STAFF PAPER

September 2021

IASB® meeting

| Project | Primary Financial Statements | |
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| Paper topic | Principles of aggregation and disaggregation and their application in the primary financial statements and the notes | |
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## Objective

1. This paper sets out staff analysis and recommendations on the principles of aggregation and disaggregation and the roles of the primary financial statements and notes, following the Board discussion of Agenda Paper 21A of the April 2021 Board meeting.

2. Agenda Paper 21E *Analysis of operating expenses—presentation in the statement of profit or loss* discusses the disaggregation of operating expenses analysed by nature and function. Future papers will discuss other specific aspects of aggregation and disaggregation including:

   (a) whether to prohibit any specific forms of disaggregation of income and expenses in the notes or in the statement of profit or loss;

   (b) unusual items;

   (c) required line items; and

   (d) items labelled 'other'.

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. In relation to disaggregation in the notes, the staff recommend the Board:

    (a) set out the relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation by:

        (i) separating the general disclosure requirement from any reference to presentation in the primary financial statements.

        (ii) linking the requirement with the objective of financial statements.

        (iii) removing the reference to 'material' in the requirement.

        (iv) defining a class of assets, liabilities, income, expenses, items of equity or cash flows to be 'an aggregation of items (that is assets, liabilities, income, expenses, items of equity or cash flows) based on shared characteristics'.

        (v) explaining that:

            1. on one hand, the purpose of aggregation into such classes is to make information understandable.

            2. on the other hand, the requirement to disclose such classes applies to all material classes. Hence any class of aggregated items should be disaggregated if the resulting disaggregated classes provide material information. Material classes might arise because items have a single dissimilar characteristic.

    (b) require, as part of the disclosure of material classes, an entity to provide an explanation of which line items in the primary financial statements the class is included.

    (c) include in the standard application guidance summarising characteristics that:

        i. if shared might form the basis of aggregation of items that form a class that enhances the understandability of information provided in the financial statements.

        ii. if not shared might form the basis of disaggregation of a single class of items into separate classes that provide material information.

(d) include in the Standard application guidance that states that, in general:

(i) the more diverse the items in a class, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in material information.

(ii) the larger the class of items, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in material information.

(e) require the disclosure of information about material classes of assets, liabilities, equity, income, expenses or cash flows to apply only to the extent the information is available from the entity's internal reporting systems.

5. In relation to disaggregation in the primary financial statements, the staff recommend the Board:

(a) not develop further general aggregation or disaggregation requirements relating to comparability;

(b) include in the Standard application guidance that states that, in general:

(i) the more diverse the items in a class, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in a more understandable overview; and

(ii) the larger the class of items, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in a more understandable overview.

## Structure of the paper

6. This paper is structured as follows:

(a) summary of the Board decisions in April 2021 (paragraph 8);

(b) relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation (paragraphs 9–18);

(c) possible guidance on shared or dissimilar characteristics of items (paragraphs 19–26);

(d) specific topics relating to aggregation and disaggregation in the notes to the financial statements (paragraphs 27–35); and

(e) specific topics relating to aggregation and disaggregation in the primary financial statements (paragraphs 36–48).

7. This paper includes three appendices:

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

(b) Appendix B sets out characteristics used for aggregation and disaggregation in IFRS Standards.

(c) Appendix C sets out the detailed staff analysis on requirements for aggregation and disaggregation in the primary financial statements relating to comparability.

## Summary of Board decisions in April 2021

8. At the April 2021 Board meeting, the Board tentatively decided:

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

(i) state the purpose of disaggregation more clearly—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 between items would be sufficient to require an entity to disaggregate information about those items if that information were material.

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

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

(i) not reinstate paragraph 29 of IAS 1 *Presentation of Financial Statements* in the new IFRS Standard because it is not possible to require an entity to present complete disaggregation of material information in the primary financial statements.

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

(c) in relation to the decisions in (b), to clarify that the objective of paragraph 29 of IAS 1 continues to apply, in that entities will be required to disaggregate material information. However, the requirement for presentation in the primary financial statements will refer to information that results in an understandable summary of an entity's assets, liabilities, equity, income and expenses.

## Relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation

9. This section of the paper discusses clarification of the relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation, to follow up on the Board's tentative decisions set out in paragraphs 8(a)(i) and 8(a)(ii).

10. The Exposure Draft includes a section on general presentation and disclosure requirements before setting out specific requirements relating to each of the primary financial statements and the notes. The section on general presentation and disclosure requirements includes:

(a) a description of the objective of financial statements and the roles of the primary financial statements and the notes;

(b) a general presentation and disclosure requirement—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;

(c) aggregation and disaggregation principles, comprising:

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

(ii) items that do not share characteristics shall not be aggregated; and

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

(b) general requirements on line items and subtotals in primary financial statements; and

(d) requirements on other matters not discussed in this paper such as items labelled as 'other', offsetting and frequency of reporting.

11. As set out in paragraph 8 of this paper, at the April Board meeting the Board tentatively decided to state the purpose of disaggregation more clearly—items shall be disaggregated if the resulting disaggregated information is material.

12. The staff have considered how best to structure the general disclosure requirement and the aggregation and disaggregation principles (set out in paragraph 10(b) and 10(c) of this paper) to achieve the clarity sought by the Board. The staff recommend:

(a) separating the general disclosure requirement from any reference to presentation in the primary financial statements. The staff think this will help clarify that it is a *disclosure requirement* (an entity *shall* disclose the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow), not just a discussion of what should be shown in the primary financial statements and what should be shown in the notes;

(b) linking the requirement with the objective of financial statements. Some respondents to the Exposure Draft suggested such a link would help strengthen the proposals. It would also be consistent with the proposals in the project on the *Disclosure Initiative—Targeted Standards-level Review of Disclosures* by providing clarity on the purpose of the disclosure requirement;

(c) removing the reference to 'material' in the requirement. Materiality applies to all disclosure requirements;

(d) adding a definition of class of assets, liabilities, income or expense, equity or cash flow. A class is not defined term in the IFRS glossary. Paragraph 37 of IAS 16 *Property, Plant and Equipment* describes a class of property, plant and equipment as a grouping of assets of a similar nature and use in an entity's operations. Defining a class as 'an aggregation of items (that is assets, liabilities, income, expenses, items of equity or cash flows) based on shared characteristics' would add rigour to the disclosure requirement.

(e) explaining that:

(i) on one hand, the purpose of aggregation into such classes is to make information understandable. The *Conceptual Framework* states that classifying, characterising and presenting information clearly and concisely makes it understandable.

(ii) on the other hand, the requirement to disclose such classes applies to all material classes. Hence any class of aggregated items should be disaggregated if the resulting disaggregated classes provide material information. Such material information might arise because items have a single dissimilar characteristic.

13. Paragraphs 19–26 of this paper discuss possible further application guidance on characteristics that might be shared or dissimilar.

14. A consequence of the recommendations in paragraph 12 of this paper would be that classes are the result of any aggregation of assets, liabilities, income or expense, equity or cash flow. Hence any information about *amounts* of assets, liabilities, income, expenses, items of equity or cash flows is information about a class. Accordingly, line items, subtotals and totals in the primary financial statements can be regarded as classes (ie aggregations) of items based on the shared characteristic identified by the line item, subtotal or total. For example:

(c) the subtotal 'current assets' is a class of assets with the shared characteristic of being current, applying the definition of current assets in IAS 1; and

(d) the subtotal 'operating profit' is a class of income and expenses with the shared characteristic of being classified in the operating category of the statement of profit or loss.

15. The presentation of classes as line items, subtotals and totals in the primary financial statements is discussed in paragraphs 36–48 of this paper.

16. Other classes are disclosed in the notes, if their disclosure provides useful information, that is if they are relevant (material to the entity) and provide a faithful

representation.  These other classes could be an aggregation of some items from a single class presented in the primary financial statements or an aggregation of items from more than one line item in the primary financial statements.  For example, an entity might disclose:

(e) classes of land, buildings, factory machinery and cars that are a disaggregation of the line item ‘property, plant and equipment’ in the statement of financial position; and

(f) classes of operating expenses by nature, which include expenses from more than one of the functional line items that are presented in the statement of financial performance.

