IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Primary Financial Statements**
Topic	**General disaggregation requirements—relationship with specific presentation and disclosure requirements**
Contacts	Anne McGeachin (amcgeachin@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

Objective

1. This paper discusses the relationship between:

    (a) the general requirements on disaggregation the IASB has tentatively decided to include in IFRS X *General Presentation and Disclosures*; and

    (b) specific presentation and disclosure requirements in IFRS X and other IFRS Accounting Standards.

2. The paper does not ask the IASB to make any decisions. The objective of the paper is for the IASB to establish expectations of how it will balance the use of specific requirements with reliance on the general requirements, to help it apply a consistent approach in future decisions across projects.

Structure of the paper

3. The paper is structured as follows:

    (a) background; and

(b) the question of when the IASB should set specific requirements and when it should rely on the general requirements.

Background

4. The IASB discussed the principles proposed in the Exposure Draft *General Presentation and Disclosures* on aggregation and disaggregation at its April 2021 meeting (see Agenda Paper 21A) and its September 2021 meeting (see Agenda Paper 21D). The IASB then discussed the requirements on required line items in the statement of profit or loss and the statement of financial position (brought forward largely unchanged from IAS 1 *Presentation of Financial Statements*) in the context of the principles of aggregation and disaggregation at its February 2022 meeting (see Agenda Paper 21A).

5. An important outcome of those discussions is the distinction the IASB tentatively made between the threshold for disaggregation of amounts:

   (a) for disclosure in the notes to the financial statements—materiality; and

   (b) for amounts to be presented in the primary financial statements—fulfilling the role of the primary financial statements.

6. The threshold for amounts to be presented separately as line items in the primary financial statements is a higher threshold than materiality because the role of the primary financial statements is to provide a *structured summary*. Accordingly, not all material information can be presented in the primary financial statements.

7. Specifically, for disaggregation of amounts in the notes, the IASB tentatively decided at the September 2021 meeting (see Agenda Paper 21D):

   (a) to strengthen the application of the proposal to disclose each material class of assets, liabilities, equity, income, expenses and cash flows (paragraph 25 of the

Exposure Draft brought forward from paragraph 29 of IAS 1)[1] by requiring amounts of assets, liabilities, equity, income, expenses and cash flows to be disaggregated if the disaggregated amounts provide material information;

(b) to strengthen the application of that requirement by emphasising that a single dissimilar (non-shared) characteristic between items would be sufficient to require an entity to disaggregate information about those items if that information were material; and

(c) to continue discussing whether the general requirement to disaggregate material information should be accompanied by a general cost relief after it had progressed further with its redeliberations on the proposals relating to the disclosure of operating expenses by nature (see paragraphs 18–22 of Agenda Paper 21C of this meeting).

8. For disaggregation in the primary financial statements, the IASB tentatively decided at the April 2021 meeting (see Agenda Paper 21A) of that meeting:

(a) not to reinstate paragraph 29 of IAS 1 *in the context of presentation* in IFRS X[2] because it is not possible to require an entity to present a complete disaggregation of material information in the primary financial statements; and

(b) to include a reference to understandability in the description of the role of the primary financial statements (paragraph 20 of the Exposure Draft), as follows:

> 20 The role of the primary financial statements is to provide a structured ~~and comparable~~ summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

[1] Paragraph 29 of IAS 1 states: 'An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.' The reference to 'present' was proposed to be amended in the Exposure Draft to 'present in the primary financial statements *or disclose in the notes'* for the reasons explained in paragraph 8(a) of this paper.

[2] See footnote 1.

(a) obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

9. Also on presentation in the primary financial statements, the IASB tentatively decided at the February 2022 meeting (see Agenda Paper 21A):

(a) to revise the general principle for the presentation of line items in the primary financial statements set out in paragraph 42 of the Exposure Draft as follows (see paragraph 10 of this paper);

42 …An entity shall present additional line items (including by disaggregating ~~required minimum~~ specified line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are ~~relevant to an understanding of the entity's financial performance or financial position~~ necessary to provide an understandable overview of the entity's income and expenses or assets, liabilities and equity.

