STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Presentation and disclosure		
CONTACT(S)	Daniela Marciniak	dmarciniak@ifrs.org	+44 (0)20 7246 6966
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743

Purpose of paper

1. The purpose of this paper is to discuss whether any changes are needed to the discussion of presentation and disclosure in response to the main comments received on Chapter 7—*Presentation and disclosure* of the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). In particular, this paper discusses:
   (a) the objective and scope of financial statements (paragraphs 6–15);
   (b) components of financial statements (paragraphs 16–20);
   (c) the statement of cash flows and the statement of changes in equity (paragraphs 21–27); and
   (d) the terms 'presentation' and 'disclosure' (paragraphs 28–31).
2. Appendix A sets out other comments received and provides staff responses to those comments.
3. This paper does not discuss presenting information about financial performance. This topic was discussed at the June 2016 Board meeting.
4. On 11 August 2016, the Financial Accounting Standards Board (FASB) published an exposure draft of proposed changes to its Concepts Statement 8 (*Concepts*

Statement 8—Conceptual Framework for Financial Reporting—Chapter 7: *Presentation*). Appendix B provides a high-level summary of that exposure draft.

Summary of staff recommendations

5. In summary, consistent with the Exposure Draft proposals, we recommend the Board:

   (a) confirm that the objective of the financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

   (b) describe the objective of the financial statements as a whole rather than describing objectives of the financial statements' components;

   (c) describe the scope of the financial statements by reference to their objective;

   (d) identify no 'primary financial statements' and refrain from discussing the relationship between those statements and 'the notes';

   (e) refer only to the statement of financial position and the statement(s) of financial performance in the *Conceptual Framework* rather than also making any explicit references to the statement of cash flows and the statement of changes in equity; and

   (f) make no distinction between the terms 'present' and 'disclose' in the *Conceptual Framework.*

The objective and scope of financial statements

Exposure Draft proposals (paragraphs 7.2–7.7, BC7.4–BC7.16)

6. The Exposure Draft proposes the scope of financial statements is determined by their objective, which is:

> to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.[1]

The Exposure Draft also proposed that this information is provided by recognising items that meet the definition of an element in the statements of financial position and financial performance and by providing additional information in other parts of the financial statements, including the notes. The Exposure Draft also provided additional guidance on the information included in the notes to the financial statements.

Summary of feedback

7. Most of the respondents who commented on the objective and scope of financial statements broadly agreed with the Board's proposals. However, many of those respondents disagreed with particular aspects of the proposals or asked the Board to include more guidance. In particular:

    (a) some respondents asked the Board to set out separate objectives for the components of the financial statements (that is, the statement of financial position, the statement(s) of financial performance, the statement of cash flows, the statement of changes in equity and the notes) rather than the objective of financial statements as a whole; and

    (b) a few respondents asked the Board to clarify the boundary between financial statements and other information included in general purpose financial reports and expressed concerns that the scope of financial statements as described in the Exposure Draft is too broad.

[1] Paragraph 3.4 of the Exposure Draft.

Staff analysis and recommendation

Separate objectives for the components of the financial statements

8. The staff recommend that the Board confirm the proposed objective of the financial statements as a whole. That is, to provide useful information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

9. The staff suggest the *Conceptual Framework* should not describe objectives for each of the components of the financial statements as suggested by some respondents because such objectives:

   (a) would be too detailed for the *Conceptual Framework* and would be better placed in Standards; and

   (b) could imply that all those components are required to be prepared in all cases. The staff think that guidance on which components of the financial statements are required is a Standards-level question.

10. In addition, the upcoming Principles of Disclosure Discussion Paper (the POD Discussion Paper) will discuss the role of the 'primary financial statements' as a whole—that is the statement of financial position, the statement(s) of financial performance, the statement of cash flows, the statement of changes in equity—and the role of the notes to the financial statements. Describing, the objective of the components of the financial statements in the *Conceptual Framework* could pre-empt the discussion in the POD Discussion Paper.

11. We also think that this approach is consistent with the Board's tentative decision in June 2016 not to include in the *Conceptual Framework* an objective for the statement of profit or loss.

