STAFF PAPER

May 2018

IASB® Meeting

Project	**Primary Financial Statements**
Paper topic	Additional proposals on aggregation and disaggregation

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Purpose of the paper

1. This Agenda paper seeks the Board's views on additional staff proposals to improve the level of aggregation and disaggregation of line items in the primary financial statements and in the notes.

Overview

2. This paper is structured as follows:

   (a) Summary of staff recommendations (paragraph 3)

   (b) Introduction (paragraphs 4–6)

   (c) Issues identified (paragraphs 7–56);

      (i) Issue 1. What could be the characteristics for aggregating (or disaggregating) items in the financial statements and should any characteristic be prioritised? (paragraphs 7–26)

      (ii) Issue 2. Should the Board consider introducing quantitative thresholds to promote more disaggregation of groups of items? (paragraphs 27–44); and

      (iii) Issue 3. Should the Board develop a principle for determining the location of financial information in the financial statements? (paragraphs 45–56).

   (d) Appendix A— Summary of staff proposals at the March 2017 meeting;

(e) Appendix B— Characteristics for aggregation and disaggregation mentioned in other IFRS Standards; and

(f) Appendix C—Aggregation/disaggregation guidance mentioned by other standard setters.

Summary of staff recommendations in this paper

3. The staff recommend the Board:

   (a) includes in IAS 1 the following non-exhaustive list of characteristics that could be used as a basis for disaggregating or aggregating financial information:

      (i) nature;

      (ii) function (ie how an item is used);

      (iii) measurement basis;

      (iv) size;

      (v) liquidity (including current, non-current);

      (vi) duration and timing;

      (vii) persistence (ie frequency, recurring or non-recurring nature);

      (viii) uncertainty, subjectivity or risks associated with an item;

      (ix) type (for example, of product, service, production process, financial instrument, funding arrangements, customer or supplier for products and services or of methods used to distribute products or provide services);

      (x) geographical location or regulatory environment; and

      (xi) held for disposal or held for sale.

   (b) prioritises the characteristics of function and nature only allowing preparers to select other characteristics to use when aggregating or disaggregating financial information on the basis of the entity's own facts and circumstances;

(c) does not introduce thresholds or rebuttable presumptions for aggregation or disaggregation of financial information. Instead we recommend developing examples of disaggregation of groups of items that could be used to illustrate when it is not acceptable to disclose large residual or ‘other’ balances; and

(d) includes a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in the Discussion Paper Disclosure Initiative: Principles of Disclosure. That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when a Standard gives entities the choice to provide financial information in the primary financial statements or in the notes.

Introduction

Board discussions at the March 2017 Board meeting[1]

4. At its March 2017 Board meeting, the Board discussed staff proposals that could guide the aggregation and disaggregation of information in the financial statements. The Board tentatively decided to develop (refer to paragraphs A1–A3 of Appendix A):

(a) principles for aggregation and disaggregation in the financial statements;

(b) definitions of the notions ‘classification’, ‘aggregation’ and ‘disaggregation’; and

(c) guidance on the steps involved in applying ‘classification’, ‘aggregation’ and ‘disaggregation’ when preparing financial statements.

[1] For a full discussion of the staff proposals refer to March 2017 (Agenda Paper 21C). For the Board’s tentative decisions in regards to these proposals refer to IASB *Update* of March 2017.

5. The staff think that the Board was generally supportive of the direction of the staff proposals. However, some Board members noted that the staff could address additional aspects on aggregation and disaggregation. More specifically, the staff could consider:

(a) characteristics that could serve as a basis for separation and/or disaggregation of items in the financial statements (this issue is addressed as part of our analysis of Issue 1 in paragraphs 7–19);

(b) quantitative thresholds that could promote more disaggregation of groups of items (this issue is addressed as part of our analysis of Issue 2 in paragraphs 27–44); and

(c) the location of financial information in the primary financial statements or the notes (this issue is addressed as part of our analysis of Issue 3 in paragraphs 45–56).

Views from ASAF members

6. At the April 2018 Accounting Standards Advisory Forum (ASAF) meeting, the staff provided a summary of the staff proposals to improve the level of aggregation and disaggregation of financial information. ASAF members were generally supportive of the Board's tentative decisions and the staff proposals[2]. A summary of the feedback received is included in our analysis of the issues discussed in this paper.

Issue 1. What could be the characteristics for aggregating (or disaggregating) items in the financial statements and should any characteristic be prioritised?

