STAFF PAPER

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Project	**Disclosure Initiative—Subsidiaries that are SMEs**
Paper topic	Presentation requirements

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Purpose

1. This paper discusses whether the IFRS Standard being developed for subsidiaries that are SMEs should require the subsidiaries to apply the presentation requirements of IFRS Standards or the presentation requirements of the *IFRS for SMEs* Standard.

2. The Board is asked whether it supports the staff recommendation to require subsidiaries that are SMEs to apply the presentation requirements of IFRS Standards.

Introduction

3. In the research phase of the Subsidiaries that are SMEs project the Board considered whether it would be feasible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard with only minimal tailoring of those disclosure requirements.

4. In the standard-setting phase, the project objective is to develop an IFRS Standard that would apply on a voluntary basis to subsidiaries that are SMEs. A subsidiary that is a SME that applies the IFRS Standard will be required to apply the recognition requirements of IFRS Standards. Paragraph 4 of Agenda Paper 31A explains that to

achieve the project objective the disclosure requirements of the *IFRS for SMEs* Standard will be the starting point for the disclosure requirements and they will be adapted if recognition and measurement differences necessitate it.

5. In addition to recognition, measurement and disclosure requirements, IFRS Standards include presentation requirements. For example, paragraphs 105 to 109 of IFRS 15 *Revenue from Contracts with Customers* set out requirements regarding presentation and paragraphs 110 to 129 of IFRS 15 set out disclosure requirements. Another example is financial instruments; the title of IAS 32 is 'Financial Instruments: Presentation' while the title of IFRS 7 is 'Financial Instruments: Disclosures'.

6. The *IFRS for SMEs* Standard similarly includes presentation requirements in addition to recognition, measurement and disclosure requirements. For example, Section 5 *Statement of Comprehensive Income and Income Statement* includes a heading 'Presentation of total comprehensive income'.

7. The purpose of this paper is to determine which presentation requirements should be applied by a subsidiary applying the IFRS Standard being developed in this project. The paper discusses the two key alternatives:

   (a) require the presentation requirements of IFRS Standards, in which case the presentation requirements will not be reproduced in the IFRS Standard being developed in this project; and

   (b) require the presentation requirements of the *IFRS for SMEs* Standard, with appropriate tailoring, in which case the tailored presentation requirements will be reproduced in the IFRS Standard being developed in this project.

   The paper also introduces a third alternative: require the presentation requirements of IFRS Standards, varied to permit an entity to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity in specified circumstances.

8. The remainder of this paper is structured as follows:

   (a) What presentation requirements are and how they differ from disclosure requirements (paragraphs 9 – 14);

   (b) Differences in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard (paragraphs 15 and 16);

   (c) Advantages and disadvantages of requiring subsidiaries that are SMEs to apply the presentation requirements of either IFRS Standards or the *IFRS for SMEs* Standard (paragraphs 17 – 20);

   (d) What the Australian Accounting Standards Board has done (paragraphs 21 – 27);

   (e) Staff recommendation and question for the Board (paragraphs 28 and 29).

What presentation requirements are and how they differ from disclosure requirements

9. In some Standards there is a blurring between presentation and disclosure requirements. For example:

   (a) Paragraph 74 of IAS 16 *Property, Plant and Equipment* states that 'the financial statements shall also disclose: … (d) <u>if it is not disclosed separately in the statement of comprehensive income</u>, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss'.

   (b) Paragraphs 31 to 36A of IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* are beneath the heading 'Presenting discontinued operations', but paragraph 33 starts with 'An entity <u>shall disclose</u>: (a) <u>a single amount in the statement of comprehensive income</u> comprising …'.

   (c) Paragraph 28 of IFRS 12 *Disclosure of Interests in Other Entities* states that 'An entity shall <u>present</u> the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify ...'.

10. IAS 1 *Presentation of Financial Statements* explicitly acknowledges this blurring; paragraph 48 states ‘This Standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing items presented in the financial statements’.

