

STAFF PAPER

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IASB Meeting

Project	Conceptual Framework		
Paper topic	Feedback summary: presentation and disclosure		
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Purpose of paper

1. This paper summarises the feedback received on the presentation and disclosure section of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.
2. This paper provides a high level summary of the comments received. When appropriate, we will provide a more detailed breakdown of the comments at future meetings.

Overview

3. In summary:
 - (a) most respondents commented on some aspect of the discussion of presentation and disclosure in the Discussion Paper; however, comments were often very general.
 - (b) some respondents think that the Discussion Paper would not provide the IASB with adequate guidance for setting disclosure requirements in Standards and reviewing existing disclosure requirements.

- (c) many respondents agreed with the suggestion in the Discussion Paper not to revise the concept of materiality but to undertake other work on materiality outside the *Conceptual Framework*.
- (d) Many respondents agreed with the suggestion in the Discussion Paper to include communication principles in the *Conceptual Framework*. Some respondents raised specific comments about some of the communication principles and suggested other principles that should be included.

Structure of paper

- 4. This paper is structured as follows:
 - (a) Background (paragraph 5)
 - (b) General comments (paragraphs 6–8)
 - (c) Primary financial statements (paragraphs 9–20)
 - (d) Disclosure in the notes to the financial statements (paragraphs 21–30)
 - (e) Form of disclosure and presentation requirements (paragraphs 31–42)
 - (f) Materiality (paragraphs 43–49)
 - (g) Interaction with the Disclosure Initiative (paragraphs 50–51)
 - (h) Other comments (paragraphs 52–57)

Background

- 5. The existing *Conceptual Framework* does not address presentation and disclosure. Section 7 of the Discussion Paper described guidance that could be included in a revised *Conceptual Framework*. Specifically, Section 7 discussed:
 - (a) presentation in the primary financial statements, including:
 - (i) the objective of primary financial statements;
 - (ii) aggregation, classification and offsetting; and
 - (iii) the relationship between primary financial statements.

- (b) disclosures in the notes to the financial statements, including:
 - (i) the objective of the notes to the financial statements; and
 - (ii) the scope of the notes to the financial statements.
- (c) materiality; and
- (d) guidance that the IASB might consider when developing the form of disclosure and presentation requirements including:
 - (i) disclosure objectives;
 - (ii) communication principles; and
 - (iii) the implications of delivering financial statements in an electronic format.

General comments

6. Most respondents to the *Conceptual Framework* Discussion Paper commented on some aspect of the discussion about presentation and disclosure; however, often these comments were very general and on some issues only a few respondents commented.
7. Some respondents commented on existing problems with disclosures in current financial reporting, such as disclosure overload or lack of quality or transparency in disclosure, and expressed support for the IASB to address presentation and disclosure in its project to revise the *Conceptual Framework*. A few respondents suggested that the *Conceptual Framework* should not address presentation and disclosure because it should be addressed in specific Standards, for example, IAS 1 *Presentation of Financial Statements*.
8. Some respondents suggested that the discussion in the presentation and disclosure section of the Discussion Paper was too broad to be useful for setting Standards. This comment related mainly to the notes to the financial statements and is elaborated on in paragraphs 24–27 of this paper.

Primary financial statements

What are the primary financial statements?

9. The Discussion Paper suggested that the 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.

Summary of feedback

10. Some respondents who commented on this agreed with the Discussion Paper's identification of the primary financial statements. However, a few respondents argued that the distinction between primary financial statements and the notes to the financial statements is arbitrary. These respondents stated that some note disclosures (for example, segment reporting) could be as useful as the information in the primary financial statements.
11. A few respondents expressed the view that the use of the word 'primary' in primary financial statements is inappropriate because it implies that the notes are of secondary importance, when they are, in fact, an essential part of the financial statements. A few other respondents stated that the introduction of the term 'primary financial statements' was helpful.

Relationship between the primary financial statements

12. The Discussion Paper suggested that no primary financial statement has primacy over the other primary financial statements and that they should be looked at together.

Summary of feedback

13. Some respondents who commented agreed with this suggestion.
14. A few respondents stated that some primary financial statements should be given priority. For example, some suggested that the statement of profit or loss should be

given priority because of its importance to users, while others stated that the statement of cash flows should have less priority because paragraph OB17 of the existing *Conceptual Framework* emphasises the benefits of accrual accounting.

15. Some respondents suggested that further analysis is required to identify for each primary financial statement:
 - (a) its role, purpose and objective;
 - (b) how it relates to, and links with, the other primary financial statements; and
 - (c) what makes it a primary financial statement.

16. A few respondents thought, however, that the discussion of the relationship between the primary financial statements should be included in a Standard rather than in the *Conceptual Framework*.

