STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**
Paper topic	Feedback summary—Presentation and disclosure

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Purpose of paper

1. This paper summarises the feedback received on the discussion of presentation and disclosure (except presentation of information about financial performance) in the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft').

2. This paper provides a high-level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Summary of key messages

3. In summary:

   (a) Although many respondents generally agreed with and welcomed the Board's proposals on presentation and disclosure, some expressed concerns or reservations about particular aspects of the proposals. For example, some expressed concerns about the discussion of the boundary of financial statements and the boundary between 'primary' financial statements and notes.

(b) Some respondents disagreed with the proposals. A few raised the concern that the proposed guidance is not sufficient to guide the Board in setting future IFRS Standards.

(c) Some respondents expressed concern that the discussion of presentation and disclosure makes no explicit reference to the statement of cash flows.

(d) Many respondents welcomed the work the Board is undertaking in its *Disclosure Initiative* project and supported the Board's proposal to develop further, as part of that project, the concepts proposed in the *Conceptual Framework* Exposure Draft. However, a few respondents also expressed the view that the interaction between the *Conceptual Framework* and the *Disclosure Initiative* project is not entirely clear and suggested clarifying this.

Structure of paper

4. This paper is structured as follows:

(a) Exposure Draft proposals (paragraphs 5–10)

(b) Summary of feedback (paragraphs 11–38)

(i) The objective and scope of financial statements (paragraphs 14–31)

(ii) Presentation and disclosure as communication tools (paragraphs 32–41)

Exposure Draft proposals (paragraphs 7.2–7.18 and BC7.4–7.23)

5. The Exposure Draft includes high-level concepts that describe what information is included in the financial statements and how that information should be presented and disclosed. The Board stated that it will seek to develop the concepts proposed in the Exposure Draft and provide additional guidance on presentation and disclosure in the *Disclosure Initiative*. Please also refer to AP10—*Feedback summary—Overview*.

6. The Exposure Draft proposed that the scope of information provided in financial statements is determined by their objective. Some of this information is provided by

the recognition of items that meet the definition of an element in the statements of financial position and financial performance. Financial statements also provide additional information about recognised items and items that meet the definition of an element but that have not been recognised, and the risks arising from them.

7. Forward-looking information about likely or possible future transactions and events is included in financial statements only if that information is relevant to understanding the entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period. Information about transactions or events that occur after the balance sheet date is included if that information is necessary to meet the objective of financial statements.

8. The Exposure Draft also discussed presentation and disclosure as communication tools. It proposed that efficient and effective communication includes:

   (a) classifying information in a structured manner that reports similar items together and dissimilar items separately;

   (b) aggregating information so that it is not obscured by unnecessary detail; and

   (c) using presentation and disclosure objectives and principles instead of rules that could lead to a purely mechanistic compliance.

9. Patrick Finnegan voted against the publication of the Exposure Draft because he disagreed with the discussion of the principles of presentation and disclosure in the Exposure Draft. In particular, he believes that:

   (a) the *Conceptual Framework* should discuss the usefulness of financial information from the perspective of disaggregated information, not aggregated information; and

   (b) the disclosure principles in the *Conceptual Framework* should set an objective for all IFRS Standards to include a requirement for the disclosure of entity-specific information that shows or explains changes in assets and liabilities attributable to cash and non-cash changes for all assets and liabilities presented in the statement of financial position.

10. The Exposure Draft invited comments on the proposed discussion of presentation and disclosure.

Summary of feedback

11. Roughly a half of the respondents commented on the objective and scope of financial statements and presentation and disclosure as communication tools. More than a half of those respondents broadly agreed with the Board's proposals and welcomed the guidance on presentation and disclosure. However, some of those who broadly supported the proposals expressed concerns or reservations about particular aspects, notably the boundary of financial statements and the boundary between 'primary' financial statements and notes, or made suggestions about how to improve the proposals.

12. Some respondents disagreed with the proposals. A few of the respondents that disagreed raised the concern that the proposed guidance is not sufficient to guide the Board in setting future IFRS Standards. In addition, a few respondents expressed the view that the proposals would not help to address the 'disclosure overload' that some perceive to exist.

13. Some respondents commented on the interaction between the proposals on presentation and disclosure and the Board's *Disclosure Initiative* project:

    (a) Many of those respondents welcomed the work that the Board is undertaking in its *Disclosure Initiative* project and supported the Board's proposal to develop further, as part of that project, the concepts on presentation and disclosure proposed in the *Conceptual Framework* Exposure Draft.

    (b) Some respondents stressed that the *Conceptual Framework* should be updated for important principles developed in the *Disclosure Initiative* project.

    (c) Some respondents acknowledged the Exposure Draft's reference to materiality but requested more guidance on materiality in the *Conceptual Framework*, by including some of the material proposed by the Board in the

Exposure Draft *IFRS Practice Statement Application of Materiality to Financial Statements*.