17. Users of financial statements have told us that it is important to understand how amounts disclosed in the notes relate to the line items in the primary financial statements.  Hence, the staff recommend the Board require, as part of the disclosure of material classes in the notes, an explanation of how the class disclosed in the notes is included in line items in the primary financial statements.  This would apply not only to classes disclosed because of the general disclosure requirement in the new standard but also to classes disclosed in the notes applying specific requirement in other IFRS Standards.

18. For classes that are an aggregation of items from a single line item, such an explanation would be straightforward.  For classes that are an aggregation of items from more than one line item presented in the financial statements, the staff are not proposing a quantitative analysis of the class into the amounts included in each line item.  Doing so would result, for example, in a full matrix analysis of operating expenses by nature and function—a requirement the Board decided against when developing the proposals for the analysis of operating expenses by nature and function.  At that time the Board concluded the costs of such a requirement are likely to exceed the benefits.  However, a qualitative explanation of how the class is included in line items in the primary financial statements would be helpful without being unduly burdensome.

**Questions for the Board**

Q1 Does the Board agree with the staff recommendations in paragraph 12, that is to set out the relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation by:

(a) separating the general disclosure requirement from any reference to presentation in the primary financial statements.

(b) linking the requirement with the objective of financial statements.

(c) removing the reference to 'material' in the requirement.

(d) defining a class of assets, liabilities, income, expenses, items of equity or cash flows to be 'an aggregation of items (that is assets, etc) based on shared characteristics'.

(e) explaining that:

i) on one hand, the purpose of aggregation into such classes is to make information understandable.

ii) on the other hand, the requirement to disclose such classes applies to all material classes. Hence any class of aggregated items should be disaggregated if the resulting disaggregated classes provide material information. Material classes might arise because items have a single dissimilar characteristic.

Q2 Does the Board agree that as part of the disclosure of material classes, an entity should be required to provide an explanation of how the class is included in line items in the primary financial statements?

## Guidance on characteristics that might determine aggregation and disaggregation

19. As noted in paragraph 8(a)(iii), at the April 2021 Board meeting the Board decided to explore developing guidance for entities on how to use characteristics to identify when to aggregate or disaggregate items.

20. Appendix B sets out characteristics used in IFRS Standards for aggregation or disaggregation requirements. Respondents to the Exposure Draft identified additional characteristics that if not shared by items could result in disaggregated information about the items being material (they are marked with asterix in the list in paragraph 22).

21. The staff has summarised the characteristics based on whether they relate to all items (ie assets, liabilities, equity, income, expenses and cash flows), or more particularly to specific items. The list is not intended to be exhaustive—there could be other characteristics which if dissimilar for items might indicate material information would be given by disaggregating the items. Conversely, the inclusion of a characteristic in the list does not imply that items that do not share that characteristic must always be disaggregated—disaggregation is only required if it results in material information. An entity will need to use its judgement to decide what information is material for users of its financial statements.

22. The characteristics can be summarised as:

    (a) those relating to all items:

        (i) nature;

        (ii) function;

        (iii) measurement basis;

        (iv) size of the item;

        (v) geographical location or regulatory environment;

        (vi) type, eg type of good, service or customer; and

        (vii) tax effects*, for example if different tax rates apply to items of income or expenses, or if assets or liabilities have different tax bases;

    (b) those relating particularly to assets, liabilities and equity:

        (i) duration and timing (including current/non-current and whether part of the operating cycle));

        (ii) liquidity;

(iii) measurement uncertainty or outcome uncertainty (ie risks associated with an item); and

(iv) restrictions on the use of an asset;

(c) those relating particularly to income and expenses:

(i) persistence (ie frequency, recurring or non-recurring). The persistence of an item of income or expenses is likely to be related to the risks associated with the asset or liability giving rise to the income or expenses; and

(ii) relating to past periods/relating to current period* (ie whether the income or expenses is a remeasurement or re-estimate of an asset or liability arising from transactions in past periods or is the result of transactions in the current period).

23. As noted in Agenda Paper 21A of the April 2021 Board meeting, when the Board considered including in the Exposure Draft such a list of the Board decided not to because of concerns about:

(a) how any discussion of 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.