Background

7. At the March 2017 Board meeting, the Board was supportive of the staff proposals to:

(a) classify/aggregate assets, liabilities, equity, income and expenses that are similar on the basis of shared characteristics; and to disaggregate assets, liabilities, equity, income and expenses on the basis of characteristics that

[2] The summary of this meeting is still in draft form and will be published in due course.

make them dissimilar (refer to Principles 1 and 2 in paragraph A1 of Appendix A).

(b) use *nature* and *function* as characteristics that should be used as a basis for aggregating or disaggregating assets, liabilities, equity, income and expenses.

8. At that meeting the Board was also supportive of the staff proposal to do some further work on clarifying the basis for disaggregation of items in the financial statements, focusing particularly on:

(a) identifying additional characteristics (other than nature and function) that would make items similar or dissimilar from one another (refer to Issue 1(a) in paragraphs 9–19); and

(b) exploring whether any of the characteristics identified would have equal weight or whether any characteristic would take priority or possibly form some sort of hierarchy (refer to Issue 1(b) in paragraphs 20–26).

Issue 1(a): Identification of additional characteristics for aggregation or disaggregation

9. To help us identify additional characteristics (other than function and nature) for aggregation and disaggregation, the staff considered the following:

(a) Existing guidance in IAS 1 (paragraphs 11–12);

(b) Guidance in other IFRS Standards (paragraph 13); and

(c) Guidance provided by other standard-setters (paragraph 14).

10. In addition, we discuss the following aspects:

(a) Would it be useful to consolidate into one list characteristics for aggregation or disaggregation? (paragraph 15);

(b) How have we developed the consolidated list of characteristics? (paragraphs 16–17); and

(c) Should the consolidated list be non-exhaustive? (paragraph 18).

Staff analysis

Existing guidance in IAS 1

11. Paragraph 30 of IAS 1 refers to an aggregation process where items are aggregated together to form a 'class' of information if they have a similar nature or function.

12. A number of paragraphs in IAS 1 mention the following additional characteristics for aggregating or disaggregating items:

   (a) the size of an item or of a group of items (paragraph 57(a))

   (b) the liquidity of assets (paragraph 58(a));

   (c) the amounts and timing of liabilities (paragraph 58(c));

   (d) different measurement bases[3] (paragraph 59);

   (e) current assets or liabilities/non-current assets or liabilities (paragraph 60);

   (f) in paragraphs 86 and 101:

      (i) frequency;

      (ii) potential for gain or loss; and

      (iii) predictability.

Guidance in other IFRS Standards

13. From a review of the presentation and disclosure requirements of different IFRS Standards we were able to identify characteristics used to identify classes of items in the financial statements (refer to the first two columns in the table included in Appendix B in this paper). We found that some characteristics mentioned in IFRS Standards are the same as those mentioned in IAS 1 (eg nature, function and measurement basis). However, IFRS Standards mention additional aggregation or disaggregation characteristics applicable to the particular transactions or business activities within the scope of those Standards (for example: uncertainty, risk and

[3] Paragraph 7.7 Chapter 7 of the revised Conceptual Framework Measurement defines 'classification' as the 'sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include—but are not limited to—the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

subjectivity). In paragraphs 16–17 we provide our suggestions for developing a consolidated list of characteristics.

Guidance provided by other standard-setters

14. Other standard-setters provide non-exhaustive lists of aggregation or disaggregation characteristics to assist in the identification of line items in the financial statements. Appendix C provides examples of the guidance provided by other standard-setters.

Would it be useful to consolidate into one list characteristics for aggregation or disaggregation?

15. The staff think that consolidating into one list the characteristics for aggregation or disaggregation identified in IAS 1 and in other IFRS Standards would be useful because doing so would promote a better understanding of what makes items similar or dissimilar from one another, providing better guidance for preparers in making judgements about aggregation and disaggregation. This would be likely to lead to more consistency around aggregation and disaggregation decisions and hence, more comparable information for users.

How have we developed the consolidated list of characteristics?

16. In developing a consolidated list of characteristics for aggregation and disaggregation, we looked for similarities between the characteristics found in IAS 1 and in other IFRS Standards and grouped together similar items. Appendix B summarises our analysis and proposed grouping of these characteristics.

