STAFF PAPER

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Project	**Conceptual Framework**
Paper topic	Draft discussion paper Presentation and disclosure

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This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

What does this section cover?

This section discusses presentation and disclosure issues.

Why is this section important? What problems will this section help address?

The *Conceptual Framework* does not currently have a section on presentation and disclosure. This is seen as having had the effect that disclosure requirements in IFRS are not always focused on the right disclosures and are too voluminous.

What are the questions for the IASB?

The IASB will be asked if it has any comments on the descriptions and discussions in this section.

Purpose of the section

1. Presentation and disclosure are the mechanisms by which a reporting entity communicates information about its financial position, performance and cash flows to users. Some aspects of presentation and disclosure are prescribed by IFRS, whilst others are driven by consideration of the reporting entity's specific facts and circumstances.

2. The purpose of this section of the discussion paper is to discuss the conceptual principles that should underlie the IASB's decision to provide guidance on presentation and disclosure.

What is the problem?

3. Presentation and disclosure are not currently addressed in the *Conceptual Framework.* This is seen as having had the effect that disclosure requirements in IFRS are not always focused on the right disclosures and are too voluminous. It is also seen as contributing to the lack of clarity around presentation of profit or loss and OCI. Agenda paper 5B deals with presentation of profit and loss and OCI. This paper deals with presentation and disclosures more broadly.

4. In terms of disclosures, many respondents to the *Agenda Consultation 2011* told the IASB that they think a framework for disclosures is needed. They think it is needed to ensure that information disclosed is more relevant to investors and to reduce the burden on preparers. Responses suggested such a framework would:

   (a) provide a structured way to review the need for disclosure, simplify the disclosure process and reduce the costs to preparers;

   (b) consider the costs and benefits of disclosure;

   (c) include a discussion of materiality in order to ensure that only material and/or relevant amounts are disclosed;

   (d) contain clear communication objectives so that disclosure is understandable, easily accessible and relevant.

5. As part of its feedback on the consultation, the IASB communicated that it would consider disclosures in the *Conceptual Framework* project.

Previous discussions

6. In 2008, the IASB and the US Financial Accounting Standards Board (FASB) published a discussion paper *Preliminary Views on Financial Statement Presentation*. In 2010, the IASB and the FASB posted on their websites a staff draft of an exposure draft *IFRS X Financial Statement Presentation*. Where relevant, this [draft] discussion paper incorporates principles developed during the financial statement presentation project. The IASB's current work plan does not include a project to develop a standard based on the work in that project. However, some of the issues discussed in the financial statement presentation project are being considered in the Conceptual Framework project. The IASB is also assessing, in the light of the feedback on its shorter term review of disclosure, the extent to which it should consider undertaking a broader standards level review of presentation and disclosure.

Description of terms

7. Before going into a detailed discussion about presentation and disclosure, it is worthwhile discussing what is meant by some of the terms used in this section.

What is meant by the terms "financial statements" and "financial reports"?

8. The *Conceptual Framework* seeks to meet the objective of "general purpose financial reporting"[1] by addressing the concepts underlying the information presented in general purposes financial statements.[2]

9. General purpose financial reports ("financial reports") include general purpose financial statements ("financial statements") and other financial reporting. Other

[1] OB2 *Conceptual Framework*

[2] *Preface to IFRSs* paragraph 8

financial reporting includes information provided outside of financial statements that assists in the interpretation of a complete set of financial statement or improves users' ability to make efficient economic decisions such as management commentary.

10. Collectively, financial statements depict a view of the financial position, financial performance and cash flows of an entity. Financial statements comprise the primary financial statements and the notes to the financial statements. Currently the primary financial statements are:

    (a) the statement of financial position;

    (b) the statement of profit or loss and other comprehensive income (or the statement of profit or loss and the statement of comprehensive income);

    (c) a statement of changes in equity; and

    (d) a statement of cash flows.[3]

11. Primary financial statements convey summarised information that communicates a financial picture of an entity. Each primary financial statement communicates a different facet of that financial picture.

What is meant by the terms "presentation" and "disclosure"?

12. In the context of financial reporting, the term "presentation" attracts different meanings. Consistent with the objective of IAS 1[4], some people interpret the word "presentation" to mean a prescribed form of disclosure of financial information that ensures comparability both with an entity's financial statements of previous periods and with the financial statements of other entities.

13. Others think that the term "presentation" has a more specific meaning ie the disclosure of financial information in the form of descriptions and monetary amounts on the face of an entity's primary financial statements.

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[3] See IAS 1 paragraph 10

[4] IAS 1 paragraph 1

14. For the purposes of this discussion paper, we have used the term presentation as meaning the disclosure of financial information on the face of an entity's primary financial statements.

15. Disclosure has a broader meaning than presentation. Disclosure is the process of presenting relevant financial information about the reporting entity to users. The entire financial report is a form of disclosure including amounts presented in the primary financial statements and the notes to the financial statements.

16. The notes to the financial statements provide disclosures of relevant information which is not incorporated on the face of the primary financial statements for example:

    (a) Unrecognised resources of the entity and obligations and other claims against the entity;

    (b) Further disaggregation of items presented in the primary financial statements;

    (c) Descriptions of transactions;

    (d) Risks and uncertainties.

