STAFF PAPER

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Project	**Disclosure Initiative**
Paper topic	Principles of Disclosure—Format of information in the notes

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Purpose of this paper

1. The format of information in financial statements refers to the way information is arranged or set out. Formatting of information in financial statements is part of how an entity communicates.

2. The purpose of this paper is to seek the views of the IASB on the following issues regarding the format of information in the notes to the financial statements:

   (a) whether further guidance about formatting should be included in IFRS; and

   (b) if yes, what should be the potential approach and guidance?

Summary of staff recommendation

3. The staff recommend that the IASB should provide:

   (a) further high level guidance on the use of formats which is applicable across IFRS; and

   (b) educational material on formatting.

Scope of the paper

4. This paper deals with the format of information in financial statements, in particular the use of tables, graphs or charts and narrative formats. It also discusses textual features for presenting information such as prominence, emphasis and readability.

5. Formatting could also refer to the way in which information is grouped or ordered in the financial statements and the way in which statements and notes are structured. This paper does not discuss formatting within these contexts. Formatting in these contexts will be discussed as part of other topics in the Principles of Disclosure project.

Background

What we have heard/what is the problem?

6. Various constituents have highlighted the need for improving the efficiency and effectiveness of communication of information in the notes to the financial statements. Among other issues, some considered the formatting of information in the notes as a key consideration for improvement of the quality of disclosure. They believe that the format of information in the notes helps users to understand and compare the information being disclosed. For example the CFA Institute recommended that:

> "Investors should be provided with the information they need to evaluate their investments in a readily accessible and useful form. To this end, preparers should expand the use of tabular and graphic delivery formats. Users want quantitative tables with entity-further information appropriately disaggregated. Tabular and other quantitative information should be supported by qualitative explanations that are not littered with boilerplate or generic language. Moreover, standardization of such quantitative disclosures would enhance comparability over time and among firms."[1]

[1] Page 88, *Financial Reporting Disclosures*, 2013, CFA Institute

7. One respondent to the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1) noted the following:

> **"Usage of tables** – according to section QC30 of the Conceptual Framework understandability is a characteristic that enhances the usefulness of the financial statements. In Israel we promote using tables in order to improve the understandability of the statements. For example some listed entities in Israel comply with the requirement to disclose sources of estimation uncertainty (IAS 1.125) by including a table addressing the following parameters: the estimation; main assumptions; possible future outcomes; relevant note. One other example is the disclosure regarding civil lawsuits – many listed entities disclose the information regarding this matter by using tables that include information about the claimed sum, the plaintiff, short description of the claim and risk assessment. We suggest that the IASB should also promote using tables as means of understandability[2].

8. We have also heard that the use of tables can enhance effectiveness of communication in the notes to the financial statements. In a survey conducted by one of our constituents on tabular presentation in financial statements, it was noted that:

> "Nearly half say greater tabular presentation
>
> format for quantitative information disclosures
>
> will have a positive impact on preparer's burden"[3]

9. In recent years we have also seen a trend for greater standardised use of tables in the financial reporting by the financial services industries. For example, the Enhanced Disclosure Task Force (EDTF) in its report on enhancing risk disclosures in banks has promoted tabular formats in disclosing the requirements. The report includes examples that reflect instances for which investors have suggested that consistent

[2] Comment letter from Israel Securities Authority

[3] Page 32, *Disclosure Overload and Complexity: Hidden in Plain Sight*, KPMG and FERF

tabular presentation is particularly important for improving their understanding of the disclosed information and for facilitating comparability among banks.[4]

10. In its final draft of *Implementing Technical Standards* on disclosure of leverage ratios, the European Banking Authority (EBA) has emphasised on the use of tables in uniform disclosure templates, mainly with the aim of providing more comparable disclosures on leverage ratios[5]. Similarly, the consultative document related to review of the Pillar 3 requirements released by the Basel Committee on Banking Supervision has set out proposals to improve consistency and comparability of information by use of templates and tables. The report noted the following:

> "The disclosure requirements are presented in the form of either templates or tables. Templates should be populated with quantitative figures according to the definitions provided below. The qualitative requirements are presented in the form of tables (which however in some instances contain requirements necessitating quantitative disclosures)." [6]

Current IFRS

11. Paragraph 112 and 113 of IAS 1 *Presentation of Financial Statements* describes the structure and manner of presentation in the notes, but not the format in which that information needs to be displayed in the notes.