17. On the basis of our analysis of characteristics in IFRS Standards, including IAS 1, (see Appendix B), we propose that the consolidated list comprise the following characteristics:

    (a) nature;

    (b) function (ie how an item is used);

    (c) measurement basis;

    (d) size;

    (e) liquidity (including current, non-current);

(f) duration and timing;

(g) persistence (ie frequency, recurring or non-recurring nature);

(h) uncertainty, subjectivity or risks associated with an item;

(i) type (for example, of product, service, production process, financial instrument, funding arrangements, customer or supplier for products and services or of methods used to distribute products or provide services);

(j) geographical location or regulatory environment; and

(k) held for disposal or held for sale.

Should the consolidated list be non-exhaustive?

18. We think that the consolidated list of characteristics should be described as non-exhaustive, as preparers may need to consider other characteristics when deciding how to provide information in a way that does not obscure relevant information or reduce the understandability of the information provided.

Staff proposal

19. We think that the Board should include in IAS 1 the consolidated list shown in paragraph 17 of characteristics that could be used as a basis for disaggregating or aggregating financial information. This list should be described as non-exhaustive.

Issue 1(a)—Questions to the Board
1. The staff recommend including in IAS 1 the consolidated list shown in paragraph 17 of characteristics that could be used as a basis for disaggregating or aggregating financial information. This list should be described as non-exhaustive. Does the Board agree?

Issue 1(b): Should any of the characteristics identified be prioritised?

Background

20. As explained in paragraph 7(b) of this paper the Board has already agreed to use nature and function as characteristics that should be used as a basis for aggregating or disaggregating assets, liabilities, equity, income and expenses.

21. If the Board decides to include the consolidated list of characteristics shown in paragraph 17 of this paper, the next question to consider is whether there should be a priority for the other characteristics identified (ie other than nature and function).

Staff analysis

22. Prioritising characteristics other than nature or function using a hierarchy or ranking system (for example, requiring disaggregation based on type of asset first and then measurement basis used and finally risk) would provide some level of consistency in the identification of items that are similar or dissimilar.

23. However, there are several disadvantages to developing a hierarchy or ranking system for other characteristics:

    (a) it would be quite inflexible across the full range of assets, liabilities, equity, income and expenses;

    (b) businesses are different, so one characteristic may result in the most relevant information for one businesses but another characteristic may provide the most relevant information for another business, depending on their specific facts and circumstances; and

    (c) developing a hierarchy or ranking system could be challenging as the relative importance of each characteristic may depend on facts and circumstances and particular user needs.

24. On the basis of the disadvantages identified in paragraph 23, we think that the Board should not prioritise characteristics other than nature and function. We think that entities should be allowed to select from the consolidated list, the characteristics for aggregation or disaggregation on the basis of the entity's own facts and

circumstances. Therefore, the characteristics identified in the consolidated list of characteristics would have equal weight and would be equally considered by a preparer when aggregating or disaggregating information in the financial statements.

25. We think that our suggestion would be consistent with the way the aggregation and disaggregation requirements are applied in other IFRS Standards. IFRS Standards do not generally allocate a specific weight to an aggregation or disaggregation characteristic and allow an entity to use judgement in deciding what information to present or disclose, according to the presentation and disclosure objectives in each IFRS Standard.

Staff proposal

26. We recommend the Board to prioritise the characteristics of function and nature only allowing preparers to select other characteristics to use when aggregating or disaggregating financial information on the basis of the entity's own facts and circumstances.

Issue 1(b)—Question to the Board
1. The staff recommend that the Board should prioritise the characteristics of function and nature only allowing preparers to select other characteristics to use when aggregating or disaggregating financial information on the basis of the entity's own facts and circumstances. Does the Board agree?

Issue 2. Should the Board consider introducing quantitative thresholds to promote more disaggregation of groups of items?

Background

27. At the March 2017 Board meeting, some Board members expressed their concerns about the practice of disclosing a large residual or 'other' category (eg other assets, other liabilities, other operating cash flows) in the financial statements. The Board directed the staff to explore developing requirements that would encourage greater disaggregation of these 'other' categories.

28. At the September 2017 Board meeting the staff suggested that a way to overcome the over-aggregation of line items could be to introduce quantitative thresholds for the disaggregation of these ‘other’ categories. Some Board members appeared to support this approach.

29. We discussed the advantages and disadvantages of introducing quantitative thresholds with ASAF members at their meeting in April 2018. There was little support from ASAF members for introducing quantitative thresholds. We will refer more specifically to their views in our staff analysis.

30. In a meeting we had with users from Japan in March 2018, only a few users supported the introduction of thresholds. They were of the view that thresholds should be developed by regulatory authorities as a way to improve the enforceability of disaggregation requirements in the financial statements.

Staff analysis

What is a threshold?