24. The first concern can be addressed by including words similar to those included 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….'.

25. The second concern can be addressed by explaining the characteristics are examples of characteristics that:

(a) if shared might form the basis of aggregation of items that form a class that enhances the understandability of information provided in the financial statements; and

(b) if not shared might form the basis of disaggregation of a single class of items into separate classes that provide material information.

26. The standard can further state that which characteristics will result in aggregation that helps the understandability of information or in disaggregation that provides material information will depend on the items being aggregated or disaggregated and the specific circumstances of the entity. The standard could include illustrative examples such as:

(a) supply chain finance—an entity might determine that being part or not part of a supply chain finance arrangement results in invoices outstanding from suppliers having sufficiently dissimilar characteristics of timing of settlement and liquidity that separate presentation would help an understanding of an entity's financial position, or that disclosure would provide material information; and

(b) revenue taxed at different rates—an entity might determine that tax characteristics of different items of revenue are sufficiently dissimilar that disclosure would provide material information.

| **Question for the Board** |
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| Q3 Does the Board agree that the Standard should include application guidance summarising characteristics that:<br>(a) if shared might form the basis of aggregation of items that form a class that enhances the understandability of information provided in the financial statements; and<br>(b) if not shared might form the basis of disaggregation of a single class of items into separate classes that provide material information. |

### Aggregation and disaggregation in the notes to the financial statements

27. This section of the paper discusses topics relating to aggregation and disaggregation in the notes to the financial statements. It is structured as follows:

(a) guidance to support the identification of material classes; and

(b) whether there should be any cost relief.

### *Guidance to support the identification of material classes*

28. When discussing Agenda Paper 21A of the April Board meeting, some Board members asked the staff to consider guidance that would support the concept of materiality in the requirement to disclose all [material] classes of items. 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. However, it might be helpful to state that, in general:

    (a) the more diverse the items in a class, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in material information; and

    (b) the larger the class of items, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in material information.

| **Question for the Board** |
|---|
| Q4 Does the Board agree that the Standard should state that, in general:<br>(a) the more diverse the items in a class, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in material information; and<br>(b) the larger the class of items, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in material information. |

### *Is there a need for any cost relief?*

29. The *Conceptual Framework* states:

2.39 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting the information…

2.42 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information….

30. Accordingly when the Board sets specific requirements, including disclosure requirements, it assesses the costs and benefits of the requirements. However, in this case, we are considering a very general disclosure requirement—an entity shall disclose all [material] classes of assets, liabilities, income, expenses, equity and cash flows. The staff have considered whether it would be consistent with the discussion in the *Conceptual Framework* to balance that requirement with a cost relief.

31. Arguments against such a cost relief are:

(a) such a cost relief might severely weaken the application of the requirement, which already exists in IAS 1 without any cost relief. The fact the requirement already exists implies the Board has previously concluded the benefits of the requirement exceed its costs. (The staff acknowledge that there are different interpretations of the existing requirement, see paragraph 32(a)).

(b) the concept of materiality itself limits the classes that should be disclosed. Disclosure of an additional class of assets, liabilities, income, expenses, equity or cash flows is required only if information about that class is material, given the information already provided by other classes of assets etc. There comes a point at which any additional disaggregation will not provide material information. The staff acknowledges that an entity will have to undertake some work to assess whether a class of information is material, but thinks that assessment will often be considerably less costly than collecting the information needed to make the disclosure.

(c) if the information is material, it is likely to often be available from an entity's existing reporting systems and hence, for most entities, the cost of providing the information will not exceed the benefits.

(d) if such a cost relief were provided in the Standard, it might be difficult for preparers and auditors to assess when it applied, ie when the cost of providing information about a specific class of assets etc outweighed the benefits. In 2018, the Board proposed amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include a cost-benefit threshold in relation to the retrospective application of a voluntary accounting policy change resulting from an IFRIC Agenda Decision. Many respondents to that proposal said applying the proposed cost-benefit threshold could be both (a) challenging and costly, and (b) difficult to audit and enforce. Also, some respondents said entities might not use the proposed cost-benefit threshold as often as the Board might have expected, because of the subjective nature of the assessment (particularly that of expected benefits).