11. Similarly, there can be a blurring of presentation requirements with recognition and measurement requirements. For example:

    (a) IAS 12 *Income Taxes* has a section headed ‘Presentation’ which includes the offset of current tax assets and current tax liabilities, and deferred tax assets and deferred tax liabilities. In the section headed ‘Recognition of current and deferred tax’, IAS 12 stipulates *where* current and deferred tax is recognised, for example, paragraph 61A(a) explains that deferred tax is recognised in other comprehensive income if it relates to an item recognised in other comprehensive income, but in the *IFRS for SMEs* Standard, the equivalent paragraph (paragraph 29.35) is under the heading ‘Presentation’.

    (b) IAS 21 *The Effects of Changes in Foreign Exchange Rates* contains guidance about presentation currencies. Although this is about presentation, the Standard explains how to translate financial statements into a presentation currency.

    (c) IAS 29 *Financial Reporting in Hyperinflationary Economies* similarly sets out how to restate financial statements when the entity’s functional currency is the currency of a hyperinflationary economy. Some might think of this as presentation while others may think of it as measurement.

12. Neither IFRS Standards nor the *IFRS for SMEs* Standard define presentation. Recent IFRS Standards and projects have used ‘presentation’ when referring to [presenting] the primary financial statements (statement of profit or loss and other comprehensive income, statement of changes in equity, statement of financial position and statement of cash flows) and have used disclosure when referring to information in the notes to the financial statements.

13. The remainder of this paper uses the terms presentation and disclosure in the context explained in paragraph 12. The staff have therefore assumed that requirements in IAS 21 and IAS 29 about translating financial statements into a presentation currency

and restating financial statements when the entity's functional currency is the currency of a hyperinflationary economy are not presentation requirements. The staff also assume that requirements about where current and deferred tax are recognised are recognition requirements.

14. Subject to the Board's agreement, the IFRS Standard being developed from this project will:

    (a) reproduce the disclosure requirements that apply;

    (b) reproduce the presentation requirements that will apply only if they are the presentation requirements of the *IFRS for SMEs* Standard; and

    (c) list the paragraphs in other IFRS Standards that do not apply.

    The staff view is this approach provides clarity as to which paragraphs of the IFRS Standards do and do not apply. Consequently, any blurring of the boundaries between measurement, presentation and disclosure requirements should not be a factor in the Board's decision making.

Differences in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard

15. Key differences in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard are listed in the appendix to this paper. The most significant difference is paragraph 3.18 of the *IFRS for SMEs* Standard. Paragraph 3.18 permits an entity to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity when the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

16. The disclosure requirements are being tailored for differences in recognition and measurement requirements. Similarly, if the presentation requirements from the *IFRS for SMEs* Standard are the presentation requirements to be required they would need

to be tailored. For example, the line items required to be presented in the statement of financial position could be adapted.

Advantages and disadvantages of presentation requirements from IFRS Standards and from the *IFRS for SMEs* Standard

Advantages and disadvantages of using presentation requirements from the IFRS for SMEs *Standard*

17. The following are advantages of the IFRS Standard being developed in this project using the presentation requirements from the *IFRS for SMEs* Standard:

    (a) To the extent the presentation requirements in the *IFRS for SMEs* Standard have been simplified this may reduce costs of preparation of financial statements for the subsidiaries.

    (b) If the presentation requirements from the *IFRS for SMEs* Standard are used the IFRS Standard would include the relevant presentation requirements alongside the *IFRS for SMEs* Standard adapted disclosure requirements. This may make it easier to refer to and apply the presentation requirements.

    (c) There can be a blurring of presentation requirements and disclosure requirements. Requiring presentation requirements from the *IFRS for SMEs* Standard would avoid having to make decisions about which requirements in the *IFRS for SMEs* Standard are disclosure requirements and which are presentation requirements.

18. The following are disadvantages of the IFRS Standard being developed in the project using presentation requirements from the *IFRS for SMEs* Standard:

    (a) The presentation requirements in the *IFRS for SMEs* Standard will need adapting for differences in recognition and measurement between IFRS Standards and the *IFRS for SMEs* Standard. For example, the required line items in the statement of financial position will need adapting.

