the staff believe any requirement of that type should not be done as part of the FSP project.

51. The staff recommendation to not include a liquidity objective or principle in the Exposure Draft does not mean that the financial statements should not present information about liquidity and financial flexibility. The changes proposed in the FSP discussion paper that relate to liquidity and financial flexibility (presentation of assets and liabilities in short- and long-term subcategories and the contractual maturity note disclosure) also can be viewed as application of the disaggregation principle. The staff will consider those proposed changes in that context during

deliberations. The staff believe that one purpose of the statement of financial position is to help a user understand an entity's liquidity and financial flexibility. That purpose will influence the staff recommendations (and hence the boards' decisions) on presentation.

Question for the boards
Question 5: Do the boards agree that liquidity and financial flexibility should not be a core presentation principle because those notions are embedded in the Framework? **Question 6:** Do the boards agree that any standards guidance related to IFRS 7 should be provided in a project other than the FSP project?

Issue 5: Other possible presentation objectives

52. Question 1 in the FSP discussion paper also asked whether the boards should consider any other presentation objectives in addition to or instead of the objectives proposed. Related to their comments about linking the objectives to the Framework (see Issue 1), some respondents question why there is not an objective that focuses on stewardship or performance.

> It is important that the fact that investors and lenders are interested in how well the directors and management have discharged their responsibilities ("stewardship") should be reflected in the objectives and in the supporting paragraphs. It would improve the understanding of and the reasoning behind the proposed format and provide clarity going forward. …. For many users (and preparers) this is the key objective of financial statements.

53. Most of the other objectives that respondents suggest be included in an FSP standard relate to the qualitative characteristics underlying the financial reporting objectives. The suggested objectives include ease of use, understandability, clarity, comparability, consistency, reliability, and cost effectiveness. A few respondents note that an understandability objective might be a way to achieve a balance between the disaggregation and cohesiveness objectives.

54. A number of respondents address the notion of comparability and the relationship to the proposed management approach. In fact, many respondents seem to suggest that a "management approach" should be the overriding principle in any presentation model.

> We generally agree that the concepts of cohesiveness, disaggregation and liquidity and financial flexibility are appropriate objectives for financial statement presentation. We believe the management approach should be the fundamental principle used for the preparation and presentation of financial statements. While we have no objection to cohesiveness as a guideline for the presentation of financial statements, the goal of improving cohesiveness between financial statements should not be given priority over management's communication of the unique information presented in each statement.

55. Many of the comment letters include a recurring issue that is not explicitly addressed in the FSP discussion paper: the level of detail that is presented in the primary financial statements as opposed to being presented in the notes. While the comments are targeted primarily at the disaggregation objective, the respondents' overall views on the purpose of the primary financial statements versus the notes seem to influence their opinion on other issues as well. The comment letters include a range of views on this issue.

   (a) Preparer respondents state that:

      (i) The financial statements should help users to get a clear and fast overview of the financial position of a company rather than overload them with **detailed information which should be presented in the notes**.

      (ii) Users require condensed statements for a better overview and understanding, and they prefer to **find additional information in the notes**.

   (b) A user respondent stated that there is a strong need that the financial information presented within the primary statements can be used by financial analysts and users **without having to systematically look for additional information within the notes** so as to understand the meaning of the numbers presented.

56. A handful of respondents remind the boards that the increasing use of XBRL provides an opportunity for reducing the level of detail required to be presented on the face of financial statements, given that XBRL can "facilitate a user-driven extraction of relevant information from a data set." A user respondent said in its comment letter:

> The provision of decision useful information should not be constrained by whether information can fit into a print media such as A4 or 8.5x11 piece of paper, as investor analytical tools are capable of processing multiple columnar inputs. The application of the

> materiality principle should help to find the right level of meaningful and informative aggregation. In the near future, XBRL will make it much easier to use the expanded data set resulting from the [standard on financial statement presentation].

Staff observations and recommendations

57. The staff agree with respondents who suggest that the ability to assess stewardship, comparability, consistency, understandability, clarity, ease of use, and cost effectiveness are all important aspects of financial statement presentation. The staff note that most of those characteristics are embodied in the qualitative characteristics in the Framework. Consistent with the recommendation in paragraph 13, the staff envision discussing the relationship between the qualitative characteristics and the principles of financial statement presentation in the FSP ED.

58. The staff think that the enhancing qualitative characteristics of understandability and comparability are most related to the proposed presentation model (excerpts from the Framework ED follow).