32. Arguments for a cost relief are:

    (a) without a cost relief, the requirement might seem unduly burdensome. Although the requirement already exists in IAS 1, the feedback to the Exposure Draft indicates that it is interpreted is different ways, and hence perhaps the clarifications tentatively decided by the Board in April 2021 should be assessed as a new requirement.

    (b) the level of generality inherent in the requirement makes it closer to a principle in the *Conceptual Framework*, meaning the cost constraint should be included in some way to balance the requirement. It would be important to emphasise any such cost relief would apply only to the general disclosure requirement, not to any specific disclosure requirements in the Standard for example the requirements relating to the analysis of operating expenses (the question of a specific cost relief for those requirements will be discussed in a future Board paper).

33. Possible approaches to giving some cost relief for the general disclosure requirement are:

    (a) require information about classes of assets etc to be provided only to the extent the information is available without undue cost or effort. This would be consistent with:

        (i) the approach in IFRS 9 *Financial Instruments* to applying the expected credit loss impairment model, which requires an entity to consider all reasonable and supportable information that is available without undue cost or effort; and

(ii) the approach in IFRS 17 *Insurance Contracts* to determine the probability-weighted average of the full range of possible outcomes, considering all reasonable and supportable information that is available without undue cost or effort.

IFRS 9 and IFRS 17 specify that information available for financial reporting purposes (paragraph B5.5.49 of IFRS 9) or from an entity's own information systems (paragraph B37 of IFRS 17) is considered to be available without undue cost or effort.

(b) require information about classes of assets etc to be provided only to the extent the information is available from the entity's internal reporting systems. This would be consistent with the approach in paragraph 19 of IFRS 17 on the assessment of whether contracts that not onerous at initial recognition have no significant possibility of becoming onerous. As noted in paragraph 31(c), we think that material information will often be so available. However, we acknowledge that will not always be the case, for example feedback on the proposals in the Exposure Draft on the analysis of operating expenses indicated that some entities could not get the information proposed to be disclosed from their existing systems (see paragraphs 22(b) and 44–45 of Agenda Paper 21F of the December 2020 Board meeting).

(c) include no cost relief in the Standard but explain in the Basis for Conclusions that the information is likely often to be available from an entity's existing reporting systems. However, as noted in paragraph (b), we know that there are some cases where information we think is material is not currently available.

34. Given the arguments in paragraphs 31 and 32, the staff recommend the approach in paragraph 33(b). We think it gives an appropriate balance between costs and benefits because we think most material information will be captured and the costs of capturing additional information will be avoided.

35. The staff also considered whether there should be any relief for disclosure of information an entity regards as confidential. A few respondents raised this matter on the disclosure of tax and non-controlling interests on reconciling items for

management performance measures (see paragraphs 74–82 of Agenda Paper 21H of December 2020 Board meeting). IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is the only IFRS Standard that provides relief for disclosure of confidential information. However, that relief is very limited—to situations in which the entity expects information disclosed about a provision over which it is in dispute with other parties to prejudice seriously the entity's position. More generally, the staff does not expect disaggregation of material information to be so granular that it would result in the disclosure of confidential information. Hence, the staff does not think that relief from the disclosure of confidential information is necessary or appropriate.

| **Question for the Board** |
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| Q5 Does the Board agree that the general requirement to disclose information about material classes of assets etc should apply only to the extent the information is available from the entity's internal reporting systems? |

## Aggregation and disaggregation in the primary financial statements

36. As explained in paragraph 14 of this paper, the line items, subtotals and totals presented in the primary financial statements are classes of assets, liabilities, equity, income, expenses and cash flows. This section of the paper discusses possible further guidance on aggregation and disaggregation of classes in the primary financial statements, resulting in additional line items and subtotals, following on from:

    (a) the Board's tentative decisions in April 2021 (see paragraph 8 of this paper);

    (b) the staff recommendations in paragraphs 9–18 on the relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation; and

    (c) the discussion in paragraphs 19–26 of this paper of characteristics that might determine aggregation and disaggregation.

37. This section of the paper is structured as follows:

(a) overview of proposals in the Exposure Draft and tentative decisions by the Board so far (paragraphs 38–42);

(b) aggregation and disaggregation that is useful for making comparisons (see paragraphs 43–44); and

(c) aggregation and disaggregation that is useful for obtaining an understandable overview (see paragraphs 45–48).

