STAFF PAPER

October 2014

REG IASB Meeting

Project	**Principles of disclosure**
Paper topic	The role of the primary financial statements and the notes

CONTACT(S)	Holger Obst	hobst@drsc.de	+49 30 2064 1229
	Kristy Robinson	krobinson@ifrs.org	+44 207 246 6933
	Alan Teixeira	ateixeira@ifrs.org	+44 207 246 6442

Purpose of the paper

1. This paper has two purposes. The first purpose is to obtain the preliminary views of IASB members on whether financial statements excluding the notes serve a role and if so how that role should be described. Relatedly, we are seeking your preliminary views on how we should describe the role of the notes to the financial statements. Together the financial statements and the notes form a complete set of financial statements.

2. The views of the IASB will be included in the *Principles of Disclosure* Discussion Paper, and will be presented within the context of reviewing the general guidance and requirements in IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and considering how they might be revised.

3. The second purpose is to seek your initial thoughts on ways to overcome confusion that we are told is created by some terminology in our standards. In particular, the term **financial statements** can have two meanings; and **present** and **disclose** are sometimes used to mean different things and sometimes to mean the same thing. Some terms that we do not use in our Standards have emerged in practice to address some of the confusion—**primary financial statements** and **on the face**.

Conceptual Framework project - recap

4. As part of the revision of the *Conceptual Framework* the IASB has decided to add a new chapter regarding presentation and disclosure. In July 2014 the IASB made the following tentative decisions that the staff think are relevant to this paper, namely that the *Conceptual Framework* Exposure Draft should:

   (a) state 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.

   (b) discuss disclosures that the IASB would normally consider requiring in setting Standards, namely:

      (i) the reporting entity as a whole;

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

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

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

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

   (c) retain the discussion of disclosure of risks and forward-looking information proposed in the *Conceptual Framework* Discussion Paper; in particular:

      (i) the IASB would normally consider requiring disclosures about the nature and extent of risks arising from the entity's assets and liabilities; and

(ii) the IASB should require forward-looking information to be included in the notes to the financial statements only if it provides relevant information about the assets and liabilities that existed at the end of, or during, the reporting period.

General Purpose Financial Reports

5. The objective of general purpose financial reporting is 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.[1]

6. A complete set of financial statements is clearly part of a general purpose financial report. When the IASB developed its *Management Commentary* Practice Statement it concluded that Management Commentary was clearly within the boundary of a general purpose financial report. There might be additional information that could be within the boundary of a general purpose financial report, but the IASB has not considered what that information might be.

7. IFRS set out recognition, measurement presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial *statements* (emphasis added).[2] The *Management Commentary* Practice Statement applies to Management Commentary within a general purpose financial report. An entity does not need to prepare a Management Commentary or comply with the *Management Commentary* Practice Statement to be able to assert compliance with IFRS.

8. The figure that follows illustrates the components of a financial report and the IASB promulgations that relate to the parts.

---

[1] OB2, *Conceptual Framework.*

[2] Paragraph 8, Preface to IFRSs.

Financial Report			
Complete set of Financial Statements		**Management Commentary**	**Other Information**
Statements of: **Financial position** **Profit or loss and other comprehensive income,** **Changes in equity** **Cash flows**	**Notes**		
IFRS		*Management Commentary* Practice Statement	

9. The ‘boundaries’ between the components, and on the far right hand side, are deliberately grey. They are not rigid or even clearly articulated. Even IFRS blurs the lines, suggesting in IFRS 7 *Financial Instruments: Disclosures* that some risk information could be disclosed in the notes or in Management Commentary.[3]

10. The purpose of this paper is to identify ways to describe the main roles or attributes of these components that will help the IASB and preparers to determine the best place to present or disclose information. The discussion focuses mainly on whether information is best presented in one of the financial statements or in the notes. There is some discussion about whether information might be best presented in management commentary rather than the notes. Those are the only two ‘boundaries’ that are of interest in this paper.

