

---

## IASB® meeting

Date	<b>January 2023</b>
Project	<b>Primary Financial Statements</b>
Topic	<b>General requirement to disaggregate material information— implications of the IASB's tentative decisions on specific disclosure requirements</b>
Contacts	Anne McGeachin (amcgeachin@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

---

## Objective

1. The IASB has made some tentative decisions in this project to withdraw specific disclosures proposed in the Exposure Draft *General Presentation and Disclosures*. This paper discusses the implications of those tentative decisions for the general requirement to disaggregate material information.

## Staff recommendations

2. The staff recommend the IASB gives an exemption from the general requirement to disaggregate material information in relation to information about the nature of operating expenses that are included in a function line item in the statement of profit or loss. All specific disclosure requirements in IFRS Accounting Standards relating to the nature of operating expenses would not be affected by the exemption and would continue to apply.

---

## Structure of the paper

3. The background to the general requirement to disaggregate material information is set out in paragraph 7 of Agenda Paper 21B of this meeting.
4. The paper is structured as follows:
  - (a) the implications of tentative decisions to withdraw specific disclosures proposed in the Exposure Draft (paragraphs 5–17 of this paper);
  - (b) whether there should be a general cost relief from the general requirement to disaggregate material information (see paragraphs 18–21);
  - (c) whether there should be a specific exemption from the general requirement to disaggregate material information relating to nature operating expenses (see paragraphs 22–43 of this paper); and
  - (d) Appendix A which provides data on information about nature operating expenses provided by entities that present function line items.

## The implications of tentative decisions to withdraw specific disclosures proposed in the Exposure Draft

5. The IASB has tentatively decided to restrict or not proceed with some specific requirements to disclose disaggregated amounts that were proposed in the Exposure Draft. Those decisions raise questions about the extent to which they should affect the application of the general requirement to disaggregate material information for disclosure in the notes. The decisions relate to:
  - (a) disclosure of information of unusual income and expenses (see paragraphs 7–12 of this paper);
  - (b) disclosure of information about the nature of operating expenses for an entity that presents operating expenses by function in the statement of profit or loss (see paragraphs 13–17 of this paper);

- 
- (c) separate disclosure of information about integral and non-integral associates and joint ventures. The implications of this decision are not discussed in this paper and instead will be discussed at a future IASB meeting at the same time as the feedback on associates and joint ventures from the targeted outreach is discussed.
6. The question that arises is whether, having withdrawn proposals for disclosure of specific disaggregated amounts, the general requirement to disclose disaggregated amounts whenever material continues to apply, potentially resulting in a requirement to disclose the same information as would have been required under the withdrawn proposals.

### ***Unusual income and expenses***

7. The Exposure Draft proposed that an entity should disclose information about unusual income and expenses in a single note, with a proposed definition of unusual income and expenses. In September 2022 (see [Agenda Paper 21A](#)), after many months of discussions and outreach with the Capital Markets Advisory Committee, the Global Preparers Forum and the Accounting Standards Advisory Forum, the IASB tentatively decided not to proceed with any specific requirements for unusual income and expenses as part of this project.
8. In the discussion at that meeting, IASB members stressed that the reason for not proceeding with specific requirements was the difficulty in developing on a timely basis a definition of unusual income and expenses that captured the right population of items for all entities, because what is unusual is very entity-specific. Many IASB members commented that information about unusual income and expenses is useful for users of financial statements, including an explanation of how an entity identifies such items.

9. Further, in September 2021 (see [Agenda Paper 21D](#)), the IASB identified persistence (or frequency or recurrence) as a characteristic that might, if dissimilar, form the basis of disaggregation of income and expenses to provide material information.
10. Accordingly, an entity will need to consider whether there are items of income or expenses with sufficiently dissimilar recurrence characteristics that disclosing the income or expenses separately would provide material information. If so, applying the general requirement to disclose disaggregated amounts whenever material, the entity would be required to disclose the income or expense.
11. We think this would be a good outcome—we think this is a good example of how the general requirement to disaggregate material information acts as a ‘catch all’ in situations where the information that would be material is so entity-specific it is not possible for the IASB to set a specific standardised requirement (see paragraph 17 of Agenda Paper 21B of this meeting).
12. Of course, for any information to be useful, including information about income or expenses with different recurrence characteristics, it would need to provide a faithful representation. Agenda Paper 21D of this meeting discusses possible additional guidance on the disclosure of disaggregated amounts so that they are described in a clear and understandable manner, including providing an explanation of any terms not defined in IFRS Accounting Standards.