### *Overview of proposals in the Exposure Draft and tentative decisions by the Board so far*

38. As set out in paragraph 10 of this paper, the Exposure Draft includes a section on general presentation and disclosure requirements which in relation to the primary financial statements includes:

(a) the role of the primary financial statements (paragraph 20 of the Exposure Draft, set out in paragraph 39 of this paper); and

(b) general requirements on line items and subtotals (paragraph 42 of the Exposure Draft, set out in paragraph  of this paper).

39. At the April 2021 Board meeting the Board decided to include a reference to understandability in the description of the role of primary financial statements. The resulting description of the primary financial statements is (subject to future drafting, changes from the Exposure Draft shown as mark up):

> 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. The objective is achieved by providing financial information in the primary financial statements and in the notes.
>
> 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 understandable 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.[1]

40. Paragraph 42 of the Exposure Draft (brought forward from paragraphs 55, 55A, 85 and 85A of IAS 1) states:

> 42 This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

41. As a consequence, classes are presented in the primary financial statements if either:

    (a) they are a required line item, subtotal or total. Required (minimum) line items will be discussed in a future Board paper; or

    (b) they are relevant to *an understanding* of the entity's financial performance or financial position. [2]

42. The next sections of the paper discuss whether further guidance on aggregation and disaggregation should be given on:

    (a) aggregation and disaggregation that is useful *for making comparisons*, to support the aspect of the role of primary financial statements described in paragraph 20(b) of the Exposure Draft;

    (b) aggregation and disaggregation that is useful *for an understanding overview*, to support the aspect of the role of primary financial statements described in

[1] Paragraph 20(c) of the Exposure Draft is included here for completeness. It refers to the inclusion in the primary financial statements of cross-references to related notes. It does not have any implications for aggregation or disaggregation.

[2] As explained in Agenda Paper 21A of the April 2021 Board meeting, we 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 of Agenda Paper 21A of the April 2021 Board meeting)

paragraph 20(a) of the Exposure Draft and the requirement for additional line items and subtotals in paragraph 42 of the Exposure Draft;

### *Aggregation and disaggregation that is useful for making comparisons*

43. The staff considered whether to develop further requirements on aggregation and disaggregation *in general* in the primary financial statements to improve comparability, for example developing a hierarchy of characteristics for each statement. The staff concluded that no such *general* requirements are necessary because sufficient comparability is provided by the existing requirements. Appendix C sets out the detailed staff analysis.

44. Feedback on comparability relating to the analysis of operating expenses by nature or function is discussed in Agenda Paper 21E of this meeting. Feedback on comparability relating to other specific aggregation and disaggregation topics, such as required line items, the labelling of classes of items as 'other' and unusual items will be discussed in future Board papers.

### *Aggregation and disaggregation that is useful for obtaining an understandable overview*

45. As noted in paragraph 39 of this paper, at the April 2021 Board meeting the Board decided to include a reference to understandability in the description of the primary financial statements. The reason for doing this is to be consistent with:

    (a) 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*; and

    (b) the requirements of paragraph 42 of the Exposure Draft (brought forward from paragraphs 55 and 85 of IAS 1) which refer to presentations that are relevant to *an understanding* of the entity's financial performance or financial position.[3]

46. The staff have considered whether to develop any guidance on how to determine what information would be useful for obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows, ie an understanding of an entity's financial position in the statement of financial position and the entity's financial performance in the statement(s) of financial performance. As with the guidance on disaggregation of material classes discussed in paragraph 28 of this paper, the staff does not think it is possible to develop specific requirements because any such understandable overview will inevitably be driven by factors specific to an individual entity. However, it might be helpful to introduce similar ideas of proportionality as those set out in paragraph 28 of this paper:

(a) the more diverse the items in a class presented as a line item, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in a more understandable overview. For example, usually more disaggregation will be needed for expenses than for revenue.

(b) the larger the class of items presented as a line item, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in a more understandable overview.