12. Recently developed or revised Standards require information to be disclosed in a tabular format unless another format is considered as more appropriate (see Appendix A); eg:

    (a) Paragraphs 13C, 24A, 24B, 24C of *IFRS 7: Financial Instruments: Disclosures* requires disclosures in tabular format. Paragraph 13C requires tabular format unless another format is more appropriate.

[4] Page 14, *Enhancing the Risk Disclosures of Banks*. EDTF, October 2012

[5] EBA *Final Draft Implementing Technical Standards*, June 2014

[6] Paragraph 40, Page 7, Consultative Document, Basel Committee on Banking Supervision, June 2014

(b) Paragraphs 28 and 29 of *IFRS 12 - Disclosure of Interests in Other Entities* requires disclosures in tabular format, unless another format is more appropriate.

(c) Paragraph 99 of *IFRS 13 - Fair Value Measurement* states that the quantitative disclosures required by this IFRS shall be presented in a tabular format unless another format is more appropriate.

13. Apart from the requirements described above, current IFRSs do not require other formats such as charts or other graphical depictions. However, the implementation guidance of IFRS 7 explains in paragraph IG20 that:

> "[...] if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures."

Staff analysis

Formatting as a communication principle

14. In its October 2014 meeting the IASB discussed whether IFRS should include a set of communication principles, based on the qualitative characteristics of understandability, comparability and faithful representation.[7] One of these principles specifically related to formatting:

> "use appropriate formats for the type of information being disclosed for example tables lend themselves to the disclosure of quantitative information, lists can be used to break-up long narrative text" [8]

15. The IASB tentatively decided to include a set of communication principles in the *Principles of Disclosure* Discussion Paper, although there were mixed views as to

[7] Agenda Paper 11A(b). IASB meeting, October 2014

[8] Paragraph 34(a)(iii), AP11A(b), October 2014, IASB meeting

whether these principles should form part of IFRS or should instead be developed as education material.

16. We think that current IFRS already permits entities to format information in their notes in a way that meets the recommendations made by the constituents described in paragraphs 6-10 above. Entities can use their judgement in selecting an appropriate format to display information in the notes to the financial statements that enhances understandability and comparability, as well as ensuring that the format chosen faithfully represents the information being disclosed.

17. The communication principle described in paragraph 14 above would, if developed as part of IFRS, provide a high level principle in IFRS that directly relates to the format of information; ie, it would require an entity to select an appropriate type of format for the information being disclosed. However, on the basis of the messages we have heard, we think we need to consider whether further guidance describing what makes a format appropriate in particular circumstances is needed.

What is an appropriate format?

18. A complete set of financial statements generally contains a combination of narrative text, lists, tables, charts, graphs and diagrams. In addition, textual features such as bolding, underlining, colour, font type and size etc are used to add emphasis where needed.

19. The format used to communicate information depends on particular circumstances and therefore may vary on a case-by-case basis. Preparers of financial statements apply judgement in selecting an appropriate format. Factors considered in selecting an appropriate format include:

    (a) the nature of the information that the entity wants or needs to present, eg quantitative amounts or a description of an event;

    (b) the objective of disclosing the information; ie, what is it that the entity wants the users to read and understand. This may determine the emphasis placed on some information; and

(c) who the intended users of the financial information are. For example, analysts who are extracting data to incorporate into their models may prefer information disclosed presented using tables.

