

## STAFF PAPER

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## IASB® meeting

Project	Primary Financial Statements		
Paper topic	The consultation document—a discussion paper or an exposure draft?		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Introduction and purpose of paper**

1. The purpose of this paper is to ask the Board whether it plans to publish a discussion paper or an exposure draft to obtain feedback on the project proposals.
2. Before publishing the proposals, the staff require the Board's permission to begin the balloting process on the consultation document. The staff plan to seek that permission at a future meeting.

**Summary of staff recommendations**

3. The staff recommend that the Board publish an exposure draft rather than a discussion paper.

**Structure of paper**

4. This paper is structured as follows:
  - (a) background (paragraphs 5–10);
  - (b) selecting the appropriate type of formal consultation document (paragraphs 11–14);
  - (c) next steps (paragraphs 15–18);

- (d) appendix A—extracts from the *Due Process Handbook*;
- (e) appendix B—analysis of factors to consider in selecting the appropriate type of formal consultation document;
- (f) appendix C—preliminary analysis on which parts of IAS 1 could be moved to a new Standard.

## Background

5. Paragraph 5.5 of the [Due Process Handbook](#) states that:

5.5 ... The IASB would normally put together a proposal to develop a new Standard or to make major amendments to a Standard only after it has published a Discussion Paper and considered the comments it received from that consultation. Publishing a Discussion Paper before adding a standards-level project to its agenda is not a requirement, but the IASB must be satisfied that it has sufficient information and understands the problem and the potential solutions well enough to proceed without a Discussion Paper. The IASB might conclude that a Discussion Paper is not necessary because it has sufficient input from a research paper, Request for Information or other research to proceed directly to an Exposure Draft. The reasons for not publishing a Discussion Paper need to be set out by the IASB and reported to the [Due Process Oversight Committee].

- 6. Paragraph 6.1 of the *Due Process Handbook* explains that an exposure draft is a mandatory step in the due process before a Standard is issued or amended.
- 7. Appendix A includes extracts from the *Due Process Handbook* relating to the content of discussion papers and exposure drafts.
- 8. In its September 2018 meeting the Board moved the Primary Financial Statements project from the research programme to the standard-setting programme (see [AP21E](#) for that meeting). In that meeting, the Board did not discuss which type of consultation document to publish as it needed to make more progress on the project before making that decision.

9. We have not sought feedback from stakeholders on whether to publish a discussion paper or an exposure draft. However, at their July 2018 meeting, the Accounting Standards Advisory Forum (ASAF) members provided feedback on whether the Board should move this project to the standard-setting programme. Many members expressed the view that the Board should publish a discussion paper because, in their view, more research is needed on feasible solutions, in particular for financial entities.<sup>1</sup>
  
10. Since that meeting, the Board discussed proposals for financial entities and has reached a comprehensive set of tentative decisions.<sup>2</sup> Although the Board has not discussed proposals for financial entities in detail with the ASAF, at its December 2018 meeting, ASAF members provided generally positive feedback on the overall effects of the Board's proposals, including proposals for financial entities. The Board has since made further refinements to those proposals.

### Selecting the appropriate type of formal consultation document

11. In the February 2018 Board meeting, the staff presented [AP28](#), which discusses the differing purposes of and requirements for discussion papers and exposure drafts. AP28 for the February 2018 Board meeting discusses the following factors to consider in selecting the appropriate type of formal consultation document:
  - (a) the need for formal consultation;
  - (b) the stage of development;
  - (c) the significance of proposed changes;
  - (d) the effect on timelines; and
  - (e) the risk of re-exposure.
  
12. The staff think there is general agreement among Board members and stakeholders that the Board should publish a formal consultation document for this project (ie the

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<sup>1</sup> <https://www.ifrs.org/-/media/feature/meetings/2018/july/asaf/asaf-summary-notes-july-2018.pdf>

<sup>2</sup> September 2018, February 2019 and April 2019 Board meetings.

factor described in paragraph 11(a)). Consequently, we do not discuss this factor further in this paper.

