STAFF PAPER

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REG IASB Meeting

Project	**Conceptual Framework**
Paper topic	Presentation and disclosure—scope and content

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Purpose of the paper

1. This paper discusses the scope and content of presentation and disclosure guidance to be included in the *Conceptual Framework* Exposure Draft.
2. In June 2014, the IASB discussed materiality and communication aspects of presentation and disclosure guidance. The IASB's tentative decisions from that meeting are set out in Appendix A.

Structure of the paper

3. This paper is structured as follows:
   - (a) Overview of the proposals in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* ('the Discussion Paper') and other background information (paragraphs 6–20);
   - (b) Summary of feedback received (paragraphs 21–36);
   - (c) Staff analysis, recommendations and questions for the IASB (paragraphs 37–82):
     - (i) Primary financial statements and notes to the financial statements (paragraphs 37–53);
     - (ii) Objective of financial statements (paragraphs 54–66);

(iii) Scope of the notes to the financial statements (paragraphs 67–80);

(iv) Other guidance on presentation and disclosure (paragraphs 81–82); and

(d) Interaction with the Disclosure Initiative (paragraphs 83–85)

4. Appendix B summarises some of the additional detailed feedback on the Discussion Paper and staff response to that feedback. We do not intend to discuss that feedback at the meeting unless requested to do so by IASB members.

Summary of staff recommendations

5. In this paper the staff recommend that the *Conceptual Framework* Exposure Draft:

(a) does not introduce a notion of 'primary financial statements', as had been proposed in the Discussion Paper (paragraphs 37–53);

(b) states the following objective of financial statements (paragraphs 54–66):

> The objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. As a result, financial statements provide information about the financial position, financial performance and cash flows of an entity.

(c) discusses disclosures that the IASB would normally consider requiring in setting Standards (but does not provide examples of different types of disclosures) (paragraphs 67–80);

(d) confirms the discussion of disclosure of risks and forward-looking information proposed in the Discussion Paper (paragraphs 67–80):

(i) the notes to the financial statements would normally include information about the nature and extent of risks arising from the entity's assets and liabilities; and

(ii) forward-looking information should be required only if it provides relevant information about the assets and liabilities that existed and end of, or during, the reporting period; and

(e) confirms the guidance on classification and aggregation, offsetting and comparative information proposed in the Discussion Paper (paragraph 81):

(i) an entity should classify and aggregate information about recognised elements based on similar properties in order to present information that is understandable;

(ii) offsetting items of dissimilar nature does not therefore generally provide the most useful information; and

(iii) comparative information is an integral part of an entity's financial statements for the current period because it provides relevant trend information.

Overview of the proposals in the Discussion Paper and other background information

6. The existing *Conceptual Framework* contains very little guidance on presentation and disclosure in financial statements. IAS 1 *Presentation of Financial Statements* sets out overall presentation and disclosure requirements for entities. Specific presentation and disclosure requirements are set out in relevant Standards.

7. The Discussion Paper suggested:

(a) introducing a notion of 'primary financial statements' (paragraphs 9–11);

(b) objectives for the primary financial statements and notes to the financial statements (paragraphs 12–13);

(c) the scope of the notes to the financial statements (paragraphs 14–18); and

(d) guidance on classification and aggregation, offsetting and presentation of comparative information in the financial statements (paragraphs 19–20).

8. The Discussion Paper also made a note of the IASB's work on presentation and disclosure in a collection of Standards-level projects (now called the *Disclosure Initiative*), running in parallel with the *Conceptual Framework* project.

Primary financial statements and notes to financial statements

9. Neither the existing *Conceptual Framework* nor IAS 1 uses the term 'primary financial statements'

10. The Discussion Paper proposed introducing the term 'primary financial statements' to refer collectively to:

(a) the statement of financial position,

(b) the statement of profit or loss and other comprehensive income (or the statement of profit or loss and the statement of comprehensive income),

(c) the statement of changes in equity, and

(d) the statement of cash flows.

11. The Discussion Paper also proposed to use the term 'presentation' to refer to disclosure of information on the face of the reporting entity's primary financial statements and the term 'disclosure' to describe the process of providing useful financial information about the reporting entity to users. Accordingly, the term 'disclosure':

(a) would encompass both providing information in the primary financial statements and providing information in the notes to the financial statements; and

(b) would also apply to providing financial information outside financial statements in other forms of general purpose financial reports (hereinafter financial reports), for example, management commentary. This paper does not address financial information provided outside financial statements because that is beyond the scope of this project.

Objectives of primary financial statements and the notes to the financial statements

12. The existing *Conceptual Framework* does not set out an objective for financial statements or for any of the components of financial statements. Instead, it sets out the objective of financial reporting. Financial reporting includes financial statements but also covers other sources of financial information (for example interim statements, preliminary announcements and management commentary). IAS 1 sets out the purpose of financial statements as a whole but does not set out separate objectives for the components of financial statements.

13. The Discussion Paper suggested the following:

    (a) The objective of the primary financial statements is to provide summarised information about recognised assets, liabilities, equity, income, expenses, changes in equity and cash flows[1] that has been classified and aggregated in a manner that is useful to users of financial statements in making decisions about providing resources to the entity.

    (b) The objective of the notes to the financial statements is to supplement the primary financial statements by providing additional useful information about:

        (i) The assets, liabilities, equity, income, expenses, changes in equity and cash flows of the entity; and

        (ii) How efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

Scope of the notes to the financial statements

14. The existing *Conceptual Framework* does not set out the scope of the notes to the financial statements nor does it discuss the boundary between financial statements and information provided in other financial reports, for example, management commentary. IAS 1 sets out the requirements for the structure and content of the

[1] The items listed in this paragraph are ones that would be elements of financial statements in accordance with the suggestions in the Discussion Paper.

notes to the financial statements and includes a brief reference to information that entities present outside financial statements.