20. Below we describe the nature of each format type and the circumstances in which it would generally be appropriate as follows:

    (a) Lists (paragraphs 22-23);

    (b) Tables (paragraphs 24-28);

    (c) Charts and graphs (paragraphs 29-33); and

    (d) Narrative text (paragraphs 34-35).

21. We also discuss what an entity may consider when choosing textual features such as bolding, underlining etc (paragraphs 36-37).

Lists

22. A ‘list’ is a series of items presented one after the other. It structures the information linearly, generally downwards. A list can be thought of a table that shows information in one dimension.

23. Lists are often used to break-up long narrative text. An example of information which may be set out in a list could be an entity’s related parties or the types of risks to which an entity is exposed.

Tables

24. A ‘table’ is a means of arranging data in rows and columns. These columns and rows help users to process information in a sequential fashion, reading down columns or across rows of numbers. This allows numbers in the table to be compared against each other, one pair at a time. In this way information in tables is readily accessible, because they present related information together.

25. Rows and columns in a table are described with a word, phrase or a numerical text. The intersection of a row and a column is a cell that contains the information. This information is read from the perspective/dimension of both the row and column and has a unique value attributable to the combination of perspectives.

26. We think information presented in a table generally works best when the disclosure:

(a) is designed to look up and compare individual values or descriptions;

(b) requires precise values or amounts;

(c) requires a lot of data to be disclosed about a particular thing ie data-intensive information; and/or

(d) needs to describe information from different perspectives, eg reporting periods, revenue from sale of goods and revenue from services.

27. For example, reconciliations are often disclosed by using a table. This is because:

(a) the movements that make up the reconciliation can be compared against each other and against the opening and closing balances;

(b) the amounts need to be precise so that they reconcile among themselves and back to other parts of the financial statements; and

(c) the reconciliations provide information from different perspectives: for example, a reconciliation of property, plant and equipment requires disclosure of additions, impairment losses, depreciation etc.

28. Information in a table may need to be supplemented by narrative text to explain aspects of information within the table. Examples of tables that are commonly used in financial statements include:

(a) a maturity analysis, for example for derivative/non-derivative financial liabilities showing remaining contractual maturities;

(b) a reconciliation, for example of reportable segment revenue; and

(c) the calculation of earnings per share.

Graphs and charts

29. A 'graph' is a representation of a set of objects where some pairs of objects are connected by links. A 'chart' is a graphical representation of data using columns or other blocks. Graphs can be a good means of describing, exploring or summarising numerical data, because the use of a visual image can simplify complex information and help to highlight patterns and trends in the data. Graphs and charts give numbers shape and form.

30. Common examples of graphs and charts are line graphs, bar charts, pie charts etc.

31. On the basis of our analysis, we think graphs and charts can be useful tools for displaying information when:

    (a) data representing a longer time period needs to be presented (eg a trend of increase in revenue over a period of time);

    (b) there is more than one element to be displayed and the relationship between them is interconnected; and/or

    (c) information is displayed to show a comparison from a visual perspective, eg a pie chart could be used to show how much of total revenue is from services or whether revenue from services or sale of goods is higher.

32. A key consideration for an entity while using graphs and charts is the precision that the information is required to be presented with. If high precision of numerical data is required to meet the disclosure objectives, disclosures displayed in a graph or chart may not be useful. For example, information that is provided for further analysis, reconciliation or as explanations might not be useful if disclosed by way of a graph or chart.

33. We think that graphs and charts in notes to financial statements should be used with caution, bearing in mind that it should not obscure the information or make it less relevant to users.

Narrative text

34. Narrative text communicates information using words, sentences, paragraphs, headings and punctuation. We think disclosures are likely to be more appropriate in a narrative format when:

    (a) The message is simple. For example, if users are only interested in the main drivers for a particular expense item, the following information may be sufficient, eg ‘Non-interest expenses of CU100 related to Country A (CU40) and Country B (CU60)’.

    (b) An entity wants to communicate detailed qualitative aspects, explanations or narrate a story about an event/transaction, rather than presenting quantitative or numerical information.