#### Question for the IASB

1. Does the IASB agree that the tentative decision to withdraw specific requirements for the disclosure of unusual income and expenses does not result in the need for any change in the application of the general requirement to disaggregate material information (other than the need to consider how best to achieve a clear and understandable description of disaggregated amounts, which is discussed in Agenda Paper 21D of this meeting)?

---

***Disclosure of information about the nature of operating expenses for an entity that presents operating expenses by function in the statement of profit or loss***

13. The Exposure Draft proposed that an entity that presents operating expenses by function in the statement of profit or loss would be required to disclose in the notes an analysis of total operating expenses by nature. Feedback from many preparers was that such disclosure would be unduly costly for those that do not already provide such information because it would not be possible without significant changes to existing reporting systems.
14. The IASB has amended the scope of the specific disclosure requirements to address the cost/benefit feedback. In July 2022 (see [Agenda Paper 21C](#)) it tentatively decided:
- (a) to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss;<sup>1</sup> and
  - (b) to explore an approach that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss.
15. This case differs from the case of unusual income and expenses. In the case of unusual income and expenses, the general requirement to disaggregate material amounts would fill the gap left because of the difficulty in setting standardised requirements for such entity-specific information. The proposals in the Exposure Draft were not withdrawn because the IASB decided information about unusual income and expenses was not useful or because of concerns about the costs of obtaining the information, but because it was not possible to develop a definition that would result in useful information being given by all entities. A general requirement

---

<sup>1</sup> As part of the targeted outreach in this project the staff sought views on whether this list of expenses should be extended, for example to include impairments and write-downs of inventories.

to provide disaggregated information that is material requires an entity to disaggregate information based on characteristics appropriate to its specific situation.

16. In contrast, the IASB has tentatively decided to limit the specific requirements on the disclosure of operating expenses by nature because of the costs involved for some entities in obtaining the information. We know the outcome is likely to be that some material information will not be disclosed, but the IASB has accepted the need to balance the benefits of providing that information against the costs of obtaining it. In this case, if the general requirement to provide disaggregated information whenever it is material were still to apply, all material information about operating expenses by nature would be required to be disclosed. The balance between benefits and costs achieved by limiting the specific requirements would be lost.
17. Accordingly, to avoid undermining the balance between costs and benefits the IASB aims to achieve by limiting the specific requirements, we have considered whether the IASB should:
  - (a) provide a general cost relief from the general requirement to disaggregate information whenever the disaggregated information is material (see paragraphs 18–21); or
  - (b) provide specific relief from that general requirement in relation to information about operating expenses by nature (see paragraphs 22–43).

### **Should there be a general cost relief from the general requirement to disaggregate material information?**

18. The IASB discussed whether to give a cost relief from the general requirement to disaggregate material information in September 2021 (see [Agenda Paper 21D](#)). That cost relief was not focused on any specific examples of disaggregation but would have applied to the general requirement broadly (a general cost relief)—an entity would not have been required to disaggregate material information if the cost of doing so outweighed the benefits.

- 
19. At that meeting IASB members expressed concern that any such general cost relief would make the general requirement in IFRS X *General Presentation and Disclosure* weaker than the existing requirements in IAS 1 *Presentation of Financial Statements*, rather than stronger. The IASB decided to continue that discussion after it considered a cost relief for specific disclosure requirements (in particular, the disclosure of information about operating expenses by nature).
20. A general cost relief based on the principle that an entity need not provide information when the cost of doing so outweighs the benefits has the advantage that, in principle, it would focus the relief exactly where it is needed. However, it would be much broader than is needed to deal with the specific matter we wish to address—the balance of costs and benefits in relation to the disclosure of operating expenses by nature for entities that present operating expenses by function.
21. A general cost relief might also create problems:
- (a) it might be difficult for preparers and auditors to assess when such a general cost relief applies, ie when the cost of providing additional disaggregated information outweighs the benefits.<sup>2</sup>
  - (b) the general requirement to disaggregate amounts whenever the disaggregation provides material information will not be the only general requirement on disclosure in IFRS X. There will be other general requirements brought forward from IAS 1, which have no cost relief (see paragraph 14 of Agenda Paper 21B of this meeting for examples). Adding a general cost relief to one general requirement but not others could result in confusion, and potentially weaken the application of those requirements. Considering whether a cost

---

<sup>2</sup> In 2018, the IASB 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 IASB might have expected, because of the subjective nature of the assessment (particularly that of expected benefits). The IASB decided in June 2020 not to proceed with the proposals (see [Agenda Paper 12C](#) of that meeting).

relief should be added to the other general disclosure requirements in IAS 1 is outside the scope of this project.