15. The Discussion Paper proposed that in order to meet the objective set out in paragraph 13(b), the notes to the financial statements would normally include information about:

    (a) the reporting entity as a whole;

    (b) the amounts recognised in the entity's primary financial statements;

    (c) the nature and extent of the entity's unrecognised assets and liabilities;

    (d) the nature and extent of risks arising from the entity's assets and liabilities;

    (e) the methods, assumptions and judgements, and changes in those methods, assumptions and judgements.

16. The Discussion Paper also provided examples of the types of disclosures that could provide the information listed above.

17. The Discussion Paper stated that information about management's view of performance, position and progress in the context of its stated plans and its strategies for achieving those plans belongs outside the financial statements, for example, in management commentary.

18. Finally, the Discussion Paper emphasised that financial statements provide information about existing assets and liabilities. Accordingly, the Discussion Paper proposed that forward-looking information should be required only if it provides relevant information about the assets and liabilities that existed at the end of, or during, the reporting period. Other types of relevant forward-looking information could be presented outside the financial statements.

Other guidance on presentation and disclosure

19. The Discussion Paper proposed further guidance for presentation and disclosure of information in the financial statements, specifically that:

(a) an entity should classify and aggregate information about recognised elements based on similar properties in order to present information that is understandable;

(b) offsetting items of dissimilar nature does not therefore generally provide the most useful information; and

(c) comparative information is an integral part of an entity's financial statements for the current period because it provides relevant trend information.

20. Those proposed principles are consistent with the existing requirements in IAS 1.

Summary of feedback received

Overall feedback

21. Many respondents to the Discussion Paper commented on particular aspects of the presentation and disclosure proposals. However, comments were often very general and some aspects of the proposals received little specific feedback.

22. Respondents generally welcomed the IASB's work on presentation and disclosure but expressed mixed views as to where these topics should be addressed, ie in the *Conceptual Framework* project or Standards-level projects, notably the *Disclosure Initiative*. Some respondents raised questions and comments about the interaction between the presentation and disclosure section in the *Conceptual Framework* and the *Disclosure Initiative*. Specifically, respondents were not clear on the scope of the *Disclosure Initiative* and whether and how the findings in that project would inform the work on the *Conceptual Framework*.

23. Many respondents who commented on presentation and disclosure supported the proposals in the Discussion Paper. Others expressed a view that the discussion of presentation and disclosure was too broad and unspecific, and does not provide enough guidance to be useful for the IASB in setting Standards. This comment related mainly to the notes to the financial statements.

24. Some respondents commented on the suggested guidance on classification and aggregation. Comments included additional considerations for that guidance and suggestions that further guidance is needed.

25. Some respondents suggested that the notion of 'business model' should be considered in certain areas of the presentation and disclosure section. Business model is further discussed in Agenda Paper 10H for this meeting.

Primary financial statements and notes to the financial statements

26. A few respondents believed that the proposed distinction between primary financial statements and notes to the financial statements is arbitrary and not necessarily helpful. They expressed a concern that introducing the term 'primary financial statements' implies that other information in the financial statements is of 'secondary' importance and questioned what the Discussion Paper identified as primary financial statements. They stated that some note disclosures, such as segment reporting, could be as useful as the information provided in what the Discussion Paper identified as primary financial statements. On the other hand, they stated that the statement of cash flows does not have the same primacy as other primary financial statements because it is prepared on a cash basis rather than an accrual basis.

27. In addition, a few respondents thought that further guidance is needed about when information should be presented in the primary financial statements versus disclosed in the notes to the financial statements.

28. Little feedback was received on the proposed use of the terms 'presentation' and 'disclosure'. A few respondents believed that this terminology is helpful and would work well in the *Conceptual Framework*. However, most of those respondents who commented on this topic disagreed with the proposed use of this terminology. They argued that:

    (a) presentation is not a subset of disclosure;

    (b) the term 'presentation' could be used to refer to some information outside the primary financial statements, for example, to segment reporting; and

(c) the description of disclosure is unhelpful because it includes the whole of financial reporting.

Objectives of the primary financial statements and the notes to the financial statements

29. Some respondents did not support the proposed objectives. They stated that:

    (a) separate objectives for the 'primary financial statements' and the 'notes to the financial statements' are not necessary; instead, a single objective for financial statements as a whole is appropriate;

    (b) the proposed objectives are underdeveloped, are too vague and do not establish a clear 'boundary' between the financial statements and other information in the financial reports.

    (c) the notes to the financial statements are as important and relevant as the primary financial statements and do not just supplement the latter.

30. Some respondents suggested that the *Conceptual Framework* should discuss the purpose of each primary financial statement.

Scope of the notes to the financial statements

31. Some respondents, mainly standard-setters and preparers, suggested that it is important for the IASB to clarify the boundary of the financial statements. They expressed a concern that the guidance on the scope of the notes to the financial statements proposed in the Discussion Paper did not make a clear distinction between information that should be provided in the financial statements and information that should be included in management commentary.

32. Few respondents provided suggestions for how to better describe the boundary of financial statements, or how to describe the scope of the notes to the financial statements.

33. Some respondents commented on the proposed types of disclosures:

    (a) Some thought that further guidance is needed for when different disclosures should be required or on how the IASB should select different types of disclosures.