(d) A few respondents expressed the view that the interaction between the *Conceptual Framework* and the *Disclosure Initiative* project is not entirely clear and suggested clarifying this.

The objective and scope of financial statements

14. Most of the respondents who commented on the objective and scope of financial statements broadly agreed with the Board's proposals. However, many of those respondents disagreed with particular aspects of the proposals or asked the Board to clarify certain statements or include more guidance.

Objective of the financial statements

15. A few respondents, including standard-setters and accounting firms, suggested combining the discussion of the objective and scope of financial statements in Chapter 7—*Presentation and disclosure* with the discussion in Chapter 3—*Financial statements and the reporting entity*. They argued that Chapter 7 repeats many of the concepts already discussed in Chapter 3. They suggested that Chapter 3 should set out the role of financial statements as well as their content and components, whereas Chapter 7 should only include guidance for the Board in developing requirements for presentation and disclosure.

16. A few respondents discussed the limitations of financial statements and argued that the proposed objectives of the financial statements would not be achieved. For example, two academics argued that historical cost information included in financial statements does not help to assess future cash inflows to the entity.

17. In addition, some respondents asked the Board to define objectives for each of the financial statements and the notes.

18. A few respondents also suggested that the objective and scope of financial statements should be described in only one place in the document (for example, Chapter 1—*The objective of general purpose financial reporting*) and not spread over different chapters.

Components of financial statements

19. Some respondents urged the Board to make a distinction between the primary financial statements and the notes and to identify which statements are 'primary' financial statements. A few respondents, mainly preparers from the financial sector, asked the Board to clarify in the *Conceptual Framework* which information should be included in the primary financial statements and which information should be included in the notes.

20. A few respondents stated that the Exposure Draft implies that only the statement of financial position and the statement(s) of financial performance are the 'primary' financial statements by mentioning only these explicitly. Those respondents disagreed with that implication.

21. In particular, some respondents raised the concern that the Exposure Draft makes no explicit reference to the statement of cash flows. They argued that information about cash flows is important to users of financial statements and the statement of cash flows should therefore be identified as a primary financial statement. A few respondents also asked for an explicit reference to the statement of changes in equity to be included in the *Conceptual Framework.*

22. In addition, a few respondents highlighted the inconsistency with IAS 1 *Presentation of Financial Statements* which explicitly mentions both the statement of cash flows and the statement of changes in equity as components of a complete set of financial statements. They thought that the four financial statements identified in paragraph 10 of IAS 1 should be identified as primary financial statements in the revised *Conceptual Framework.*

23. One respondent, a preparer from the financial sector, supported the removal of the reference to the statement of cash flows. That respondent stated that cash flow statements are not particularly relevant or useful for the banking industry. Another respondent, a preparer organisation, acknowledged that the statement of cash flows may not provide useful information for some entities such as financial institutions. However, it argued that this should be viewed as an exception to the *Conceptual Framework* rather than the principle.

24. Some respondents asked the Board to clarify the difference between 'presentation' and 'disclosure'. Some of those respondents noted that the Exposure Draft uses both terms with the same meaning and argued that there should be a difference. A few respondents suggested using the term 'presentation' to describe including information in the primary financial statements (including the statement of cash flows and the statement of changes in equity) and using the term 'disclosure' to describe including information in the notes to the financial statements.

Scope of financial statements and notes

25. A few respondents asked the Board to clarify the boundary between financial statements and other information in general purpose financial reports such as management commentary. They felt that the scope of financial statements as described in the Exposure Draft is too broad and can include virtually anything. Some suggested that financial statements should not duplicate information included in other parts of a general purpose financial report. Some respondents expressed particular concerns about specific aspects of the proposed description of the scope of notes to the financial statements. Common concerns are discussed in paragraphs 26–31.

Unrecognised elements and risks

26. Some respondents, notably preparers, thought that the proposal that information about the nature of both recognised and unrecognised elements and the related risks should be included in the notes to the financial statements broadens the scope of the notes too much. Accordingly, they asked the Board to clarify what information about unrecognised elements or risks should be included in the financial statements. A few respondents, including a standard-setter and an accounting firm, expressed the view that the proposed guidance would result in inappropriate inclusion of information in the financial statements that would be better placed in management commentary.

Forward-looking information

27. Most of the respondents who commented on the inclusion of forward-looking information in the financial statements agreed with the approach taken. Some respondents specifically agreed with the statement that any forward-looking

information must relate to assets, liabilities and equity that existed during or at the end of the reporting period or income and expenses for the period.

