IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Primary Financial Statements**
Topic	**General disaggregation requirements–further issues**
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Objective

1. This paper discusses possible further requirements and application guidance relating to the general disaggregation requirements to be included in IFRS X *General Presentation and Disclosures*.

Staff recommendations

2. The staff recommend the IASB:

   (a) clarify that an entity is required to:

      (i) describe disaggregated amounts in a clear and understandable manner that would not mislead users; and

      (ii) be transparent about the meaning of the terms used and the methods applied to the disaggregation.

   (b) add a requirement that any line items presented in the statement(s) of financial performance and the statement of financial position should be recognised and measured in accordance with IFRS Accounting Standards.

(c) not prohibit the disaggregation of income and expenses in the notes to the financial statements into components not recognised and measured in accordance with IFRS Accounting Standards.

(d) in relation to the use of the label 'other', extend the proposals in the Exposure Draft:

   (i) for the label 'other' to be used only if no more informative label can be found.

   (ii) if no more informative label can be found for an aggregation of diverse *material* items, to require the label 'other' to be as precise as possible about the type of item the 'other' amount is, for example 'other operating expenses', or 'other finance expenses'.

   (iii) if no more informative label can be found for an aggregation of diverse *immaterial* items, to require an entity to consider whether the aggregated amount is sufficiently large that users of financial statements might question what it includes. If so, further information about that amount is material and accordingly must be provided. Examples of what might be material information about the amount are:

      1. an explanation that no material items are included in the amount; or

      2. an explanation that the amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item.

Structure of the paper

3. The background to the general requirements on disaggregation to be included in IFRS X is set out in paragraphs 4–11 of Agenda Paper 21B of this meeting.

4. This paper is structured as follows:

   (a) whether to add application guidance on how to improve the description of disaggregated amounts (see paragraphs 5–8). This would be an addition to the proposals in the Exposure Draft.

   (b) whether to add a prohibition on some forms of disaggregation of income and expenses (see paragraphs 9–25). This would be an addition to the proposals in the Exposure Draft.

   (c) whether to clarify the proposals in the Exposure Draft on the use of the label 'other' (see paragraphs 26–34). This would be an extension of the proposals in the Exposure Draft.

Possible application guidance on how to improve the description of disaggregated amounts

5. This section of the paper considers whether application guidance in IFRS X would help an entity improve the description of disaggregated amounts disclosed in the notes to the financial statements or presented in the primary financial statements. It responds to:

   (a) suggestions made by IASB members when the IASB discussed at its September 2022 meeting withdrawing the specific proposals in the Exposure Draft on unusual income and expenses (see Agenda Paper 21A). The suggestions were to explore ways of ensuring that if an entity did describe income and expenses as unusual, it would explain how it determined whether income and expenses were unusual and would apply the term consistently.

   (b) more generally, feedback from some users of financial statements that better descriptions of disaggregated amounts would be helpful.

6. The IASB discussed a similar issue in November 2021 relating to the disclosures for management performance measures (see Agenda Paper 21C). The IASB tentatively decided to add application guidance on how an entity could apply the requirement to

describe a management performance measure in a clear and understandable manner that would not mislead users. The guidance would address the need for an entity to be transparent about the meaning of the terms used and the methods applied, in particular when they differ from those used when applying IFRS Accounting Standards.

7. Similar guidance could apply to disaggregated amounts. Paragraph 26 of the Exposure Draft proposed that the description of items presented in the primary financial statements or disclosed in the notes should faithfully represent the characteristics of the items. Consistent with the approach the IASB tentatively decided for management performance measures, we could clarify the requirement in paragraph 26 of the Exposure Draft by adding specific requirements for an entity:

   (a) to describe disaggregated amounts in a clear and understandable manner that would not mislead users; and

   (b) to be transparent about the meaning of the terms used and the methods applied to the disaggregation.