(c) Explanatory information is required to explain the numerical information (eg to explain numbers in a table).

35. We think entities can use narrative format in various disclosure requirements, including the following:

(a) significant accounting policies;

(b) qualitative disclosure related to risks arising from financial instruments; and

(c) describing the circumstances of a business combination.

Textual features, including prominence

36. Some constituents have suggested that using prominence in displaying information in notes can enhance the quality of disclosure. Useful information, if displayed with prominence, will stand out to the user who can readily access it.

37. Within the context of formatting of information, prominence refers to emphasising matters by using different fonts, size, colours etc. We think that further guidance on prominence, which is also a characteristic for presenting information, is not necessary, for the following reasons:

(a) Prominence, as described above, is a generic method of emphasising a matter.

(b) Prominence is used in other formats discussed in this paper. For example, boldface or italics can be used in a table or chart.

(c) Emphasising a matter by prominence can only be assessed on a case-by-case basis, which is best left to the judgement of the preparer.

Is there a need for further guidance on formatting?

38. As we did when developing the papers for the October IASB meeting on communication principles,[9] we questioned whether we need further guidance on formatting in an IAS 1 replacement. This is mainly because the choice of formatting depends so heavily on the entity's individual facts and circumstances, and how they want to communicate their story, so it seems that guidance can never be more than

[9] Paragraph 15 of Agenda Paper 11A(b) of the October IASB meeting.

encouragement. On the other hand, what we have heard (see paragraphs 6–8 above), and the trend to include formatting guidance in recent Standards (see paragraphs 9-10 above) suggest that some guidance in IFRS would be helpful.

39. If guidance on formatting of information were to be included in IFRS, we think it could be provided in any, or a combination of, the following options:

(a) Option 1: high level guidance in a general disclosure Standard (eg IAS 1) based on the communication principle related to formatting (paragraphs 40-44);

(b) Option 2: further guidance in a general disclosure Standard (eg IAS 1), which prescribes specific formats to be used in particular circumstances unless another format is appropriate (paragraphs 45-48); and

(c) Option 3: educational material only (paragraphs 49-52).

Option 1: further high level guidance, which would be generally applicable

40. In this option the IASB would include a high level principle on the use of formats in disclosing information in the notes to the financial statements. The guidance would be applicable to all disclosures and not be restricted to any particular type of disclosure or Standard.

41. We think the communication principles developed in October's IASB meeting, specifically the one relating to formatting (see paragraph 14) would provide the basis for this principle. The question is whether this is sufficient by itself or whether it should be supplemented by more guidance.

42. This option may be considered for the following reasons:

(a) It will provide flexibility to the preparers in applying their judgements in selecting a particular format.

(b) The format of information communicated in financial statements generally depends upon the type, substance and complexity of the information that is presented or disclosed. A format that is suitable in one particular situation is not necessary suitable in other situations. For example, a tabular format may be suitable for disclosing allocation of goodwill when the allocation is made between more than one entity. In the case in which goodwill is allocated to a single entity, then the information may be displayed in a narrative format.

(c) In practice, it would be challenging to envisage all circumstances for which a particular format is appropriate. Operationally, the list of circumstances might need be revisited whenever there was a change in disclosure requirements or new Standards are formulated.

43. If this option is selected, then the educational material can include a list of formats together with descriptions of when their use is appropriate. This would be similar to the discussion in paragraph 48.

44. On the basis of our analysis and communication principles, we think further guidance for this option could be described as follows:

(a) The disclosures in notes to the financial statements should be presented using an appropriate format for the type of information being disclosed.

(b) For example, lists can be used to break up long narrative text, a tabular format is more appropriate for disclosing data-intensive information such as reconciliations, maturity analyses, disaggregated components of summary information etc.