31. A threshold is ‘a level, rate, or amount at which something comes into effect’[4].

32. Developing a threshold implies defining:

    (a) a numerator, which would involve defining the specific items to which the threshold would apply;

    (b) a denominator, which would involve defining the line item total or subtotal that would serve as a basis for determining if the threshold has been met or not; and

    (c) determining a limit for the threshold (eg a percentage).

33. To understand the mechanics of how quantitative thresholds would work, consider a simple example where an entity provides a break-down of its ‘other expenses’. If a threshold is imposed requiring the disaggregation of expenses that exceed 10% of total ‘other expenses’, the entity would then be ‘required’ to disaggregate further all the expenses that exceed the 10% threshold as shown in the illustration below:

[4] We consulted the online version of the Oxford Dictionary.

Assuming a threshold of 10%				
Other expenses		***%***		
Legal costs on litigation	54	***3%***		
Insurance	199	***9%***		
Auditors' remuneration	135	***6%***		
Repair and maintenance costs	1,304	***61%***		Further disaggregation required
Utilities	142	***7%***		
Other	316	***15%***		Further disaggregation required
	2,150			

34. The staff have recently performed outreach activities with some national standard-setters and some regulators to obtain information about their local requirements on aggregation and disaggregation (refer to Appendix A in May 2018 Agenda Paper 21). The feedback received revealed that some standard-setters and regulators include in their local regulations quantitative thresholds that promote further disaggregation (refer to paragraphs A19–A20 from Appendix A). For example, the U.S. Securities and Exchange Commission's Regulation S-X has a quantitative threshold for the separate presentation of revenue line items. Article 5 of Regulation S-X (Rule 5-03 Income Statements) requires the separate presentation of revenue categories (ie operating revenues, income from rentals, revenues from services or other revenues) that exceed 10 percent of total revenues. We observe, however, that different approaches are taken by different regulators to define numerators, denominators or limits to their thresholds.

What are the advantages of introducing quantitative thresholds?

35. The advantages of introducing quantitative thresholds are that they:

(a) potentially 'force' greater disaggregation in the financial statements resulting in the disclosure of more relevant information; and

(b) are more enforceable than having qualitative requirements or principles, because there is less discretion available to the preparer.

36. The Japanese ASAF member expressed support for the advantage noted in paragraph 35(a) above. He said that in his jurisdiction thresholds have become an effective tool to promote more disaggregation, in particular to avoid the presentation of large 'other' items.

What are the disadvantages of quantitative thresholds?

37. Some disadvantages of introducing quantitative thresholds are that:

    (a) introducing quantitative thresholds may override materiality judgements and require entities to present or disclose immaterial items that meet the quantitative threshold (or deter them from disclosing material items that do not meet the required quantitative threshold); and

    (b) developing quantitative thresholds could be challenging as it would imply defining numerators, denominators and limits. For example,

        (i) Should the threshold apply only to specific line items or should it be imposed as a general principle to promote the disaggregation of groups of accounts?

        (ii) Should the denominator be a specific total or subtotal related to a specific group of accounts; or, should it be a more 'generic' subtotal?

        (iii) what should be the limit for a particular threshold? (should it be for example, 5 per cent? 10 percent? or another limit?)

38. Some ASAF members agreed with the disadvantages described in paragraph 37 of this paper. In addition, they were concerned that introducing a quantitative threshold could potentially conflict with both:

    (a) the definition of materiality in IAS 1 which refers to both the nature and size of omissions and misstatements; and

    (b) the non-authoritative guidance in IFRS Practice Statement 2 Making Materiality Judgements which specifies that making materiality judgements involves both quantitative and qualitative considerations.

39. We agree with the concerns expressed by ASAF members about introducing a quantitative threshold. Judging whether an item is material should not rely solely on quantitative thresholds.

40. In addition, we think that a quantitative threshold should not override a materiality judgement (ie assessing whether an item or group of items is material) or deter an

entity from analysing whether an item is dissimilar from another item[5]. Consequently, *even if*:

(a) the items comprising a group of items exceed a specific threshold, an entity may decide *not* to disaggregate this group because items are homogenous; or,

(b) the amounts of each (or some) of the items comprising the group are below the required threshold, an entity may decide to disaggregate this group because items are dissimilar and material.

Are there any other alternatives to requiring *a 'threshold'?*

41. A few Board members have suggested that thresholds could still be considered, not as a requirement to achieve a particular level of disaggregation, but more, as a form of guidance to help preparers use their judgment in determining the appropriate level of disaggregation. One way of doing this could be to develop a 'rebuttable presumption' that residual of 'other' balances in excess of the threshold should be disaggregated unless the resulting information would not be material.