11. We also emphasise that when we say ‘boundaries’ we are not trying to create silos or draw bright lines. We are trying to find the best way to describe how information could be organised to best achieve the objective of general purpose financial reporting. We discuss some communication principles that might help in this regard, once a preparer has decided where the information should be placed in Agenda Paper 11A(b).

---

[3] Paragraphs 21B and B6 of IFRS 7

Complete set of financial statements

12. A complete set of financial statements can be broadly described as being composed of two parts:[4]

    (a) statements of financial position; profit or loss and other comprehensive income; changes in equity; and cash flows;[5] and

    (b) notes.

13. As we discuss later in this paper, there might be advantages, or disadvantages, in having a term to describe the collective set of all four statements. For the purposes of this paper, we refer to the parts as the 'Statements' and the 'Accompanying notes'.

14. A basic question is whether the Statements and the Accompanying notes have different roles in meeting the overall objective of financial statements. It is clear that some users perceive information presented in the Statements differently from information disclosed in the Accompanying notes. For example, the CFA Institute in their response to the Exposure Draft *Disclosure Initiative: Proposed Amendments to IAS 1* stated:

> "Furthermore, presentation of information on the face of the financial statements is preferable to its inclusion in the notes as we find information on the face of the financials garners greater attention by users of financial statements more so than does disclosures and we believe such information is better audited."[6]

---

[4] IAS 1.10.

[5] The *Conceptual Framework* Discussion Paper proposed introducing the term 'primary financial statements' to refer to this collective set. The IASB decided in July 2014 not to use this term in the planned Exposure Draft. This issue is discussed later in the paper.

[6] See Page 7, http://www.ifrs.org/Current-Projects/IASB-Projects/Amendments-to-IAS-1/ED-March-2014/Pages/Comment-letters.aspx

The roles of the *Statements* and the *Accompanying notes*[7]

15. At a very basic level, it seems clear that many preparers and users look at information in the Statements and the Accompanying notes differently. For a long time, standard-setters, including the IASB, have debated whether to specify what information must be presented in the Statements. In other words, people seem to care.

16. This is also supported by research that suggests that people process information differently. At the IASB Research Forum in September, Anthony Hopkins asked:

> Why are we so late to acknowledge the importance of intelligently designing displays? "Human Factors" research has been doing this for decades and has led to substantive advances design of critical systems like nuclear-systems control panels, airline cockpit control panels, etc.[8]

17. Hopkins cites evidence of differential responses to different formats and the importance of summary information. A significant portion of investors who read financial statements read only the statement of financial position and the statement of comprehensive income and do not read the notes. This is not just a paper-based phenomenon. Considerable effort goes into designing landing screens with summary data on information services—summaries seem to serve a purpose.

18. As a standard-setter the IASB has also spent considerable time debating whether information should be presented in one of the statement of financial position or the statement of comprehensive income rather than the Accompanying notes.

19. We cannot escape from the observation that preparers, users of financial statements and standard-setters do seem to care about which line items are displayed in the Statements. This suggests that the Statements and the

[7] The terms 'purpose' and 'objective' are often used interchangeably in IFRSs and the Conceptual Framework. We take them to mean the same thing. For the purposes of this paper we use the term 'role' to reflect the functional perspective of the objective, ie how the notes and primary financial statements contribute to the overall objective of financial statements.

[8] *Reporting Format Effects and the IASB Conceptual Framework*, Hopkins (2014).

Accompanying notes have different roles. In other words, the Statements can be used in isolation to achieve some purpose.

Purpose of the Statements

20. We have discussed this issue with different constituent groups, including ASAF, to assess their perceptions of the role of the Statements. The most commonly expressed views were:

    (a) The role of the Statements is to provide a structured summary or index of an entity's financial position, financial performance and cash flows, ie one-page statements, with the benefit of being comparable across entities.