8. Such application guidance would not be necessary for all disaggregated amounts. Some disaggregations will be understandable without explanation, for example a disaggregation of revenue by well-defined geographical regions. However, other disaggregations will be based on characteristics that need explanation. For example, if an entity determined that there are items of income or expenses with sufficiently dissimilar recurrence characteristics that disclosing them separately would provide material information, and described the income or expenses as unusual, it would need to explain the basis for the disaggregation and provide a definition of what it regards as unusual.

Question for the IASB

1. Does the IASB agree to clarify that an entity is required to:

   (a) describe disaggregated amounts in a clear and understandable manner that would not mislead users; and

Question for the IASB

(b) be transparent about the meaning of the terms used and the methods applied to the disaggregation?

Should any forms of disaggregation of income and expenses be prohibited?

9. Paragraph 7.14 of the *Conceptual Framework* describes two types of classification that could form the basis of disaggregation:

   (a) income and expenses resulting from the unit of account selected for an asset or liability; [1] or

   (b) components of such income and expenses if those components have different characteristics and are identified separately, for example a change in the current value of an asset can include the effects of value changes and the accrual of interest.

10. The first type of disaggregation (paragraph 9(a)) is disaggregation of income and expenses based on the different characteristics of the transactions and other events that create the income or expenses. It does not involve disaggregating income or expenses from a single transaction (or unit of account) into components. Examples of the first type of disaggregation that we have discussed in this project are:

    (a) disaggregation of operating expenses by nature;

    (b) disaggregation of income and expenses with recurrence characteristics that differ because of the transactions that give rise to the income or expenses; and

    (c) disaggregation of income and expenses relating to associates and joint ventures with different characteristics.

[1] The Conceptual Frameworks describes this type of disaggregation as resulting from the unit of account selected for an asset or liability because, in principle, income and expenses arise from changes in value of assets and liabilities, even if for example an asset is consumed immediately giving rise to an expense without the asset ever being recognised.

11. This section of the paper focuses on the second type of disaggregation (paragraph 9(b)), that is disaggregation of income and expenses from a single transaction (or unit of account) into components. Examples of that type of disaggregation are:

   (a) disaggregation of the change in the fair value of cash-settled employee share options into current service cost and remeasurements of past service costs—such disaggregation is not specifically required by IFRS 2 *Share-based Payment*, but would seem to be useful information. IAS 19 *Employee Benefits* requires disaggregation of such components for defined benefit expenses.

   (b) disaggregation of the change in fair value of financial assets measured at fair value through profit or loss (FVPL) into 'interest revenue' and other changes—this is permitted by paragraph B5(e) of IFRS 7 *Financial Instruments: Disclosures* and used by some banks (both for disclosure in the notes and presentation in the statement of profit or loss).

   (c) disaggregation of the change in fair value of investments into an 'expected long term investment return' (based on a rate expected to be relatively stable over long periods) and short-term changes, described by some as 'investment variances, short term fluctuations and economic assumption changes'—some insurers asked for the expected long term investment return to be included in the operating category and short-term changes somewhere else.

   (d) disaggregation to provide amounts measured using an accounting policy not permitted under IFRS Accounting Standards—for example some entities disaggregate in the notes to the financial statements revenue recognised in accordance with IFRS 15 *Revenue from Contracts with Customers* into an amount measured on a non-GAAP basis (for example cash or a constant currency measurement) and an adjustment to reconcile to the IFRS 15 amount. To prevent such disaggregation of insurance revenue in the statement of profit or loss, paragraph 85 of IFRS 17 *Insurance Contracts* prohibits an entity from presenting premium information in the statement of profit or loss if the information is inconsistent with the measurement of insurance revenue required by the Accounting Standard.

12. In Agenda Paper 21A for the July 2021 IASB meeting, the staff explained that, when classifying amounts into the categories in the statement of profit or loss, income and expenses could not be disaggregated into components of income and expenses not identified in an IFRS Accounting Standard, to achieve the comparable structure that is the objective of the categories. Accordingly, the IASB tentatively decided to classify in the financing category interest expense and the effect of changes in interest rates for liabilities that are not only raising financing, *when such amounts are identified applying the requirements of IFRS Accounting Standards*.