(b) Others thought that the discussion about the types of disclosure is Standards-level detail that should not be included in the *Conceptual Framework*. A few expressed a concern that the guidance on the types of disclosures may be perceived as a checklist of disclosure requirements.

34. Some respondents provided comments on the specific proposals for the scope of the notes. The two areas which received most feedback were:

(a) disclosure of information about the nature and extent of risks; and

(b) disclosure of forward-looking information.

35. Comments about the proposed disclosure of risks included:

(a) the notion of 'risk' is vague and hence disclosures about risks could be understood to include almost any type of information, including information which could be best placed outside the financial statements;

(b) information about risks should, or could, be provided outside financial statements, for example in management commentary.

36. Comments about the proposed disclosure of forward-looking information included:

(a) The proposals to require disclosure of forward-looking information only if it relates to assets and liabilities that existed at the end of, or during, the reporting period may restrict the IASB's ability to require disclosure of information that is not directly related to such items but is still relevant, for example, information about a major acquisition that occurred after the end of the reporting period. IAS 10 *Events after the reporting period* requires such disclosure even though it relates to assets and liabilities that did not yet exist at the end of the reporting period.

(b) The IASB should clarify the difference between forward-looking information which should be disclosed in the financial statements and forward-looking information which should be disclosed in management commentary. For example, it is not clear whether information about variability in future outcomes should be provided within or outside financial statements.

Staff analysis, recommendations and questions for the IASB

Primary financial statements and notes to the financial statements

37. The staff note that introducing in the *Conceptual Framework* a collective term such as primary financial statements to refer to a set of components of financial statements is more convenient than listing each of those components individually.

38. However, introducing a collective term gives rise to the following questions:

    (a) what term should be used (paragraphs 40–41); and

    (b) which components to include under the chosen term (paragraphs 42–49).

39. In addition, the staff note that making a distinction between primary financial statements and the notes to the financial statements resulted in requests to provide more guidance on what information should be provided in the primary financial statements and what information should be provided in the notes.

What term should be used?

40. The Discussion Paper proposed introducing the term 'primary financial statements'. However, the staff are sympathetic to the concerns raised by a few respondents that the term 'primary' implies that information included in those statements is more important than other information in the financial statements. The staff do not think that this is what the IASB intended. Moreover, the interpretation of the term 'primary' by those respondents contradicts the statement in the Discussion Paper that the financial statements should be considered as a package. Accordingly, the staff do not think that the IASB should use that term in the *Conceptual Framework* ED.

41. So far the staff have been unable to identify an alternative collective term for the 'primary financial statements' that does not imply more importance or have other unhelpful connotations. Therefore, the staff do not think that developing another

collective term to replace ‘primary’ in the *Conceptual Framework* ED is a fruitful approach.

Which components to include under the chosen term

42. The Discussion Paper proposed that ‘primary financial statements’ are:
    (a) the statement of financial position;
    (b) the statement of profit or loss and other comprehensive income (or the statement of profit or loss and the statement of comprehensive income);
    (c) the statement of changes in equity; and
    (d) the statement of cash flows.

43. The Discussion Paper also proposed a link between those statements and the elements of financial statements. It identified the following elements:
    (a) in the statement of financial position: assets, liabilities and equity;
    (b) in the statement(s) of profit or loss and other comprehensive income: income and expense;
    (c) in the statement of changes in equity: contributions to equity, distributions of equity and transfers between classes of equity; and
    (d) in the statement of cash flows: cash inflows and cash outflows.

44. In Agenda Paper 10G, the staff recommend that contributions of equity, distributions of equity, transfers between classes of equity, cash inflows and cash outflows would not be defined as elements of the financial statements. Thus, the only defined elements should be assets, liabilities and equity, and income and expenses. This is consistent with the existing *Conceptual Framework*.

45. If the IASB agrees with the staff recommendation in that paper, the staff think that the statements of financial position and profit or loss and other comprehensive income could be seen as different from other information in financial statements because they provide summaries of all items that meet the definitions of elements (ie those statements capture *all* of the entity’s recognised assets and liabilities, and income and expenses).

46. However, it is arguably less obvious what makes the statements of cash flows and changes in equity different from the information included in the notes to the financial statements. Unlike the statements of financial position and profit or loss and other comprehensive income, these statements do not provide summaries of recognised items that meet the definitions of elements of the financial statements. Instead, the statement of changes in equity provides information about *changes* in an element (equity) and the statement of cash flows provides information about changes in *a subset of elements* (ie cash and cash equivalents are a subset of assets and liabilities). Accordingly, it can be argued that those two statements provide information more akin to the information typically included in the notes to the financial statements (eg a reconciliation of movements in property, plant and equipment) rather than to the information included in the statements of financial position and of profit or loss and other comprehensive income.

47. Moreover, the staff can see merit in the argument that some information provided in the notes to the financial statements, for example, segment information, could be seen as similar to the information provided in the statements of financial position and profit or loss and other comprehensive income. That is, segment reporting provides information about assets, liabilities and profit or loss of that segment.

48. Finally, the staff are aware of the view that the statement of cash flows may not necessarily be particularly useful for some types of entities, namely financial institutions. Consequently, one could question whether this statement is always as relevant as the statements of financial position and profit or loss and other comprehensive income.

49. The staff therefore think that if the IASB wanted to proceed with using a single term to refer to a number of components of financial statements in the *Conceptual Framework*, the IASB would need to consider which components to include under the chosen term, and why. The staff also note that the relevance of the statement of cash flows will be explored in the *Principles of Disclosure*, a project within the IASB's *Disclosure Initiative*, and do not think that the *Conceptual Framework* should pre-suppose the outcome of that research.