42. Developing a threshold for the rebuttable presumption could still be challenging (see paragraph 37). However, the existence of a rebuttable presumption would enable entities to continue to apply materiality when deciding what to disclose.

43. Another alternative would be to abandon the idea of developing thresholds and instead develop examples of disaggregation of groups of items that could be used to illustrate when it is not acceptable to disclose large residual or 'other' balances.

Staff proposal

44. For the reasons outlined in paragraph 37 of this paper, we think that the Board should not introduce thresholds or rebuttable presumptions for aggregation or disaggregation of financial information. We think that the Board should instead develop examples of disaggregation of groups of items that could be used to illustrate when it is not acceptable to disclose large residual or 'other' balances.

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[5] On the basis of the staff proposed definition of 'disaggregation' in Appendix A and our analysis in Issue 1 of this paper.

Issue 2—Questions to the Board

1. The staff do not recommend introducing thresholds or rebuttable presumptions for aggregation or disaggregation of financial information. Instead we recommend developing examples of disaggregation of groups of items that could be used to illustrate when it is not acceptable to disclose large residual or 'other' balances. Does the Board agree?

Issue 3. Should the Board develop a principle for determining the location of financial information in the financial statements?

Background

45. At the March 2017 Board meeting, a few Board members suggested that we should develop a principle to help entities decide what information should be presented on the face of the primary financial statements and what information should be disclosed in the notes.

Staff analysis

Existing guidance

46. The current wording in paragraph 30 of IAS 1 provides some guidance about what should be presented in the primary financial statements and what should be disclosed in the notes:

> Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. **An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.** [emphasis added]

What is the problem?

47. We observe that the use of the term 'sufficiently material' in paragraph 30 of IAS 1 is confusing because it implies that information separately presented in a primary

financial statement is 'more material' than information in the notes. We do not think that the location of a line item is a question of whether something is more or less material. Information included in the notes may be as material as information included in the primary financial statements. Paragraph 30 of IAS 1 also does not provide entities with clear guidance that helps them determine when it is appropriate to present an item separately in the primary financial statements or disclose the information in the notes.

48. We think that the location of information in the primary financial statements or in the notes should depend on the different roles of the primary financial statements and the notes.

49. Paragraphs 3.22 and 3.28 in Section 3 of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*) included descriptions of the roles of the primary financial statements and the notes. The feedback received on the Discussion Paper[6] was broadly supportive of the proposed descriptions of the roles of the primary financial statements and of the notes because those roles would help preparers and users of the financial statements identify the boundaries between the primary financial statements and the notes. The roles were described as follows:

> (a) the role of the primary financial statements is to provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses, which is useful for:
>
> (i) obtaining an overview of the entity's assets, liabilities, equity, income and expenses;
>
> (ii) making comparisons between entities and reporting periods; and
>
> (iii) identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes.
>
> (b) the role of the notes is to:
>
> (i) provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and

[6] A complete summary of the views expressed by respondents is in February 2018 Agenda Paper 11G.

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

50. An important implication of considering the roles of the primary financial statements and the notes would be that different levels of aggregation may be needed in different parts of the financial statements, namely:

(a) a higher level of aggregation would be used to summarise information about the entity's assets, liabilities, equity, income and expenses in its primary financial statements in order to fulfil the role of those statements; and

(b) a lower level of aggregation (ie more disaggregation) may be used for the presentation of information about the entity's assets, liabilities, equity, income and expenses in the notes to the financial statements.

Interaction of guidance on the location of information with other requirements in IAS 1

51. Deciding the location of financial information on the basis of the roles of the primary financial statements and the notes could be viewed as conflicting with the requirements to present minimum line items (where material) or subtotals in the primary financial statements—for example: the minimum line items required in paragraphs 54, 81A-81B, 82, 82A of IAS 1; or the requirement to present additional line items, headings and subtotals in some of the primary financial statements (ie paragraphs 55 or 85 of IAS 1).

52. For example, a non-financial institution could consider that presenting information about material gains or losses arising from its financial assets (for example, the minimum line items required in paragraphs 82(aa), 82(ca)–(cb) of IAS 1) on the face of the statement(s) of financial performance is unnecessary considering the role of the primary statements.