17. How an entity presents and discloses information in its financial statements is critical to how effectively that information is communicated. In addition, the way information is presented and disclosed matters to users and can affect their economic decisions.

Primary financial statements

Purpose of primary financial statements

18. Current IFRS provides the following guidance on the objectives of financial reporting and financial statements:

    (a) The objective of *financial reporting* is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.[5] The objective of *financial statements* is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. [6]

(b) To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.[7]

19. Based on the above, this paper proposes that the objective of primary financial statements is to depict an entity's financial position, financial performance and cash flows in a summary that is useful to a wide range of users for their assessments of:

(a) the amount, timing and uncertainty of the entity's future net cash inflows; and

(b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

20. Primary financial statements meet this objective by providing relevant information about the nature and amount of recognised assets, liabilities, equity, income and expenses that has been classified and aggregated in a manner that makes it understandable and comparable. Primary financial statements are summaries, not complete in themselves, supported by notes.

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[5] OB2

[6] IAS 1.9

[7] OB4

Classification and aggregation

21. A key aspect of financial statement presentation is effective communication, in particular making information understandable. Classifying, characterising and presenting information clearly and concisely make it *understandable*.[8]

22. Classification is sorting of items based on shared qualities. Aggregation involves the adding together of individual items within those classifications. To present information in the primary financial statements that is understandable an entity classifies and aggregates information about recognised elements and presents it on a summarised basis.

23. At the highest level, the primary financial statements classify and aggregate information about the recognised elements (including changes in elements and components of elements). In particular,:

    (a) The statement of financial position presents information about assets, liabilities and equity

    (b) The statement of profit or loss and other comprehensive income (or the statement of profit or loss and statement of comprehensive income) presents information and income and expense

    (c) The statement of changes in equity presents information about income, expense, contributions and distributions of equity, transfers between classes of equity, as well as the opening and closing amounts of equity

    (d) The statement of cash flows presents information about cash inflows and cash outflows, as well as the opening and closing cash balances.

24. Within each of the above statements an entity presents separate groups of recognised items as separate lines (‘line items’). Each line item represents that group by providing a description of the aggregated group of recognised elements (or components of elements) and a monetary amount. Line items, sub-totals and totals derived from those line items, should be presented when they provide useful information.

[8] QC30

25. In order to provide information that is useful for assessing the prospects for future net cash inflows, classification and aggregation into line items and sub-totals (where relevant) should be based on similar properties such as:

(a) the function of the item;

(b) the nature of the item; and

(c) the measurement basis of the item.

26. In this context "function" refers to the primary activities (and assets and liabilities used in those activities) in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration. "Nature" refers to the economic characteristics or attributes that distinguish items that do not respond similarly to similar economic events, such as wholesale revenues and retail revenues; materials, labour, transport and energy costs; or fixed-income investments and equity investments. The measurement section of this [draft] discussion paper for a discussion discusses measurement bases of an item.

27. In many cases an entity will determine what line items, sub-totals and totals to present in its primary financial statements based on its individual facts and circumstances and its assessment of what is relevant at a summary level.

28. In some case the IASB may decide to require a particular item to be presented in the primary financial statements where it is material to the entity. A particular line item may be required to be presented where the IASB considers that information about that item would be essential to providing a summary depiction of the financial position, financial performance or cash flows of an entity that is useful to a wide range of users.

Offsetting

29. Because offsetting aggregates dissimilar items (assets/liabilities, income/expense), offsetting will generally not provide the most useful information for assessing an entity's prospects for future net cash inflows.

30. However the IASB may choose to require offsetting where such presentation provides a more faithful representation of a particular position, transaction or other event.[9]

Relationship between primary financial statements (cohesiveness)

31. No primary financial statement has primacy over the other primary statements but should be looked at as a group.

32. Presenting information in primary financial statements so that the relationship among items across them is clear can help a user take an overall view.[10] This type of linkage is referred to as cohesiveness as it connects information across the primary financial statements making them easier to view as a whole.

33. To present a cohesive set of primary financial statements, an entity should present information in sections, categories and subcategories in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements.[11]

34. In determining how best to portray primary financial statements cohesively, the IASB may consider whether to require presentation in specific sections, categories or sub-categories based on similar properties such as function, nature, or measurement basis of the relevant items (refer to paragraph 26 for a discussion of these terms).

Disclosures - Notes to the financial statements

Scope of information that should be included in the notes to the financial statements

35. The notes to the financial statements are inextricably linked to the primary financial statements. Therefore based on the objective of financial reporting (see

[9] FSP Staff Draft paragraphs 54-56

[10] FSP staff draft paragraph 57

[11] FSP Staff draft, paragraph 58

paragraph 18) and the objective of primary financial statements proposed earlier in this paper (see paragraph 19) this [draft] discussion paper proposes that the purpose of the notes to the financial statements is to supplement and complement the primary financial statements and to provide any additional information about an entity's financial position, financial performance and cash flows that is useful to a wide range of users for their assessments of:

(a) the amount, timing and uncertainty of the entity's future net cash inflows; and

(b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

36. To be useful, information about an entity's financial position, financial performance and cash flows (including information that complements and supplements the primary financial statements) must be relevant and a faithful representation.