    (b) Information in the Statements is given more weight by users of financial statements than information in the Accompanying notes, and therefore could be perceived as more important. Alternatively, the Statements may not necessarily be more important as such, but they receive more attention because most of the information in those statements is already disclosed in press releases or through other more timely reporting mechanisms. The complete set of financial statements is disclosed in a less timely manner and therefore receives less attention from users of financial statements.

    (c) The Statements' main purpose is to include recognised monetary amounts while the Accompanying notes also include qualitative disclosures, ie in the form of text.

    (d) The Statements are used on a stand-alone basis (ie without the Accompanying notes) as a snapshot of the entity's financial position, financial performance and cash flows.

21. We have reservations about some of the views listed above. In particular, we are not convinced that the Statements should be considered to be more important than

the notes. We think that the Statements and Accompanying notes must be viewed together to meet the objective of general purpose financial reporting. For example, information about the basis of preparation, which is typically disclosed only in the Accompanying notes, would seem to be essential information. Similarly, important information about the uncertainty of future cash flows is included in the Accompanying notes, eg disclosures about risk arising from specific line items or risk adjustments that are included in measurement of assets and liabilities.

22. A separate role for the Statements does not have to be a more important role. We prefer to think of these statements as providing structured and comparable summary information about an entity's recognised assets, liabilities, equity, income and expenses. Their role could be expressed by saying that the Statements should provide a user of the financial statements with an overview of the financial position and performance that helps the user identify areas of particular interest within the complete set of financial statements and to compare, at a basic level, the summary information with that of other entities.

23. In a data-aggregation environment, the equivalent is to say that the landing screen should be set out in a way that ensures that the user has enough information to know when to dig a little further into the data for a specific company or to be able to make a rudimentary comparison between companies.

24. In our discussions, some staff have suggested that we do not need a separate purpose for the Statements because good communication principles are sufficient to guide the preparation of the Statements. We think that you need an objective or role for the Statements to determine what to communicate.

Purpose of the Accompanying notes

25. IAS 1 provides a definition of the notes:

> Notes contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and

> other comprehensive income, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements. (paragraph 7 of IAS 1)

26. A split of the nature of the notes into accounting policy disclosures and other notes is indicated in paragraph 10 of IAS 1:

> A complete set of financial statements comprises:
>
> (a) statement of financial position as at the end of the period;
>
> (b) a statement of comprehensive income for the period;
>
> (c) a statement of changes in equity for the period;
>
> (d) a statement of cash flows for the period;
>
> (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
>
> (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

27. Furthermore, paragraph 112 of IAS 1 states that the notes shall:

> (a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;
>
> (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
>
> (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

28. Guidance for the distinction between items to be presented in Statements or the Accompanying notes is given in paragraph 30 of IAS 1:

> Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the

> notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate ~~presentation~~ disclosure [proposed change in ED/2014/1] in the notes.

Work undertaken by others

29. Several standard-setters have considered the role of the Accompanying notes. Rather than undertaking research from a blank sheet of paper, we have benefitted from the work undertaken by others.

EFRAG, FRC, and ANC

30. EFRAG, FRC, and ANC published a Discussion Paper *Towards a Disclosure Framework of the Notes*. A main part of the discussion focused on the need for a definition of the purpose of the Accompanying notes, to clarify what role the notes should play in a complete set of financial statements (see Appendix A). The Discussion Paper stated:

> The purpose of the notes is to provide a relevant description of the items presented in the primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date.

31. On the basis of that definition the Discussion Paper developed the following categories of information:

    (a) Aggregation/disaggregation of line items;

    (b) Information about what the line item is;

    (c) Information about how the item fits into the entity's operations and finance structure; and

    (d) Information about how the line item has been accounted for.

32. We understand that one reason for providing the definition of the purpose of the Accompanying notes was to provide greater clarity on whether useful information should be disclosed in those notes (ie as part of the financial statements) or disclosed in other parts of the reporting package. From the definition EFRAG,

FRC and ANC derived the conclusion in the Discussion Paper that—compared to current disclosures required in IFRS—some forms of risk disclosures, some forms of related party disclosures (primarily serving the stewardship purpose), and disclosures of non-adjusting events after the reporting date should not be part of the Accompanying notes. Furthermore, the definition implies a question over whether disclosures about the reporting entity and regulatory environment should be part of the Accompanying notes. However, in the feedback statement published by EFRAG, FRC, and ANC in response to the Discussion Paper, it was indicated that there was no broad consensus among constituents for excluding these disclosures from the Accompanying notes.

