STAFF PAPER

April 2021

IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Principles of aggregation and disaggregation and roles of the primary financial statements and the notes

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Objective

1. This paper sets out initial staff analysis and recommendations on the principles of aggregation and disaggregation and the roles of the primary financial statements and notes proposed in the Exposure Draft *General Presentation and Disclosures*.

2. Future papers will discuss other aspects of aggregation and disaggregation including:

   (a) unusual items;

   (b) minimum line items;

   (c) items labelled 'other'; and

   (d) nature and function analyses of operating expenses.

3. Appendix A sets out linkages between topics discussed in this paper and topics to be discussed at future meetings.

Summary of staff recommendations

4. The staff recommend the Board:

   (a) in relation to the principles of aggregation and disaggregation:

(i) state more clearly the principle relating to the purpose of disaggregation—items shall be disaggregated if the resulting disaggregated information is material;

(ii) strengthen the application of that principle by emphasising that a single dissimilar (non-shared) characteristic would be sufficient to result in disaggregated information if that information is material; and

(iii) explore developing guidance on how to use characteristics to identify when to aggregate or disaggregate items.

(b) in relation to the roles of the primary financial statements and the notes:

(i) confirm that paragraph 29 of IAS 1 not be reinstated in the new IFRS Standard; and

(ii) include a reference to understandability in the description of the primary financial statements.

Structure of the paper

5. This paper is structured as follows:

(a) summary of the proposals in the Exposure Draft (paragraphs 7–9);

(b) feedback and staff analysis on the principles of aggregation and disaggregation (paragraphs 10–30); and

(c) feedback and staff analysis on the role of the primary financial statements and notes (paragraphs 31–59).

6. This paper includes two appendices:

(a) Appendix A describes the linkages with other project areas that will be discussed in future meetings.

(b) Appendix B sets out extracts of the Exposure Draft relating to the principles of aggregation and disaggregation and the roles of the primary financial statements and the notes.

Summary of proposals in the Exposure Draft

7. Paragraph 25 of the Exposure Draft proposes principles on the aggregation and disaggregation of information. It states:

> 25 An entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. Unless doing so would override specific aggregation or disaggregation requirements in IFRS Standards, an entity shall apply the principles that (see paragraphs B5–B15):
>
> (a) items shall be classified and aggregated on the basis of shared characteristics;
>
> (b) items that do not share characteristics shall not be aggregated (see paragraph 27[1]); and
>
> (c) aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed.

8. Paragraphs 20 and 21 of the Exposure Draft describe the roles of the primary financial statements and the notes as follows:

> 20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income and expenses and cash flows which is useful for:
>
> (a) obtaining an overview of the entity's assets, liabilities, equity, income expenses and cash flows;
>
> (b) making comparisons between entities, and between reporting periods for the same entity; and

[1] Paragraph 27 of the Exposure Draft is about the aggregation of immaterial items labelled as other, which will be discussed at a future Board meeting.

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

21 The role of the notes is to:

(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and

(b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

9. Appendix B sets out full extracts of the Exposure Draft relating to the principles of aggregation and disaggregation and the roles of the primary financial statements and the notes.

Principles of aggregation and disaggregation

10. This section of the paper considers the principles of aggregation and disaggregation in relation to disclosure of information in the notes to the financial statements. The question of when information should be included in the primary financial statements is addressed in paragraphs 31–59 of this paper.

Feedback

11. The feedback in this section is an extract from Agenda Paper 21E of the December 2020 Board meeting of feedback that relates to the principles of aggregation and disaggregation.

12. Most respondents commented on the principles of aggregation and disaggregation that require an entity to classify identified assets, liabilities, equity, income and expenses into groups based on shared characteristics and to separate those items based on further characteristics.

13. Many respondents who commented (including most users) agreed with the proposals but a few respondents (including a few users) expressed disagreement.

14. Many respondents who commented on the proposals did not express agreement or disagreement and instead commented on the need for additional guidance or clarifications.