13. Having defined the categories in such a way, this paper considers whether the IASB should also prohibit disaggregation of income and expenses into amounts not identified applying the requirements of IFRS Accounting Standards in:

    (a) the statement(s) of financial performance; and

    (b) the notes to the financial statements.

The statement(s) of financial performance

14. As discussed in Agenda Paper 21B for this meeting, the role of the primary financial statements is to provide a structured 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.

15. In addition, paragraph 43 of the Exposure Draft (paragraph 85A of IAS 1 *Presentation of Financial Statements*) states that *additional subtotals* presented by an entity in the statement of profit or loss shall comprise line items made up of amounts recognised and measured in accordance with IFRS Accounting Standards. Amounts recognised

and measured in accordance with IFRS Accounting Standards include components of income and expenses that are identified in an IFRS Accounting Standard, for example the interest revenue amount of a change in the fair value of assets measured at FVPL described in paragraph 11(b) of this paper.

16. It would be consistent with the requirement in paragraph 43 of the Exposure Draft to require *any* additional line items to be made up of amounts recognised and measured in accordance with IFRS Accounting Standards, regardless of whether they are included in an additional subtotal. Several IASB members suggested such an approach when the IASB discussed the use of a columnar presentation for management performance measures in June 2022 (see Agenda Paper 21A of that meeting). They said all amounts presented in the primary financial statements should be recognised and measured in accordance with IFRS Accounting Standards.

17. Extending the requirement in paragraph 43 of the Exposure Draft to all additional line items would enhance the comparability and understandability of the statement of profit or loss. The presentation of amounts that are not recognised and measured in accordance with IFRS Accounting Standards is likely to lessen the comparability and understandability of the statement of profit or loss to a greater extent than the presentation of the first type of disaggregated amounts described in paragraph 9(a). For amounts that are not recognised and measured in accordance with IFRS Accounting Standards, the explanation of how they have been determined discussed in paragraphs 5–8 of this paper would be particularly necessary—such an explanation can only be given in the notes to the financial statements, not in the primary financial statements.

18. In assessing whether to extend the requirement in paragraph 43 of the Exposure Draft to all additional line items, the staff also considered whether doing so might affect the way a columnar approach might be used, for example to disaggregate income and expenses into revenue and capital amounts. However, the totals of such columns are subtotals that would already need to comprise amounts recognised and measured in accordance with IFRS Accounting Standards to comply with paragraph 85A of IAS 1.

Accordingly, the disaggregation into columns is unlikely to be a disaggregation into amounts **not** made up of amounts recognised and measured in accordance with IFRS Accounting Standards.

19. The analysis in paragraphs 14–18 relates to the statement of profit or loss. However, the same principles apply to the statement of other comprehensive income. Accordingly, the staff recommend that any components of income and expenses presented in the statement(s) of financial performance should be recognised and measured in accordance with IFRS Accounting Standards.[2]

20. Paragraph 43 of the Exposure Draft applied to the statement of financial position as well as the statement(s) of financial performance. Accordingly if we extended the requirement in paragraph 43 for amounts to be recognised and measured in accordance with IFRS Accounting Standards to all line items presented, the requirement would apply to line items in the statement of financial position. We are not aware of any examples of disaggregation of assets and liabilities into components not recognised or measured in accordance with IFRS Accounting Standards, so do not expect such an extension of the requirement to have an effect in practice.

Question for the IASB
2. Does the IASB agree that any line items presented in the statement(s) of financial performance and the statement of financial position should be recognised and measured in accordance with IFRS Accounting Standards?