(b) to require all presentation requirements (for example the requirements for specified line items) to apply only when the resulting presentation does not detract from the primary financial statement providing an understandable overview (see paragraph 11 of this paper).[3]

[3] The wording of this paragraph reflects the tentative decision reported in IASB Update. However, the reference to 'all presentation requirements' needs to be read in the context of the paper which discussed specified line items. The decision does not allow an entity not to present the subtotals required for the categories in the statement of profit or loss set out in paragraph 60 of the Exposure Draft (as amended by subsequent tentative decisions).

10. The amendments to paragraph 42 of the Exposure Draft set out in paragraph 9(a) of this paper clarify that the threshold for presenting an amount in the primary financial statements is not materiality (the entity-specific aspect of relevance). Rather it is whether the amount helps achieve the role of the primary financial statements. Additional line items and subtotals will inevitably be entity-specific so the most important aspect of the role for an entity to consider when determining whether to present such items or subtotals is providing an understandable overview of the entity's income and expenses or assets, liabilities and equity. This is particularly the case for the statement of profit or loss where the IASB has established a comparable structure through the requirements for defined categories.

11. The amendments to the presentation requirements set out in paragraph 9(b) of this paper prevent specified line items from undermining the provision of an understandable overview. As explained in the February 2022 paper, specific requirements for line items to be presented in the primary financial statements may not help an entity give an understandable overview. This is particularly the case in the statement of profit or loss where the required line items are heavily focused on items relating to IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*. An entity that is not a financial institution might have such items that are material, and hence should be disclosed, but which do not need to be presented in the statement of profit or loss to give an understandable overview of the entity's income and expenses. Rather they might create clutter that make the overview less understandable.

When should the IASB set specific requirements and when should it rely on the general requirements?

12. Since the discussions on the general requirements on disaggregation in the Primary Financial Statements project described in paragraphs 4–11 of this paper, the IASB has discussed disclosure and presentation requirements on other projects, for example the Targeted Standards-Level Review of Disclosures project (see Agenda Papers 11A and 11B of the October 2022 IASB meeting) and Financial Instruments with

Characteristics of Equity (see Agenda Papers 5A and 5B of the December 2022 IASB meeting). Questions have arisen on when the IASB should set specific presentation or disclosure requirements and when it should rely on the general requirements to be included in IFRS X.

13. This section of the paper discusses those questions, to help the IASB apply a consistent approach in future projects. It considers:

    (a) disclosure in the notes;

    (b) presentation in the primary financial statements; and

    (c) why there might be a different balance between specific requirements and reliance on the general requirements for disclosure and presentation.

Disclosure in the notes

14. The general requirement for disaggregation in the notes is that an entity shall disaggregate amounts if the disaggregated amounts provide material information (see paragraph 7(a) of this paper). There are also other general requirements for disclosure in IAS 1 that will be carried forward unchanged, for example paragraph 24 of the Exposure Draft (paragraph 31 of IAS 1) which requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS [Accounting] Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity's financial position and financial performance.

15. Specific disclosure requirements are included in many IFRS Accounting Standards.

16. Discussions with the staff on the Disclosure Initiative indicate that the intention is that the IASB will set specific disclosure objectives in an IFRS Accounting Standard to precisely describe the detailed information needs of users of financial statements, so that, in general, information that satisfies those disclosure objectives will provide all material information about the subject of the IFRS Accounting Standard.

17. To the extent the IASB achieves this intention in future IFRS Accounting Standards, the general disclosure requirements should be needed only for matters the IASB did not consider when developing the Accounting Standard, for example particularly entity-specific circumstances and emerging transactions for which standard-setting has not yet developed.

18. The role of the general requirements as a 'catch-all' is likely to be particularly important in relation to the general requirement to disaggregate material information (and the application guidance that a single dissimilar (non-shared) characteristic between items would be sufficient to make disaggregated information material). This requirement and guidance were introduced in order to achieve greater disaggregation than is currently provided for topics already covered by IFRS Accounting Standards. Some recent IFRS Accounting Standards provide detailed guidance on the level of disaggregation. For example, IFRS 15 *Revenue from Contracts with Customers* lists seven examples of characteristics that might form the basis for the disaggregation of the required disclosures (see paragraph B89 of IFRS 15). However, other (older) IFRS Accounting Standards give much less guidance than IFRS 15 on the level of aggregation/disaggregation for their disclosure requirements. The general requirement to disaggregate material information is therefore likely to often enhance the specific requirements.