Agreement

15. While most respondents did not provide reasons for their agreement with the principles of aggregation and disaggregation, some did, stating that:

    (a) the proposed principles are clear and useful to preparers of financial statements;

    (b) the implementation of the proposals is expected to lead to more consistent disaggregation and provide additional useful information for users of financial statements;

    (c) the proposals would help ensure that material information is not obscured and provide a good balance between requiring too much detail and too aggregated information; and

    (d) the information provided applying the principles is expected to be more understandable because it is based on shared characteristics.

Concerns

16. The few respondents who disagreed with the proposed principles for aggregation and disaggregation gave the following reasons, with users focusing on (a) and (d):

    (a) the proposed principles are too vague and may not have an effect on the quality of financial reporting. A few respondents suggested they could be strengthened by linking the principles to the objective of financial statements and the concept of materiality.

    (b) without a quantitative materiality threshold, the proposals could lead to disclosure of immaterial information.

    (c) the proposed principles could cause significant costs, especially for smaller entities;

    (d) the principles may not be useful without additional guidance, for example on how to determine shared characteristics. Some user respondents indicated that persistence is a characteristic that should be particularly considered when determining whether items should be disaggregated.

(e) an entity could apply the principles to aggregate or disaggregate items opportunistically.

(f) the requirements should be included in the *Conceptual Framework for Financial Reporting*, expanding on existing guidance there, rather than in a Standard.

Staff analysis and recommendation

17. The analysis is structured as follows:

(a) response to the concern described in paragraph 16(a) that the principles are too vague (paragraphs 18–25);

(b) response to the concern described in paragraph 16(d) that the principles may not be useful without additional guidance, for example on how to determine shared characteristics (paragraphs 26–29); and

(c) responses to the other concerns described in paragraph 16 (paragraph 30).

The principles are too vague

18. The staff agrees with the respondents who thought it would be possible to strengthen the principles of aggregation and disaggregation by creating a more direct link to the objective of financial statements and the concept of materiality. Improving the principles in this way should not only result in more useful information in financial statements from their application but should also help the Board in its redeliberations of the more detailed proposals relating to aggregation and disaggregation set out in paragraph 2 of this paper.

19. The purpose of aggregation is clearly stated in paragraph B5 of the Exposure Draft—to make information about individual transactions or other events understandable by reducing the volume of disclosures and amount of detail.

20. The purpose of disaggregation is indicated in paragraphs 25(c) and B6(c) of the Exposure Draft—that no material information is hidden by too much aggregation, in

other words that items should be disaggregated if the resulting disaggregated information is material.

21. However, some respondents read the wording in paragraph 25(b) of the Exposure Draft as allowing items not to be disaggregated if they share just one characteristic, even if they have other dissimilar characteristics such that disaggregation based on those characteristics would result in material information.

22. Therefore the staff recommend that:

    (a) the purpose of disaggregation is stated more clearly—items shall be disaggregated if the resulting disaggregated information is material; and

    (b) the application of that principle is strengthened by emphasising that a single dissimilar (non-shared) characteristic would be sufficient to result in disaggregated information if that information is material.

23. The changes described in paragraph 22(a) of this paper could be achieved by rewording the principles in paragraph 25 of the Exposure Draft as follows:

    25(a) items shall be classified and aggregated on the basis of shared characteristics;

    25(b) items ~~that do not share characteristics shall not be aggregated (see paragraph 27)~~ <u>shall be disaggregated on the basis of dissimilar characteristics</u>; and

    25(c) aggregation and disaggregation in the financial statements shall not obscure ~~relevant~~ <u>material</u> information or reduce the understandability of the information presented or disclosed.

24. The staff think we need to replace the term ‘relevant’ in the paragraph 25(c) of the Exposure Draft with ‘material’. Material is entity-specific relevance and hence describes the judgment the standard requires an entity to make. Such wording would be consistent with that used in the targeted standards-level review of disclosures.

25. The change described in paragraph 22(b) can be achieved by adding a paragraph to the application guidance in Appendix B.

More guidance on shared characteristics

26. In addition to strengthening the principle for disaggregation, the staff have considered whether it would be helpful to respond to feedback asking for more guidance on shared characteristics. In May 2018 (Agenda Paper 21A) the Board discussed a list of characteristics that are used in IFRS Standards as the basis for disaggregation requirements. The list was not included in the Exposure Draft because the Board expressed concerns about:

    (a) how any discussion of shared characteristics in the new standard would interact with the specific requirements of other IFRS Standards; and

    (b) whether a list of examples of characteristics was helpful without context on how it should be used.