(b) A subsidiary applying the IFRS Standard may have to collect different information for its own financial statements than is required for consolidation purposes. This is likely to increase the cost of preparation of the subsidiary's financial statements and/or the consolidated financial statements.

(c) Additional implementation costs could arise. When a group implements a new IFRS Standard, the parent normally supports its subsidiaries in implementation. If presentation requirements from the *IFRS for SMEs* Standard are used additional costs may arise if the subsidiary has different presentation requirements.

(d) The presentation requirements from IFRS Standards may be easier to apply when read with the related recognition and measurement requirements, but if the *IFRS for SMEs* Standard presentation requirements are used the presentation requirements will be in a separate disclosure and presentation standard. For example, a key part of IFRS 5 is its presentation requirements—retaining IFRS 5's presentation requirements, and retaining them in IFRS 5, would be easier than applying IFRS 5's definitions and measurement (impairment) and then an entity cross-referring to the IFRS Standard for the presentation requirements.

(e) The *IFRS for SMEs* Standard contains less guidance on presentation than IFRS Standards. For example, IAS 1 contains more guidance on determining when an asset is classified as a current asset and when a liability is classified as a current liability than is in the *IFRS for SMEs* Standard.

(f) Including presentation requirements with disclosure requirements in the one Standard will make the IFRS Standard being developed in the project longer.

Advantages and disadvantages of requiring presentation requirements from IFRS Standards

19. The following are advantages of requiring subsidiaries that are SMEs to apply the presentation requirements from IFRS Standards:

(a) The presentation requirements applicable to subsidiaries that are SMEs would be aligned with the presentation requirements applied by the parent in preparing its consolidated financial statements. This should reduce costs of preparing financial statements because it would reduce differences between what is in the subsidiary's individual financial statements and what is in its consolidation pack for its parent.

(b) The original requests asked for reduced disclosure requirements with recognition and measurement requirements from IFRS Standards, with no mention of presentation. It could be assumed that the focus was for reduced disclosure requirements, not reduced disclosure and reduced presentation.

(c) Presentation is likely to be updated more regularly. When (and if) the proposals in ED/2019/7 Exposure Draft *General Presentation and Disclosures* replace IAS 1 they would apply to subsidiaries that are SMEs applying the IFRS Standard being developed in this project at the same time as to other entities applying IFRS Standards, whereas the *IFRS for SMEs* Standard is updated less frequently.

(d) While there can be a blurring of presentation requirements and disclosure requirements, there can also be a blurring of presentation requirements and recognition and measurement requirements. Requiring presentation requirements from IFRS Standards would avoid having to make decisions about which requirements in IFRS Standards are presentation requirements and which are recognition and measurement requirements.

(e) IFRS 5 is partly about presentation (assets and liabilities presented separately in the statement of financial position) and partly about recognition and measurement (depreciation stops when an asset is classified as held for sale or is part of a discontinued operation). Applying the recognition and measurement but not the presentation requirements seems inconsistent. In addition, the parent will be required to comply with IFRS 5 so the subsidiary may need to identify assets held for sale when it reports to its parent.

20. The following are disadvantages of requiring subsidiaries that are SMEs to apply the presentation requirements from IFRS Standards:

    (a) The presentation requirements of IFRS Standards might be onerous for subsidiaries that are SMEs, but the counter argument is set out in paragraph 19(a).

    (b) Entities applying the IFRS Standard might incur implementation costs when presentation requirements of IFRS Standards are updated, which is more frequently than the *IFRS for SMEs* Standard.

    (c) The disclosure requirements in IAS 1 are not in one clearly headed section of the Standard nor are they in consecutively numbered paragraphs. Retaining the presentation requirements of IAS 1 would result in the list of paragraphs that subsidiaries that are SMEs do not have to comply with, being a list of paragraphs that are not consecutively numbered, which will not ease application of the IFRS Standard.