Presentation in the primary financial statements

19. The general requirements for disaggregation of amounts in the primary financial statements are established by:

    (a) the role of the primary financial statements, which is to provide a structured summary that is useful for:

        (i) obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

        (ii) making comparisons between entities, and between reporting periods for the same entity; and

(iii) identifying items or areas about which users of financial statements may wish to seek additional information in the notes; and

(b) specifically for the statement(s) of financial performance and the statement of financial position, the requirement to present additional line items when necessary to give an understandable overview of income and expenses or assets, liabilities and equity.

20. Specific presentation requirements for the statement of profit or loss and the statement of financial position are established by the lists of minimum required line items that were carried forward essentially unchanged from IAS 1. As explained in paragraph 11 of this paper, the IASB has tentatively decided to add a caveat to the requirements that specified line items should not be given if they detract from the statement giving an understandable overview.

21. The IASB also tentatively decided that it would set out the following benefits and costs of specifying any line items to consider in future projects:[4]

(a) the benefits of specifying line items are:

(i) specific requirements result in increased comparability of primary financial statements across entities.

(ii) specific requirements are easier to apply and enforce compared to the application of a general principle.

(iii) specific requirements can include guidance on how the requirement can be met, for example on how items covered by the requirement might be identified or presented. Such guidance could enhance comparability of amounts and help make the requirements more operational.

(iv) specific requirements can be accompanied by a specific cost relief, should the IASB decide such relief is appropriate.

[4] We are still considering the best document in which to set out these benefits and costs. Possible documents could be the Basis for Conclusions for IFRS X and/or an addition to the Guidance for the Board developed in the Targeted Standards-level Review of Disclosures project.

(b) the cost of specifying line items is that a list of specified line items is more likely to promote a checklist compliance approach. Entities may simply present the specified line items and not consider whether:

(i) the line item results in the statement giving a less understandable overview of the assets/liabilities/equity or income/expenses; or

(ii) additional disaggregation would be useful.

22. When deciding whether to add new specific line items, the IASB will need to consider whether:

(a) the costs outweigh the benefits; and

(b) the line items make sense when considered in the context of the role of the primary financial statements for all entities rather than solely in the context of the specific Accounting Standard to which they relate.

23. One implication of the need to consider whether the line items make sense when considered in the context of the role of the primary financial statements for all entities is that we would not expect every IFRS Accounting Standard to include specific line items to be presented in the primary financial statements. The existing list includes a number of line items arising from the requirements of IFRS 9 and IFRS 17 that may be disproportionate for entities whose main business activities are not financial or insurance activities. We should take care not to introduce new bias towards different topics in the future.

Why might there be a different balance between setting specific requirements and relying on the general requirements for presentation and disclosure?

24. In summary, our expectation is that in future projects, the IASB will set detailed specific disclosure requirements but will be restrained in specifying new line items to be presented in the primary financial statements.

25. The difference between disclosure and presentation arises because of the different thresholds that apply to disaggregation in the notes and the primary financial statements.

26. For disclosures, we have many requirements spread across many IFRS Accounting Standards, and the outcome of the Targeted Standards Level Review of Disclosure is for the IASB to aim to set specific disclosure requirements that describe the detailed information needs of users of financial statements. The only threshold an entity applies to that list is materiality.

27. In contrast, for a list of specified line items to be presented, an entity needs to apply a threshold not just of materiality, but also which items would result in an understandable overview of its income and expenses or assets, liabilities and equity.

28. In principle, IASB could adopt one of three approaches:

(a) develop a detailed list that includes most items that any entity might need to provide an understandable overview (like our intention for disclosure requirements). But such a list would be extensive (like disclosure requirements), and an entity would need to apply judgement to select which items provide its entity-specific overview.

(b) develop a limited list of items that would be necessary for almost all entities. But such a list would be limited because not much will pass the threshold for almost all entities.

(c) Find a middle ground, ie a list that includes items that would pass the threshold for most entities. But such a middle ground does not exist, unless we develop different lists for banks, insurers, property companies etc.

29. The staff think approach (b) is the most operational approach for the IASB to adopt.

Question for the IASB
1. Does the IASB have any comments on the analysis of the relationship between the general requirements on disaggregation and specific requirements for presentation and disclosure?