Conclusion

50. Based on the analysis provided above, the staff recommend that the *Conceptual Framework* Exposure Draft does not introduce a notion of ‘primary financial statements’ as had been proposed in the Discussion Paper.

51. If the IASB agrees with the staff recommendation:

(a) it will need to explore whether there is a need to establish a single objective for the financial statements as a whole—or separate objectives for individual components of financial statements—or whether no such objectives are needed at all[2]. That topic is discussed in the following section of this paper (paragraphs 54–66).

(b) The *Conceptual Framework* will not describe ‘presentation’ as the process of providing information in particular parts of the financial statements.[3]

52. If the IASB does not agree with the staff recommendation and decides to retain a distinction between primary financial statements and the notes to financial statements, the IASB will need to consider at a future meeting:

(a) whether the term ‘primary’ is appropriate or a different term should be used;

(b) which components of financial statements to include under the chosen term and why;

(c) whether a distinct term is needed to describe the process of providing information in those components and what that term should be; and

(d) whether separate objectives are needed for the identified sets of components of financial statements, and what those objectives should be.

[2] In June 2014, the IASB tentatively decided that the *Conceptual Framework* Exposure Draft should propose a dual objective for profit or loss of depicting the return that an entity has made on its economic resources during the period and providing information that is helpful in assessing prospects for future cash flows. The staff do not propose to reconsider that tentative decision.

[3] The IASB could, if it wishes, continue to use the term ‘presentation’ in Standards to refer to providing information in financial statements.

53. Regardless of the IASB decision on the staff recommendation, the staff do not think that it is feasible or appropriate to provide further guidance in the *Conceptual Framework* on where in the financial statements information should be provided. The staff consider that the IASB would consider the location of information when developing Standards and further guidance is best placed at the Standards level. This topic is being considered as part of the *Principles of Disclosure* research project.

Question 1
Does the IASB agree with the staff recommendation in paragraph 50?

Objective of financial statements

54. This section discusses:

(a) whether there needs to be an objective for financial statements, or components thereof, in the *Conceptual Framework* (paragraphs 56–58);

(b) whether it is more appropriate to set a single objective for the financial statements as a whole, or separate objectives for individual components of financial statements (paragraphs 59–60); and

(c) what that objective, or those objectives, should be (paragraphs 61–65).

55. This section assumes that the IASB agrees with the staff recommendation in paragraph 50 not to introduce the notion of 'primary financial statements', as had been proposed in the Discussion Paper. If the IASB does not agree with that recommendation, the analysis in this section will need to be updated.

Is an objective needed?

56. The existing *Conceptual Framework* sets out an objective for financial reporting—'to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity'.[4]

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[4] Paragraph OB2 of the existing *Conceptual Framework*.

57. However, the *Conceptual Framework* project only focuses on a subset of financial reports—financial statements—and does not address other forms of financial reports, such as management commentary.

58. Accordingly, setting an objective for financial statements in the *Conceptual Framework* would help to articulate the boundary between financial statements and other types of financial reports, assist the IASB in setting Standards and assist users of the *Conceptual Framework* in understanding the objective of financial statements.

A single objective or separate objectives?

59. The staff think that separate objectives for all individual components of financial statements are not appropriate for the *Conceptual Framework*—and this is consistent with the approach taken in the Discussion Paper. In the staff view, such individual objectives, if needed, are generally Standards-level details, such as in IAS 1, and a single objective for financial statements as a whole is more appropriate for the *Conceptual Framework*.

60. However, there may be a need for separate objectives for particular components of financial statements. For example, as discussed in paragraph 61(d)(ii), the IASB has tentatively decided to describe in the *Conceptual Framework* a dual objective for profit or loss.

A proposed objective for financial statements

61. The staff think that the objective for financial statements as a whole in the *Conceptual Framework* should take into account:

    (a) the objective of financial reporting, as described in paragraph OB2 of the existing *Conceptual Framework* (paragraph 56), and the supporting guidance, notably paragraphs OB12[5] and OB18-20[6],

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[5] Paragraph OB12 states that financial reports provide information about the financial position of a reporting entity (information about the entity's economic resources and claims against the reporting entity) and information about the effects of transactions and other events that changes a reporting entity's economic resources and claims.

[6] Paragraphs OB18–OB 20 of the existing *Conceptual Framework* indicate that information about an entity's financial performance and cash flows is useful in assessing the entity's past and future ability to generate net cash inflows

(b) the objectives of primary financial statements and the notes to the financial statements proposed in the Discussion Paper (paragraph 13),

(c) the objective of financial statements set out in IAS 1 (paragraph 62), and

(d) the recent tentative decisions by the IASB on:

   (i) increasing the prominence of stewardship within the overall objective of financial reporting; and

   (ii) the dual objective for profit or loss of depicting the return for the period and assisting in assessing prospects for future cash flows.

62. The objective of financial statements is currently addressed in IAS 1. Paragraph 9 of IAS 1 states:

> Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:
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> (a) assets;
>
> (b) liabilities;
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> (c) equity;
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> (d) income and expenses, including gains and losses;
>
> (e) contributions by and distributions to owners in their capacity as owners; and
>
> (f) cash flows.
>
> This information, along with other information in the notes, assists users of financial statements in predicting the

entity's future cash flows and, in particular, their timing and certainty.