What the Australian Accounting Standards Board (AASB) has done

21. The AASB's exposure draft of its proposed 'simplified disclosures standard' proposed requiring presentation from the *IFRS for SMEs* Standard. In particular, the AASB proposed that entities within the scope of its proposed simplified disclosures standard did not apply IAS 1 and IAS 7; instead the exposure draft of the proposed simplified disclosures standard included the following sections, modified slightly, of the *IFRS for SMEs* Standard:

    3—*Financial Statement Presentation;*
    4—*Statement of Financial Position;*
    5—*Statement of Comprehensive Income and Income Statement;*
    6—*Statement of Changes in Equity and Statement of Income and Retained Earnings;*
    7—*Statement of Cash Flows*; and
    8—*Notes to the Financial Statements*.

22. Respondents to the exposure draft raised concerns around missing guidance in general, including the loss of presentation criteria and related guidance such as on the classification between current and non-current in IAS 1.

23. In response to this:

    (a) the preface to the AASB's final Standard explains that 'While this Standard includes certain presentation requirements, these do not result in presentations or classifications that are different to those required for Tier 1 entities. The only exception is the option not to include a separate statement of changes in equity in certain circumstances, as set out in paragraph 26 of the Standard.' and

    (b) paragraph 2 of the final Standard states that 'Except to the extent specifically addressed in this Standard, the definitions and presentation requirements of other Australian Accounting Standards continue to apply. Entities are permitted to refer to other Standards for guidance on the requirements in this Standard, including AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101 *Presentation of Financial Statements,* AASB 107 *Statement of Cash Flows and* AASB 124 *Related Party Disclosures*'.

24. Paragraph 26 of the AASB Standard repeats paragraph 3.18 of the *IFRS for SMEs* Standard permitting an entity to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity when the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

25. The staff do not believe that this is an option available to the Board. The *IFRS for SMEs* Standard issued by the Board is a stand-alone Standard. It does not have a mandatory requirement to look to full IFRS Standards. Consequently, if the Board were to reproduce Sections 3 – 8 of the *IFRS for SMEs* Standard in the IFRS Standard and state that those requirements should not result in presentations or classifications

that are different to those required by the other IFRS Standards, the staff believe this would have ramifications for entities applying the *IFRS for SMEs* Standard.

26. In addition, the AASB had proposed in its exposure draft that an entity applying its simplified disclosure standard would not be required to apply the presentation requirements of IFRS 5. Respondents expressed concerns that the exposure draft did not propose separate presentation of assets held for sale and assets and liabilities in a disposal group held for sale. In response to this, in its final Standard, the AASB has not exempt entities from applying the presentation requirements (specifically paragraphs 31, 32, 33A, 34, 36 and 37 – 40) of IFRS 5.

27. Both the exposure draft and final standard retained the presentation requirements of some other standards, including IAS 12, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 32.

Staff recommendation and question for the Board

28. The staff recommends that the presentation requirements of IFRS Standards are applied by subsidiaries that are SMEs that apply the IFRS Standard being developed in this project. The staff recommendation is based on:

    (a) The presentation requirements applicable to subsidiaries that are SMEs would be aligned to the presentation requirements of the parent entity presenting consolidated financial statements and thus may reduce costs because it would reduce differences between what is in the subsidiary’s individual financial statements and what is in its consolidation pack for its parent.

    (b) The presentation requirements may be easier to apply when read with the related recognition and measurement requirements.

    (c) There is less guidance on applying presentation requirements in the *IFRS for SMEs* Standard than in IFRS Standards.

    (d) The IFRS Standard would be shorter as it would contain disclosure requirements only, not disclosure and presentation requirements.

(e) The only adaptions from IFRS Standards would be disclosure requirements.

(f) The presentation requirements in the *IFRS for SMEs* Standard would need some adaptation, for example, adapting the required line items in the statement of financial position.