Option 2: further prescriptive guidance

45. In addition to the general principle (see Option 1 above), guidance in a general disclosure Standard or specific Standards could require certain types of disclosures (eg a maturity analysis) to be disclosed in a particular format, unless another format is more appropriate. Such guidance would, in effect, create a default format for certain types of disclosures and would reflect the approach taken in some recent Standards (see paragraph 12).

46. The main advantage of this option is that it promotes comparability, because entities will default to disclosing information in specified formats in particular circumstances. The main disadvantage is that this option might discourage entities from using a more appropriate format to disclose information, thereby making communication of information less effective.

47. If this option is selected, we would need to develop a list of circumstances, and the required format for each of those circumstances, for discussion by the IASB at a future meeting.

48. On the basis of our analysis and communication principles, we think that further guidance under this option could be described as follows:

(a) The disclosures in notes to the financial statements for the particular circumstances mentioned in (b) below shall be provided in the format specified against each of those circumstances, unless another format is more appropriate.

(b) The particular circumstances and the specified formats are :

Format	Examples of circumstances
Table	Reconciliations Maturity analyses Disaggregations Sensitivity analyses Useful lives
Chart	Disaggregations
Text block	Qualitative information Explanations Policies

Option 3: educational material

49. We believe whichever option (1 or 2) is selected, providing educational material would be helpful for the preparers as well as for the staff of the IASB.

50. The educational material could include the following aspects, which are also discussed in this paper:

(a) when a particular format is appropriate;

(b) the benefits of selecting a particular format;

(c) key features of various formats; and

(d) examples of formats and circumstances.

51. We believe that detailed guidance on the aspects listed above is not appropriate for inclusion in a disclosure Standard and hence should be placed in educational material. As described in paragraph 15, it may be that the communication principles would be developed as educational material and would not form part of IFRS. In such a scenario, the guidance on formatting may become part of the communication principles' educational material.

52. The guidance in the educational material can also be used by the IASB and its staff in drafting future requirements on the formatting of information.

Staff Recommendation

53. On the basis of the staff analysis in paragraphs 14 to 52, the staff recommends that;

    (a) Further high level guidance, which would be generally applicable on the use of formats in disclosing information in the notes to the financial statements (ie option 1) should be provided by the IASB. This would enable the preparers to apply their judgement in selecting an appropriate format. Also, in practice it would be challenging to envisage all circumstances for which a particular format is appropriate.

    (b) In addition to (a) above, the IASB should develop educational material (ie option 3) that will provide further guidance on the benefits, usage, features and examples of formats discussed in this paper.

Questions
Does the IASB agree with the staff recommendations in paragraph 53?

Appendix A—Extracts from current IFRS on requirement to disclose in tabular format

IFRS 7—Financial Instruments: Disclosures

A1. Paragraph 13C:

> To meet the objective in paragraph 13B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A:
>
> (a) the gross amounts of those recognised financial assets and recognised financial liabilities;
>
> (b) the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position;
>
> (c) the net amounts presented in the statement of financial position;
>
> (d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:
>
> (i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and
>
> (ii) amounts related to financial collateral (including cash collateral); and
>
> (e) the net amount after deducting the amounts in (d) from the amounts in (c) above.
>
> The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

A2. Paragraph 24A:

> An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk

category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) the line item in the statement of financial position that includes the hedging instrument;

(c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

A3. Paragraph 24B:

An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

(iii) the line item in the statement of financial position that includes the hedged item;

(iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

(v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);

(ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and

(iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

A4. Paragraph 24C:

An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9); and

(ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;

(ii) hedge ineffectiveness recognised in profit or loss;

(iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;

(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see IAS 1); and

(vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of IFRS 9).

IFRS 12—Disclosure of Interests in Other Entities

A5. Paragraph 28:

> An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs B2–B6).

A6. Paragraph 29:

> An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
>
> (a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.
>
> (b) the line items in the statement of financial position in which those assets and liabilities are recognised.

(c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.

(d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

IFRS 13—Fair Value Measurement

A7. Paragraph 99:

> An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate.