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Project	**Primary Financial Statements**		
Paper topic	Additional proposals on aggregation and disaggregation		
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Purpose of the paper

1. This paper seeks the Board's views on staff proposals on how to further develop guidance on the aggregation and disaggregation of line items presented in the primary financial statements and disclosed in the notes.

Summary of staff recommendations in this paper

2. The staff recommend that the Board replace the guidance tentatively decided by the Board on the steps involved in financial statement preparation with:
   (a) the description that aggregation and disaggregation involve:
      (i) classifying individual transactions or other events into assets, liabilities, equity, income and expenses;
      (ii) separating assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation of line items that share at least one characteristic in the primary financial statements; and
      (iii) separating the line items presented in the primary financial statements based on further characteristics resulting in the

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separate disclosure of items in the notes, if those items are material; and

(b) supporting guidance along the lines of the discussion in paragraphs 11–20.

3. The staff also recommend that the Board provide the following additional guidance for material balances comprised of immaterial items:

Items presented in the primary financial statements or disclosed in the notes shall be described in a way that faithfully represents the items they aggregate. Faithful representation could be achieved by labelling items in a way that describes the shared characteristics that form the basis of their aggregation. In the process of producing financial statements an entity may identify several items which do not appear to share characteristics with other items and are not material but aggregating them would result in a material balance. Labelling these items with a non-descriptive label such as 'other' cannot faithfully represent these items without additional information. In order to faithfully represent these items, an entity shall:

(a) reconsider whether the immaterial item(s) share similar characteristics with other item(s) and can be aggregated to create a material item that can be described in a manner that faithfully represents the aggregated items;

(b) consider whether the aggregated items may be described in a way that faithfully represents the dissimilar items without changing the level of aggregation; and

(c) if (a) and (b) are impractical, disclose information in the notes about the composition of the aggregated item, for example, 'the balance consists of several unrelated immaterial amounts, the largest balance of which is CU10 of onerous lease expenses.'

Structure of paper

4. This paper is structured as follows:

(a) Background (paragraphs 5–8);

(b) Section 1—Revising proposals for aggregation and disaggregation guidance (paragraphs 9–22);

(c) Section 2—Aggregating immaterial items (paragraphs 23–32);

(d) Section 3—Concluding work on aggregation and disaggregation (paragraphs 33–40); and

(e) Appendix A—Summary of Board tentative decisions at previous Board meetings.

Background

Board discussions of aggregation and disaggregation

5. The Board discussed staff proposals to improve the guidance supporting aggregation and disaggregation of information in the primary financial statements and in the notes at its March 2017 and May 2018 meetings. The proposals included principles, definitions and guidance on aggregation and disaggregation and further guidance on aggregation characteristics. The Board also discussed alternatives for addressing large residual or 'other' balances including introducing thresholds or principles-based guidance.

6. At its March 2017 meeting the Board tentatively decided to develop, along the lines proposed by staff (see appendix A):

   (a) principles for aggregation and disaggregation in the financial statements;

   (b) definitions of the notions 'classification', 'aggregation' and 'disaggregation'; and

   (c) guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements.

7. At its May 2018 meeting, the Board discussed staff proposals to consolidate the aggregation and disaggregation characteristics mentioned in IAS 1 *Presentation of Financial Statements* and other IFRS Standards into a single list. Seven of the 14 Board members agreed and seven disagreed with the staff's proposal. Consequently, the Board tentatively decided not to develop a single list of aggregation and disaggregation characteristics. Instead, the Board asked the staff to continue working on proposals for improving disaggregation, which may include illustrating how

different characteristics could be used to aggregate or disaggregate financial information. The Board asked staff to clarify that further guidance developed in this respect would not override specific requirements in individual IFRS Standards. We discuss further developing the guidance on aggregation and disaggregation in paragraphs 9–22.

8. The Board also tentatively decided, at its May 2018 meeting, not to introduce thresholds or rebuttable presumptions for aggregating or disaggregating financial information and not to develop examples to illustrate when it is not acceptable to disclose large residual balances or 'other' balances. Instead, the Board asked staff to explore whether principle-based guidance could be developed to encourage further disaggregation of large residual balances or 'other' balances. Paragraphs 23–32 discuss how principles of aggregation for immaterial items could be used to encourage greater disaggregation of large 'other' balances.

Section 1—Revising proposals for aggregation and disaggregation guidance

9. In March 2017 the Board tentatively decided to develop guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements along the lines of the following:

> The primary financial statements and the notes are a result of classification, aggregation, disaggregation and summarisation, where an entity:
>
> (a) classifies information into groups or classes of items (on the basis of similar characteristics) or separates items that have dissimilar characteristics;
>
> (b) aggregates or disaggregates such information so that it faithfully represents and makes understandable the information it purports to represent; and
>
> (c) summarises information in the notes to the level of detail needed to meet the IFRS disclosure objectives and requirements.