63. This description of the objective of financial statements is conceptually consistent with the objectives proposed in the Discussion Paper and the guidance in the existing *Conceptual Framework*, as well as the recent tentative decisions by the IASB (see paragraph 61(d)). In the staff view, it provides a good basis for an objective of financial statements as a whole in the *Conceptual Framework*. The staff think that the following features of this description are particularly important for the *Conceptual Framework*:

(a) the reference to information about financial position, financial performance and cash flows of an entity—conceptually, that describes the scope of information provided in the financial statements;

(b) the reference to assets, liabilities, equity, income, expenses, changes in equity and cash flows of the entity—the Discussion Paper proposed that these would be defined elements of financial statements and this would provide the subject matter for individual sections of the *Conceptual Framework* (ie recognition, derecognition and measurement); and

(c) the reference to information that is useful in predicting the entity's future cash flows and assessing the results of management's stewardship of the entity's resources—this is consistent with the notion of the confirmatory and predictive value of the information in the financial statements, as described in the existing *Conceptual Framework* (paragraph OB18[7]) and developed in recent tentative decisions by the IASB (see paragraph 61(d)).

64. The staff note that contributions to, and distributions of, equity and cash flows are not defined elements of the financial statements in the *Conceptual Framework* and the staff do not recommend defining those items as elements (see Agenda Paper 10G). Consequently, the staff think that the objective of financial statements should not refer to these items—referring to these items would be inconsistent

[7] Paragraph QC7 of the existing *Conceptual Framework* describes financial information as capable of making a difference in decisions if it has predictive value, confirmatory value or both.

with the other sections of the *Conceptual Framework* that address recognition, derecognition and measurement of elements of financial statements.

65. However, the staff note that information about an entity's cash flows and contributions to, and distributions of, equity constitutes a part of a complete set of financial statements as described in IAS 1 and is relevant to users of financial statements. The relevance of information about an entity's (past) cash flows is also specifically discussed in paragraphs OB18 and OB20 of the existing *Conceptual Framework*. Moreover, paragraphs OB15 and OB21 include a discussion of the importance of information about contributions to, and distributions of, equity. Accordingly, the staff think that the guidance accompanying the objective should acknowledge the importance of information about (past) cash flows and contributions to, and distributions of, equity.

Conclusion

66. The staff recommend that the *Conceptual Framework* Exposure Draft states that the objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. As a result, financial statements provide information about the financial position, financial performance and cash flows of an entity.

Question 2
Does the IASB agree with the staff recommendation in paragraph 66?

Scope of the notes to the financial statements

67. The staff think that the Discussion Paper's discussion of information that the IASB would normally consider requiring in setting Standards is helpful and should be confirmed in the *Conceptual Framework* Exposure Draft. The staff also think that the *Conceptual Framework* Exposure Draft should confirm that the IASB can consider different forms of disclosure depending on the nature of the item in question.

68. However, the staff do not think that the *Conceptual Framework* Exposure Draft should include examples of disclosures. The staff agree with those respondents who suggested that the examples provided in the Discussion Paper are too detailed for the *Conceptual Framework* and, if needed, should be addressed at the Standards-level. In addition, the staff note that types of disclosure will be explored in the *Principles of Disclosure* project in the IASB's *Disclosure Initiative*.

69. Some respondents requested that the IASB clarifies the scope of financial statements versus other information in the financial reports. The staff think that an objective of financial statements, as proposed in paragraph 66, will help to address the scope of financial statements but think that further guidance is neither appropriate nor feasible for the *Conceptual Framework*—indeed any such guidance would be likely to be too detailed for the *Conceptual Framework*.

70. The staff's specific observations on comments about disclosure of risk and forward-looking information are provided below in paragraphs 71–75 and paragraphs 76–79 respectively.

Risk

71. A few respondents raised a concern that the term 'risk' could capture an excessively broad range of information and included a list of the risk information that should be included in financial statements. A few stated that some risk information, such as information about how an entity's management manage risk, could be better placed outside the financial statements, for example, in management commentary.

72. However, the staff note that the risk disclosures proposed for the *Conceptual Framework* focus on risks related to the entity's *existing* assets and liabilities—which is consistent with the definitions of these elements as a present economic resource and a present obligation. Therefore, it is unlikely that information about, for example, environmental or social risk would need to be included in the financial statements, except to the extent that it relates to the entity's existing assets and liabilities.

73. Information about how an entity manages risk could be seen as being appropriate for inclusion in financial statements or it could be seen as being appropriate outside of financial statements. However, the staff think that information about

risk management, such as the information required by *IFRS 7 Financial Instruments: Disclosures*, could be useful in assessing the entity's ability to generate cash flows and also in assessing management's stewardship of the entity's resources. Thus this information helps meet the proposed objective of financial statements discussed in paragraphs 61–65.

74. The staff note that respondents to the Exposure Draft of IFRS 7, issued in July 2004, argued that disclosures about risk should not be part of the financial statements. Their reasons include that the information would be difficult and costly to audit, the information is different from information generally included in financial statements because it is subjective, forward-looking and based on management's judgement and the practice in other jurisdictions is to include such information in a management commentary section. However, the IASB concluded in IFRS 7 that financial statements would be incomplete and potentially misleading without disclosures about risk arising from financial instruments.

75. Accordingly, the staff think that the *Conceptual Framework* Exposure Draft should confirm that in setting Standards the IASB would normally consider requiring disclosure about the nature and extent of risks arising from an entity's existing assets and existing liabilities (whether recognised or unrecognised).

Forward-looking information

76. Respondents' concerns about the disclosure of forward-looking information proposed in the Discussion Paper were twofold:

(a) the proposed disclosure could be seen as too broad—it is not clear what forward-looking information should be included in the financial statements versus in other financial reports; and

(b) the proposed disclosure could be seen as too narrow—the description of forward-looking information that could be included in the financial statements as the information about *existing* assets and liabilities contradicts the required disclosure of particular non-adjusting events after the reporting period under IAS 10; this is because those events are defined as indicative of conditions that arose *after* the reporting period.