22. Accordingly, we recommend that we should not add a general cost relief to the general requirement. Instead, we explore the alternative approach set out in paragraph 17(b) of developing a specific exemption from the general requirement in relation to information about operating expenses by nature.

#### Question for the IASB

2. Does the IASB agree not to add a general cost relief to the general requirement to disaggregate material information?

### **Should there be a specific exemption from general requirement to disaggregate material information for nature operating expenses?**

23. The alternative to giving a general cost relief from the general requirement to disaggregate material information is to provide relief by giving a specific exemption from that general requirement in relation to information about operating expenses by nature. We consider:
- (a) the scope of such an exemption; and
  - (b) whether it should include a cost threshold.

#### ***The scope of a specific exemption***

24. The proposal in the Exposure Draft for an entity to disclose an analysis of total operating expenses by nature applied only if the entity presented operating expenses by function in the statement of profit or loss. The Exposure Draft also proposed a prohibition on presenting operating expenses in the statement of profit or loss using a mix of function and nature line items. The feedback about the costs of providing information about the nature of operating expenses was given in the context of those proposals.



- 
25. The feedback on the costs for entities that present operating expenses by function indicated that in general entities could retrieve information about specific expenses such as depreciation, amortisation and employee benefits, but that getting the information for a full analysis of total operating expenses by nature would require extensive systems changes. Accordingly, the IASB tentatively decided to focus the requirements on specific types of nature expenses to achieve an appropriate balance between the costs and benefits of the information provided.
26. The implication of that tentative decision is that, for entities that present operating expenses by function:
- (a) information about nature operating expenses would be required:
    - (i) to comply with specific disclosures requirements in IFRS X and in other IFRS Accounting Standards, for example the requirement in paragraphs 36(e) and 36(f) of IAS 2 *Inventories* to disclose the write-down and reversal of a write-down of inventories; and
    - (ii) in the context of the approach to future disclosures requirements as discussed by the IASB in the Targeted Standards Level Review project, to comply with items of information prescribed to satisfy specific disclosure objectives.
  - (b) information about nature operating expenses other than described in (a) would not be required, even if it were material and would satisfy a specific disclosure objective. Such a general requirement to disclose all material nature operating expenses would negate the cost-benefit effect of the IASB's tentative decisions on the specific requirements for nature operating expenses.
27. In September 2022 (see [Agenda Paper 21F](#)), the IASB tentatively decided not to prohibit an entity from presenting operating expenses using a mix of function and nature line items. We have considered the implications of that tentative decision for the scope of an exemption.

- 
28. Entities that adopt a mixed presentation will clearly have needed to obtain information about the nature of expenses included in a nature line item—otherwise they could not include them in that line item. All the feedback on the costs of providing information about the nature of operating expenses related to expenses that had been aggregated into functions. Accordingly, we do not think an exemption would need to cover information about the nature of operating expenses included in a nature line item in the statement of profit or loss, even if the entity also includes other expenses in function line items.
29. Accordingly, we recommend a specific exemption should cover information about the nature of operating expenses that are included in a function line item in the statement of profit or loss.<sup>3</sup> Such an exemption would not apply to information about the nature of operating expenses specifically required to be disclosed by IFRS Accounting Standards.

***Should a specific exemption include a cost threshold?***

30. The objective of a specific exemption is to prevent the general requirement to disaggregate material information from undermining the cost-benefit balance achieved by the IASB’s tentative decisions on the disclosure of the nature of operating expenses. Accordingly, restricting the specific exemption by including a cost threshold that had to be met (for example restricting the exemption to information that would involve undue cost or effort to obtain) would focus the exemption on the situations where it is needed. Hence, in principle, it might be a good way to achieve the desired balance between costs and benefits.
31. For example, suppose for an entity that presents operating expenses by function, information about energy expenses were material and were available without undue cost or effort:

---

<sup>3</sup> Paragraphs 69 and 70 of the Exposure Draft explain what is a function line item and what is a nature line item.