10. In order to further develop this guidance the staff have analysed the roles of aggregation and disaggregation in the process of producing financial statements.

11. Financial statements result from the processing of large numbers of transactions or other events. These individual transactions or other events represent the highest level of disaggregation. However, this level of detail does not necessarily result in useful information as it can be difficult to understand. To make this information more understandable transactions or other events are classified into assets, liabilities, equity, income or expenses (the elements of the financial statements). Information about an entity's total assets, total liabilities, total equity, total income and total expenses provides some information about the financial position and financial performance of an entity. However, that information is likely to be too summarised to be useful to users of financial statements. Users are interested in understanding the different characteristics of the items included in the elements of the financial statements.

12. In order to provide useful information an entity, therefore, assesses the characteristics of the items included in its assets, liabilities, equity, income and expenses and aggregates those items that share similar characteristics for presentation in the primary financial statements or disclosure in the notes.

13. The Board has tentatively decided that the role of the primary financial statements is to provide a structured and comparable summary. The Board has also decided that the role of the notes is to provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements[1]. Consequently, a higher level of aggregation is appropriate in the primary financial statements than in the notes.

14. Taking this view of the financial statement process, aggregation and disaggregation involve:

    (a) classifying individual transactions or other events into assets, liabilities, equity, income and expenses;

    (b) separating assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation of

[1] See IASB *Update* for May 2018.

line items that share at least one characteristic in the primary financial statements; and

(c) separating the line items presented in the primary financial statements based on further characteristics resulting in the separate disclosure of items in the notes, if those items are material.

15. Classifying individual transactions or other events, as described in paragraph 14(a), and disaggregating elements and line items, as described in paragraphs 14(b) and 14(c), requires judgement.

16. Because the role of the primary financial statements is to provide a structured and comparable summary, the line items in the primary financial statements may combine some material items that have some dissimilar characteristics. However, for the line items to be useful to users the items aggregated and presented as line items in the primary financial statements must share at least one characteristic.

17. In the notes to the financial statements, it is the concept of materiality that drives aggregation and disaggregation. Items that have dissimilar characteristics should be disaggregated in the notes when it results in material information.

18. For example, an entity may hold material equity financial assets and material debt financial assets that are measured at fair value through profit or loss. These financial assets share the characteristic of being measured at fair value through profit or loss. In the statement of financial position, presenting a single line item of financial assets measured at fair value through profit or loss may provide users with a useful summary of the entity's financial assets. However, equity financial assets are dissimilar to debt financial assets, they expose the entity to different risks. Consequently, in the notes to the financial statements the entity should disclose its equity financial assets separately from its debt financial assets. The entity should also consider whether aggregating all its equity financial assets together results in the aggregation of material assets with dissimilar characteristics. If this is the case, the entity should further disaggregate its equity financial assets. However, further disaggregation would not be required if the resulting information is not material.

19. When presenting information in the primary financial statements or disclosing information in the notes, the description of the items presented or disclosed should faithfully represent those items.

20. The process described in paragraph 14 is not necessarily performed in sequential order from (a) to (c). However, an entity considers all of these steps in determining whether items that share similar characteristics have been classified and aggregated appropriately and that dissimilar items have not been aggregated.

21. The staff think that describing the process in paragraphs 11–20 would provide context to the principles, definitions and guidance by:

    (a) clarifying the levels of aggregation/disaggregation expected in financial statements;

    (b) acknowledging the judgements required and the importance of materiality in aggregation and disaggregation decisions;

    (c) explaining how characteristics are used in aggregation and disaggregation; and

    (d) distinguishing between presentation in the primary financial statements and disclosure in the notes.

Staff recommendation

22. The staff recommend replacing the guidance tentatively decided by the Board on the steps involved in financial statements preparation (paragraph 9), with the description of aggregation and disaggregation described in paragraph 14 and the supporting discussion along the lines of the discussion in paragraphs 11–20.

Question 1

Does the Board agree with the staff's recommendation to replace the guidance tentatively decided by the Board on the steps involved in financial statement preparation with:

(a) the description that aggregation and disaggregation involve:

(i) classifying individual transactions or other events into assets, liabilities, equity, income and expenses;

(ii) separating assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation of line items that share at least one characteristic in the primary financial statements; and

(iii) separating the line items presented in the primary financial statements based on further characteristics resulting in the separate disclosure of items in the notes, if those items are material; and

(b) supporting guidance along the lines of the discussion in paragraphs 11–20?