77. However, in the staff's view, the Discussion Paper already included a clear *principle* for when the IASB would require disclosure of forward-looking information in the financial statements—that would be the case only if it provides relevant information about assets and liabilities that *existed* during or at the end of the reporting period. The staff do not think that further guidance is appropriate or feasible for the *Conceptual Framework*. Rather, the IASB will need to decide on a case-by-case basis in setting Standards whether a particular disclosure would be consistent with that principle.

78. Respondents' comments about the interaction between IAS 10 and the Discussion Paper's suggestions on forward-looking information, in the staff's view, pose an application question. Accordingly, the staff think that, if the IASB decided to amend IAS 10, the IASB would need to consider whether disclosures of non-adjusting events after the reporting period are within the scope of the financial statements or not and whether to continue requiring those disclosures. However, the staff note that disclosure of some non-adjusting events, such as a major business combination after the reporting period, could be directly relevant to assessing the entity's prospects for future net cash inflows and hence consistent with the objective of financial statements.

79. Consequently, the staff recommend that the *Conceptual Framework* Exposure Draft confirms the discussion about forward-looking information proposed in the Discussion Paper.

Conclusion

80. The staff recommend that the *Conceptual Framework* Exposure Draft:

(a) discusses disclosures that the IASB would normally consider requiring in setting Standards (but does not provide examples of different types of disclosures); and

(b) confirms the discussion of disclosure of risks and forward-looking information proposed in the Discussion Paper. In particular:

(i) the notes to the financial statements would normally include information about the nature and extent of risks arising from the entity's assets and liabilities; and

(ii) forward-looking information should be required only if it provides relevant information about the assets and liabilities that existed at the end of, or during, the reporting period.

Question 3

Does the IASB agree with the staff recommendation in paragraph 80?

Other guidance on presentation and disclosure

81. The staff think that the guidance on classification and aggregation, offsetting and presentation of comparative information proposed in the Discussion Paper is helpful and in principle applicable for the whole of the financial statements. The staff note that some respondents to the Discussion Paper requested further guidance on classification and aggregation. However, the staff think that such further guidance, if needed, should be provided at the Standards level. Consequently, the staff recommend confirming the guidance on classification and aggregation, offsetting and comparative information proposed in the Discussion Paper.

82. The staff note that some respondents requested that the IASB should consider business model in setting presentation and disclosure requirements in Standards and when financial statements are prepared. Business model is discussed in Agenda Paper 10H for this month's meeting. In that paper, the staff recommend that the *Conceptual Framework* should describe for each area of standard setting how the nature of an entity's business activities would affect that area of standard-setting. The staff note that, for the presentation and disclosure section of the *Conceptual Framework*, the idea of providing entity-specific information is already captured under the discussion of communication aspects of presentation and disclosure, which the IASB tentatively confirmed in June 2014[8].

Question 4

Does the IASB agree with the staff recommendation in paragraph 81?

[8] June 2014 IASB Update

Interaction with the Disclosure Initiative

83. Some respondents stated that the interaction between the *Conceptual Framework* project and the Disclosure Initiative is not clear, specifically the scope of both projects and whether and how they would inform each other.

84. However, the IASB has now progressed with its Disclosure Initiative. In particular, in April 2014 the IASB tentatively decided on the scope of the Principles of Disclosure project in the Disclosure Initiative[9]. That project will consider the following aspects of presentation and disclosure:

    (a) principles of disclosure for the notes, including:

        (i) objective and boundaries; and

        (ii) principles regarding the organisation, placement, format and linkage of information;

    (b) information in a complete set of IFRS financial statements, including:

        (i) presentation and disclosure of non-IFRS financial information; and

        (ii) comparative information

    (c) differential disclosures and proportionality;

    (d) cash flow reporting; and

    (e) disclosure of interim financial information.

85. The Principles of Disclosure project will be based on the high-level principles for presentation and disclosure to be developed in the *Conceptual Framework* and will provide further detail and guidance. The staff think that recent tentative decisions on the scope of the Principles of Disclosure project will clarify the scope of the Disclosure Initiative and its interaction with the *Conceptual Framework* project. The project teams will continue to work together on these two projects.

[9] April 2014 IASB Update

Appendix A—extract from May 2014 IASB Update

On 19 June the IASB continued its redeliberations on the *Conceptual Framework*…

Presentation and disclosure—communication aspects (Agenda Paper 10F)

The IASB tentatively decided:

(a) to reconfirm the proposal in the Discussion Paper that each Standard should have a clear objective for disclosure and presentation requirements;

(b) to reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information;

(c) to include in the *Conceptual Framework* those communication principles proposed in the Discussion Paper that are primarily directed at the IASB and discuss how they relate to the qualitative characteristics of useful financial information. Specifically, the IASB tentatively decided that disclosure requirements should seek to:

   (i) promote the disclosure of useful information that is entity-specific;

   (ii) result in disclosures that are clear, balanced and understandable;

   (iii) avoid duplication of the same information in different parts of the financial statements; and

   (iv) optimise comparability without compromising the usefulness of the information disclosed; and

(d) not to include in the *Conceptual Framework* a discussion about financial statements in an electronic format.

Presentation and disclosure—materiality (Agenda Paper 10G)

The IASB tentatively decided it would not amend the concept of materiality in paragraph QC11 of the existing *Conceptual Framework*, except to clarify that the term 'users' in that paragraph refers to the primary users mentioned in Chapter 1 of the *Conceptual Framework*.