27. The first concern is addressed in the Exposure Draft which states (paragraph 25) ‘Unless doing so would override specific aggregation or disaggregation requirements in IFRS Standards, an entity shall apply the principles….’.

28. The staff think the second concern can be addressed by:

    (a) identifying examples of characteristics that might drive aggregation or disaggregation by considering:

        (i) the analysis in the May 2018 Board paper;

        (ii) feedback on the Exposure Draft, including comments about the importance of persistence; and

        (iii) the work on the targeted standards-level review of disclosures. That project develops overall and specific disclosure objectives for two IFRS Standards, IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* and items of information that an entity might need to disclose to meet the specific disclosure objectives. The overall disclosure objectives—which describe the overall information needs of users of financial statements and require an entity to disclose information to meet those needs—also incorporate other broad considerations, such as considerations about aggregation and disaggregation specific to the disclosure section of a Standard. For example, the proposed overall disclosure objective for defined benefit plans in IAS 19 identifies various characteristics that an entity might use to disaggregate disclosures about those plans.

(b) assessing which characteristics might apply to which elements of financial statements and whether there is any hierarchy. For example, persistence is a characteristic that feedback to the Exposure Draft identified as being potentially important for disaggregation of income and expenses but perhaps less so for assets and liabilities; and

(c) illustrating how the identification of the characteristics described in (b) could be applied to determine aggregation or disaggregation using examples.

29. The staff think such work is feasible and could result in useful guidance to entities on how to use characteristics to identify when to aggregate or disaggregate items. The staff also think this work could help in setting a context for the role of primary financial statements, as described in paragraphs 53–55. Hence, the staff recommend exploring the development of such guidance.

Other concerns described in paragraph 16

30. The other concerns described in paragraph 16 and the staff response are:

(a) without a quantitative materiality threshold, the proposals could lead to disclosure of immaterial information—as stated in the *Conceptual Framework* paragraph 2.11, because materiality is an entity-specific aspect of relevance the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.[2]

[2] Paragraph 2.11 of the *Conceptual Framework* states 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.'

(b) the proposed principles could cause significant costs—the staff will bring an analysis to the Board of whether there should be any cost reliefs when developing the guidance recommended in paragraph 29 of this paper.[3]

(c) an entity could apply the principles to aggregate or disaggregate items opportunistically—judgement will always be needed on when to aggregate or disaggregate items but stronger principles and more guidance should minimise opportunistic decisions.

(d) the requirements should be included in the *Conceptual Framework*, expanding on existing guidance. The objective of these requirements is to ensure entities aggregate and disaggregate items appropriately. Requirements in an IFRS Standards are more enforceable than principles in the *Conceptual Framework*. In addition, the level of detail proposed by the staff is more appropriate for an IFRS Standards.

Questions 1 and 2

1 Does the Board agree with the staff recommendation in paragraph 22 that:

a. the purpose of disaggregation is stated more clearly—items shall be disaggregated if the resulting disaggregated information is material; and

b. the application of that principle is strengthened by emphasising that a single dissimilar (non-shared) characteristic would be sufficient to result in disaggregated information if that information is material?

2 Does the Board agree the staff should explore developing guidance for entities on how to use characteristics to identify when to aggregate or disaggregate items, as described in paragraph 28?

[3] This approach is based on an assumption that the Board agrees with the staff recommendations in paragraph 29. If the Board does not agree with those recommendations, the staff will consider the question of cost reliefs separately in a future Board paper.

Roles of the primary financial statements and the notes

31. This section of the paper considers the roles of the primary financial statements and the notes.

Feedback

32. The feedback in this section is an extract from Agenda Paper 21E of the December 2020 Board meeting of feedback that relates to the roles of the primary financial statements and the notes.

33. Many respondents commented on the roles of primary financial statements and notes. Of those, most, mainly from Europe and Asia, (including most users) agreed with the proposals and a few disagreed.