Objective of the primary financial statements

17. The Discussion Paper suggested the following objective for the primary financial statements:

to provide summarised information about recognised assets, liabilities, equity, income, expenses, changes in equity, and cash flows 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.

Summary of feedback

18. Some respondents expressed support for the suggested objective. However, other respondents stated that:
 - (a) the objectives, for both the primary financial statements and the notes to the financial statements, are too vague to be useful;
 - (b) the objectives for the primary financial statements and the notes to the financial statements could be combined; and
 - (c) the objective for the primary financial statements is underdeveloped because it simply repeats the overall objective of financial reporting in Chapter 1 of the *Conceptual Framework*.

Classification, aggregation and offsetting

19. The Discussion Paper suggested the following:
- (a) classification is the sorting of items based on shared qualities.
 - (b) aggregation is the adding together of individual items within the classifications.
 - (c) offsetting will generally not provide the most useful information for assessing an entity's financial position and financial performance. The IASB may choose to require offsetting when such a presentation provides a more faithful representation of a particular position, transaction or other event, or if it is necessary on cost-benefit grounds.

Summary of feedback

20. Some respondents who discussed classification, aggregation and offsetting agreed with the suggestions in the Discussion Paper. However, some respondents made the following comments:
- (a) the discussion of classification and aggregation is largely descriptive and would not be useful when making specific decisions on the degree or method of aggregation.
 - (b) the trade-off between aggregation and the inclusion of insignificant details is not clear.
 - (c) guidance needs to be included in the *Conceptual Framework* about disaggregation and how to make disaggregation decisions. A few see a discussion on disaggregation as helping to distinguish information that should be disclosed in the primary financial statements from information that should be disclosed in the notes to the financial statements.
 - (d) the guidance on offsetting should state when offsetting might provide relevant information.
 - (e) there are other considerations when making offsetting decisions, for example, relevance and going concern.

- (f) the *Conceptual Framework* should also discuss ‘linked presentation’, which was described as presenting assets and liabilities that are closely related.

Disclosure in the notes to the financial statements

Objective of the notes to the financial statements

21. The Discussion Paper suggested the following objective for the notes to the financial statements:

to supplement the primary financial statements by providing additional useful information about:

- (a) the assets, liabilities, equity, income, expenses, changes in equity and cash flows of the entity; and
- (b) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.

Summary of feedback

22. Some respondents expressed support for the suggested objective. However, a few respondents commented:
- (a) the objective for the notes to the financial statements is not just to supplement the primary financial statements. A few suggested that the notes to the financial statements should also provide other relevant information that is not reflected in the primary financial statements so that users can better assess the position and performance of the entity.
 - (b) the suggested objective would expand the scope of the notes to the financial statements (see paragraphs 23–27 for further discussion of the scope of the notes). The terminology ‘to supplement the primary financial statements’ does not differentiate between disclosures in the financial statements and disclosures outside the financial statements.

Scope of the notes to the financial statements

23. The Discussion Paper suggested the following in the section on the scope of the notes to the financial statements:
- (a) disclosures that the IASB would normally consider requiring in a general Standard on disclosure (such as IAS 1) or in particular Standards;
 - (b) that the objective of disclosure guidance is not to have entities provide information that enables a user of financial statements to recalculate the amounts recognised in the primary financial statements, but should enable a user to identify key risks, key drivers and uncertainties about measurements; and
 - (c) that information about management's view of the entity's performance, position and progress belongs outside financial statements, for example, in management commentary.

Summary of feedback

Principles

24. Some respondents argued that the current problems with disclosure (such as information overload and the need to make disclosures more relevant) could be reduced if the *Conceptual Framework* includes principles that can guide the IASB when setting presentation and disclosure requirements. However, some respondents expressed the view that the discussion in this section is too generic to provide useful guidance to the IASB and does not provide the IASB with a disclosure framework
25. Some respondents suggested that there is too much detail in this section of the Discussion Paper, particularly in the suggestions for disclosures that the IASB would normally consider requiring. Those respondents suggested that the *Conceptual Framework* should contain high level guidance for presentation and disclosure, with Standards providing more detail.
26. In addition, a few respondents suggested that more consideration was needed on the types of information that is reported in the primary financial statements than the type of information that is reported in the notes to the financial statements.

27. Some respondents provided alternative suggestions for principles for the scope of the notes to the financial statements, which we will analyse in more detail when appropriate in future papers.