53. However, we do not think that entities should be given the discretion to override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. In developing the requirements of particular Standards, the Board has concluded that providing information about these minimum line items and subtotals in the primary financial statements is necessary to

provide useful information about an entity's financial position or financial performance.

54. We observe that other requirements in IAS 1 allow an entity to present specific information in the primary financial statement *or* in the notes. For example, the requirement in paragraph 90 of IAS 1 to disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, *either* in the statement(s) of financial performance or in the notes. We think that in these cases, an entity should also consider the role of the primary financial statements and the role of the notes in determining the location of the information required.

Staff proposal

55. We think that the Board should consider including a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes proposed by the Disclosure Initiative Principles of Disclosure. This principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements.

56. In line with our proposal, we think that the proposed principle should also indicate that when a Standard gives entities the choice to provide financial information in the primary financial statements or in the notes, the entity should also consider those same roles in determining the location of that information.

Issue 3—Questions to the Board

1. The staff recommend:

(a) including a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in the Discussion Paper Disclosure Initiative: Principles of Disclosure;

(b) that principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements; and

(c) that an entity should also apply that principle when a Standard gives entities the choice to provide financial information in the primary financial statements or in the notes.

Does the Board agree?

Appendix A – Summary of staff proposals at the March 2017 meeting

March 2017 meeting

A1. For the March 2017 Board meeting, the staff developed the following principles for aggregation and disaggregation:

> Principle 1: 'Items that share similar characteristics should be classified and aggregated together'.
>
> Principle 2: 'Items that are dissimilar from other items should not be combined with other items and should be separated or disaggregated'.
>
> Principle 3: 'Aggregation and disaggregation in the financial statements should not obscure relevant information or reduce the understandability of the information presented and should also contribute to a faithful representation of the items presented'.

A2. The staff proposed defining the notions of 'classification', 'aggregation' and 'disaggregation' on the basis of the descriptions of 'classification' and 'aggregation' included in paragraphs 7.10 and 7.14 of the *Conceptual Framework for Financial Reporting* Exposure Draft (published in May 2015). The staff proposed that these definitions be as follows:

> Classification is the sorting of assets, liabilities, equity, income and expenses and cash flows on the basis of shared characteristics.
>
> Aggregation is the adding together of individual items that share characteristics and are classified together.
>
> Disaggregation is the separation of an item or group of items into dissimilar component parts.

A3. The staff proposed that the guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements be as follows:

> The primary financial statements and the notes are a result of classification, aggregation, disaggregation and summarisation, where an entity:
>
> (a) classifies information into groups or classes of items (on the basis of similar characteristics) or separates items that have dissimilar characteristics;

(b) aggregates or disaggregates such information so that it faithfully represents and makes understandable the information it purports to represent; and

(c) summarises information in the notes to the level of detail needed to meet the IFRS disclosure objectives and requirements.

These steps conclude with the presentation of condensed and classified data in the primary financial statements and in the notes.

Appendix B –Characteristics for aggregation and disaggregation mentioned in other IFRS Standards[7]

IFRS Standard and paragraph references	Extracts of paragraph references	Nature	Function	Measurement basis	Size	Liquidity (including current, non-current)	Duration and timing	Persistence (frequency, recurring-non-recurring)	Uncertainty, subjectivity or risk	Type (of product service, method to distribute, etc)	Geographical location or, regulatory environment	Held for disposal/held for sale
IFRS 2 *Share-based Payment* (para. 44)	(Para. 44) Disclose information that enables users understand the nature and extent of share-based payment arrangements.	X										
IFRS 3 *Business Combinations* (para. B64(i))	(Para. B64(i)).The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.	X										
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (para. 38)	(Para. 38). An entity shall present a non-current asset classified as *held for sale* and the assets of a disposal group classified as held for sale *separately* from other assets in the statement of financial position. The liabilities of a disposal group classified as *held for sale* separately from other assets in the statement of financial position					X						X
IFRS 7 *Financial Instruments: Disclosures* (paras. 8, 31, 42B)	Para. 8 requires the disclosure of different categories of financial assets and liabilities attending to their *measurement* (ie at fair value through profit or loss, amortised cost or fair value through OCI). Para. 31 requires an entity disclosures that enable users evaluate the nature and extent of *risks* arising from financial instruments. Para. 42B requires information that enables users evaluate the *nature* of, and *risks* associated with the entity's continuing involvement in derecognised financial assets.			X					X			

[7] We have based our analysis on IFRS Standards required for accounting periods beginning on 1 January 2018.