47. Although the ideas in paragraph 46 are similar to those set out in paragraph 28 of this paper, it is important to remember they have different objectives—providing an understandable overview compared to providing material information. Accordingly the judgements made applying the ideas will differ. More disaggregation will be required to disclose material information than will be needed to provide an understandable overview.

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[3] As explained in Agenda Paper 21A of the April 2021 Board meeting, we 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 42–44of Agenda Paper 21A of the April 2021 Board meeting).

48. The staff also considered whether to add illustrative examples, in particular to emphasise the removal of the requirement in IAS 1 to present material classes of items does not imply that an entity does not need to present of classes of items when doing so is necessary to provide an understandable overview. Possible illustrative examples include:

(a) supply chain finance—as noted in paragraph 26(a), an entity might determine that characteristics of timing of settlement and liquidity of invoices outstanding from suppliers are sufficiently dissimilar if they are or are not part of a supply chain finance arrangement that separate presentation would help an understanding of an entity's financial position; and

(b) liabilities for which the timing of settlement is conditional on future events—an entity might determine that the characteristic of timing of settlement of such liabilities is sufficiently dissimilar from that characteristic for other liabilities that separate presentation is useful for an understanding of an entity's financial position.

**Questions for the Board**

Q6 Does the Board agree it should not develop further general aggregation or disaggregation requirements relating to comparability?

Q7 Does the Board agree that the Standard should state that, in general:

(a) the more diverse the items in a class, that is the more the items have dissimilar characteristics in addition to the shared characteristic(s) that form the basis for the class, the more likely disaggregation based on some of those dissimilar characteristics would result in a more understandable overview; and

(b) the larger the class of items, the more likely it is to include items with dissimilar characteristics for which disaggregation would result in a more understandable overview?

## Appendix A—Linkages with other project areas that will be discussed in other Board papers

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

| Linked topic | How is the topic linked to the discussion in this paper? |
|---|---|
| Whether to prohibit any forms of disaggregation | This paper analyses possible requirements and application guidance to support disaggregation in the notes or in the primary financial statements. However, disaggregation of income and expenses beyond that specified in IFRS Standards could lead to disclosure or presentation of amounts not measured in accordance with IFRS Standards. Should the Board put any constraints around such disaggregations? |
| Unusual items | The Board's redeliberations on unusual items could be informed by the discussion of characteristics—what are the characteristics that make items 'unusual'? What are the benefits of a specific requirement for such items? |
| Required line items | The Board's redeliberations on required line items could be informed by the discussion in this paper on:<br>(a) not extending the hierarchy of characteristics that determine what line items should be presented, because doing so could impose a structure on an entity that results in a primary financial statement not achieving its objective of being in a useful summary (paragraph 51 of this paper); and<br>(b) not developing requirements on what is necessary to give 'an understandable overview', because any such understandable overview will inevitably be driven by factors specific to an individual entity (paragraph 54 of this paper). |
| Items labelled as 'other' | The Board's redeliberations on 'other' items could be informed by the guidance the staff recommend on disclosure of material classes (see paragraph 28 of this paper) and on what is necessary to give an understandable overview (paragraph 54 of this paper). |

## Appendix B –Characteristics for aggregation and disaggregation mentioned in other IFRS Standards

B1. The following table is based on IFRS Standards issued as of 1 September 2021. A detailed summary of the requirements in each IFRS Standard included in the table is available upon request.