Appendix B—other feedback received on the Discussion Paper

A1. This Appendix includes further feedback received on the scope and content of financial statements. Often, comments were raised by only a few respondents. The staff do not intend to discuss this feedback at the IASB meeting. This Appendix is structured as followed:

(a) scope of the notes to the financial statements (paragraphs A2–A4);

(b) classification and aggregation (paragraph A5);

(c) offsetting (paragraph A6); and

(d) other feedback received (paragraph A7).

Feedback received

A2. Scope of the notes to the financial statements

Comment	Staff response
(a) The *Conceptual Framework* should set a clearer boundary between information in the financial statements and information provided outside the financial statements, and provide guidance on that boundary.	The staff recommendation in this paper is for the *Conceptual Framework* to include an objective of financial statements and disclosures which the IASB would normally considering requiring. This will help to provide a boundary of financial statements. This is an appropriate level of detail for the *Conceptual Framework*. Other suggestions by respondents relate to Standards level detail.
(b) This section is not principles-based and does not help with 'disclosure overload'. It should be deleted.	This section provides some high-level principles for the type of disclosures that the IASB would normally consider requiring. It focuses more on providing relevant information as opposed to solely reducing disclosure. The objective of the Disclosure Initiative is to increase effectiveness of disclosures, which includes reducing 'disclosure overload'.
(c) Roll-forwards should be provided for each line item in the statement of financial position	The *Conceptual Framework* will contain a high-level discussion of

Comment	Staff response
and disaggregations should be provided for each line item in the statement of financial position and income statement. This information helps users in their assessment and analysis of an entity. A few respondents provided more detailed suggestions for information that users find useful or suggested that the *Conceptual Framework* should include more detail about users' needs.	information that would normally be considered for disclosure. Further detail about this information would be better placed at the Standards-level. This is being researched in the Disclosure Initiative Principles of Disclosure research project. Suggestions for further detail will be considered in that project.
(d) The *Conceptual Framework* could specify when alternative measurements would be disclosed in financial statements, rather than elsewhere. That guidance could focus on the nature of the measurements used for recognised amounts, and on the extent of estimates required.	This expands on the Discussion Paper's suggested scope of the notes to the financial statements. Further detail about the scope of the notes to the financial statements would be better considered at the Standards-level.
(e) The Discussion Paper suggested that the objective of disclosures is not to provide information that enables a user to recalculate the amounts recognised in the primary financial statements, however respondents suggested that: (i) enabling users to recalculate the recognised amounts could be useful for them in their decisions making. (ii) this suggestion could be used to justify excluding useful disclosures.	We will reconsider what will be included in the Exposure Draft after further work on the Disclosure Initiative and will report back to the IASB at a future meeting.
(f) The Discussion Paper suggested that the notes to the financial statements should enable users to identify the key drivers of financial position and performance and understand the key risks from assets and liabilities and the key facts that cause uncertainties about measurements used. A few respondents commented: (i) Information about key drivers and key risks should be in management commentary rather than in the notes to the financial statements. (ii) It is unclear how a user can identify the key drivers of the	Will consider during drafting whether the Discussion Paper's suggestion is consistent with the other principles being developed.

Comment	Staff response
financial position and performance and what information they should use to do so. (iii) This paragraph could be helpful in the objective of the notes.	

A3. Disclosures that the IASB would normally consider requiring

Disclosures suggested in the Discussion Paper	Comments	Staff response
Reporting entity as a whole	(a) Description of the entity's business model could be better placed in management commentary.	This is Standards-level detail.
Amounts recognised in the primary financial statements, including changes in those amounts	(b) The examples included in this suggestion (roll-forwards, disaggregations and reconciliations) should be removed because they may not be useful or relevant disclosures. Also, the examples could be seen as a 'checklist'.	Will consider during drafting whether to remove the examples.
Nature and extent of the entity's unrecognised assets and liabilities	(c) It is contradictory to require information about unrecognised assets and liabilities if that information is not relevant for recognition purposes.	The IASB discussed recognition in May 2014. Relevance is not the only criteria for recognition. Information about unrecognised assets and liabilities could still be useful for users of financial statements in assessing cash flows. Qualitative disclosure may sometimes be relevant in circumstances when it is not feasible, or cost-beneficial, to provide the quantitative information needed for recocgntion.
Nature and extent of risks arising from the entity's recognised and unrecognised	(d) Risks in prior periods that are no longer risks should be disclosed because it helps users evaluate the effectiveness of the entity's	These suggestions are Standards-level detail.

assets and liabilities	risk strategies. (e) The IASB should consider whether presentation guidance on high-risk assets and liabilities is needed. (f) Should there be a distinction between risks linked to exposure to market conditions and risks from derecognition and measurement uncertainty?	
Methods, assumptions and judgements, and changes in those, that affect amounts presented or disclosed	(g) Quantitative sensitivity disclosures about recognised or disclosed measurements should be provided only where the uncertainty in measurement is high.	This is Standards-level detail.

A4. Forward-looking information

Comment	Staff response
(a) The discussion should state that existing assets and liabilities means both recognised and unrecognised assets and liabilities	Will consider this point during drafting.
(b) The IASB should require disclosure of the realisation or settlement time profile for current assets and current liabilities	This is Standards-level detail.
(c) Forward-looking information in notes to the financial statements must work in parallel with that required through law and regulation, and must not conflict with them. Such conflicts might increase liability risks for entities, ultimately harming investors.	It is not practicable to consider specifics of local law and regulation within the *Conceptual Framework*. If specific concerns arise at the Standards level, the IASB could consider them there.
(d) The notes to the financial statements should not include forward-looking information, apart from qualitative information about the basis of estimates in the primary financial statements.	The Discussion Paper suggested that forward-looking information should only be included in the financial statements if it provides relevant information about existing assets and liabilities. Restricting forward-looking information to just qualitative information about the basis of estimates in the primary financial statements could mean that relevant information is not disclosed.