IFRS Standard and paragraph references	Extracts of paragraph references	Nature	Function	Measurement basis	Size	Liquidity (including current, non-current)	Duration and timing	Persistence (frequency, recurring-non-recurring)	Uncertainty, subjectivity or risk	Type (of product service, method to distribute, etc)	Geographical location or, regulatory environment	Held for disposal/held for sale
IFRS 8 *Operating Segment* (paras.12, 33-34)	(Para 12). Aggregation of operating segments should be based on similarities in the *nature* of the products and services, production processes; or *the type or class of customer* for their products and services or the *nature of the regulatory environment*, or the *methods used to distribute* products or provide services. (Para.33) requirements to report geographical information (revenues from external customers) and non-current assets in the entity's country of domicile and located in all foreign countries. (Para 34). Information about major customers.					X				X	X	
IFRS 9 *Financial Instruments* (paras.4.1.1, 4.2.1)	(paras.4.1.1 & 4.2.1)) Classification of financial assets and financial liabilities on the basis of their subsequent measurement.			X								
IFRS 12 *Disclosure of Interests in Other Entities* (para. 10)	Para. (10) shall disclose information that enables users evaluate the *nature*, extent, of significant restrictions and *nature* of *risks* associated with an entity's interests in consolidated structured entities.	X							X			
IFRS 13 *Fair Value Measurement* (paras. 91 and 94)	Appropriate classes of assets and liabilities should be identified on the basis of: (a) 'the nature, characteristics and *risks* of the asset or liability, as well as the 'the level of the fair value hierarchy within which the fair value measurement is categorised' placing special emphasis on the degree of *uncertainty* and *subjectivity* when determining the number of classes *for fair value measurements* categorised within Level 3; and (b) whether its fair value is determined on a *recurring* or *non-recurring* basis.	X		X				X	X			
IFRS 14 *Regulatory Deferral Accounts* (para. 27)	(Para. 27(a)) Disclose information that enables users to assess the *nature* of, and the *risks* associated with, the rate regulation that	X							X			

IFRS Standard and paragraph references	Extracts of paragraph references	Nature	Function	Measurement basis	Size	Liquidity (including current, non-current)	Duration and timing	Persistence (frequency, recurring-non-recurring)	Uncertainty, subjectivity or risk	Type (of product service, method to distribute, etc)	Geographical location or, regulatory environment	Held for disposal/held for sale
	establishes the price(s) that the entity can charge customers											
IFRS 15 *Revenue from Contracts with Customers* (paras. 114 and B89)	(Para 114). Revenue recognised from customers is disaggregated into categories that depict how the *nature*, *amount, timing and uncertainty* of revenue and cash flows are affected by economic factors. Para B89 requires an entity to consider disaggregating revenue by *type of good or service* (eg major product lines); or by *market or type of customer*; *type of contract*; contract *duration*; *timing* of transfer of goods and services; sales *channels*.	X			X		X		X	X	X	
IAS 2 *Inventories* (paras. 36-37, 39)	(Para 36(c)). The carrying amount of inventories carried at fair value less costs to sell. (Para 37). Information about the carrying amounts held in different classifications of inventories and the extent of changes in these assets (ie merchandise, production, supplies, work in progress, finished goods). (Para. 39) Disclosure of common classifications of costs recognised as an expense for raw materials and consumables, labour costs and other costs			X						X		
IAS 7 *Statement of Cash Flows* (para. 10)	(Para. 10) the statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities,		X									
IAS 12 *Income Taxes* (paras 79-80).	(Paras. 79-80). Disclosure of major components of tax expense (current/deferred).					X						
IAS 16 *Property, Plant and Equipment* (par.37)	(Para 37) Grouping of property, plant and equipment of a similar *nature* or *use* in an entity's operations	X	X									