28. However, others expressed concerns about the proposed description. For example, one standard-setter expressed the opinion that the proposed criterion on when to include forward-looking information in the financial statements was not sufficiently clear and stated that such information should be included in management commentary only. One preparer organisation rejected the proposal to include forward-looking information in the notes to the financial statements and suggested deleting the relevant paragraphs in the Exposure Draft. In their view, the only instance in which forward-looking information should be included in the financial statements is when it is used in estimates.

Transactions and events after the end of the reporting period

29. Only a few respondents commented on the discussion of information about transactions or events that occurred after the end of the reporting period. Some of them agreed that such information should be included in the financial statements. A few respondents emphasised that this information should only be included if it helps to meet the objective of financial reporting. One standard-setter agreed with the proposed discussion but stated that it would be useful if the *Conceptual Framework* included more guidance on when such information should be included in the financial statements.

30. Some of the respondents who commented on the proposal disagreed. One preparer from the financial sector thought that this paragraph would contradict paragraph 7.4, which requires the inclusion of forward-looking information outside the financial statements.[1] One standard-setter expressed the view that the current proposal is not helpful, because it would apply to all financial information and is therefore boilerplate guidance. They suggested that the Board should clarify in which cases forward-looking information is necessary to meet the objective of financial reporting.

[1] Paragraph BC7.16 of the Basis for Conclusions on the Exposure Draft notes that information about transactions or events that have occurred after the end of the reporting period is not forward-looking information. It is information about events that have occurred.

Comparative information

31. A few respondents commented on the proposal that financial statements include comparative information about preceding periods that can help users to identify and assess changes and trends. All of those respondents agreed with the proposed discussion of comparative information.

Presentation and disclosure as communication tools

32. Most of the respondents who commented on presentation and disclosure as communication tools broadly agreed with the Board’s proposals. However, a few respondents expressed concerns about particular aspects of those proposals.

Cost constraint

33. A few respondents who commented on the proposal that the benefit of information provided by presentation and disclosure must exceed the cost of providing it supported that proposal. However, some of those respondents asked for clarifications. For example, one standard-setter suggested clarifying that not only the cost incurred by the preparer but also the costs incurred by users of financial statements should be taken into account. Two respondents expressed the view that only the Board when setting IFRS Standards should consider the cost of disclosure relative to its benefit. Preparers should not be required to consider costs and benefits for complying with disclosure requirements in IFRS Standards.

Classification and offsetting

34. Respondents who commented on classification and offsetting broadly agreed with the proposals in the Exposure Draft. However, a few respondents encouraged the Board to expand the description of offsetting to include offsetting in the statement(s) of profit or loss and other comprehensive income. They expressed the view that the discussion in the *Conceptual Framework* should be aligned to the principles set out in paragraphs 32–35 of IAS 1 which capture those statement(s).

Aggregation

35. A few respondents who commented on the proposed guidance on aggregation in the Exposure Draft supported those proposals. Two respondents agreed with the

proposed guidance on aggregation but encouraged the Board to include a specific reference to disaggregation in the revised *Conceptual Framework*.

36. One group of academics found the section redundant and suggested removing it, because they viewed it as an extension of the discussion of classification. A few respondents agreed with the alternative view of Patrick Finnegan that the *Conceptual Framework* should focus on the usefulness of financial information from the perspective of disaggregated information rather than aggregated information.

Presentation and disclosure objectives and principles

37. Some respondents, many of them standard-setters, agreed with the proposal that including specific presentation and disclosure objectives in an IFRS Standard helps to identify relevant information and encouraged the Board to define and include those objectives in future Standards. However, a few respondents cautioned the Board against transferring to preparers too much judgement about what information should be disclosed.

38. Some respondents, most of them accountancy bodies and accounting firms, broadly agreed with the description of the principles that would facilitate efficient and effective communication of information in the financial statements. In particular, they agreed that entity-specific information is more useful than ‘boilerplate’ language. However, one regulator suggested clarifying that boilerplate language is *not* useful, because the current wording implies it potentially *could* be. One standard-setter stated that this principle might be useful for preparers but not for the Board itself.

39. A few respondents emphasised that it is important to achieve the appropriate balance between disclosing entity-specific information and providing comparable information which is particularly important for the successful application of a taxonomy.

40. Two respondents expressed the view that entities should not be required to disclose confidential information or information that could create competitive harm.

41. Other comments on the presentation and disclosure objectives and principles included the following:

(a) Some respondents agreed with the statement that duplicating information is unnecessary. However, one preparer expressed the view that duplicating information would not necessarily make financial statements less useful.

(b) Some respondents suggested additional principles that should be included in the *Conceptual Framework*, such as cohesiveness or the need for information in financial statements to be clear, balanced and understandable.

(c) One standard-setter expressed the view that the proposed guidance on presentation and disclosure principles is too detailed for the *Conceptual Framework*.

(d) One standard-setter suggested either removing the proposed principles or including more guidance and examples. They expressed the view that the proposals were too selective.