13. To determine whether to publish a discussion paper or an exposure draft, the Board should consider holistically the four factors listed in paragraphs 11(b)–11(e). Appendix B provides detailed analysis of each of the four factors. In the staff’s view, the following considerations are particularly important:

- (a) users’ demand for this project is strong (see paragraphs B5 and B20(a) in Appendix B). The project objective is to address users’ long-standing concerns. It is preferable to respond to users’ needs on a timely basis.
- (b) users strongly support the overall direction of the project and most of the proposals (see paragraph B16(c) in Appendix B). This implies the project proposals would improve the usefulness of information in financial statements.
- (c) the problem is well defined and the proposals are sufficiently detailed for publication of an exposure draft (see paragraphs B5–B8 in Appendix B).
- (d) drafting is critical for key concepts included in the proposals (see paragraph B17 in Appendix B). It would be more effective to test drafting in the form of a new Standard (or amendments to a Standard).

14. Consequently, the staff think the Board has sufficient information and understands the problem and potential solutions well enough to proceed without a discussion paper. Also, the staff think it would be more effective and efficient to publish an exposure draft, considering the factors discussed in this paper.

**Question 1**

Does the Board agree with the staff recommendation that the Board publish an exposure draft rather than a discussion paper?

**Next steps**

15. At a future Board meeting, the staff plan to seek permission to begin the balloting process.

16. If the Board decides to publish an exposure draft, we will need to consider whether to present the proposals as amendments to existing IFRS Standards or as a new IFRS Standard (for example, IFRS 18). The staff currently prefer the option of developing a new Standard as a result of this project. This would mean that some parts of IAS 1 *Presentation of Financial Statements* would be carried over to the new Standard and other parts would remain in a revised (and reduced) IAS 1. IAS 7 *Statement of Cash Flows* would not be replaced but would be revised to reflect the Board's decisions.
17. Developing a new Standard has the following advantages:
- (a) the Board could structure proposed and existing requirements in a clearer and more understandable way, because it would not need to follow the structure of IAS 1. Appendix C provides the staff's preliminary analysis on how to restructure IAS 1.
  - (b) the Board could improve the drafting of paragraphs of IAS 1 without changing the requirements.
  - (c) a new Standard would be more prominent than a revision of existing Standards, signalling the importance the Board attaches to its work on Better Communication in Financial Reporting, including this project.
18. Developing a new Standard and moving some content from IAS 1 might raise concerns that the Board is changing more than it has publicly discussed and decided. However, the staff think it can address such concerns by drafting cautiously and explaining changes that were made for drafting purposes only and that are not intended to change existing requirements. If, during the drafting process, the staff encounter issues that require Board discussion, the staff will bring sweep papers to the Board.

## Question 2

Does the Board have any questions or comments on the proposed next steps?

## Appendix A—Extracts from the *Due Process Handbook*

A1. Paragraphs 4.12–4.13 of the [Due Process Handbook](#) state that:

- 4.12 The main output of the research programme is expected to be Discussion Papers and research papers. Discussion Papers and research papers are designed to elicit comments from interested parties that can help the IASB decide whether to add a project to its standard-setting programme. Discussion and research papers typically include a comprehensive overview of the issue, possible approaches to addressing the issue, the preliminary views of its authors or the IASB and an invitation to comment.
- 4.13 Discussion Papers are issued by the IASB and present the analysis and collective views of the IASB on a particular topic. The matters presented will have been discussed in public meetings of the IASB. Discussion Papers do not contain a Basis for Conclusions or any dissenting opinions. The discussion itself should reflect and convey differences in views of the IASB members.

A2. Paragraphs 6.1–6.3 of the *Due Process Handbook* state that:

- 6.1 Publication of an Exposure Draft is a mandatory step in the due process before a new Standard can be issued or an existing Standard can be amended.
- 6.2 An Exposure Draft sets out a specific proposal in the form of a proposed Standard (or amendment to a Standard) and is therefore generally set out in the same way as, and has all of the components of, a Standard. The main differences are that the:
  - (a) Basis for Conclusions is written to explain the IASB’s rationale for the proposal, and is not a draft of the rationale for the final Standard or final amendments to the Standard; and

(b) consequential amendments need not be set out in as much detail as they would be in a final Standard, particularly where such amendments are changes to cross-references or terminology and other matters that are more administrative in nature.

6.3 An Exposure Draft is the IASB's main vehicle for consulting the public and therefore includes an invitation to comment, setting out the issues that the IASB has identified as being of particular interest. Although it is normally included with the ballot draft, it is not necessary for the IASB to ballot the invitation to comment.