FASB

33. More recently the FASB published the Exposure Draft *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements* (hereafter referred to as the 'FASB ED'). The FASB ED describes, at a high level, the purpose of the notes to financial statements and the types of information that would be considered appropriate, or not appropriate, for inclusion in the notes (see Appendix A). According to the proposals in the FASB ED, the primary purpose of the notes is to supplement or further explain the information on the face of the financial statements by providing information that serves the general purpose of financial statements. In other words, the notes provide financial information that is relevant to existing and potential investors, lenders, and other creditors for making decisions about providing resources to the entity.

34. The content of the notes is expressed in the FASB ED through three general types of information to be included in notes to financial statements:

    (a) additional information about line items;

    (b) information about the reporting entity; and

    (c) information about other past events and current conditions and circumstances that can affect an entity's cash flows.

35. Regarding the scope of the Accompanying notes, the most important differences between the FASB ED and the Discussion Paper from EFRAG, FRC, and ANC relates to the information that is often described as 'risk disclosures' and that is not necessarily linked with financial statement line items. For example, paragraph D57 of the FASB ED highlights some current conditions and circumstances that do not necessarily affect line items but that are candidates for disclosure:

    (a) dependency of the entity for its continued profitability (or existence) on one or a few customers or suppliers;

    (b) volatility or other uncertainty in volumes or prices in the markets for the entity's inputs or outputs that would have a significant effect on the entity's future cash flows;

    (c) uncertainty over an entity's access to the markets for its inputs or outputs (and whether resolution of the uncertainty would result in increased or decreased access); and

    (d) uncertainty about an entity's ability to maintain a qualified work force and suitable physical facilities.

36. In a note prepared by the EFRAG Secretariat for the ASAF meeting in September. it is indicated that the disclosure candidates list in paragraph 35 above would probably fall outside the proposed definition of the purpose of the notes in the Discussion Paper from EFRAG, FRC, and ANC.[9]

Other approaches to categorisation

37. Many other publications reflect the different types of information in the Accompanying notes through categorisation. For example, to make it easier to assess materiality in relation to disclosures in the Accompanying notes, the

[9] http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2014/September/04A-Appendix-EFRAG-paper-notes-financial-statements.pdf

Danish Securities Council has chosen to divide those notes into the following categories[10]:

(a) accounting policies;

(b) explanatory notes relating to financial statement items;

(c) explanatory notes providing an alternative measurement option;

(d) risk notes; and

(e) control notes relating to the exercise of stewardship.

38. Another example of categorisation of Accompanying notes can be found in the recent activities undertaken by the IAASB to revise the International Standards on Auditing within the context of disclosures, which we have included in Appendix A.

FRC

39. The FRC published an additional Discussion Paper *Thinking about disclosures in a broader context —A road map for a disclosure framework*. The FRC work differs from the other standard-setter work because it takes a broader look at the Accompanying notes and their relationship to the Statements that they support. The Discussion Paper refers to different objectives of the "primary financial statements" and the notes as part of the financial statements.[11] The objectives for both are described as follows:

> The objective of primary financial statements is to present an entity's financial position, performance and development in accordance with GAAP on a comparable basis.
>
> The objective of the notes is to amplify and explain the financial statements.

[10] https://www.finanstilsynet.dk/Regelgrundlag/Vejledninger/~/media/Fondsraadet/2009/DanishSecuritiesCouncilMateriality.ashx

[11] The term "primary financial statements" is used in the FRC paper. We discuss this later in this paper.

40. The "primary financial statements" are considered to be the statement of financial position, statement of profit or loss and other comprehensive income and the statement of cash flows.