> QC16. *Comparability* is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena. Consistency refers to the use of the same accounting policies and procedures, either from period-to period within an entity or in a single period across entities. Comparability is the goal; consistency is a means to an end that helps in achieving that goal.
>
> QC17. The essence of decision making is choosing between alternatives. Thus, information about an entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for some other period or some other point in time. Comparability is not a quality of an individual item of information but, rather, a quality of the relationship between two or more items of information.
>
> QC18. Comparability should not be confused with uniformity. For information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of financial reporting information is not enhanced by making unlike things look alike any more than it is by making like things look different.
>
> QC23. *Understandability* is the quality of information that enables users to comprehend its meaning. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

59. Understandability relates to both cohesiveness and disaggregation; comparability to disaggregation and a "management approach." There are some respondents who advocate for a management approach to be the overriding financial statement presentation principle. The staff believe that adherence to the qualitative characteristic of relevance should ensure that information presented in the financial statements is consistent with an entity's underlying business model. The boards can discuss this notion in more detail when deliberating the proposed management approach to classification.

60. Consistent with the views expressed in paragraph 44, the **staff recommend that the FSP ED provide some guidance as to when an entity may more effectively present disaggregated information in the notes** to financial statements rather than on the face of the financial statements. That guidance could be in the form of a specific presentation principle or in the form of application guidance for the disaggregation principle.

Questions for the boards
Question 7: Do the boards agree that stewardship should not be embodied in one of the core presentation principles because it is part of the Framework and therefore will be considered as appropriate in applying the core presentation principles to fulfil the purpose of financial reporting? **Question 8:** Do the boards agree that the FSP Exposure Draft should provide guidance to help an entity assess when disaggregated information is more effectively presented in the notes to the financial statements rather than on the face of the financial statements?

Issue 6: Application of presentation model to financial services entities

61. This last issue is not related to the proposed presentation objectives, however, it does relate to the overall direction of the project. As noted in paragraph 73 of the comment letter summary (agenda paper 17/63C), most financial services entities are of the view that the proposed financial statement presentation model does not accurately portray their business and would not provide decision-useful information for users of their financial statements.

62. Over the course of this project, financial service entities have requested their own presentation model. As explained in the FSP discussion paper:

> In setting the project scope, the Boards initially considered whether the presentation requirements for entities that provide primarily

> financial services (such as banks, building societies, credit unions, stock brokerages, asset management firms, insurers, and similar businesses) should differ from those for other types of entities. The assets and liabilities that generate net cash inflows for those entities are likely to be different from those of other business entities because of the underlying differences in how they create value. This is because the source of profitability for a financial services entity is usually the management of financial assets and financial liabilities. In contrast, for other types of entities, income from financial assets is often not significant and expenses on financial liabilities generally are not directly related to operating activities. [paragraph 2.78]

63. In the FSP discussion paper, the boards propose that the classification scheme and management approach to classification should apply to all business or for-profit entities. As we begin deliberations, the staff would like to know if board members are inclined to change their mind on that aspect of the FSP discussion paper.

64. **The staff is of the view that** if the boards retain a principles-based approach in the FSP ED and think that financial statements should allow an entity to "tell their story", **the presentation model will accommodate all business models, including those of financial services entities**.

65. In developing the proposed presentation model, the staff and boards explicitly considered the needs of users of financial services entity's financial statements. The staff plans to follow the same approach in deliberating the various aspects of the FSP discussion paper. Once deliberations are close to complete, the staff will ask the boards whether the revised presentation model should apply to all business entities. At this time, the staff is merely looking for the boards' initial leaning on that issue as those leanings will affect the staff's approach to deliberations.

Question for boards
Question 9: Are board members inclined to have the presentation model apply to all business entities, including financial services entities?

Summary of staff recommendations

66. In summary, the staff recommend that the boards:

    (a) Rewrite the objectives of financial statement presentation as core presentation principles that should be used in applying the financial reporting objectives and qualitative characteristics to the form and content of individual financial statements (paragraph 13a).

    (b) Explain how the core presentation principles relate to the objectives of financial reporting and the qualitative characteristics and constraints of decision-useful information in the Framework (paragraph 13b).

    (c) Keep in mind that the primary user group (as defined in the Framework project) includes a broad range of capital providers when deliberating the aspects of the proposed presentation model that respondents viewed as being aimed at sophisticated analysts (paragraph 18).

    (d) Retain cohesiveness as one of the core presentation principles but modify application of that principle to focus on cohesiveness at a higher level than the line-item level (paragraph 30).

    (e) Retain disaggregation as one of the core presentation principles and reword the principle to be clear that **only** decision-useful information should be presented in the financial statements (paragraphs 43 and 44).

    (f) Not repeat any aspect of the financial reporting objectives or qualitative characteristics as financial statement presentation principles, particularly those related to liquidity and financial flexibility, and stewardship (paragraphs 49 and 55).

    (g) Provide guidance to help an entity assess when disaggregated information is more effectively presented in the notes to the financial statements rather than on the face of the financial statements (paragraph 60).

    (h) The presentation model should apply to all business entities, including financial services entities (paragraph 65).