- 
- (a) without a cost threshold, the specific exemption would apply and the entity would not be required to provide the information.
  - (b) with a cost threshold, the specific exemption would not apply, and the entity would be required to provide the information.
32. The staff have identified the risks arising from either including a cost threshold or not including such a threshold. The risks arising from including a cost threshold are discussed in paragraphs 32–35 and the risks arising from not including a cost threshold are discussed in paragraphs 36–40.

*Risks arising from including a cost threshold*

33. Including a cost threshold in a specific exemption would have the same outcome as specifically requiring a ‘full matrix’ of information about operating expenses by nature and function subject to a cost relief.
34. An approach comprising specific requirements and a cost relief was discussed by the IASB in October 2021 (see [Agenda Paper 21C](#) for that meeting). The approach discussed in October 2021 would have involved requiring an entity to disclose an analysis of total operating expenses by nature with an exemption from disclosing such information only if, and to the extent that, such disclosure would involve undue cost or effort. The exemption would not have applied to: (i) depreciation, amortisation or employee benefits expenses; or (ii) any other operating expenses by nature that are subject to specific disclosure requirements in IFRS Accounting Standards.
35. The IASB decided not to explore such an approach. IASB members said:
- (a) exploring such an approach would have little benefit because it would not result in entities providing more information than required by the specific requirements—feedback from many of the entities not already providing the information is that further disclosure would involve undue cost or effort.
  - (b) it is not appropriate to put the assessment of costs and benefits of disclosures in the hands of preparers because of the difficulty they might have in assessing

the benefits for users of financial statements. The cases where it is used in IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* are about the extent of forward-looking information necessary to calculate a prescribed measurement. The cases where the IASB has tentatively decided it should be used in IFRS X relate to the classification in the statement of profit or loss of gains and losses on derivatives and foreign exchange gains and losses, where we think the assessment will depend on whether the gains and losses are managed by a central treasury function or not, and accordingly will be relatively clear cut.

36. Accordingly, there is a risk that some stakeholders would perceive the inclusion of a cost threshold in an exemption as undoing the compromise achieved in the redeliberations so far on the specific requirements for the disclosure of operating expenses by nature. If the IASB wishes to proceed with a cost threshold, we may need further outreach on this matter.

*Risks of a specific exemption that does not include a cost threshold*

37. The risk of not including a cost threshold in the specific exemption is that material information that is available without undue cost or effort might be excluded from the financial statements.
38. That risk applies to:
- (a) material information about nature expenses included in function line items that is available without undue cost or effort beyond that required by IFRS Accounting Standards *that is already provided* by entities that present function line items. If such information ceased to be provided, we may have made financial reporting worse. (Appendix A provides an analysis on what information is currently provided about the nature of operating expenses by entities that present line items by function in the statement of profit or loss);
  - (b) material information about nature expenses included in function line items that is available without undue cost or effort beyond that required by IFRS

---

Accounting Standards *that is not already provided* by entities that present function line items. If such information does not start being provided, we may not have improved financial reporting in this area as much as we would have if we had included a cost threshold in the exemption;

- (c) information that is currently either not material or not available without undue cost or effort, but becomes material and available without undue cost or effort in the future, because of changes in the information needs of users or advances in technology and systems. If such information does not start to be provided in the future, we may not have improved financial reporting in this area in the future as much as we would have if we had included a cost threshold in the exemption.

- 39. The risk described in paragraph 37(a) would be mitigated by factors such as:
  - (a) the disclosures being required by regulation in the jurisdiction of the entity;<sup>4</sup> or
  - (b) the tendency of an entity to continue with existing disclosures, especially if they are valued by users of financial statements for the entity and are obtainable without undue cost or effort.
- 40. The risks described in paragraphs 37(b) and 37(c) would be mitigated by the fact that feedback indicates that often information about the nature of operating expenses is not available without undue cost or effort, and that is unlikely to change because of gradual improvements to systems. Rather a complete system upgrade would be required.
- 41. However, without a cost threshold, we cannot be sure financial statements will not exclude material information available without undue cost or effort.

#### *Other approaches to a cost threshold*

- 42. The staff also considered two other approaches to a cost threshold:

---

<sup>4</sup> Some jurisdictions require disclosure of operating expenses by nature, for example Brazil, Poland and Turkey.