41. The disclosure in the notes would comprise:

    (a) *disaggregation* of amounts in the primary financial statements;

    (b) *explanatory material* regarding recognition and measurement of items in the primary financial statements and linkage between financial statements;

    (c) *unrecognised amounts*, including information about those items that are not currently recognised but may be in future as they impact future cash flows; and

    (d) disclosures about *risks and uncertainties* regarding factors that could adversely affect amounts in the primary financial statements and information about key assumptions and uncertainties.

Our analysis

42. We think that there is a common view among constituents that the role of the Accompanying notes is to provide **further** explanation of information presented in the Statements.

43. In particular, information about the basis of preparation, including information about the selection and application of accounting policies and information about estimates within the context of the (de)recognition and (subsequent) measurement process, are relevant for understanding how an entity's assets, liabilities, equity, income and expenses are reflected in the Statements. Similarly, explanatory information relating to the reporting entity and the group structure is relevant for understanding the depiction of the financial position, financial performance and cash flows in the Statements.

44. Furthermore we think there is also a shared view that the Accompanying notes should include supplementary information that is necessary to understand in more detail the assets, liabilities, equity, revenues and expenses. The supplementary information might vary in nature. For example, disclosures in the Accompanying notes could supplement the Statements by providing:

    (a) additional disaggregation and reconciliation of line items;

    (b) information about unrecognised assets and liabilities;

    (c) information about risk and other uncertainties;

    (d) alternative measurement bases; or

    (e) relevant information for specific line items (eg turnover ratio of trade receivables or restrictions on cash and cash and cash equivalents, maturity analysis, related risk disclosures).

45. We think the description of the role of the Accompanying notes is consistent with the tentative decisions in the *Conceptual Framework* project.

Explanatory and supplementary information

46. We think that a general distinction between **explanatory** information and **supplementary** information in particular Standards would already be helpful, to provide a better context of specific disclosure requirements. Our assessment is that all of the requirements in the disclosure chapter of our Standards can be divided into these categories and provide a basis for developing more specific disclosure objectives and more consistent disclosure requirements across different Standards.

47. We would define the objectives as follows:

> The **objective** of explanatory information is to provide users with relevant information about how the entity applies IFRS to recognise and measure transactions, events and circumstances in the Statements. In other words, explanatory information should be mainly considered as relevant information for an understanding of the recognition and measurements process of

> the entity, ie information about the financial accounting of the entity.
>
> The objective of **supplementary** information in the Accompanying notes is to provide additional disclosures that amplify the Statements with more information about the entity's financial position, financial performance and cash flows that is relevant to users of financial statements, or that reflects attributes that are not captured by recognition and measurement, such as whether an asset is secured or for which alternative measurement disclosures are appropriate.

Should information be excluded from the Accompanying notes?

48. We stated at the beginning of this paper that thinking about boundaries between the components of a general purpose financial report was not designed to prohibit some information be being placed in a particular part of a report or to pigeon-hole information.

49. In contrast, the EFRAG, FRC, and ANC work and FASB work did have this in mind. They questioned whether some information belongs in a complete set of financial statements. We think the placement of information in or outside a complete set of financial statements needs a less rigid approach.

50. The EFRAG, FRC, and ANC analysis suggested that information about non-adjusting events after the reporting date would not be disclosed.. However they thought this information was important. We agree, and think that any categorisation system that excluded such information would be flawed. We should have guiding principles that make us think about whether the information is necessary and where it might best be presented. Our interpretation of post-balance date events is that they typically provide information about an entity's assets, liabilities or equity but for the period beyond the reporting period. This information is supplementary because it updates the information in the Statements.

51. The other example is the risk management disclosures required by IFRS 7. As we stated earlier, the IASB acknowledges that the information might be disclosed in

the Accompanying notes or in Management Commentary. What is important is that the IASB has determined that this information is relevant to meet the objective of general purpose financial reporting and is related to recognised assets and liabilities. We think that all explanatory information will be clearly placed in the Accompanying notes. However, it is only when we consider supplementary information that the placement in the Accompanying notes or Management Commentary becomes an issue.