Agreement

34. Most respondents did not state a specific reason for their agreement with the proposal. Some respondents did, and they said that the proposals would:

    (a) help entities when making decisions on what information to include in the notes and in the primary financial statements and thus improve consistency of application; and

    (b) provide a level of flexibility to provide relevant information.

Concerns

35. A few respondents who disagreed with the proposal explained their reasons for disagreement:

    (a) the roles described are insufficient to help entities distinguish between what information to provide in the primary financial statements and the notes; and

    (b) the description of the roles should be included in the *Conceptual Framework*.

36. A few respondents suggested the Board should:

    (a) link the role of the primary financial statements more directly to the objective of financial statements;

(b) explain the role of materiality in determining what to include in the primary financial statements; and

(c) consider the roles of the primary financial statements and the notes in the context of digital access of financial information.

Staff analysis and recommendations

37. The analysis is structured as follows:

(a) what are the roles of the primary financial statements and the notes, and how do they link to the objective of financial statements and materiality—responding to the suggestions described in paragraphs 36(a) and 36(b) (see paragraphs 39–49);

(b) what are the implications of digital access of financial information—responding to the suggestions described in paragraph 36(c) (see paragraphs 50–55); and

(c) whether it is possible to provide more guidance on how to determine what information to present in the primary financial statements—responding to the concerns described in paragraph 35(a) (see paragraphs 56–59).

38. In response to the concern that the description of the roles of the primary financial statements and the notes should be included in the *Conceptual Framework* (see paragraph 35(b)), the staff observe that paragraphs 3.3 and 5.2 of the *Conceptual Framework* (reproduced in Appendix B) provide a description of the statements of financial position and financial performance and the notes. The proposed descriptions in the new Standard build on that material, at a level of detail more appropriate for guidance in a standard for preparers.

What are the roles of the primary financial statements and the notes?

39. Paragraphs 19–21 of the Exposure Draft set out the objective of financial statements and the roles of the primary financial statements and notes. A few respondents who asked for a link between the role of the primary financial statements and the objective of financial statements and the concept of materiality (see paragraphs 36(a) and 36(b)) made specific suggestions:

(a) to link the role of the primary financial statements with the objective of financial statements by including in paragraph 20 a reference to information that is useful in assessing the prospects for future net cash flows to the entity and management's stewardship of the entity's economic resources; and

(b) to reinstate paragraph 29 of IAS 1 *Presentation of Financial Statements*, which was not included in the Exposure Draft. Paragraph 29 of IAS 1 states:

> An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

40. In considering these suggestions, the staff think it is important to differentiate between *the objective of financial statements*, which is set out in paragraph 19 of the Exposure Draft, and *the way that objective is met by a combination of the primary financial statements and the notes*, which is set out in paragraphs 20 and 21 of the Exposure Draft. That difference is important for both:

(a) the description of the roles of the primary financial statements and notes in paragraphs 20 and 21 of the Exposure Draft; and

(b) the role of materiality in determining what information to include in the primary financial statements.

41. In relation to paragraph 40(a), and to link the objective of financial statements with the description of the roles of the primary financial statements and the notes, the staff recommend adding a sentence to the end of paragraph 19 that states 'The objective is achieved by providing financial information in the primary financial statements and in the notes.'

42. In relation to paragraph 40(b), it is important to remember there is not one level of materiality that determines whether information needs to be disclosed and another level that determines whether information should be presented in the primary financial statements. Information is either not material, or it is material and should be provided to achieve the objective of financial statements. But not all material disaggregated amounts can be included in the primary financial statements—for paper reporting that would be impracticable and for digital reporting it would result in a lack of potentially helpful structure (see paragraphs 50–55 of this paper).

43. The fact that not all disaggregation of material information can be included in the primary financial statements applies even to the disaggregation referred to in paragraph 29 of IAS 1—classes of similar items and items with a dissimilar nature or function. For example:

    (a) an entity might have too many different material classes of property, plant and equipment and intangible assets to be able to present them all separately in the statement of financial position; and

    (b) an entity might have too many components of employee expenses with different natures to be able to present them all separately in the statement(s) of financial performance even though disaggregation based on their different nature results in material information to be given in the notes.