Arises from past and current conditions, transactions and events

37. Given that financial statements reflect a reporting period, to be relevant the information they contain must arise from past and current conditions, transactions and events.

38. By limiting the notes to the financial statements to information arising from past and current conditions, transactions and events, this discussion paper proposes to distinguish it from forward-looking information. Forward-looking information is information about the future (eg information about prospects and plans) that may later be presented as historical information (ie results).[12] Forward-looking information would be disclosed outside of financial statements, for example in management commentary, if the entity prepares one.

[12] IFRS Practice Statement *Management Commentary: A framework for presentation* – see the Appendix

39. One issue caused by scoping the notes to the financial statements in this way relates to non-adjusting events after the reporting date. Non-adjusting events after the reporting period are those events that occur between the end of the reporting period and the date when the financial statements are authorised for issue and that are indicative of conditions that arose after the end of the reporting period.[13]

40. Applying the principle in paragraph 37 above, non-adjusting events after the reporting period would not be disclosed in the notes to the financial statements. To include them in financial statements the IASB would need to treat them as an exception to this principle. This would be on the basis that, although the information is not related to the reporting period, it provides information that is otherwise relevant.

Relevant information

41. Relevant information is capable of making a difference in the decisions made by users. Information is relevant if it has predictive value, confirmatory value or both.[14]

42. This [draft] discussion paper proposes that the type of information that is generally relevant about an entity's financial position, financial performance and cash flows can be grouped as follows:

    (a) The reporting entity as a whole;

    (b) The recognised and unrecognised resources of the entity;

    (c) The recognised and unrecognised obligations and other claims against the entity;

    (d) Transactions and other changes in those resources and claims;

    (e) The risks arising from those resources and claims; and

    (f) Methods and assumptions used to account for the above.

[13] IAS10

[14] QC6-7

43. Using these groups, the table below provides some examples of the types of disclosures that may provide relevant information. A single note in the financial statements may combine two or more of these types of disclosures. In addition, one disclosure might provide two types of relevant information. For example a maturity analysis of a liability provides further information about the obligation, but also provides information about liquidity risk.

Table 1: Examples of disclosures split by type of relevant information

Type of relevant information	Examples of disclosures
Reporting entity	• General information about the reporting entity • Information about subsidiaries, associates, parent etc • Business model • Going concern

Resources, claims and changes in those resources and claims	• Disaggregation of line items in the primary financial statements including:
	  ○ Analysis of a single amount (line item, item, transaction or event);
	  ○ Analysis by function, nature or measurement where different to that provided in the primary financial statements;
	  ○ Maturity analysis;
	  ○ Roll-forwards
	  ○ Operating segments
	  ○ Related party transactions
	• Disclosure of unrecognised amounts
	• Relationship between line items (eg hedging, offsetting)

Risks	• The types of risks faced by the entity including its sources and exposures • How the entity has managed those risks • How management of risks has impacted its financial statements
Methods and assumptions	• Accounting policies • Alternative measurements • Measurement uncertainty

Faithful representation of relevant information

44. To be a faithful representation, a depiction needs to be complete, neutral and free from error.[15] A key characteristic of information in the notes to the financial statements is that it is neutral.

45. As discussed earlier, disclosure is a mechanism by which an entity communicates with its users. Financial statements, including the notes to the financial statements, communicate neutral information. Information that conveys management's view of the entity's performance, position and progress and/or includes forward-looking information belongs outside financial statements, for example in management commentary.[16] It follows that information with these types of characteristics should not be required to be disclosed in the financial statements.

46. Other principles that build on the concept of faithful representation and the other enhancing qualitative characteristics include:[17]

    (a) Disclosures should be clear, balanced and understandable;

    (b) Disclosures should be comprehensive;

    (c) Disclosures should be consistent over time;

    (d) Disclosures should be comparable among entities;

    (e) Disclosures should be provided on a timely basis.

Comparatives

47. A complete set of IFRS financial statements includes comparative information in respect of the preceding period. Presentation of additional comparative

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[15] QC12

[16] IFRS Practice Statement *Management Commentary: A framework for presentation* paragraphs 12-13. In addition, the Appendix: defines forward-looking information as "… information about the future … [that] is subjective and its preparation requires the exercise of professional judgement."

[17] Developed from the fundamental principles for risk disclosure – Report of the Enhanced Disclosure Task Force *Enhancing the Risk Disclosures of Banks*, 29 October 2012 – Section 4

information is permitted and, in some circumstances, required. [18] Comparative information provides a basis from which to assess the financial statements of the current period and therefore provides relevant information. It follows that comparative information is an integral part of an entity's current period financial statements.

Other issues to be discussed in the April board meeting

48. The following topics will be discussed in the April board meeting:

    (a) Materiality; and

    (b) Form of disclosure requirements, ie setting a clear objective for the disclosures in that particular standard.

Question
Does the IASB have any comments or questions on the discussion in the paper?

[18] IAS1.10(ea), 38-44