The notes to the financial statements

21. One of the objectives of this project is to enhance disaggregation in financial statements. There are circumstances in which disaggregation of income and expenses

[2] There are other requirements relating to presentation in the statement(s) of financial performance. Accordingly there could be components of income and expenses that are recognised and masured in accordance with IFRS Accounting Standards but that nonetheless could not be presented as line items in the statement(s) of financial performance.

into amounts not recognised or measured in accordance with IFRS Accounting Standards would provide useful information, for example disaggregation of the change in fair value of cash-settled employee share options into a service cost and a remeasurement of amounts relating to past service.

22. The IASB discussed in the Disclosure Initiative whether to develop any requirements in relation to voluntary disclosures in financial statements (see paragraphs 21–27 of Agenda Paper 21B of the March 2022 IASB meeting). It decided not to do so:

    (a) because feedback indicated that most stakeholders support information not required by IFRS Accounting Standards being permitted in the financial statements in some circumstances; and

    (b) because of the difficulties involved in identifying what disclosures were voluntary and which were required by the general requirements relating to material information.

23. Similarly, in the case of disaggregation of income and expenses into components of income and expenses not recognised or measured in accordance with IFRS Accounting Standards, we think that there are circumstances when such disaggregation would provide useful information and that it would be difficult to identify when that is the case and when it is not.

24. Further, the risk of an entity providing disaggregated information in the notes that is not useful would be mitigated by the requirements for any disaggregation in the notes:

    (a) not to obscure relevant information or reduce the understandability of the information disclosed (as required by paragraph 25(c) of the Exposure Draft brought forward from paragraph 30A of IAS 1); and

    (b) to be a faithful representation of the disaggregated amounts, as discussed in paragraphs 5–8 of this paper.

25. Accordingly, the staff recommend the IASB permits disaggregation of income and expenses into components not recognised or measured in accordance with IFRS

Accounting Standards in the notes to the financial statements. We plan to achieve this not through an explicit statement of permission in IFRS X, but simply by IFRS X not prohibiting such disaggregation.

Question for the IASB
3. Does the IASB agree not to prohibit disaggregation of income and expenses into components not recognised and measured in accordance with IFRS Accounting Standards in the notes to the financial statements?

When can the label 'other' be used to describe an amount?

Proposals in the Exposure Draft

26. Paragraph 26 of the Exposure Draft proposed that the description of material information about amounts disclosed in the notes or presented in the primary financial statements shall faithfully represent the characteristics of the items. Paragraphs 27 and 28 of the Exposure Draft gave further requirements for aggregations of immaterial 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:
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> (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.
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> 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 items consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation.

27. Paragraph BC24 of the Basis for Conclusions explains that the requirements on aggregation and disaggregation generally were intended to promote the right level of aggregation: too much aggregation hides material information, too much disaggregation can obscure material information within detailed immaterial information. Paragraph BC25 acknowledges an entity may need to aggregate immaterial items with dissimilar characteristics to avoid obscuring material information, and such aggregations are often labelled ‘other’. The proposals in the Exposure Draft were intended to provide more useful information about aggregations of dissimilar immaterial items.

Feedback on the proposals in the Exposure Draft

28. Most respondents commented on the proposals to require an entity to use meaningful labels for the group of immaterial items that are not similar and how to consider whether it is appropriate to use non-descriptive labels such as ‘other’. Many agreed with the proposals but some disagreed or wanted further guidance.

29. Those respondents who provided reasons for agreeing with the proposals relating to items labelled as ‘other’ said they agreed with the proposals because they would:

(a) improve clarity and consistent application across entities;

(b) provide information about the composition of the items aggregated in 'other', which is useful for users of financial statements; and

(c) similar to principles of aggregation and disaggregation, help ensure material information is not obscured.