## **Appendix B—Analysis of factors to consider in selecting the appropriate type of formal consultation document**

- B1. [AP28](#) for the February 2018 Board meeting discusses the following factors to consider in selecting the appropriate type of formal consultation document:
- (a) the stage of development;
  - (b) the significance of proposed changes;
  - (c) the effect on timelines; and
  - (d) the risk of re-exposure
- B2. The following paragraphs analyse those factors with respect to Primary Financial Statements project.

### **The stage of development**

- B3. As set out in AP28 for the February 2018 Board meeting, a project typically has the following phases:
- (a) the idea generation phase—the Board defines the problem and the scope of the project and considers possible approaches to address the issue. A discussion paper conveys information about and seeks feedback on the possible approaches.
  - (b) the idea implementation phase—the Board will have selected an approach and sets out its view of what the accounting requirements should be. An exposure draft seeks feedback on specific proposed requirements.
  - (c) the refinement phase—the Board considers how to modify the proposed requirements in the light of feedback. This typically occurs after the Board has published an exposure draft and is not discussed further in this paper.
- B4. To help assess whether this project is in the idea generation phase or in the idea implementation phase, the staff have considered the following questions. If the

answer to each question is positive, it implies the project is more likely to be in the idea implementation phase and an exposure draft may be appropriate:

- (a) is the problem defined and the scope decided?
- (b) has the Board decided on a preferred approach and is the proposed solution detailed?
- (c) has the Board considered feedback and evidence?

***Is the problem defined and the scope decided?***

B5. The staff think the problem is well defined. Users of financial statements have repeatedly asked the Board to improve the reporting of financial performance. In particular, they have asked for improvements to the structure and content of the statement(s) of financial performance, including:

- (a) more subtotals;
- (b) improved comparability; and
- (c) greater disaggregation of information.

The project's objective is to specifically address these concerns.

B6. The Board has decided to make targeted improvements to the primary financial statements, focussing on improvements to the statement(s) of financial performance, rather than undertaking a more fundamental review of the primary financial statements. At an early stage of the project, the Board conducted outreach with users to identify those topics that are most likely to make a significant difference to their analysis and project proposals focus on those topics.

***Has the Board decided on a preferred approach and is the proposed solution detailed?***

B7. The Board has developed a preferred approach to each topic in the project scope. However, in few project areas, for example, the split between integral and non-integral associates and joint ventures, the Board has instructed the staff to ensure that

alternative approaches are described in the consultation document to enable stakeholders to provide feedback on those approaches.

- B8. In the staff's view, the Board's proposals have been developed in sufficient detail for publication of an exposure draft. Many of the Board papers included draft proposed requirements (including for disaggregation principles, definition of unusual items and financing activities) and the Board has provided suggestions for staff to consider when drafting.

***Has the Board considered feedback and evidence?***

- B9. The Board has considered feedback and evidence in defining the problem, identifying potential solutions and developing proposals. The Board:
- (a) conducted outreach to define the problem and scope of the project, including more than 40 meetings with stakeholders;
  - (b) considered feedback from a number of sources in identifying and developing potential solutions to the problems identified, including:
    - (i) more than 90 public and non-public meetings with stakeholders; and
    - (ii) consultation through the [Discussion Paper Disclosure Initiative—Principles of Disclosure](#) published in 2017 and the [Discussion Paper Preliminary Views on Financial Statement Presentation](#) published in 2008;
  - (c) discussed proposals with the Board's consultative groups in more than 20 meetings; and
  - (d) considered the results of the following research:
    - (i) analysis of the reporting practices of 85 entities across different industries;
    - (ii) a desk review of selected academic literature and reports and guidance published by other organisations; and

- (iii) research on regulatory requirements across jurisdictions in relation to non-IFRS measures.

### ***Overall assessment of the stage of development***

- B10. Based on the discussion above, the staff assess that this project is in the idea implementation phase, thus it may be appropriate to publish an exposure draft.