44. Hence, materiality cannot be used as a determining criterion for deciding what should be in the primary financial statements and what should be in the notes. Instead of considering whether information is material or not, we need to focus on the role of the primary financial statements in paragraph 20 of the Exposure Draft as a structured and comparable *summary*.

45. This focus of the primary financial statements being a summary is also supported by paragraph 5.2 of the *Conceptual Framework* which describes the statement of financial position and statement(s) of financial performance as depicting an entity's recognised assets, liabilities, equity, income and expenses in *structured summaries that are designed to make financial information comparable and understandable*.

46. The staff think the reference to understandability in the description of the primary financial statements as summaries is helpful. Paragraph 2.34 of the *Conceptual Framework* states:

    2.34 Classifying, characterising and presenting information clearly and concisely makes it understandable.

47. Without a reference to understandability, the focus in paragraph 20 of the Exposure Draft is solely on structure and comparability. The staff think that misses an important attribute of the primary financial statements, which is currently only indicated by paragraph 42 of the Exposure Draft.

48. Paragraph 42 of the Exposure Draft requires additional line items to be presented in the statement(s) of financial performance and financial position 'when such presentations are relevant to an understanding of the entity's financial performance or financial position'. [4]

49. Consistent with that requirement, we think understandability should be captured in the aspect of the role of the primary financial statements described in paragraph 20(a) of the Exposure Draft—obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows. Hence, we recommend adding understandability to this aspect of the role of the primary financial statements by changing the wording to 'obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows.

Questions 3 and 4
3 Does the Board agree that paragraph 29 of IAS 1 should not be reinstated in the new IFRS Standards? 4 Does the Board agree that the description of the role of primary financial statements should include a reference to understandability?

The implications of digital access of financial information

50. The staff have considered whether digital access of financial information has implications for the role of the primary financial statements. What is the role of a structured summary when any item of information can be searched for individually?

51. From discussions with the taxonomy team, the staff understand that a structured, comparable and understandable summary is helpful in providing a context in which the individual items tagged with the IFRS Taxonomy can be understood. This is the case even if the summary itself is not accessed—the fact that such a summary exists is sufficient for the context to exist. For example, a user of financial statements

[4] We also think we need to replace the term 'relevant' in the sentence in paragraph 42 'when such presentations are relevant to an understanding of the entity's financial performance or financial position' with a term that does not have connections with 'relevant' or 'material' because of the potential confusion that all material (ie relevant to the specific entity) information should be presented in the primary financial statements (see discussion in paragraphs 42-44).

accessing the item tagged as operating profit will know that operating profit is a subtotal in the statement of profit or loss that includes all income and expenses in the operating category.

52. From the perspective of digital access of information in particular, the staff think the primary financial statements can be regarded as being the first levels of disaggregation or final levels of aggregation of:

    (a) income and expenses in the statement(s) of financial performance;

    (b) assets, liabilities and equity in the statement of financial position; and

    (c) cash flows in the statement of cash flows.

53. For example, the Exposure Draft proposes a hierarchy of disaggregation for the statement of profit or loss:

    (a) items of income and expenses are disaggregated using characteristics of operating, investing, financing, income taxes and discontinued operations; and

    (b) operating expenses are disaggregated using characteristics of nature or function.

54. Giving a structure to the statement of profit or loss in this way provides the opportunity for the IFRS Taxonomy to include information about how an item fits within the hierarchy of disaggregation in the way items are tagged. For example, the IFRS Taxonomy element for 'employee benefits expense' could be identified as being included in operating profit. That information would provide users of the digital information with more of the context discussed in paragraph 51.

55. Hence, the staff conclude that the role of the primary financial statements in providing a structured, comparable and understandable summary of an entity's assets, liabilities, equity, income, expenses and cash flows is as important for information accessed digitally as it is for paper-based information.

Question 5

5 Does the Board have any comments on the staff analysis of the implications of digital reporting?

Is it possible to give further guidance on how to determine what information to present in the primary financial statements?

56. Some respondents said the proposals in the Exposure Draft will help them determine what to present in the primary financial statements. However a few said that the proposals were not sufficient to make that determination.