Scope of the financial statements

12. The staff note the requests to clarify the boundary between financial statements and other information included in general purpose financial reports. However, most respondents who commented on the scope of the financial statements supported the proposal to describe the scope, and hence the boundary, of financial statements by

reference to their objective. In addition, setting the scope of financial statements by reference to their objective:

(a) anchors the scope of the financial statements in the elements that represent the basic building blocks of financial statements; and

(b) emphasises the information needs of primary users of the financial statements.

13. Hence, the staff think that such a description would provide an appropriate conceptual basis for the Board and others for making decisions about which information should be included in financial statements. In contrast, setting more detailed requirements, such as prescribing what specific information should be included or excluded from the financial statements, would be Standards-level detail that would not be appropriate for the *Conceptual Framework*.

14. Indeed, in deliberating the Exposure Draft the Board decided to remove some of the detailed guidance on the scope of the notes included in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. The Board agreed with those respondents to the Discussion Paper who argued that such guidance and examples were too detailed for the *Conceptual Framework*.

15. Accordingly, the staff recommend that the *Conceptual Framework* describes the scope of financial statements by reference to their objective.

Question 1

The staff recommend, consistent with the Exposure Draft, that the Board:

(a) confirm that the proposed objective of the financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources;

(b) describe the objective of the financial statements as a whole rather than describe objectives of the components of the financial statements; and

(c) describe the scope of the financial statements by reference to their objective.

Do you agree?

Components of financial statements

Exposure Draft proposals (BC7.5)

16. The Exposure Draft did not identify a set of ‘primary financial statements’ or discuss the relationship between those statements and ‘the notes’. Instead, as noted in paragraph 6, it discussed the objective and the scope of financial statements as a whole.

Summary of feedback

17. Some respondents asked the Board to identify a set of primary financial statements and discuss the relationship between those statements and ‘the notes’ in the *Conceptual Framework*. A few respondents also asked the Board to clarify in the *Conceptual Framework* which information should be included in the primary financial statements and which information should be included in the notes.

Staff analysis and recommendation

18. In deliberating the Exposure Draft, the Board considered whether the *Conceptual Framework* should identify a set of ‘primary financial statements’ and if so, whether the term ’primary financial statements’ is appropriate and which statements should be described as primary. The Board decided against identifying a set of primary financial statements in the *Conceptual Framework*. The Board concluded that doing so would be premature in the light of the ongoing work in the Disclosure Initiative. The staff think that this argument remains valid and the Board should continue exploring whether to identify a set of ‘primary financial statements’ and the relationship of those statements to ‘the notes’ in the Disclosure Initiative.

19. Indeed, the POD Discussion Paper will suggest the notion of ‘primary financial statements’ and will identify the statement of financial position, the statement(s) of financial performance, the statement of cash flows and the statement of changes in

equity as ‘primary financial statements’. As noted in paragraph 10, it will also discuss the respective roles of ‘primary financial statements’ and the notes.

20. Accordingly, we recommend confirming the approach in the Exposure Draft—that is, the *Conceptual Framework* should not identify a set of ‘primary financial statements’ or discuss the relationship between those statements and ‘the notes’.

Question 2

Do you agree with the staff recommendation that, consistent with the proposals in the Exposure Draft, the *Conceptual Framework* should not identify a set of ‘primary financial statements’ or discuss the relationship between those statements and ‘the notes’?

The statement of cash flows and the statement of changes in equity

Exposure Draft proposals

21. In discussing the objective and scope of the financial statements, the Exposure Draft made explicit references to the statement of financial position and the statement(s) of financial performance. However, the Exposure Draft did not make explicit references to the statement of cash flows and the statement of changes in equity.

Summary of feedback

22. A few respondents expressed a concern that the Exposure Draft may be interpreted to imply that the statement of financial position and the statement(s) of financial performance are ‘primary financial statements’ whereas the statement of cash flows and the statement of changes in equity are of less importance. Those respondents disagreed with that implication.

23. Some respondents who raised the concern that the Exposure Draft makes no explicit reference to the statement of cash flows argued that information about cash flows is important to users of financial statements. Accordingly, the statement of cash flows should have equal prominence with the statement of financial position and the statement(s) of financial performance and should be explicitly referred to in the

Conceptual Framework. A few respondents also asked for an explicit reference to the statement of changes in equity to be included in the *Conceptual Framework*.