- 
- (a) we could provide an exemption without a cost threshold, but encourage disclosure of information that is available without undue cost or effort. However, although some IFRS Accounting Standards encourage disclosure of specific information (for example IAS 16 *Property, Plant and Equipment*, IAS 33 *Earnings per Share* and IAS 38 *Intangible Assets*), they are all requirements that were set many years ago and have not been revised since. In more recent standard-setting, the IASB has sought to require disclosure, rather than use what might be regarded as an ambiguous statement of encouragement.
- (b) we could use a different form of cost threshold—whether information is available from the entity’s internal reporting systems. However, it is likely that such an approach would simply raise questions about what ‘available from the entity’s internal reporting systems’ means. The transactions that give rise to the nature expenses will be recorded in the entity’s systems somewhere, the question is whether the information is available at the appropriate level for the financial statements of the entity as a whole.

### *Recommendation and question for the IASB*

43. In summary:
- (a) including a cost threshold involves the risks of:
- (i) difficulty for entities in applying it; and
  - (ii) a perception that the IASB is undoing the compromise achieved on the specific requirements for the disclosure of the nature operating expenses.
- (b) not including a cost threshold involves the risks of losing material information that is available without undue cost or effort, including information that in the future might become material and/or available without undue cost or effort.

- 
44. On balance, the staff think the risks of including a cost threshold in the exemption outweigh the risks of not doing so. Accordingly, we recommend not including a cost threshold in the exemption.

#### Questions for the IASB

3. Does the IASB agree to give a specific exemption from the general requirement to disaggregate material information in relation to information about the nature of operating expenses that are included in a function line item in the statement of profit or loss? Such an exemption would not apply to information about the nature of operating expenses specifically required to be disclosed by IFRS Accounting Standards.
4. Does the IASB agree not to include a cost threshold in that exemption?

---

## Appendix A—information about nature operating expenses provided by entities that present function line items

- A1. This appendix provides analysis of the information about nature expenses provided by entities that present function line items in the statement of profit or loss.
- A2. We obtained the data from the same sample of 100 companies that we analysed when developing the Exposure Draft (see paragraphs A1–A3 of the Appendix to the Basis for Conclusions). We looked at the 2021 financial statements for those entities with a 31 December year end and the 2020/2021 financial statements for entities with a non-calendar year end.
- A3. We identified which of the entities present operating expenses by function only (47 entities) and which use a mix of function and nature line items (22 entities). We identified which entities had a cross-reference to the notes next to operating expense function line items in the statement of profit or loss, and looked at those notes to see what nature expenses were disclosed. If there were no cross-references to the notes next to operating expense function line items in the statement of profit or loss, we assumed the entity did not provide extensive information about the amounts of expenses by nature (8 entities).
- A4. We assumed that any amounts disclosed were material. We have no information about the cost or effort required to obtain the amounts. We have not performed a rigorous analysis of which amounts are specifically required to be disclosed by IFRS Accounting Standards or regulation, but have tried to give some indication of whether that is likely in the table in paragraph A5. Amounts that are specifically required to be disclosed by IFRS Accounting Standards or regulation would not be covered by the exemption discussed in the main body of the paper.
- A5. In total, we identified 93 types of nature expenses that were disclosed. We have summarised the type of nature expense and how often it was disclosed in the following table.



Type of expense	Number of times reported
<b><i>Likely to be at least partly IFRS requirements or regulatory requirements</i></b>	
Amortisation	38
Depreciation	36
Staff cost/Employee benefits	37
Impairment loss on non-financial assets	34
Loss on disposal of assets	17
Restructuring cost	9
Write down of inventory/contract cost	10
Lease expense and rent	15
Audit fees	12
Explorations/evaluations/research/development	12
Other (for example, impairment loss on financial assets, loss on fair value of financial instruments. No more than 5 of any type)	21
<b><i>Less likely to be IFRS requirements or regulatory requirements</i></b>	
Administration and overhead expenses	4
Advertising and promotions	12
Closure and rehabilitation	4
Commission	3
Cost of sales and production	19
CSR and environmental expenses	1
IT and other services related cost	11
Legal fees	8
Fuel and power	7
Maintenance	9
Professional fees	8
Royalties and licensing	5
Selling, freight, transport, and warehouse charges	17
Supplies and services	12
Taxes (not income tax)/Surcharges/Donations/Government charges	24
Other (for example, bank charges, pre-operating costs. No more than 2 of any type)	35