

International Financial Reporting Standards

GPF meeting, 6 November 2014
Agenda Paper 6A

Making Financial Statement information more cohesive

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Purpose of the discussion

We are seeking Global Preparers Forum (GPF) members' views on how to make the information in financial statements more cohesive.

Background

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What is cohesiveness?

The *Financial Statement Presentation* project described cohesiveness in financial statements as the presentation of information in a manner that clearly depicts the relationships between that information across the statements of financial position, comprehensive income and cash flows.

What is the problem?

Lack of clarity about the relationships between information in financial statements could:

- reduce the ability to easily see information from different perspectives
- make it more difficult to understand the impact of changes across items or different aspects of entity
- contribute to the disclosure of irrelevant information

What we have heard

- Some users put a high priority on cohesiveness of information:

‘Improved cohesiveness [...] would improve the usefulness of financial statements by allowing investors to see the flow of transactions across the balance sheet, income statement, and statement of cash flows. Increased cohesiveness is likely to lead to the need for fewer disclosures because the necessary transparency and underlying relationships between balances that produce the financial results will be more obvious to investors.’ (CFA Institute)

What we have heard – FSP project

- The Financial Statement Presentation (FSP) project
 - Cohesiveness and disaggregation principles worked together
 - Disaggregated information to be presented in sections, categories and sub-categories
 - Sections, categories and sub-categories consistently presented across the statement of financial position, comprehensive income and cash flows

FSP cohesiveness principle - application

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business section	Business section	Business section
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	Financing section	Financing section
Debt category	Debt category	Debt and equity
Equity category		
	Multi-category transaction section	Multi-category transaction section
Income tax section	Income tax section	Income tax section
Discontinued operation section	Discontinued operation section, net of tax	Discontinued operation section
	Other comprehensive income, net of tax	

What we heard—FSP Project Feedback

- General support for an overall principle (ie making relationships clear)
- Serious concerns (particularly from preparers) about how the principle/categorisation was applied
 - difficulty fitting across different industries
 - loss of flexibility in presenting information
 - unclear about the benefits of applying to the statement of financial position

Staff Analysis

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- Cohesiveness as a ‘communication principle’
 - ‘Entities should make disclosures that are linked. Disclosures should highlight the relationships between information within the financial statements and other parts of the financial report. For example, relationships can be highlighted by use of cross-referencing, grouping of disclosures and by hyperlinks. Relationships can also be highlighted through consistent use of terminology in different sections of the financial report.’
[See IASB October Board meeting–Agenda Paper 11A(b)]
- Is such a overall principle (applicable across IFRS) helpful?

Other ways to enhance cohesiveness?

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- Aside from an overall communication principle, would further guidance be helpful? Why or why not?
- If yes:
 - are there any relationships that, if highlighted, would make financial statements more understandable (Slide 13)?
 - what methods could be used to show these relationships (Slide 14)?
 - how prescriptive should the IASB be about getting entities to show these relationships (Slide 15)?

Possible relationships that could be highlighted:

- Relationship between items based on entities' activities:
 - Operating, financing or investing (eg FSP)
 - Based on functions (eg research and development, marketing etc)
- Nature of items
- Others (?)

Methods to describe relationships

Possible methods of showing relationships:

- Grouping and ordering
- Classification
- Cross-references
- Reconciliations

How prescriptive should the IASB be?

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- High level principle with broad leeway for preparers to implement (ie encouragement); or
- Principle with more guidance/illustrative examples on how the entity could *normally* enhance cohesiveness based on specified relationships; or
- Prescribe particular relationships that should be highlighted and standardise the way that these are presented (eg sections / categories) across some or all of the financial statements.

Questions to GPF members

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- Should the IASB seek to enhance the cohesiveness of information in financial statements?
- If yes, how?