24. In addition, a few respondents highlighted the inconsistency with IAS 1 *Presentation of Financial Statements* which explicitly mentions both the statement of cash flows and the statement of changes in equity as components of a complete set of financial statements. They thought that the four financial statements identified in paragraph 10 of IAS 1 should be given equal prominence in the *Conceptual Framework*.

Staff analysis and recommendation

25. The staff acknowledge the concerns about the proposed drafting in the Exposure Draft and the absence of explicit references to the statement of cash flows and the statement of changes in equity. However, the staff do not agree that the proposed drafting implies that the Board views those statements as being of less importance compared to the statement of financial position and the statement(s) of financial performance. Rather, the Exposure Draft only refers to the statement of financial position and the statement(s) of financial performance because these statements provide a summary of recognised elements—that is assets, liabilities, equity, income and expenses. In contrast, other statements do not provide a summary of recognised elements and include items that are not elements (eg cash inflows and outflows, distributions and contributions of equity).

26. As noted in paragraphs 10 and 19, the Board is exploring the components of financial statements and their roles in the Disclosure Initiative. In that initiative, the Board is also considering the implications of a statement being primary and whether each primary statement should be required in a complete set of financial statements.

27. Accordingly, consistent with the approach in the Exposure Draft, the staff recommend that the Board should not include explicit references to the cash flow statement and the statement of changes in equity in the *Conceptual Framework*. However, the staff will consider concerns raised by respondents in drafting the document to ensure that the *Conceptual Framework* does not inappropriately imply that some statements are of more importance than the others.

Question 3

Do you agree with the staff recommendation that, consistent with the proposals in the Exposure Draft, the *Conceptual Framework* should refer only to the statement of financial position and the statement(s) of financial performance instead of also making explicit references to the statement of cash flows and the statement of changes in equity?

The terms 'presentation' and 'disclosure'

Exposure Draft proposals

28. The Exposure Draft does not make a distinction between the terms 'presentation' and 'disclosure', and does not define those terms. Rather, the Exposure Draft generally uses a collective term 'presentation and disclosure' to describe providing information in the financial statements and the notes.

Summary of feedback

29. Some respondents asked the Board to clarify the difference between the terms 'presentation' and 'disclosure'. Some of those respondents noted that the Exposure Draft uses both terms with the same meaning and argued that there should be a difference. A few respondents suggested using the term 'present' to describe including information in the 'primary financial statements' (including the statement of cash flows and the statement of changes in equity) and using the term 'disclose' to describe including information in the notes to the financial statements.

Staff analysis and recommendation

30. The staff note that the Board has considered in the Disclosure Initiative whether it is necessary to make a distinction between the terms 'present' and 'disclose'. In that initiative, consistent with the approach taken in the Exposure Draft, the Board made a tentative decision that it is not necessary to distinguish between the terms 'present' and 'disclose' as long as *where* to display information is clearly identified (eg 'disclosure *in the notes to the financial statements*').

31. The Board also noted it could be confusing to redefine the terms ‘present’ and ‘disclose’ from their respective common English language meanings. Accordingly, the staff recommend not making a distinction between the terms ‘present’ and ‘disclose’ in the *Conceptual Framework*, which is consistent with the approach in the Exposure Draft.

Question 4
Do you agree with the staff recommendation to confirm the approach in the Exposure Draft of not making a distinction between the terms ‘present’ and ‘disclose’ in the *Conceptual Framework*?

Appendix A–Other comments on presentation and disclosure

A1. This appendix sets out other comments received on the presentation and disclosure proposals in the Exposure Draft. We do not intend to discuss these comments at this meeting for the reasons set out in the table below.