IFRS Standard and paragraph references	Extracts of paragraph references	Nature	Function	Measurement basis	Size	Liquidity (including current, non-current)	Duration and timing	Persistence (frequency, recurring-non-recurring)	Uncertainty, subjectivity or risk	Type (of product service, method to distribute, etc)	Geographical location or, regulatory environment	Held for disposal/held for sale
IAS 19 *Employee Benefits* (para.138)	(Para 138) Disaggregation of plans or groups of plans with materially different *risks.* Provides examples of different features that could be considered when disaggregating those plans (different geographical locations, different characteristics, regulatory environments, or funding arrangements)	X							X		X	X
IAS 24 *Related Party Disclosures* (para.19)	(Para 19) requires separate disclosures for different types of relationships between an entity and its related parties.									X		
IAS 36 *Impairment of Assets* (para. 131)	(Para 131(a)) Disclose the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.	X										
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (para.85)	(Para 85(a)-(b)). For each class of provision, disclose: the *nature* of the obligation, expected *timing* of any resulting outflows; indication of the *uncertainties* about the amount or *timing* of any resulting outflows.	X					X		X			
IAS 38 *Intangible Assets* (para. 119)	(Para 119). A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations	X	X									
IAS 40 *Investment Property* (paras. 74-75)	(Para. 74) Disclose whether entity applies fair value model or cost model to investment property. (Para. 75) Entity should disclose criteria used to distinguish investment property from owner-occupied property and property held for sale in the ordinary course of business		X	X								
IAS 41 *Agriculture* (para.43)	(Para. 43) Distinguish between consumable and bearer biological assets or between mature and immature biological assets, as appropriate.	X										

Appendix C – Aggregation/disaggregation guidance mentioned by other standard setters

C1. The UK Accounting Standards Board (ASB) (now the FRC) groups into one single list aggregation/disaggregation characteristics that lead to 'good financial reporting' in its Statement of Principles for Financial Reporting (paragraph 7.10 of Chapter 7). We reproduce paragraph 7.10 below:

> 7.10 Information on financial performance needs to be presented in a way that focuses attention on these components and on their key characteristics. Therefore, although it is not of fundamental importance whether one or more than one performance statement is provided, the presentation—including the headings used and the items that appear under each heading—is important. Good presentation of financial performance information typically involves:
>
> (a) recognising only gains and losses in the statement of financial performance.
>
> (b) classifying components by reference to a combination of function (such as production, selling and administrative) and of the nature of the item (such as employment costs, interest payable and amounts written off investments).
>
> (c) distinguishing amounts that are affected in different ways by changes in economic conditions or business activity (for example, by providing segmental information or by presenting income from continuing and discontinued operations as separate components).
>
> (d) identifying separately:
>
> > (i) items that are unusual in amount or incidence judged by the experience of previous periods or expectations of the future.
> >
> > (ii) items that have special characteristics, such as financing costs and taxation.
> >
> > (iii) items that are related primarily to the profits of future, rather than current, accounting periods, such as some research and development expenditure.

C2. Paragraph 20 of FASB's Concepts No. 5 *Recognition and Measurement in the Financial Statements of Business Enterprises* mentions that: (emphasis added) 'components of financial statements that consist of items that have similar characteristics in one or more respects, such as *continuity* or *recurrence*, *stability*, *risk* and *reliability* are likely to have more predictive value than if their characteristics are dissimilar'. FASB Accounting Standards Codification® incorporates additional characteristics not included in their Concepts Statements. For example, Topic 360-10-50-1 Property, Plant and Equipment requires the disclosure of (emphasis added): 'Balances of major classes of depreciable assets, by *nature* or *function*, at the balance sheet date'.

C3. Paragraph PR37 of FASB's Exposure Draft of Proposed Statement of Financial Accounting Concepts Statement 8—Conceptual Framework for Financial Reporting

Chapter 7: Presentation[8] includes 'some important considerations in determining the line items that are necessary in a particular financial statement and the individual items to include in each line item'. We understand that work on this project is ongoing. We reproduce paragraph PR37 below:

> PR37. The following are some important considerations in determining the line items that are necessary in a particular financial statement and the individual items to include in each line item:
>
> a. The event that caused an item to be recognized, for example, a transaction, a change in circumstances or conditions, an accounting adjustment like systematic allocation, or an accounting change
>
> b. The activity with which an item is associated
>
> c. Similarities and differences in the frequency with which similar components of comprehensive income are expected to result in similar amounts to be recognized in the future
>
> d. The expected time until realization or settlement of an asset or liability
>
> e. The expected form (for example, cash or shares) of realization or settlement of an asset, liability, or in certain circumstances an equity instrument
>
> f. The types of changes in economic conditions that can affect the cash flows related either to an existing asset or liability or to similar revenues, expenses, and gains or losses in the future.
>
> g. Similarities and differences in measurement methods.
>
> Factors (a), (b), and (c) are closely related to one another and are more useful in grouping items in comprehensive income and cash flows than in grouping assets and liabilities. Factors (d) and (e) relate to assets and liabilities, and factors (f) and (g) relate to line items in comprehensive income as well as assets and liabilities.

[8] Issued in August 11, 2016 Comments Due: November 9, 2016.