29. Paragraph 3.18 of the *IFRS for SMEs* Standard is the most significant difference in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard. Consequently, should the Board not agree with the staff recommendation, the staff believe that in addition to considering requiring the presentation requirements of the *IFRS for SMEs* Standard with appropriate tailoring, the Board could also consider requiring the presentation requirements of IFRS Standards but varied to include paragraph 3.18 of the *IFRS for SMEs* Standard.

Question for the Board

Does the Board agree with the staff recommendation that the presentation requirements of IFRS Standards should be applied by subsidiaries that are SMEs that apply the IFRS Standard being developed in this project?

If not, does the Board prefer:

(a) the presentation requirements of IFRS Standards, varied to permit an entity to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity when the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy;

(b) the presentation requirements of the *IFRS for SMEs* Standard, with appropriate tailoring; or

(c) something else?

APPENDIX: Differences in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard

Key differences in presentation requirements between IFRS Standards and the *IFRS for SMEs* Standard include:

Statement of changes in equity

1. If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the *IFRS for SMEs* Standard (but not IFRS Standards) permits an entity to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

Statement of profit or loss and other comprehensive income

2. IAS 1 requires additional line items to be presented in the statement of profit or loss section of the statement of profit or loss and other comprehensive income which are as a consequence of IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* being applicable.

3. In the 'other comprehensive income' section of the statement of profit or loss and other comprehensive income, IAS 1 requires the entity's share of the other comprehensive income of associates and joint ventures accounted for applying the equity method to be separated into those that will not be subsequently reclassified to profit or loss and those that will be reclassified when specific conditions are met. The *IFRS for SMEs* Standard does not require requires the entity's share of the other comprehensive income of associates and joint ventures accounted for applying the equity method to be analysed.

Statement of financial position

4. There are differences in the line items required to be presented separately in the statement of financial position. For example:

   (a) IAS 1 requires a line item for investment property, while the *IFRS for SMEs* Standard requires investment property carried at cost less accumulated depreciation and impairment to be presented separately from investment property carried at fair value.

   (b) The *IFRS for SMEs* Standard similarly requires biological assets carried at cost less accumulated depreciation and impairment to be presented separately from biological assets carried at fair value while IAS 1 requires only one line item.

   (c) IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires the assets of a disposal group held for sale to be presented separately from other assets and the liabilities of a disposal group held for sale to be presented separately from other liabilities. The *IFRS for SMEs* Standard does not require separate presentation.

   (d) IAS 1 requires two line items as a consequence of IFRS 17.

5. IFRS Standards, but not the *IFRS for SMEs* Standard, requires a statement of financial position as at the beginning of the preceding period to be presented when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements.

Offsetting

6. To avoid the need for detailed scheduling, IAS 12 has different requirements for offsetting deferred tax assets and liabilities than it does for offsetting current tax assets and liabilities, whereas applying Section 29 of the *IFRS for SMEs* Standard the requirements for offsetting deferred tax assets and liabilities are the same as for offsetting current tax assets and liabilities. However, Section 29 includes an undue cost or effort exemption so that offsetting income tax assets and liabilities would not

be required if significant detailed scheduling is required. The exemption is intended to provide similar relief to IAS 12 without including the more complex wording used in IAS 12.

7. IAS 32 stipulates conditions that, if met, require a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position. Section 2 of the *IFRS for SMEs* Standard states that an entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by the *IFRS for SMEs* Standard; there are no offset requirements in Section 22 *Liabilities and Equity*, Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*.

General

8. IFRS Standards contain more presentation requirements than are in the *IFRS for SMEs* Standard. For example, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* contains specific requirements for the presentation of government grants, but the *IFRS for SMEs* Standard does not specify any methods for presenting government grants. Another example is that the *IFRS for SMEs* Standard does not require a lessee to present assets leased under finance leases to be separately from other assets whereas IFRS 16 *Leases* requires right-of-use assets to be either presented separately or disclosed in the notes.

9. In addition, IFRS Standards contain more guidance on applying presentation requirements than is in the *IFRS for SMEs* Standard. For example, there is more guidance in IAS 1 on determining which assets are current assets and which are non-current and determining which liabilities are current liabilities and which are non-current.