52. We have also borne in mind that the distinction between explanatory information and supplementary information could be helpful to clarify the limits of incorporating information by cross-referencing to some other statements. The FRC Report also suggests that better organisation of disclosures will make financial reports easier to navigate, because information that fulfils a particular set of objectives will be positioned within the same section of a financial report.[12]

Questions: Role of the primary financial statements and the notes
Role of the Financial Statements (excluding the notes) We recommend that the Discussion Paper clarify the respective roles of the set of statements of financial position, comprehensive income, changes in equity and cash flows and the role of the notes. Do you agree? If you agree, do you also agree that the role of a financial statement should be described as providing structured and comparable summary about an entity’s recognised assets, liabilities, equity, income and expenses. If not, how would you describe the role of a financial statement?

[12] Page 20 of the FRC Discussion Paper *Thinking about disclosures in a broader context,* Oct 2012.

Role of the notes

Do you agree with the staff recommendation that the role of the notes is to further explain or supplement the information in a financial statement?[13] If not, how would you describe the role of the notes?

If so, do you think distinguishing between explanatory information and supplementary information is helpful (paragraphs 46-47)?

Terminology

53. There is a circularity in references to financial statements. IAS 1 refers to *general purpose financial statements*, and abbreviates this to *financial statements*. IAS 1 goes on to discuss financial statements generally with the meaning that they are the statements of financial position, comprehensive income, changes in equity and cash flows **and** the notes and comparative information.

54. At other times in IAS 1 the term financial statements is intended to mean **only** one of the statements of financial position, comprehensive income, changes in equity or cash flows. For example, paragraph 48 of IAS 1 states:

> This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other IFRSs. Unless specified to the contrary elsewhere in this Standard or in another IFRS, such disclosures may be made in the financial statements.

55. It is not clear whether paragraph 48 of IAS 1 is referring to one or all of one of the statements of financial position, comprehensive income, changes in equity or cash flows, a complete set of financial statements, or both. We had the same difficulty writing this paper, which is why we introduced special terms to help make the distinction clearer.

[13] A note might support more than one financial statement. This wording is intended to cover situations where a note might provide additional information about items in the Statement of Financial Position and the Statement of Financial Performance.

56. In addition, IAS 1 does not define what ‘present’ means and how this differs from ‘disclose’. Most Standards, generally, use the term **present** (or **presentation**) to mean that the information must be shown in one of the statements of financial position, comprehensive income, changes in equity or cash flows and **disclose** to mean it appears in the notes. We say ‘generally’ because our Standards are not consistent. Inconsistent use of the terms ‘present’ and ‘disclose’ was highlighted by respondents to the Exposure Draft (ED/2014/1) *Disclosure Initiative: Amendments to IAS 1* (see Agenda Paper 11B(a) to this meeting).

Primary Financial Statements and ‘on the face’

57. We have no doubt that it would be helpful to have a term that distinguishes one or more of the statements of financial position, comprehensive income, changes in equity and cash flows from a complete set of financial statements that includes the notes. We know that other bodies have the same issue. In its discussion paper the FRC refers to *primary financial statements* (see paragraph 39 above). In its comment letter to the IASB the CFA Institute referred to information *on the face* (see paragraph 14 above).

58. The *Conceptual Framework* Discussion paper defined the term *primary financial statements* as the statement of financial position, statement(s) of profit or loss and other comprehensive income, statement of cash flows, and the statement of changes in equity. However, in July the IASB decided not to use the term primary financial statements in the proposed Exposure Draft of the *Conceptual Framework*.

59. That decision does not prevent the IASB using that, or another, collective term at a Standards-level. During the discussions there was no clear agreement about which Statements should be considered as *primary*. We agree that introducing the term in the *Conceptual Framework* would require the IASB deciding at that level which Statements are, presumably, always required to be presented. We think that is a Standards-level issue.