A5. Classification and aggregation

Feedback received		Staff response
(a)	Aggregation of different items by function results in information loss. If an entity presents its primary financial statements by function, the notes to the financial statements should disclose the nature because disclosure by function obscures the relation of the information to stakeholders.	IAS 1 acknowledges that both types of classification could provide relevant information. It is also acknowledged in paragraph 105 of IAS 1 that information on the nature of expenses is useful in predicting future cash flows and so additional disclosures are required when the function of expense classification is used. This is Standards-level detail.
(b)	Although Standards-level detail, there should be a hierarchy for considering classification and aggregation: firstly consider nature or function, secondly consider the measurement criteria.	This is Standards-level detail.
(c)	The *Conceptual Framework* should also consider disaggregation, because it provides a link between the primary financial statements and the notes, and provide further concepts about the bases for the extent of aggregation versus disaggregation.	This is Standards-level detail. The extent of aggregation and disaggregation is being researched in the Principles of Disclosure research project.
(d)	The classification and aggregation guidance should also refer to understandability, relevance, reliability and comparability	Will consider during drafting whether any further qualitative characteristics should be referred to in the classification and aggregation guidance.

A6. Offsetting

Comment		Staff response
(a)	The guidance should describe when offsetting is appropriate	The Discussion Paper provided guidance for when the IASB could decide to require offsetting. Further guidance is Standards-level detail.
(b)	The *Conceptual Framework* should discuss ‘linked presentation’, being when the gross amount of related items is shown in the statement of financial position, but the net amount is included in the totals for assets or liabilities.	This is Standards-level detail.

(c)	The *Conceptual Framework* should include a principle of gross and net presentation (ie, presentation should reflect gross cash flows unless the cash flows will occur net).	The staff think that a principle of gross and net presentation is covered by the suggested principle for offsetting. Further detail is Standards-level detail.
(d)	The offsetting guidance should also refer to relevance, understandability, reliability and comparability.	Will consider during drafting whether any further qualitative characteristics should be referred to in the offsetting guidance.
(e)	The *Conceptual Framework* should not include exceptions, such as offsetting. Instead they should be included and justified at the Standards-level.	The Discussion Paper established a principle that offsetting is generally not appropriate. It suggested guidance for when the IASB could decide to require offsetting.

A7. Other feedback received

	Comment response	**Response**
(a)	The Discussion Paper did not acknowledge different levels of sophistication of users of financial statements. Rather, it seemed to presume a high degree of sophistication of all users of financial statements.	Paragraph QC32 of the existing *Conceptual Framework* states that financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. The proposals in the Discussion Paper are consistent with that principle.
(b)	Competitive harm, or disadvantage, should be considered when setting disclosure requirements	The staff will consider this suggestion during drafting and, if necessary, will discuss this with the IASB.
(c)	Cost-benefit should be taken into account when considering disclosures. Cost-benefit should be referred to in this section.	Cost-benefit is a pervasive constraint discussed in Chapter 3 of the existing *Conceptual Framework*. To be considered during drafting whether reference to cost-benefit should be in Chapter 3 only, or whether further references in other Chapters would be beneficial.
(d)	The *Conceptual Framework* should include guidance about the use of non-IFRS (also known as non-GAAP) information	This is being explored in the Disclosure Initiative (Principles of Disclosure project).
(e)	The IASB should consider that users of financial statements of entities of different types, sizes and jurisdictions —for example	The *Conceptual Framework* does not address financial statements prepared using the *IFRS for SMEs*, which includes a section on concepts and basic principles

Comment response		Response
	financial institutions and non-financial institutions, public and non-public companies—have different information needs. The *Conceptual Framework* could include guidance for the needs of users of different entity types.	that is based on the existing *Conceptual Framework*. The IASB decides at the Standards level what types of information needs would meet the needs of users, and whether those needs are different in different circumstances.
(f)	The suggestion that users also need to consider information from other sources when making resource decisions may be used to justify excluding essential information from financial statements. The suggestion blurs the boundary of financial statements.	OB6 of the existing *Conceptual Framework* acknowledges that general purpose financial reports do not, and cannot, provide all of the information that users need.
(g)	The *Conceptual Framework* should contain a comprehensive discussion on post-balance sheet events, including the relevant measurement aspects.	This is Standards-level detail.
(h)	The *Conceptual Framework* should promote consistency between information in the financial statements and outside the financial statements.	The staff do not think it would be possible to include a useful discussion about this in the *Conceptual Framework*.
(i)	Some respondents suggested there should be better linkage between the presentation and disclosure section and other areas in the *Conceptual Framework*, for example, the asset and liability definitions, the objective of general purpose financial reporting and the qualitative characteristics.	Proposed amendments regarding an objective of financial statements, linked to the objective of general purpose financial reporting and elements, will assist in linking with other parts of the *Conceptual Framework*. Will consider wording used during drafting to ensure linkages are clear.
(j)	More discussion is needed about the structure of the primary financial statements and about how information is summarised in the primary financial statements.	This is Standards-level detail.
(k)	More discussion should be in the *Conceptual Framework* about the relationships between the primary financial statements and the relationships between the items presented in those statements.	This is largely Standards-level detail, but will consider during drafting.