Section 2—Aggregating immaterial items

23. The existing guidance in IAS 1 requires line items to be described in a way that provides relevant information. However, users have told us that large balances with non-descriptive labels, such as 'other', are frequently presented and do not provide useful information without more detail. Preparers also tell us that they often aggregate immaterial items that do not share characteristics into a single balance described as

'other' because presenting those items separately may obscure material information. Out of our research sample 89% of companies presented an 'other' balance in the statement(s) of financial performance[2].

24. The principles of aggregation and disaggregation tentatively decided by the Board (Appendix A) would require entities to:

    (a) disaggregate material items that do not share characteristics.

    (b) describe the balances in a way that faithfully represents the items that they aggregate.

25. Faithful representation could be achieved by labelling items in a way that describes the shared characteristics that form the basis of their aggregation. Consequently, applying the principles of aggregation and disaggregation entities could not present in the primary financial statements or disclose in the notes material items using a non-descriptive label such as 'other' without additional information. The staff propose clarifying this point.

26. Material balances can result from aggregations of immaterial items and additional guidance on how to deal with these balances may be helpful.

27. There are different combinations of items which may be aggregated into 'other' balances depending on the facts and circumstances. In general, the fewer items that are aggregated the simpler it is to create a label that describes its contents. For this reason, when an entity has aggregated a large number of items that appear dissimilar it should first reconsider whether any of the items included share characteristics which may form the basis for further aggregation that can be more usefully described.

28. For example, an entity might aggregate individually immaterial costs of abandoning acquisitions, adjustments to contingent consideration, dilapidation costs, and building maintenance expenses and describe this balance as 'other'. However, analysing these costs, the entity might conclude that the combined costs of abandoning acquisitions and adjustments to contingent consideration are material and can be categorised as costs related to acquisition activity. Similarly, dilapidations and maintenance costs

[2] The staff have analysed the financial statements of 85 entities and found that 76 of those entities present a line item labelled 'other' in their statement(s) of financial performance.

may be material and could be categorised as property maintenance. In this case, separating the costs into these two categories and assigning the more descriptive labels to each will provide more useful information to users.

29. In some cases, an ‘other’ balance will be made up of a small number of items which can be described in a useful way. For example, rather than presenting a line item that is made up of legal claims and environmental obligations as ‘other provisions’, an entity could instead describe the line item as legal and environmental provisions.

30. In other cases, there may be a large number of items with characteristics that do not form the basis for further aggregation and cannot be easily described in a useful way. In these cases, disclosing this fact and further information, such as the largest individual item, would be useful.

31. These considerations appear intuitive. However, based on the feedback we have received regarding the presentation of large ‘other’ balances the staff think that providing guidance for the consideration of these matters would be helpful.

Staff recommendation

32. The staff recommend that the Board provide the following additional guidance for material balances comprised of immaterial items:

    Items presented in the primary financial statements or disclosed in the notes shall be described in a way that faithfully represents the items they aggregate. Faithful representation could be achieved by labelling items in a way that describes the shared characteristics that form the basis of their aggregation. In the process of producing financial statements an entity may identify several items which do not appear to share characteristics with other items and are not material but aggregating them would result in a material balance. Labelling these items with a non-descriptive label such as ‘other’ cannot faithfully represent these items without additional information. In order to faithfully represent these items, an entity shall:

    (a) reconsider whether the immaterial item(s) share similar characteristics with other item(s) and can be aggregated to create a material item that can be described in a manner that faithfully represents the aggregated items;

(b) consider whether the aggregated items may be described in a way that faithfully represents the dissimilar items without changing the level of aggregation; and

(c) if (a) and (b) are impractical, disclose information in the notes about the composition of the aggregated item, for example, 'the balance consists of several unrelated immaterial amounts, the largest balance of which is CU10 of onerous lease expenses.'

Question 2
Does the Board agree with the staff's recommendation to provide additional guidance for material balances comprised of immaterial items as described in paragraph 32?

Section 3—Concluding work on aggregation and disaggregation

33. In the responses to the outreach on the scope of the project in November 2016[3] a common theme mentioned by virtually every user was the need for improved disaggregation and transparency about individual line items or subtotals.

34. The Board has responded to these comments by tentatively deciding to:

(a) describe principles of aggregation and disaggregation (see paragraph A2) providing guidance on the objectives of aggregation and disaggregation and expanding the basis for aggregation and disaggregation to include characteristics other than nature and function;

(b) define aggregation, disaggregation and classification (see paragraph A3) to provide a common terminology, aligned with the *Conceptual Framework for Financial Reporting,* for understanding the principles and guidance on aggregation and disaggregation; and

[3] A summary of the results of outreach on the scope of the project is in agenda paper 21D of the November 2016 Board meeting.

(c) describe the steps involved in the preparation of the of the primary financial statements and the notes (see paragraph A4) providing guidance on applying the principles in practice.