Forward-looking information

28. The IASB's preliminary view is that it should require the notes to the financial statements to include forward-looking information only if it provides relevant information about assets and liabilities that existed at the end of the reporting period or during the reporting period. The Discussion Paper suggested that other types of forward-looking information may provide relevant information and could be presented outside the financial statements, for example, in management commentary.
29. Some respondents agreed with the preliminary view on forward-looking information. Some other respondents stated that the preliminary view contradicts existing requirements in IAS 10 *Events after the Reporting Period*. They requested that the interaction between the two be clarified. However, the following point was made:

EFRAG considers that if note disclosure-overload should be limited by provision of principles for what information the notes should contain, it would be very difficult to set the principles so that all current requirements that are considered useful would be within those principles. EFRAG therefore accepts this consequence and notes that information about non-adjusting events can be provided elsewhere in a financial report or the IASB could treat this information as an exception to the principles on presentation and disclosure. *EFRAG*

The boundary of financial reporting

30. Some respondents, mainly preparers and standard-setters, expressed the view that the Discussion Paper did not sufficiently address the boundary of financial reporting, that is, what information belongs in the financial statements and what information belongs outside financial statements, for example, in management commentary. A few suggested that defining the boundary more clearly would reduce duplication in disclosure requirements. A few respondents suggested working with others, such as

regulators, to address the issue of duplication between accounting standards and regulatory requirements.

Form of disclosure and presentation requirements

31. The Discussion Paper suggested the following:
- (a) each Standard that proposes disclosure and presentation requirements should have a clear objective;
 - (b) the inclusion of communication principles in the *Conceptual Framework* to promote effective communication of information; and
 - (c) when developing presentation and disclosure requirements, the IASB may need to consider the impact of technology and to support advances in its application and wider use.

Summary of feedback

Objective

32. The Discussion Paper did not ask a specific question about the suggestion that each Standard that proposes disclosure and presentation requirements should have a clear objective. Consequently, few respondents commented on this. Those that commented generally expressed support for this approach. They suggested that Standards should not include a list of detailed requirements because this could lead to a checklist approach to disclosure.

Communication principles—overall

33. Many respondents who commented on this question generally agreed that communication principles should be part of the *Conceptual Framework* and agreed with the communication principles suggested.
34. Some respondents suggested that some or all of the communication principles should be included in Standards rather than in the *Conceptual Framework*. A few respondents suggested that the communication principles should apply to all aspects of the revised *Conceptual Framework*, not just to disclosure. For example, a few

respondents suggested that the communication principles help to meet the objective of financial reporting.

35. Some respondents expressed the view that the communication principles refer to only some of the qualitative characteristics of useful financial information as set out in the existing *Conceptual Framework*. Suggestions included to clarify how the communication principles link with the qualitative characteristics, or that there should be greater alignment between the communication principles and the qualitative characteristics.

Communication principles—disclosures should be linked

36. The Discussion Paper suggested that disclosures should be linked. It also suggested that:

Where appropriate, disclosure guidance should require or permit entities to show the relationship between the information disclosed in different notes and also, where possible, with other published information, such as disclosures in management commentary, if there is one. IFRSs should therefore permit the use of cross-referencing where possible and appropriate.

37. Specific responses on this communication principle were rare; however, a few respondents, mainly auditors, expressed concern with the suggested use of cross referencing. These respondents stated that it would be difficult to implement this communication principle because it would imply that audited financial statements can refer to non-audited financial information. Respondents asked for clear guidance about when and how to cross-reference.
38. A few respondents suggested that cross-referencing could reduce duplication between financial statements and disclosures outside the financial statements.

Communication principles—other comments

39. Some respondents also suggested other communication principles for the *Conceptual Framework*, including:
- (a) information should be concise and use consistent terminology;

- (b) disclosure requirements should be current – ie the IASB should review disclosure requirements periodically to remove disclosure requirements that are no longer relevant;
 - (c) including immaterial information can reduce understandability; and
 - (d) important entity-specific information should be highlighted at the beginning of the notes.
40. A few respondents made other comments on the communication principles, including:
- (a) the way that the communication principles are written and drafted could be read as guiding preparers, although they are primarily intended as guidance for the IASB in setting disclosure requirements;
 - (b) it should be clearer how the IASB intends to use the communication principles and how they will assist in setting Standards; and
 - (c) it should be acknowledged that the needs of users may change depending on the size of the entity.

Electronic format

41. The Discussion Paper suggested that when developing presentation and disclosure requirements the IASB may need to consider the impact of technology and support advances in its application and wider use.
42. The Discussion Paper did not include a question on this. Consequently, only a few respondents commented on it. A few respondents stated that the *Conceptual Framework* is not the right place to address electronic format or guidance on electronic formats. For example:

...To consider the requirements and constraints of XBRL, to take one example, when developing accounting standards, would be to put the principle-based setting of standards at risk of being subordinated to concerns about the communication tools, and this would be to the detriment of the quality of the information provided... *Business Europe*

Materiality

43. The Discussion Paper suggested that the materiality concept is clearly described in the existing *Conceptual Framework* and that there is no need to amend this description or add to it. The Discussion Paper acknowledged that many see materiality, and how it is applied in practice, as a major cause of the disclosure problem and highlighted the IASB's intention to undertake projects on materiality outside the *Conceptual Framework* project.