| IFRS Standard and paragraph references | Nature | Function | Measurement basis | Size | Liquidity | Duration and timing (including current, non-current) | Persistence (frequency, recurring-non-recurring) | Uncertainty, subjectivity or risk | Type (of product service, method to distribute, etc) | Geographical location, regulatory environment or restrictions on use |
|---|---|---|---|---|---|---|---|---|---|---|
| **IFRS 2 *Share-based Payment* (para. 44)** | X | | | | | | | | | |
| **IFRS 3 *Business Combinations* (para. B64)** | X | | | | | | | | | |
| **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (para. 38)** | X | | | | | X | | | | |
| **IFRS 7 *Financial Instruments: Disclosures* (paras. 6, 8, 24J, 31, 39, 42B)** | X | | X | | X | X | | X | | X |
| **IFRS 8 *Operating Segment* (paras.12, 33-34)** | X | | | | | X | | | X | X |
| **IFRS 9 *Financial Instruments* (paras.4.1.1, 4.2.1)** | | | X | | | | | | | |
| **IFRS 12 *Disclosure of Interests in Other Entities* (para. 10)** | X | | | | | | | X | | |
| **IFRS 13 *Fair Value Measurement* (paras. 91 and 94)** | X | | X | | | | X | X | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **IFRS 14 *Regulatory Deferral Accounts* (para. 27)** | X | | | | | | | X | | |
| **IFRS 15 *Revenue from Contracts with Customers* (paras. 114 and B89)** | X | | | X | | X | | X | X | X |
| **IFRS 16 *Leases* (paras. 53, 58, 59, 92, 94, 95 and 97)** | X | X | | | | X | | X | | |
| **IFRS 17 *Insurance Contracts* (paras. 93, 96, 99, 109 and 109A)** | | | | | | X | | X | X | X |
| **IAS 2 *Inventories* (paras. 36-37, 39)** | | | X | | | | | | X | |
| **IAS 7 *Statement of Cash Flows* (paras. 10 and 48)** | | X | | | | | | | | X |
| **IAS 12 *Income Taxes* (paras 79-80).** | | | | | | X | | | | |
| **IAS 16 *Property, Plant and Equipment* (para.37)** | X | X | | | | | | | | |
| **IAS 19 *Employee Benefits* (para.138)** | X | | | | | | | X | | X |
| **IAS 24 *Related Party Disclosures* (para.19)** | | | | | | | | | X | |
| **IAS 36 *Impairment of Assets* (para. 131)** | X | | | | | | | | | |
| **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (para.85)** | X | | | | | X | | X | | |
| **IAS 38 *Intangible Assets* (paras. 118 and 119)** | X | X | | | | | | | | |
| **IAS 40 *Investment Property* (para. 75)** | | X | X | | | | | | | |
| **IAS 41 *Agriculture* (para.43)** | X | | | | | | | | | |

## Appendix C—Detailed analysis of aggregation and disaggregation in the primary financial statements that is useful for making comparisons

C1. Paragraph 43 explains that the staff considered whether to develop further general requirements on aggregation and disaggregation in the primary financial statements to improve comparability, but concluded that no such general requirements are necessary. Our detailed analysis is set out in this Appendix.

C2. One of the key drivers for the project was to improve comparability by requiring a more consistent structure to the statement of profit or loss. Accordingly, all entities will be required to aggregate income and expenses into categories of operating, investing and financing in the statement of profit or loss. In addition, entities will be required to present classes of operating expenses determined by shared characteristics of nature or function, rather than classes of operating expenses determined by any other shared characteristics (see Agenda Paper 21E for this meeting).

C3. Similarly, in the statement of financial position, IAS 1 requires an entity to present classes of current and non-current assets and current and non-current liabilities, or classes of assets and liabilities determined by shared characteristics of liquidity. In the statement of cash flows, an entity is required to present classes of cash flows determined by characteristics of operating, investing and financing.

C4. These requirements establish limited hierarchies of characteristics that result in a comparable presentation in the primary financial statements:

- (a) in the statement of profit or loss:
    - (i) operating/investing/financing/income tax/discontinued operations;
    - (ii) income/expenses; and
    - (iii) for operating expenses, nature or function;
- (b) in the statement of financial position:
    - (i) assets, liabilities, equity; and
    - (ii) current/non-current or liquidity;
- (c) in the statement of cash flows:

(i) operating/investing/financing; and

(ii) inflows/outflows.

C5. The staff considered whether to extend these hierarchies to require a consistent approach to the presentation of additional disaggregated line items in the primary financial statements (in addition to required line items which will be discussed in a future Board meeting). However, feedback from respondents to the Exposure Draft indicates that the changes already decided for the statement of profit or loss will achieve major improvements in comparability. There were no requests for additional *general* aggregation or disaggregation requirements to strengthen the comparability of the primary financial statements. Further, extending the hierarchies could impose a structure on an entity that results in a primary financial statement not achieving its objective of being in a useful summary. Accordingly, the staff has not developed any further general aggregation or disaggregation requirements in this regard.