35. In this paper we recommend:

(a) replacing the steps described in the preparation of the primary financial statements and the notes (see paragraph 34(c)) to provide guidance on how to apply the aggregation and disaggregation principles to the process of producing the primary financial statements and the notes (see paragraphs 11–20). This guidance distinguishes between presentation in the primary financial statements and disclosure in the notes, explains the use of characteristics to aggregate and disaggregate information, and discusses the role of materiality in aggregation and disaggregation decisions.

(b) providing guidance on material balances comprised of immaterial items (see paragraphs 23–32) that is designed to help entities avoid the presentation or disclosure of large residual or 'other' balances.

36. In addition, the Board has made the following tentative decisions affecting aggregation and disaggregation:

(a) additional required subtotals will provide more structure in the statement(s) of financial performance encouraging greater disaggregation of information;

(b) the requirement to provide an analysis of operating expenses by nature in the notes when an analysis by function is presented in the statement(s) of financial performance is expected to increase the number of line items provided; and

(c) disclosure of unusual or infrequent items in the notes will result in additional disaggregation of income and expenses.

37. Since the Board's tentative decision to develop the principles of aggregation and disaggregation, in October 2018, the definition of material in IAS 1 was amended. The amended definition in paragraph 7 of IAS 1 states that:

> **Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.**

38. Paragraph 7 of IAS 1 also states that:

> Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:
>
> (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
>
> (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
>
> (c) dissimilar items, transactions or other events are inappropriately aggregated;
>
> (d) similar items, transactions or other events are inappropriately disaggregated; and
>
> (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

39. The staff think that the revised definition of material further supports the aggregation and disaggregation principles by clarifying that judgements about the level aggregation or disaggregation are based on materiality and explaining that inappropriate aggregation or disaggregation can obscure information.

40. The staff think that the principles, definitions and guidance described in paragraphs 34–36 provide sufficient guidance on aggregation and disaggregation.

Question 3
Does the Board agree that the principles, definitions, and guidance on aggregation and disaggregation described in paragraphs 34–36 provide sufficient guidance on aggregation and disaggregation? If not, what further areas would the Board like the staff to explore?

Appendix A: Summary of Board tentative decisions at previous Board meetings

March 2017 meeting

A1. The Board tentatively decided to develop principles, definition and guidance along the lines of the following.

A2. For the March 2017 Board meeting, the staff developed the following principles for aggregation and disaggregation:

> Principle 1: 'Items that share similar characteristics should be classified and aggregated together'.
>
> Principle 2: 'Items that are dissimilar from other items should not be combined with other items and should be separated or disaggregated'.
>
> Principle 3: 'Aggregation and disaggregation in the financial statements should not obscure relevant information or reduce the understandability of the information presented and should also contribute to a faithful representation of the items presented'.

A3. The staff proposed defining the notions of 'classification', 'aggregation' and 'disaggregation' on the basis of the descriptions of 'classification' and 'aggregation' included in paragraphs 7.10 and 7.14 of the Conceptual Framework for Financial Reporting Exposure Draft (published in May 2015). The staff proposed that these definitions be as follows:

> Classification is the sorting of assets, liabilities, equity, income and expenses and cash flows on the basis of shared characteristics.
>
> Aggregation is the adding together of individual items that share characteristics and are classified together.
>
> Disaggregation is the separation of an item or group of items into dissimilar component parts.

A4. The staff proposed that the guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements be as follows:

> The primary financial statements and the notes are a result of classification, aggregation, disaggregation and summarisation, where an entity:
>
> (a) classifies information into groups or classes of items (on the basis of similar characteristics) or separates items that have dissimilar characteristics;
>
> (b) aggregates or disaggregates such information so that it faithfully represents and makes understandable the information it purports to represent; and
>
> (c) summarises information in the notes to the level of detail needed to meet the IFRS disclosure objectives and requirements.

These steps conclude with the presentation of condensed and classified data in the primary financial statements and in the notes.

May 2018 meeting

A5. For the May 2018 Board meeting the staff developed the following list of the characteristics for aggregation or disaggregation based on the characteristics used in IFRS Standards:

(i) nature;

(ii) function (ie how an items is used);

(iii) measurement basis;

(iv) size;

(v) liquidity (including current, non-current);

(vi) duration and timing;

(vii) persistence (ie frequency, recurring or non-recurring nature);

(viii) uncertainty, subjectivity or risks associated with an item;

(ix) type (for example, of product, service, production process, financial instrument, funding arrangements, customer or supplier for products and services or of methods used to distribute products or provide services);

(x) geographical location or regulatory environment; and

(xi) held for disposal or held for sale.

A6. The Board tentatively decided not to develop a single list of aggregation and disaggregation characteristics.