Summary of feedback

44. Many respondents to the Discussion Paper commented on the discussion of materiality. Many of those respondents agreed with the suggestion in the Discussion Paper not to revise the concept of materiality but to consider providing additional guidance or education material in another project (now called the Disclosure Initiative).

Materiality in the Conceptual Framework

45. Some respondents think that the IASB should amend the concept of materiality, or the discussion of materiality, in the *Conceptual Framework*. Comments include the following:
- (a) the concept should be amended to include a reference to immaterial information, and in particular how this can clutter or obscure the useful information in financial statements. A few respondents went further by suggesting that it should be a concept that immaterial information should not be disclosed.
 - (b) the guidance should focus more on the qualitative application of materiality and the application of materiality to the notes to the financial statements. This comment was also made in respect of the Disclosure Initiative project on materiality.
46. Some respondents think that the additional guidance that may result from the Disclosure Initiative project on materiality, including points outlined in paragraph 7.46 of the Discussion Paper, should be in the *Conceptual Framework*.

Disclosure Initiative work on materiality

47. As highlighted in paragraph 7.8, the Discussion Paper stated that the IASB plans to undertake work on materiality in its Disclosure Initiative project.
48. Some respondents suggested that the IASB should take into account work on materiality by other bodies (for example, the International Auditing and Assurance Standards Board (IAASB)) in its Disclosure Initiative project on materiality. A few respondents suggested that the IASB's concept of materiality should align with that of the IAASB.
49. Some respondents think that the output of that project should not be education material because the output should be more authoritative and subject to the IASB's due process requirements.

Interaction with the Disclosure Initiative

50. The Discussion Paper refers to the other work that the IASB is undertaking on disclosure (the 'Disclosure Initiative'). Some respondents who discussed that work were supportive of it. Some specific comments were made by respondents:
 - (a) the various initiatives for disclosure must be well coordinated;
 - (b) it is unclear what is intended to be included in the *Conceptual Framework* and what is intended to be included in the IASB's other work on disclosure;
 - (c) some, or all, of the other work planned on disclosures should instead be in the revised *Conceptual Framework*;
 - (d) the *Conceptual Framework* should be revisited once the Disclosure Initiative is completed; and
 - (e) existing disclosure requirements should be revisited.
51. Some respondents, including several users, suggested that the IASB should restart its Financial Statement Presentation project.

Other comments

Terminology

52. The Discussion Paper suggested the following definitions for the terms ‘disclosure’ and ‘presentation’:
- (a) disclosure: the process of providing useful financial information about the reporting entity to users.
 - (b) presentation: the disclosure of financial information on the face of an entity’s primary financial statements.
53. Respondents to the Discussion Paper rarely discussed the proposed terminology. However, a few respondents suggested that these definitions are useful and can be used effectively in the *Conceptual Framework*. Other respondents disagreed with the suggested definitions. Reasons given included:
- (a) presentation and disclosure are distinct and have different considerations in the standard-setting process. The suggested definition for disclosure is unhelpful because it includes the whole of financial reporting.
 - (b) the terminology is well understood. To change it is unhelpful and will cause unnecessary confusion.
 - (c) the term ‘presentation’ often applies to information that is not on the face of the primary financial statements, for example, segment information.
54. A few respondents suggested that the terminology used in the discussion of presentation and disclosure, for example, classification, aggregation, line items, subtotals, etc could be more clearly defined and illustrate better how they relate to one another.

Business model

55. Some respondents suggested that the notion of business model should be considered in some areas, including:
- (a) guidance on aggregation;

- (b) the objective of the primary financial statements;
- (c) the types of disclosures in the notes to the financial statements;
- (d) entity-specific communication principles;
- (e) the discussion of what information should be presented on the face of the primary financial statements versus in the notes to the financial statements; and
- (f) the boundary of financial reporting.

56. For further discussion on the notion of business model, please see Agenda Paper 10K.

Other

57. Other comments raised by a few respondents include:

- (a) this section should link better with other parts of the *Conceptual Framework* (including the objective of financial reporting), or other parts of the *Conceptual Framework* should be taken into consideration when looking at presentation and disclosure;
- (b) there should be a discussion of competitive harm or disadvantage when looking at presentation and disclosure; and
- (c) non-GAAP measures:

... As the use of alternative performance measures (“non GAAP measures”) becomes ever more prevalent the Conceptual Framework should particularly include a methodology how and to what extent such alternative performance measures may be incorporated into IFRS financial statements. *SIX Swiss Exchange*