International Financial Reporting Standards

Role of the financial statements excluding the notes

Principles of Disclosure Project

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

Agenda

- Purpose of the discussion
- Background
- The problems
- Materiality
- Terminology
- What is the set of Statements?
- Questions

Purpose of the discussion

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To seek your views on:

- the purpose of financial statements excluding the notes (referred to as ‘Statements’);
- implications of being part of the Statements, including who should decide what the set of Statements is;
- what the set of Statements is; and
- terminology.

Background

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ASAF discussion in September 2014

Some of the views expressed by ASAF members included:

- the notes and the [primary] financial statements should have different purposes, because the [primary] financial statements show summarised and prominent information;
- the usefulness of information should be considered as a whole, and there should be no difference in importance for either the [primary] financial statements or the notes; and
- it was suggested that having ‘primary financial statements’ as a term was not necessary.

IASB discussion in October 2014

- The staff discussed preliminary views with the IASB on the role of financial statements excluding the notes.
- The discussion included:
  - general agreement that the financial statements excluding the notes and the notes have distinct roles;
  - cautious on introducing new terms;
  - information in the notes does not carry the same visibility as information on the face of the financial statements; and
  - the term ‘primary statements’ is generally well understood.

Conceptual Framework

Tentative decisions in the *Conceptual Framework* discussion include:

- not to introduce the notion of primary financial statements in the *Conceptual Framework*;
- the objective of financial statements, which is to provide information about an entity's assets, liabilities, equity, income and expenses….; and
- should not define elements for the statement of changes in equity and the statement of cash flows.

Current IFRS

Based on paragraph10(a)–(d) of IAS 1 *Presentation of Financial Statements*, the following are specified as the Statements:

- statement of financial position;
- statement of profit or loss and other comprehensive income;
- statement of changes in equity; and
- statement of cash flows.

The problems

What are the problems?

- Materiality – what makes the information important enough to be displayed ‘on the face’ or ‘in the notes’.
- Terminology – inconsistent use of terms causes confusion applying IFRS, particularly IAS 1, for example:
  - financial statements vs complete set of financial statements; and
  - ‘present’ vs ‘disclose’.
- What is the **set** of Statements?
  - Some disagree about what individual statements form the Statements.
  - For example, there are differing views on whether or not the statement of cash flows should be part of the **set** of Statements.

Addressing the problems

Problem	Possible response
Materiality	Provide guidance in a disclosure Standard about the purpose of the Statements and the implications of being part of the **set** of Statements.
Terminology	Provide distinct terminology to describe the Statements specified in IFRS (see slide 18).
What is the set of Statements?	Should we retain the current **set** of Statements specified in IAS 1 or reassess?

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Materiality

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The Statements–materiality

- The key to a materiality decision in this context is understanding the role of the Statements and the implications of being part of the Statements.
- We think that better guidance about how materiality applies to the Statements will help decisions about:
  - whether to display something on the face or in the notes; and
  - whether the disclosure of an individual Statement is necessary. For example, do you always have to disclose a statement of cash flows?
- As part of the Disclosure Initiative project, the IASB is working on a materiality Practice Statement to help with the application of materiality.

Role of the Statements

From our discussions so far we think that:

- the Statements are a structured and comparable summary of information about an entity's recognised assets, liabilities, equity, income and expenses; and
- their role in meeting the objective of financial statements is to provide information that is necessary to give an overview of the financial position and performance of an entity that is useful for:
  - obtaining essential information about the assets, liabilities, equity, income and expenses;
  - making rudimentary comparisions between entities; and/or
  - identifying areas of particular interest within a complete set of financial statements for which an investor could necessarily expect to find additional information in the notes.

Implications of being a Statement

- Presented before the notes to give an overview – information in the Statements is given greater visibility due to the order of presentation.
- Presumption that each statement in the **set** of Statements must be provided in a complete set of financial statements.
- Each Statement is separately identified and presented within a complete set of financial statements.
- Different materiality context is applied to the information in the Statements than in the notes (ie derived from the purpose).
- For comparability, the individual statements that make up the set of Statements is specified in IFRS, ie it is an IASB-only decision.

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Terminology

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The Statements–terminology

- Do we need a descriptor for the **set** of Statements? For example:
  - a neutral term such as ‘set of Statements’; or
  - primary financial statements.
- Do we need descriptors to differentiate where to disclose information? For example, using:
  - present for displaying on the face; and
  - disclose for displaying in the notes.

A descriptor for the set of Statements

- We think that ‘primary financial statements’ is the most appropriate term to describe the set of Statements, because the term is well understood and commonly used.
- However, we know that the term is evocative because it may imply a level of superiority.
- We think that explaining the implications of using the term would help to clarify its intended meaning.

Descriptors for where to disclose

- IFRS uses the terms present and disclose in different ways, for example:
  - sometimes present refers to disclosure as a line item, subtotal or total on the face of a financial statement;
  - other times present refers to how something is disclosed, for example in a table;
  - sometimes disclose refers to display in the notes; and
  - other times disclose means providing information anywhere in the financial statements.

Descriptors for where to disclose cont.

The staff's view:

- the terms present and disclose are generally used. Using them to indicate location in a complete set of financial statements is imposing a meaning that is not otherwise evident.
- a distinction is not necessary if the location is identified, ie disclosure in the [primary] financial statements, disclosure in the notes.

Alternatives:

- use the term present in the context of items that are recognised elements in the financial statements and use disclose in other cases;
- use present in the context of the Statements and disclose in the notes;
- use the term present when displaying quantitative information and disclose in other cases.

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What is the set of Statements?

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What is the set of Statements?

- Some think that the current guidance in IFRS, which specifies what the Statements are, is not broken and we should not revisit it.
- Those with this view think that the problems with materiality and terminology (see slide 12) can be fixed without needing to reassess what individual statements make up the set of Statements, ie:
  - provide terminology to describe this set, which is distinct from 'Financial Statements' (for example, primary financial statements); and
  - develop further guidance in IAS 1 (or equivalent):
    - on the role of the Statements based on slide 15; and
    - implications of being part of the Statements (see slide 16).

What is the set of Statements? cont.

- Others think that the IASB should build on its work to develop additional guidance on the role of the Statements and introduce new terminology by:
  - describing criteria, in IAS 1 (or equivalent), that could be used to determine when a particular statement should be included in the **set** of Statements. This would be based on the role of the Statements (see slide 15).
  - reassessing the current set of Statements (see slide 9) based on the criteria as mentioned in the bullet above.

Questions

Questions

1. Do you agree with:
   (a) the role of the Statements as described in slide 15 and
   (b) the implications of being part of the Statements as described in slide 16, including who should decide what the **set** of Statements is?
2. Do you agree with describing the Statements as 'primary financial statements' (see slide 19)?
3. Do you agree with the staff 's view on descriptors for where to disclose information (see slide 21)? Are there any other appropriate alternatives that we could consider?
4. Do you agree that the statements specifed in IAS 1 make a **set** of Statements and we should provide a term and further guidance (see slide 23)?
5. Do you think it is necessary to perform further work by describing criteria and reassessing the current set of Statements (see slide 24)?