STAFF PAPER

May 2015

IASB Meeting

Project	**Principles of Disclosure**
Paper topic	Presentation on the face or in the notes?

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Purpose of the Paper

1. This paper asks the IASB to discuss whether the *Principles of Disclosure* Discussion Paper should seek views on whether a general disclosure Standard should:
   (a) require some specified line items to be presented in the primary financial statements; and
   (b) should include disclosure requirements that give entities an 'option' to present information either in the primary financial statements or in the notes.

Layout of Paper

2. The paper is structured as follows:
   (a) Background (paragraph 3)
   (b) Defining the issue (paragraph 7)
   (c) Staff analysis (paragraph 10)
   (d) Possible responses (paragraph 22)
   (e) Staff recommendation (paragraph 29).

Background

3. This paper seeks to address an issue that has emerged through the staff's work on the Principles of Disclosure project.

4. At last month's meeting, the IASB agreed to include proposed amendments that clarify the application of aggregation in paragraph 30 of IAS 1in the *Principles of Disclosure* Discussion Paper. Those proposed amendments would reflect the following:

> In determining whether an item is material for the purposes of the primary financial statements or the notes, an entity considers the different roles the primary financial statements and the notes have in meeting the objective of financial statements. See paragraph [XX] for a description of the role of the primary financial statements and paragraph [XX] for a description of the role of the notes. An entity should also consider any presentation and disclosure objectives in IFRS that are applicable to that item. Finally, an entity considers whether an item is material by taking into consideration the financial statements as a whole.[1]

5. The proposed Practice Statement on Materiality also proposes advice on how materiality affects the decision on whether to present specified items of information on the face of the primary financial statements or in the notes.

6. We think there may be a possible inconsistency between:

   (a) the way we think materiality should be applied to determine whether an item should be separately presented in the primary financial statements or the notes; and

   (b) current guidance in IAS 1 about line items to be presented in those statements.

[1] See paragraph 30 of Paper 11C from the April IASB meeting.

Defining the issue

7. The issue is best explained through an example. IAS 1 paragraphs 54, 55, 77, and 78 provide lists of information to be included in the statement of financial position.[2]

> **IAS 1 paragraph 54:**
>
> As a minimum, the statement of financial position shall include line items that present the following amounts:
>
> (a) property, plant and equipment;
>
> …
>
> **IAS 1 paragraph 55:**
>
> An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.
>
> **IAS 1 paragraph 77:**
>
> An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.
>
> **IAS 1 paragraph 78:**
>
> The detail provided in subclassifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:
>
> (a) Items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;
>
> …

[2] The full requirements are reproduced in the Appendix.

8. IAS 1 has similar sets of requirements for the statement of financial position, and the statement of changes in equity (see the Appendix).

9. Our concern is that, given our proposed guidance on materiality (see paragraph 5), whether all of these paragraphs are necessary. In particular the 'option' to disclose information in the primary financial statements or in the notes may be superfluous or contradictory.

Staff analysis

10. We think the example in paragraphs 7 above, raises two issues:

    (a) should IFRS specify line items for presentation in the primary financial statements, or to what extent should an entity's decision about presentation of information in the primary financial statements be guided by a general principle on materiality; and

    (b) should disclosure requirements in IFRS explicitly provide that information can be presented either in the primary financial statements or in the notes?

    These issues are discussed in further detail below.

Should IFRS specify line items?

11. This proposition raises an interesting question about the role of the preparers' judgement. Is it preferable to mandate particular disclosures on the face, or on the face or in the notes? Or should the preparer decide on the location (face or notes), or even need for disclosure, based on materiality; taking into consideration the respective roles of the information in those locations?

12. On the one hand, the comparability of financial statements between entities and time periods is one of the main drivers for standardised financial statements. It is a key reason for users to support of the use of IFRS.[3] The *Conceptual Framework* states that 'information about a reporting entity is more useful if it can be

[3] Paragraph QC 20 *IFRS Conceptual Framework*.

compared with similar information about other entities and with similar information about the same entity for another period or another date'.[4]

13. By prescribing items to be presented on the face, the IASB is enhancing the consistency of primary financial statements, which should enhance their comparability across entities.

14. At the IASB's meeting in March the role of the primary financial statements was described as:

    (a) 'the primary financial statements are a structured and comparable summary of information about an entity's recognised assets, liabilities, equity, income and expenses; and

    (b) 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 …'

    For statements to reach these objectives, similar items need to be presented on the face of the primary statements across entities.

15. We have also heard that users and preparers are both in favour of having structure within financial statements. Specifying line items for the primary financial statements will ensure this need continues to be met.

16. On the other hand, financial statements should reflect an entity's individual facts and circumstances and should seek to include only material information. By mandating that specified line items must be presented in the primary financial statements, there is an increased likelihood that information that is immaterial to the primary statements will be disclosed.

17. By using the general principle of materiality to determine where items are disclosed, financial statements will become more entity-specific, albeit with a loss of consistency between entities, which can be useful for making information comparable.

[4] *Ibid*.

18. It must be considered whether relying solely on the judgement of preparers in applying materiality will lead to the optimal placement of information on the face and in the notes.

Should IFRS specify information to be presented in the primary financial statements or the notes?

19. This issue is whether IFRS should include explicit requirements about where in a complete set of financial statements information must be presented—ie either in the primary financial statements or in the notes—when it is clear from current and proposed guidance (see paragraph 5 above) that an entity should make this determination based on materiality.