### **The significance of proposed changes**

- B11. Paragraphs 30–33 in AP28 for the February 2018 Board meeting discuss how the significance of proposed changes could affect the type of consultation document published.
- B12. Every standard-setting activity results in some change in current practice. The proposals in this project would result in:
- (a) no change in recognition or measurement of any assets, liabilities, equity, income or expenses.
  - (b) a significant change in the presentation of the financial statements, particularly the statement(s) of financial performance. As a result of the proposals to introduce more structure in the statement(s) of financial performance, many entities would have to change the way they present their statement(s) of financial performance, either by presenting subtotals they currently do not present or by changing the composition of the subtotals presented.
  - (c) additional disclosures in the notes to the financial statements. As a result of the proposals to improve disaggregation and provide information about management performance measures (MPMs) and unusual items, entities would be required to include additional information in the notes to the financial statements.

- B13. Consequently, the proposals in this project could result in significant changes for some entities. In addition, feedback suggests that there are divergent views on some project areas including:
- (a) MPMs—users are generally supportive of the proposals whereas regulators and some of the other stakeholders expressed concerns (we should note that the Board has amended its proposals in an attempt to address some of those concerns);
  - (b) split between integral and non-integral associates and joint ventures—preparers seem to support the distinction whereas not many users think it will provide them with useful information; and
  - (c) analysis of expenses either by nature or by function, and not by a mixture of the two—users seem to support the proposals, whereas preparers and some other stakeholders do not.
- B14. Also, judging by the number of clarifying questions posed during outreach meetings, the proposals related to the areas in paragraph B13 seem less well understood. We attribute this, in part, to uncertainty among stakeholders about the effect of these proposals.
- B15. The analysis in paragraphs B13–B14 suggests that a discussion paper may be useful:
- (a) in ensuring that the full range of views is captured, considered and acknowledged; and
  - (b) as a change management tool.
- B16. However, there are factors that suggest a discussion paper may not be necessary in this project and the Board could move straight to an exposure draft:
- (a) as discussed in paragraph B7, the Board has developed a preferred approach to each topic in the project scope, rather than developing alternative approaches.
  - (b) as discussed in paragraph B9, the Board has conducted extensive outreach throughout the project. Feedback from outreach suggests that many of the project proposals are well understood by stakeholders.

- (c) feedback indicates that users strongly support the overall direction of the project and most of its proposals, and in particular, the key proposal to define the ‘operating profit’ and ‘profit before financing and income tax’ subtotals.
- (d) we have heard generally positive feedback on the direction of the project. Many proposals, including the key proposals for subtotals, are generally supported across stakeholder groups (although not everyone agrees on where the Board has drawn the lines for subtotals).
- (e) while the changes to presentation and disclosure are significant as discussed in paragraph B12, they are arguably less onerous to implement than a change in recognition and measurement.

B17. In addition, for many of the project proposals, drafting is critical (for example, the proposed definitions of the subtotals and MPMs). As discussed in AP28 for the February 2018 Board meeting, an exposure draft is more effective than a discussion paper for proposals in which the drafting is critical, for example in defining new terms.

***Overall assessment of the significance of proposed changes***

- B18. In considering the significance of the change, the staff note that:
- (a) while the proposals would cause significant change, users have been asking for this change for a long time and initial indications are that the proposals will be well received; and
  - (b) while there are divergent views relating to some topics, those topics are related to areas which are not considered to be key proposals.
- B19. Consequently, the staff assess that an exposure draft may be appropriate.

## The effect on timelines

- B20. The staff think it is important that this project is completed on a timely basis. Delays in completing the project:
- (a) will cause delays in addressing users' needs. Improvements in presentation and disclosure, especially in the area of performance reporting, have been users' priority for many years. In response to the Board's 2015 Agenda Consultation they said that projects of importance to users, such as performance reporting, had not progressed quickly enough.<sup>3</sup>
  - (b) may result in stakeholders becoming disengaged from the project. Solving users' most pressing performance reporting problems quickly would help maintain the project's momentum and the high level of stakeholder engagement.
  - (c) can create operational difficulties, through lack of continuity of staff and Board members. At least seven of the current 14 Board members will leave the Board by June 2021.
- B21. Although the timetable is tight, the staff think that publication of a consultation document—a discussion paper or an exposure draft—is possible by the end of 2019. Assuming there is no re-exposure, publishing an exposure draft as the consultation document would enable the improvements proposed in this project to be implemented two to three years earlier than if a discussion paper were published.