	Exposure Draft proposal	Respondent comment or suggestion	Staff response
A1	Chapter 1—*The objective of general purpose financial reporting* sets out the objective of general purpose financial reporting. Chapter 3—*Financial statements and the reporting entity* discusses the role of financial statements and refers to the objective of general purpose financial reports set out in Chapter 1. Chapter 7—*Presentation and disclosure* reiterates the objective of financial statements in describing their scope.	The *Conceptual Framework* should avoid duplication and combine the discussion in Chapter 7 with the discussion in Chapter 3 so that the objective and scope of financial statements are described only in one place in the document.	The staff will consider this in drafting.
A2	The Exposure Draft states that financial statements also provide additional information about recognised items and items that meet the definition of an element but that have not been recognised, and the risks arising from them.	The description of the scope of the notes by reference to both recognised and unrecognised elements and related risks is too broad. The Board should clarify what information about unrecognised elements or risks should be included in the financial statements.	The scope of financial statements is determined by their objective and is based on the elements of financials statements and information needs of primary users. As discussed in paragraph 9 of this paper, this conceptual guidance is appropriate for the *Conceptual Framework* and more detailed guidance would be best placed at Standards-level.

	Exposure Draft proposal	Respondent comment or suggestion	Staff response
A3	The Exposure Draft states that forward-looking information is only included in financial statements if it provides relevant information about an entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period.	The criterion for the inclusion of forward-looking information is too vague and could result in including in the financial statements information that belongs in management commentary. For example, it is unclear when providing forward-looking information is necessary to meet the objective of financial reporting.	By restricting forward-looking information to information about an entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period, the staff think it is unlikely that information that would more appropriately be included in management commentary would be included in the financial statements.
A4	Information about transactions or events that occur after the balance sheet date is included in the financial statements if that information is necessary to meet the objective of financial statements.	Financial statements should not include information about transactions after the end of the reporting period. This would contradict the proposals on forward-looking information ie that forward-looking information should be provided outside the financial statements except when it relates to an entity's assets, liabilities, equity, income and expenses that existed at the end of or during the period.	As noted in paragraph BC7.16 of the Basis for Conclusions on the Exposure Draft information about transaction or events that have occurred after the end of the reporting period is not forward-looking information. Forward-looking information is information about possible future transactions and events.
A5	The Exposure Draft states that, as with all other areas of financial reporting, cost constrains decisions about presentation and disclosure. Hence, the benefits of the information provided by presentation and	The Board should clarify that not only costs incurred by preparers but also costs incurred by users of financial statements should be considered when the Board makes decisions about presentation and disclosure. The Board	Cost constraint is discussed in Chapter 2—*Qualitative characteristics of useful financial information* of the Exposure Draft. It states that there are several types of costs to consider and it discusses both costs incurred by

	Exposure Draft proposal	Respondent comment or suggestion	Staff response
	disclosure must be sufficient to justify the cost of providing such information.	should specify that preparers are not allowed to consider costs in complying with presentation and disclosure requirements in IFRS Standards.	preparers and users of financial statements.
A6	The Exposure Draft requires information to be classified in a structured manner that reports similar items together and dissimilar items separately; and information to be aggregated so that it is not obscured by unnecessary detail.	The *Conceptual Framework* should include a specific reference to disaggregation and focus on the usefulness of financial information from the perspective of disaggregated information rather than aggregated information.	The staff will consider whether to make specific references to disaggregation in drafting.
A7	The Exposure Draft states that offsetting occurs when assets or liabilities are recognised and measured as a separate unit of account but are presented in the statement of financial position as a single net amount.	The *Conceptual Framework* should expand the description of offsetting to include offsetting income and expenses in the statement(s) of profit or loss and other comprehensive income to align this with the principles set out in paragraphs 32–35 of IAS 1 *Presentation of Financial Statements* which capture those statement(s).	The staff agree that the description should include the offsetting of income and expenses and will consider this in drafting.
A8	The Exposure Draft states that including specific presentation and disclosure objectives in a Standard enables an entity to identify relevant information and decide how to communicate that information in the most efficient and effective manner.	The Board should avoid transferring to preparers too much judgement about what information should be disclosed in financial statements.	The Exposure Draft states that financial statements include information that is necessary to meet the objective of financial reporting. Accordingly, judgements made by prepares would be guided by this overarching principle. The Exposure Draft also states that in setting presentation and disclosure