57. The staff think that the addition of understandability to the description of the role of the primary financial statements (see paragraphs 46–49) will help entities in determining what to include—the overview of the entity's assets, liabilities etc cannot include all material disaggregated information but it should include enough disaggregated information to make the overview understandable.

58. The staff have also considered whether further guidance, perhaps introducing the idea of proportionality, might be useful. The staff have seen examples of primary financial statements which include many line items for relatively small amounts (for example income from investments) and also a few line items for relatively large amounts that seemingly include diverse items (for example one line item for a substantial amount of selling, general and administrative expenses). Of course, the amount of an item is not the only factor that will determine whether it should be included in the primary financial statements but in some of the examples it was not clear what factors had driven the disaggregation of the relatively small amounts and the aggregation of relatively large amounts.

59. The staff will consider the question of further guidance in a future Board paper together with the requirements for minimum required line items.

Appendix A—Linkages with other project areas that will be discussed in future meetings

A1. The following table summarises the linkages between topics discussed in this paper and topics that the Board will redeliberate at a later time:

Linked topic	**How is the topic linked to the discussion in this paper?**
Unusual items	The Board's redeliberations on unusual items could be informed by the work the staff recommend doing on shared characteristics.
Minimum line items	The Board's redeliberations on minimum line items could help identify general guidance that could be useful in determining what should be included in the primary financial statements.
Items labelled as 'other'	The Board's redeliberations on 'other' items could be informed by the work the staff recommend doing on shared characteristics.
Nature and function analyses of operating expenses	The Board's redeliberations on the analysis of operating expenses by nature and function could be informed by the work the staff recommend doing on shared characteristics.

Appendix B—Extracts from the Exposure Draft on the principles of aggregation and disaggregation and the roles of the primary financial statements and the notes

Objective of the financial statements and roles of the primary financial statements and the notes (see paragraphs B3–B4)

19 [IAS 1.9] The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

(a) obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

21 The role of the notes is to:

(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and

(b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

22 An entity shall use the description of the roles of the primary financial statements and the notes in paragraphs 20–21 to determine whether financial information should be included in the primary financial statements or in the notes. However, in determining the location of financial information, descriptions of the roles do not override specific requirements in IFRS Standards on the presentation and disclosure of financial information, for example, the requirements for the presentation of subtotals and line items in paragraphs 60 and 65 of this [draft] Standard.

23 An implication of the roles of the primary financial statements and the notes is that the amount of information required in the notes may be different from that in the primary financial statements, namely:

(a) to provide the summary of information about the entity's assets, liabilities, equity, income, expenses and cash flows described in paragraph 20, information provided in the primary financial statements is more aggregated than information provided in the notes; and

(b) to meet the objective of financial statements, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including *disaggregation* of information presented in the primary financial statements, may be required in the notes.

24 [IAS 1.31] Some IFRS Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity's financial position and financial performance.

Aggregation and disaggregation (see paragraphs B5–B15)

25 [IAS 1.29 and IAS 1.30A] An entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. Unless doing so would override specific *aggregation* or disaggregation requirements in IFRS Standards, an entity shall apply the principles that (see paragraphs B5–B15):

(a) **items shall be classified and aggregated on the basis of shared characteristics;**

(b) **items that do not share characteristics shall not be aggregated (see paragraph 27); and**

(c) **aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed.**

26 When presenting information in the primary financial statements or disclosing information in the notes, the description of the items shall faithfully represent the characteristics of those items.

27 An entity may aggregate immaterial items that do not share characteristics. However, using a non-descriptive label such as 'other' to describe a group of such items would not faithfully represent those items without additional information. Except as described in paragraph 28, to faithfully represent aggregated items, an entity shall either:

(a) aggregate immaterial items with other items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items; or

(b) aggregate immaterial items with other items that do not share similar characteristics but which may be described in a way that faithfully represents the dissimilar items.

28 If the steps set out in paragraphs 27(a)–27(b) do not lead to descriptions that result in a faithful representation, an entity shall disclose in the notes information about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation.

Objective and roles of the primary financial statements and the notes

B3 Applying paragraph 21(a), an entity provides in the notes further information necessary for users of financial statements to understand the items included in the *primary financial statements*. Examples of such information include:

(a) *disaggregation* of the line items presented in primary financial statements;

(b) descriptions of the nature of the items included in the primary financial statements; and

(c) information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements.