### ***Would there be benefits in dividing the project to allow some parts to be finalised sooner?***

- B22. The Board could consult on those parts of the project on which stakeholders' views diverge separately from the other project proposals. For example, the Board could issue a discussion paper for its MPM proposals and a separate exposure draft for its other proposals. This approach would allow more time for consultation on

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<sup>3</sup> Paragraph 14(c) in [AP24A](#) for the March 2016 Board meeting. This project addresses primarily the topic of performance reporting.

contentious areas, while allowing other parts to be finalised sooner. However, there are disadvantages to such an approach:

- (a) dividing the project would make it difficult for stakeholders to understand the whole picture and respond appropriately to the Board's invitation to comment.
- (b) responding to two different documents would be burdensome for stakeholders. This might cause the Board to receive less feedback than it would if it published a single document.

B23. Consequently, the staff do not recommend dividing the project to allow some parts to be finalised sooner.

### **The risk of re-exposure**

B24. It is inevitable that the final Standard will be different from the proposals in an exposure draft. However, any substantive changes to the proposals in an exposure draft may require the Board to publish another exposure draft before finalising the project. In considering whether there is a need for re-exposure before finalising the project, the Board:<sup>4</sup>

- (a) identifies substantial issues that emerged during the comment period on the exposure draft and that it had not previously considered;
- (b) assesses the evidence that it has considered;
- (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
- (d) considers whether the various viewpoints were appropriately aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions.

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<sup>4</sup> The [Due Process Handbook](#) paragraph 6.25.

- B25. Based on the discussions in this paper, the staff think that although we can never rule out the risk of re-exposure, the Board could still publish an exposure draft because:
- (a) the proposals are generally well understood and supported (see paragraphs B16(b)–B16(d)); and
  - (b) where different views on possible solutions to the issues exist, we are managing the risk by including possible alternatives in the consultation document (see paragraph B7).
- B26. Even if followed by another exposure draft, publishing an exposure draft as the next step would enable the improvements proposed in this project to be implemented sooner than if the Board published a discussion paper. This is because a second exposure draft is usually narrower in scope and thus takes less time to prepare, respond to and analyse. It is important to note, however, that the Board’s ability to respond to feedback can be more limited after an exposure draft than it would be after a discussion paper.<sup>5</sup>

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<sup>5</sup> Paragraph 41 in [AP28](#) for the February 2018 Board meeting.

## Appendix C—Preliminary analysis on which parts of IAS 1 could be moved to a new Standard

C1. Table C1 shows the staff’s preliminary analysis of which parts of IAS 1 could be moved to the new Standard if we propose to develop a new Standard rather than amendments of IAS 1. The staff has not conducted full analysis and there may be changes to this analysis during drafting. We would also publish a table of concordance that shows the correspondence between IAS 1 and the new Standard and a revised IAS 1.

**Table C1—Preliminary analysis of IAS 1**

IAS 1 (sub)section title (paragraph number)	Revised IAS 1	New Standard
OBJECTIVE (1)*	✓	✓
SCOPE (2–6)*	✓	✓
DEFINITIONS (7–8)*	✓	✓
FINANCIAL STATEMENTS (9–46)		
Purpose of financial statements (9)	✓	
Complete set of financial statements (10–14)**	✓	✓
General features (15–46)		
<i>Fair presentation and compliance with IFRSs (15–24)</i>	✓	
<i>Going concern (25–26)</i>	✓	
<i>Accrual basis of accounting (27–28)</i>	✓	
<i>Materiality and aggregation (29–31)**</i>	✓	✓
<i>Offsetting (32–35)</i>		✓
<i>Frequency of reporting (36–37)</i>	✓	
<i>Comparative information (38–44)</i>	✓	
<i>Consistency of presentation (45–46)</i>	✓	
STRUCTURE AND CONTENT (47–138)		

Introduction (47–48)		✓
Identification of the financial statements (49–53)		✓
Statement of financial position (54–80A)		✓
Statement of profit or loss and other comprehensive income (81A–105)		✓
Statement of changes in equity (106–110)		✓
Statement of cash flows (111)		✓
Notes (112–138)		✓

\*These sections would be included in both the new Standard and a revised IAS 1. The content would be revised to match the content of each Standard.

\*\*These sections would be split into the new Standard and a revised IAS 1, with necessary revisions.