20. For example IAS 1.70-80A, IAS 1.97-105, and IAS 1.106A-110 may be viewed as conflicting with, or at least having been made redundant by, the proposals on aggregation and materiality proposed to be included in the Discussion in Paper, because the IAS 1 paragraphs imply that the same information should be disclosed on the face or in the notes without different aggregation level considerations because of the different roles of the notes and the primary financial statements.

21. We think this kind of disclosure requirement should be avoided. This is because we think it should be sufficient to require disclosure of items (in a general disclosure Standard or individual Standards). The materiality and aggregation guidance, along with the more specific guidance in paragraphs 85 and 55 of IAS 1, should be sufficient to make a decision on whether an item should be separately presented in the primary financial statements or in the notes.

Possible responses

22. We had not envisaged that the Disclosure Initiative would make substantive changes to the requirements in IAS 1 that deal with presentation in the primary financial statements. Those requirements are currently in paragraphs 54–111 of that Standard. In our view, these requirements should be reviewed as part of the Performance Reporting project, along with a reconsideration of IAS 7 *Statement of Cash Flows*.

23. However, we think the issues raised in this paper may have implications for the IAS 1 requirements on presentation and we are therefore asking the IASB for its views on possible responses in the Disclosure Initiative. The possible responses are set-out below.

Response 1: Ask for views on whether specific line items should be required to be presented in the primary financial statements as part of the Principles of Disclosure Discussion Paper.

24. This response would be to elicit our constituents' views on the extent to which IFRS should specify the structure of primary statements. For example, should a general disclosure Standard (or individual Standards) specify line items or only specify totals and subtotals?

25. The Discussion Paper would ask for views on whether to require specific items to be presented on the face of the primary financial statements, or whether this decision should be based purely on materiality. It would be an opportunity to hear views on a practical application of consistency and comparability.

Response 2: Remove the 'option', in a general disclosure Standard, to present information in the primary financial statements or the notes.

26. The second response would be to streamline how the requirements are phrased in a general disclosure Standard. The Standard would continue to require that specific items are presented on the face (provided that they are material). However, we would seek to remove what could be perceived as 'an option' to present items on the face or in the notes. This would require amendments to some of the guidance in IAS 1.70-80A, IAS 1.97-105, and IAS 1.106A-110.

27. Any amendments to these sections would need to involve careful consideration of the relationship between the remaining paragraphs dealing with presentation in the primary financial statements in IAS 1 (paragraphs 54–111 of that Standard) and the related disclosure requirements in the existing standards eg the requirement to disclose classes of property, plant and equipment in IAS 16 that is referred to in paragraph 78(a) of IAS 1.

Response 3: No additional work within Principles of Disclosure project.

28. Under this option the issues raised in this paper would be dealt with as follows:

(a) the fundamental review of paragraphs 54–111 of IAS 1 dealing with presentation in the primary financial statements would be dealt with in the Performance Reporting project. This will include examining whether IFRS should specify line items in the primary financial statements. and assessing any potential inconsistencies caused by ‘options’ to present or disclose information in the primary financial statements or the notes; and

(b) the question of whether disclosure requirements should explicitly state that information shall be presented in the primary financial statements or in the notes should also be considered as part of the Disclosure Initiative’s standards–level review of disclosures.

Staff recommendation

29. The staff recommends Response 3.

30. We think the questions on whether specific lines items should be mandated on the face of the primary financial statements requires the IASB to further consider whether the structure of financial statements should be prescribed. In particular, to what extent should IFRS require minimum line items in the primary financial statements to act as benchmarks between entities, and as signposts into where information is included in the notes?

31. We think this is a fundamental question of financial statement presentation and would be best dealt with as part of the performance reporting project. We also think that some structure is necessary and therefore it is better to leave the existing structure provided by the current requirements in IAS 1 for presentation of line items, subtotals and totals in place.

32. We also think that the requirements that give entities the ‘option’ to present information in the primary financial statements or in the notes are closely related to the remaining presentation paragraphs in IAS 1 (paragraphs 54–111 of that Standard). Amendments to these provisions would also require consideration of the location of any resulting disclosure requirements (ie in the general disclosure standard or in the individual standards). We therefore think such amendments

would be more appropriately dealt with as part of the Disclosure Initiative's review of existing standards (and related drafting guide) and as part of the Performance Reporting project when the full presentation section of IAS 1 can be reviewed as a whole.

Questions for the IASB
1. Do you agree with the staff's recommendation in paragraphs 29 **-Error! Reference source not found.** above?

Appendix

Introduction

A1. This appendix provides the full text of the paragraphs of IAS 1 mentioned in this paper. It also contains other paragraphs with similar drafting issues, to the issues highlighted above.

Information to be presented in the statement of financial position

54. As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in IAS 12 Income Taxes;

(o) deferred tax liabilities and deferred tax assets, as defined in IAS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

(q) non-controlling interests, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

55. An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

Information to be presented either in the statement of financial position or in the notes

77. An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.

78. The detail provided in subclassifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are disaggregated, in accordance with IAS 2 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated into provisions for employee benefits and other items; and

(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

Information to be presented in the profit or loss section or the statement of profit or loss

82. In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) [deleted]

(ea) a single amount for the total of discontinued operations (see IFRS 5).

Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes

97. When items of income or expense are material, an entity shall disclose their nature and amount separately.

Statement of changes in equity

Information to be presented in the statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) [deleted]

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

107. An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.