	Exposure Draft proposal	Respondent comment or suggestion	Staff response
			requirements it is necessary for the Board to find an appropriate balance between requiring information that is comparable among entities and across reporting periods and giving entities flexibility in providing relevant information. The staff think that this principle would assist the Board in making judgements in setting presentation and disclosure requirements.
A9	The Exposure Draft states that entity specific information is more useful than boilerplate language.	The Board should clarify that boilerplate language is not useful as the current drafting might imply this.	The staff will consider this in drafting.
A10	Not applicable	The Board should clarify the interaction between the *Conceptual Framework* and the *Disclosure Initiative*.	We will clarify the interaction with the *Disclosure Initiative* in the Basis for Conclusions on the *Conceptual Framework*.
A11	Not applicable	The Board should update the *Conceptual Framework* for important principles developed in the *Disclosure Initiative*.	The principles developed in the *Disclosure Initiative* have not yet been exposed for comment so it would be premature to include them in the *Conceptual Framework* at this stage.

Appendix B—Summary of the Exposure Draft *Concepts Statement 8—Conceptual Framework for Financial Reporting—Chapter 7*: *Presentation*

A1. The Financial Accounting Standards Board (FASB) has published an Exposure Draft on the presentation chapter in their *Conceptual Framework for Financial Reporting*. In summary, this Exposure Draft:

(a) uses the term ‘presentation’ to refer to the display of line items, totals and subtotals on the financial statements;

(b) does not include the notes to financial statements under the term ‘financial statements’. Hence, the term ‘presentation’ would not be used to refer to information provided in the notes to the financial statements;

(c) proposes concepts that are not premised on any specific formats or subtotals of the financial statements. The proposed concepts would equally apply for example, to a single statement of comprehensive income and to separate statements of earnings (net income) and other comprehensive income;

(d) emphasises that decisions about presentation heavily rely on the objective of financial reporting and the qualitative characteristics of useful financial information;

(e) proposes that financial statements are a related set and each statement articulates with the others;

(f) proposes that financial statements, individually and collectively, have the same objective as financial reporting in general which 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;

(g) states that much of the information needed to achieve the objective of general purpose financial reporting is provided in financial statements but that some information is better provided, or can only be provided, by notes to financial statements or by other means of financial reporting and provides examples that illustrate the proposed principle. However, providing information only in the notes or by other means of financial reporting does not represent an acceptable alternative to presenting that items in the financial statements if they meet the recognition criteria;

(h) explains that the distinction between information that should be provided on the face of financial statements and information that should be provided by other means is based on definitions of the elements of financial statements and the related recognition and measurement concepts;

(i) states that choices about which information is best provided on the face of the financial statements and which is best provided in the notes are based on priority, prominence and understandability as well as the cost constraint, which is a standards-level consideration;

(j) notes that resource providers can aggregate line items to create their own subtotals but, without underlying details, may not be able to disaggregate information provided by a single line item;

(k) proposes that the association between revenues, expenses, gains, losses and cash flows and the underlying changes in assets, liabilities, and equity instruments should be made apparent in the financial statements to assist users of financial statements in performing their analysis;

(l) notes that resource providers need a variety of types of information, including information about:

    (i) assets, liabilities and equity at the beginning and end of the period;

    (ii) revenues, expenses, gains and losses during the period;

    (iii) cash flows during the period;

    (iv) investments by and distributions to owners;

(m) explains how information about assets, liabilities, equity, components of comprehensive income, cash flows and distributions and contributions by owners assists users of financial statements in their analysis and emphasises that financial statements do not show the value of the entity;

(n) notes that differences between net income (earnings) and comprehensive income exist because past standards have required or permitted several types of items to be excluded from net income and later reclassified into net income and states that there is no conceptual basis for determining which items qualify for that treatment;

(o) states that preparing financial statements requires aggregating data into meaningful line items, subtotals and totals and notes that:

- (i) subtotals are often heterogeneous; but
- (ii) line items should be as homogenous as possible;

(p) states that sometimes subtotals of comprehensive income or cash flows are based on the activity with which a recognised item is associated whereas subtotals of assets and liabilities reflect the length of time until realisation or settlements;

(q) states that line items in financial statements vary on frequency and predictability; and

(r) discusses considerations in determining the necessary line items as follows:

- (i) cause, activity and frequency of the item;
- (ii) expected time and form of realisation and settlement;
- (iii) response to changes in economic conditions and other factors; and
- (iv) similarities and differences in measurement methods.