30. Those respondents who provided reasons for disagreeing with the proposals relating to items labelled as 'other' explained their reasons for disagreement as follows, with users focusing on (a) and (c):

(a) the proposal could result in clutter in financial statements and the resulting information may not be useful to users;

(b) it may be challenging to apply the proposal, as often many items are combined in groups labelled as 'other';

(c) disclosure of immaterial information is inconsistent with both IAS 1 and the proposals in the Exposure Draft which specify that an entity need not provide disclosures required by an IFRS Accounting Standard if the information resulting from the disclosures is immaterial; and

(d) labelling items as 'other' is sufficient to inform users that information about such items is not material.

31. The respondents who asked for the following additional guidance asked for:

(a) an illustrative example of best practice for items labelled as 'other';

(b) a specific disaggregation threshold, which could be either a mandatory quantitative threshold or a rebuttable threshold and could apply either to items labelled as 'other' or more generally;

(c) clarification of whether the use of 'other' as a label would be prohibited.

Staff analysis

32. The feedback indicated some confusion over the proposals in the Exposure Draft. To avoid such confusion we have considered the different types of aggregation that could be labelled 'other':

    (a) an aggregation of material items—such an aggregation could be provided to summarise information but would have to be disaggregated into the material items.

    (b) an aggregation of a material item with immaterial items—disaggregation of such an amount would only be required if the immaterial items obscured information about the material item; or

    (c) an aggregation of immaterial items—no disaggregation of such an amount would be required.

33. The proposals in paragraphs 27 and 28 of the Exposure Draft related only to the type of aggregation described in paragraph 32(c). However, feedback indicates that guidance on the use of the label 'other' for all the types of aggregation would be helpful.

34. Building on the proposals in the Exposure Draft, the staff recommend that:

    (a) the label 'other' should be used only if no more informative label can be found. More informative labels can be found, for example:

        (i) if immaterial items are aggregated with a material item, an entity could label the amount in a way that describes the material item;

        (ii) if immaterial items are aggregated with other immaterial items, an entity could aggregate items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items (as proposed in paragraph 27(a) of the Exposure Draft); or

(iii) if immaterial items are aggregated with other immaterial items, an entity could aggregate items with other items that do not share similar characteristics but which may be described in a way that faithfully represents the dissimilar items (as proposed in paragraph 27(b) of the Exposure Draft); and

(b) if no more informative description than ‘other’ can be found for an aggregation of diverse *material* items, the label should be as precise as possible about the type of item that the ‘other’ amount is, for example ‘other operating expenses’, or ‘other finance expenses’. That contextual information is likely to be obvious in a paper format but could be lost in a digital format.

(c) if no more informative label can be found for an aggregation of diverse *immaterial* items, an entity should consider whether the aggregated amount is sufficiently large that users of financial statements might question what it includes. If so, *further information about that amount is material* and accordingly must be provided. That is the case despite the fact the amount is made up of individually immaterial items. Examples of what might be material information about the amount are:

(i) an explanation that no material items are included in the amount; or

(ii) an explanation that the amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item (as proposed in paragraph 28 of the Exposure Draft).

35. In response to the feedback described in paragraph 31(a) and 31(b) of this paper:

(a) the illustrative examples that accompanied the Exposure Draft included an example of disclosure to explain what was included in an amount labelled ‘other’. We will consider how best to illustrate any revised requirements as we develop illustrative examples for IFRS X; and

(b) it is not possible for the IASB to set a specific disaggregation threshold, because the extent of disaggregation required depends on what information is material, which is an entity-specific assessment.

Question for the IASB
4. Does the IASB agree: (a) the label ‘other’ should be used only if no more informative label can be found. (b) if no more informative label can be found for an aggregation of diverse *material* items, the label ‘other’ should be required to be as precise as possible about the type of item that the ‘other’ amount is, for example ‘other operating expenses’, or ‘other finance expenses’. (c) if no more informative label can be found for an aggregation of diverse *immaterial* items, an entity should consider whether the aggregated amount is sufficiently large that users of financial statements might question what it includes. If so, further information about that amount is material and accordingly must be provided. Examples of what might be material information about the amount are: (i) an explanation that no material items are included in the amount; or (ii) an explanation that the amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item.