60. Although the drafting of the Exposure Draft is at an early stage, it is likely that in describing financial position and financial performance the ED will refer to the statement of financial position and the statement of comprehensive income. However, it is not likely that any reference will be made to other statements, such as the statements of cash flows or changes in equity.

61. Our assessment is that a statement of financial position and a statement of comprehensive income will always be the ‘primary’ summaries of position and performance. However, we suspect, from the debate in July, that some IASB members do not consider the statements of cash flows and changes in equity to be primary statements. Others do. Our initial thinking is that whether a particular Statement is ‘primary’ or necessary to understanding an entity might depend on the nature of that entity—for example, perhaps a statement of cash flows is not a primary financial statement for a financial institution.

62. When we discussed this issue with ASAF at the meeting in September, most members indicated that they are not concerned about using the term ‘primary financial statements’ at a Standards-level. Those members that did raise concerns referred to difficulties regarding translation and a potential risk of misunderstanding the term ‘primary’. Some were of the view that the term ‘primary’ incorrectly implied that the information in those statements was more important that the information in the notes. Although we think that the collective term ‘primary financial statements’ is broadly understood we also understand the presumptions and implications that go with such a label.

Present or disclose

63. In a similar nature, we think that linking the term ‘presentation’ to the circumstances in which the information is disclosed in the primary financial statements is confusing to some constituents; mostly because it is not the natural way of using the term ‘presentation’ within the context of financial reporting.

64. Additionally, our outreach has confirmed that the words present and disclose translate into the same word in some languages. The feedback on the proposed amendments to IAS 1 shows that constituents want us to make the 'disclosure' requirements as clear as possible.

Question for the IASB: Terminology

We plan to develop terms that make it clearer when we are referring to a Statement such as the statement of financial position as opposed to the complete set of statements including the notes. Additionally, we think it would be helpful to avoid using the terms present and disclose to differentiate between where information is displayed.

Do you have any feedback for the staff before we undertake additional work on this topic?

Appendix A—summary of recent work by other standard-setters

EFRAG, FRC, and ANC Discussion Paper *Towards a Disclosure Framework for the Notes*

A1. Purpose and content of the notes

1. The purpose of the notes is to provide a relevant description of the items presented in the primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date.
2. Consequently:
   (a) The disclosures in the notes should provide information which amplifies and explains the primary financial statements;
   (b) The notes should focus on past transactions and other events existing at the reporting date; information about the future that is unrelated to those past transactions and other events, is not provided in the notes; and
   (c) Information in the notes should be entity-specific.
3. As a complement to reported numbers showing the entity's financial situation and performance in the balance sheet and profit and loss, notes should provide information such as, but not limited to, (a) assumptions and judgements that are built into the reported numbers of items in the balance sheet and profit and loss; (b) information on risks that may affect these reported numbers; and (c) alternative measurements where this information would be relevant.
4. It is necessary to consider the implications of recognition and measurement attributes on the disclosure requirements so that, ultimately, the usefulness of information is assessed as a whole. In particular, the more uncertainty affects the amounts in the primary statements, the more disclosures are usually needed

FASB Exposure Draft *Conceptual Framework* for Financial Reporting - Chapter 8: Notes to Financial Statements

A2. Notes to Financial Statements

S2. The primary purpose of notes to financial statements is to supplement or further explain the information on the face of financial statements by providing financial information relevant to existing and potential investors, lenders, and other creditors for making decisions about providing resources to the entity.

S3. Decisions about whether to provide resources depend, at least in part, on resource providers' assessments of cash flows that they ultimately would receive. Financial statements provide information that does both of the following:

a. Assists resource providers in the assessments of prospects for net cash inflows to the reporting entity, which are based on the resources of and claims against the entity and the efficiency and effectiveness of the entity's management and governing board in discharging their responsibilities.

b. Explains the nature of the specific investment or credit instrument, the rights to cash flows that the entity conveys to its holder, and its relationship to other claims against the entity.