B4 Applying paragraph 21(b), an entity supplements the primary financial statements with other information that is necessary to meet the objective of financial statements. Examples of such supplementary information include:

(a) information about the nature and extent of an entity's unrecognised assets, liabilities, equity, income and expenses (the elements of the financial statements); and

(b) information about an entity's exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements of the financial statements.

Aggregation and disaggregation

B5 Financial statements result from entities processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income and expenses. 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 on its own because it combines items that may have different characteristics. Disaggregated information about the elements of the financial statements arising from individual transactions or other events provides more detailed information. However, if its volume and the amount of detail make it difficult to understand, then the information about individual transactions and other events may not provide useful information about the financial position or financial performance of an entity. Consequently, an entity applies judgement about the amount of detail required to provide useful information to users of financial statements.

B6 To determine the line items presented in the primary financial statements or the items disclosed in the notes, an entity shall apply the principles of *aggregation* and disaggregation described in paragraph 25 to identify items that share characteristics. In applying the principles of aggregation an entity shall:

(a) identify the assets, liabilities, equity, income and expenses that arise from individual transactions or other events;

(b) classify 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 in the primary financial statements of line items that share at least one characteristic; and

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

Other *IFRS Standards* include additional requirements for disclosing different types of information in the notes including information about items that do not qualify for recognition in the financial statements.

B7 Applying the principles of aggregation does not necessarily mean following steps B6(a)–B6(c) sequentially. However, an entity shall consider all these steps in determining whether items that share characteristics have been classified and aggregated appropriately and ensuring that items that do not share characteristics have not been aggregated.

B8 Because the role of the primary financial statements is to provide a structured and comparable summary, the line items in the primary financial statements are likely to combine some material items that have some dissimilar characteristics. However, to be useful to users of financial statements, the items aggregated and presented as line items in the primary financial statements must share at least one characteristic other than meeting the definition of a particular element of the financial statements.

B9 In the notes, it is the concept of materiality that drives aggregation and disaggregation. To achieve the objective of financial statements, items that have dissimilar characteristics shall be disaggregated into component parts when the resulting information is material.

B10 For example, an entity may hold material amounts of *financial assets* that are equity instruments and material amounts of financial assets that are debt instruments that share the characteristic of being measured at fair value through *profit or loss*. That being so, a single line item in the entity's statement of financial position for financial assets measured at fair value through profit or loss may provide users of financial statements with a useful summary of the entity's financial assets. However, financial assets that are equity instruments are dissimilar to financial assets that are debt instruments in that they each expose the entity to different risks. Therefore, in the notes to the financial statements, the entity may need to disclose its financial assets that are equity instruments separately from its financial assets that are debt instruments if the resulting information would be material. The entity should also consider whether aggregating all of its financial assets that are equity instruments and separately aggregating all that are debt instruments would result in the loss of material information about the characteristics of those assets. If this would be the case, the entity should further disaggregate those financial assets.

B11 Aggregating items that result from individual transactions and other events into line items presented in the primary financial statements and items disclosed in the notes requires judgement about the information that will be useful. In making this judgement, an entity shall consider the balance of similar and dissimilar characteristics between aggregated items. The more characteristics items have in common the more likely it is that aggregating them will result in useful information and the more dissimilar characteristics items have the less likely it is that aggregating them will result in useful information.

Disaggregation in the statement of financial position

B12 [IAS 1.58] Applying paragraph 83(a) an entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

B13 [IAS 1.59] The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.

B14 [IAS 1.78] In addition to the disclosure requirements of other IFRS Standards, an entity uses the characteristics set out in paragraph B12 to disaggregate items presented in the statement of financial position or disclosed in the notes. The disclosures vary for each item, for example:

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

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

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

(d) provisions are disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and

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

Disaggregation in the statement(s) of financial performance

B15 [IAS 1.98] Circumstances that would give rise to the separate presentation in the statement(s) of financial performance or disclosure in the notes of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) litigation settlements; and

(f) reversals of provisions.