S4. To help make the decisions in the previous paragraph, the notes should contain information about the following matters:

a. Financial statement line items

b. The reporting entity

c. Past events and current conditions and circumstances that have not met the criteria for recognition that can affect an entity's cash flows.

S5. The following information might be suitable for the purposes described in paragraph S3, but generally should not be required by the Board in the notes:

a. Assumptions and expectations about uncertain future events that are not reflected in financial statements

b. Information about matters that are not specific to the entity and are common knowledge or readily and cost effectively available from other sources as long as a knowledgeable resource provider should be aware of the need for the information and its availability.

A3. Basis for Conclusion - Purpose and Boundary of the Notes

BC3. The 2012 Invitation to Comment stated that the decision questions created a de facto boundary for the notes. Many respondents to that Invitation to Comment said that the decision questions alone were not adequate to describe the purpose or create a boundary for notes to financial statements. Therefore, paragraphs S2–S5 were added to this chapter to describe, at a high level, the purpose of notes to financial statements and the types of information that would be considered appropriate and not appropriate for inclusion in the notes.

IAASB - Addressing Disclosures in the Audit of Financial Statements - [Preliminary] Staff Publication

Financial Reporting Disclosure Trends

A4. […] Today, disclosures in the financial statements may include:

Significant accounting policies—Descriptions of the accounting policies adopted by the entity, relevant to understanding the line items on the face of the financial statements, including the basis of measurement used in preparing the financial statements.

Components of line items—Such as breakdowns of line items into smaller categories or reconciliations.

Judgments and reasons—Nature of judgments made in the process of applying accounting policies, and management decisions and the rationale supporting them. Examples include how an entity distinguishes investment properties from owner-occupied properties and from property held for sale in the ordinary course of business. This category may also include disclosures about why an entity's ownership interest constitutes control in respect of an investee where less than half of its voting rights or potential voting rights are owned directly or indirectly.

Models, including assumptions and inputs—May include disclosures of information relevant to the calculation of items in the financial statements, such as possible ranges of values. This may also include forward-looking information, to the extent that it is used to support amounts recognized in the balance sheet, such as discount rates, effective interest rates and growth rates used in impairment testing.

Financial exposure to risks and uncertainties arising from recognized and unrecognized resources and obligations—Disclosures to enable users to understand the underlying measurement variability or estimation uncertainty of an item in the financial statements, such as a sensitivity analysis. An example of a disclosure about exposure to risks is value-at-risk disclosures.

Material uncertainties in relation to the entity’s ability to continue as a going concern—Disclosures about material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

Related party disclosures—Descriptions of related party relationships and amounts of transactions, including key management compensation.

Unrecognized assets and unrecognized liabilities—Disclosures about assets or liabilities that do not meet the criteria for recognition in the financial statements, but that are useful for the users of the financial statements.

Pro forma financial information—Disclosures may be required relating to business combinations that have occurred after the balance sheet date but before the financial statements are issued.

Appendix B — non-exhaustive list of specific disclosure requirements regarding the presentation or disclosure of line items

IFRS 5 paragraph 38:

> An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

IFRS 7 paragraph 8:

> The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:
>
> (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9 and (ii) those mandatorily measured at fair value through profit or loss in accordance with IFRS 9.
>
> (b)–(d) [deleted]
>
> (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9 and (ii) those that meet the definition of held for trading in IFRS 9.
>
> (f) financial assets measured at amortised cost.
>
> (g) financial liabilities measured at amortised cost.
>
> (h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9; and (ii) investments in equity

instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of IFRS 9.

IFRS 7 paragraph 24C 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).

IAS 19 paragraph 134:

Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss[G]. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IAS 1.

IAS 24 paragraph 20:

The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in IAS 1 *Presentation of Financial Statements* for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

IFRIC Interpretation 17 paragraph 11:

An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.

IFRIC Interpretation 19 paragraph 11:

An entity shall disclose a gain or loss recognised in accordance with paragraphs 9 and 10 as a separate line item in profit or loss or in the notes.