

IASB[®] meeting

Project	Primary Financial Statements
Paper topic	Feedback summary—Disaggregation—general proposals and minimum line items
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Objective

1. This paper analyses feedback from comment letters and outreach on the general proposals relating to disaggregation set out in the Exposure Draft *General Presentation and Disclosures*. This paper also discusses the fieldwork findings related to these proposals. A review of academic literature related to this topic is included in Agenda Paper 21L *Feedback summary—Literature Review*.
2. This paper does not discuss specific proposals relating to disaggregation, these are discussed in Agenda Paper 21F *Feedback summary—Disaggregation—analysis of operating expenses* and in Agenda Paper 21G *Feedback summary—Disaggregation—unusual income and expenses*.
3. This paper also discusses proposals for minimum line items, except for the proposed minimum line items for:
 - (a) expenses from financing activities (discussed in Agenda Paper 21C *Feedback summary—Subtotals and categories—entities with particular main business activities*); and
 - (b) integral and non-integral associates and joint ventures (discussed in Agenda Paper 21D *Feedback summary—Subtotals and categories—integral and non-integral associates and joint ventures*).

Key messages

4. Many respondents commented on the roles of primary financial statements and notes. Of these, most agreed with the proposals and a few disagreed.
5. Most respondents commented on the principles of aggregation and disaggregation and the proposals relating to disaggregation and labelling of items described as ‘other’. Of those many agreed with the proposals but some disagreed, mostly expressing disagreement with proposals relating to items labelled as ‘other’. Many did not express agreement or disagreement and instead commented on the need for additional guidance or clarifications, particularly on the proposal relating to items labelled as ‘other’.
6. Some respondents commented on the requirements for minimum line items. Of those, some agreed with the proposals and some disagreed. Most respondents that commented on the proposals said further guidance or clarification is needed.

Structure of the paper

7. This paper is structured as follows:
 - (a) proposals in the Exposure Draft (paragraphs 8–10);
 - (b) comment letter and outreach feedback (paragraphs 11–28);
 - (c) fieldwork findings (paragraphs 32–39); and
 - (d) Appendix A—relevant questions in the Exposure Draft.

Proposals in the Exposure Draft

8. The Board proposed to describe the roles of the primary financial statements and the notes. The Board also proposed principles and general requirements on the aggregation and disaggregation of information—the principles would be applicable to both presentation in the primary financial statements and disclosures in the notes. The principles would require an entity to classify identified assets, liabilities, equity, income and expenses into groups based on shared characteristics and to separate those

items based on further characteristics. The Board also proposed to require an entity to use meaningful labels for the group of immaterial items that are not similar and to consider whether it is appropriate to use non-descriptive labels such as ‘other’.

9. The Board proposed some additional minimum line items to be presented in the statement of profit or loss (expenses from financing activities and share of profit or loss from integral and non-integral associates and joint ventures) and in the statement of financial position (goodwill and integral and non-integral associates and joint ventures).
10. The proposed requirements, including those proposed to be carried over from IAS 1, are set out in paragraphs 20–21, 25–28, and B5–B15 of the Exposure Draft and paragraphs BC19–BC27 of the Basis for Conclusions describe the Board’s reasons for these proposals.

Comment letter and outreach feedback

Roles of primary financial statements and notes

11. Many respondents commented on the roles of primary financial statements and notes. Of those, most, mainly from Europe and Asia, (including most users) agreed with the proposals and a few disagreed.

Agreement

12. Most respondents did not state specific reason for their agreement with the proposal. Some respondents did, and they said that the proposals would:
 - (a) help entities when making decisions on what information to include in the notes and in the primary financial statements and thus improve consistency of application; and
 - (b) provide a level of flexibility to provide relevant information.

Concerns

13. A few respondents who disagreed with the proposal explained their reasons for disagreement:

- (a) the roles described are insufficient to help entities distinguish between what information to provide in the primary financial statements and the notes; and
- (b) the description of roles should be included in the *Conceptual Framework for Financial Reporting*.

Principles of aggregation and disaggregation

- 14. Most respondents commented on the principles of aggregation and disaggregation that require an entity to classify identified assets, liabilities, equity, income and expenses into groups based on shared characteristics and to separate those items based on further characteristics. Most respondents also commented on the proposals to require an entity to use meaningful labels for the group of immaterial items that are not similar and how to consider whether it is appropriate to use non-descriptive labels such as ‘other’.
- 15. Many respondents who commented (including most users) agreed with the proposals. Some (including a few users) disagreed, mostly expressing disagreement with proposals relating to items labelled as ‘other’. A few respondents (including a few users) expressed disagreement with the proposals relating to principles of aggregation and disaggregation.
- 16. Many respondents who commented on the proposals did not express agreement or disagreement and instead commented on the need for additional guidance or clarifications, particularly on the proposal relating to items labelled as ‘other’.
- 17. A few respondents who agreed with principles for aggregation and disaggregation (including a few users) disagreed with the proposal relating to items labelled as ‘other’.

Agreement

- 18. Whilst most respondents did not provide reasons for their agreement with the principles of aggregation and disaggregation, some did, stating that:
 - (a) the proposed principles are clear and useful to preparers of financial statements. For example, a preparer commented that the discussion of shared

characteristics in the proposal is helpful in deciding to which functions to allocate their operating expenses.

- (b) the implementation of proposals is expected to lead to more consistent disaggregation and provide additional useful information for users of financial statements.
 - (c) the proposals would help ensure that material information is not obscured and provide a good balance between requiring too much detail and too aggregated information.
 - (d) the information provided applying the principles is expected to be more understandable as based on shared characteristics.
19. The respondents (including users) who provided reasons for agreeing with the proposals relating to items labelled as ‘other’ said they agreed with the proposals because they would:
- (a) improve clarity and consistent application across entities;
 - (b) provide information about the composition of the items aggregated in ‘other’, which is useful for users of financial statements; and
 - (c) similar to principles of aggregation and disaggregation, help ensure material information is not obscured.
20. A few respondents specifically commented that they agreed with the proposal to not require a quantitative threshold for disaggregation. They commented that principles rather than rules would lead to provision of useful information.

Concerns

21. Respondents who disagreed with the proposals relating to items labelled as ‘other’ explained their reasons for disagreement as follows, with users focusing on (a) and (c):
- (a) the proposal could result in clutter in financial statements and the resulting information may not be useful to users;
 - (b) it may be challenging to apply the proposal, as often many items are combined in groups labelled as ‘other’;

- (c) disclosure of immaterial information is inconsistent with both IAS 1 and the proposals in the Exposure Draft which specify that an entity need not provide disclosures required by an IFRS Standard if the information resulting from the disclosures is immaterial; and
 - (d) labelling items as ‘other’ is sufficient to inform users that information about such items is not material.
22. The few respondents who disagreed with the proposed principles for aggregation and disaggregation gave the following reasons with users focusing on (a) and (d):
- (a) the proposed principles are too vague and may not have an effect on the quality of financial reporting;
 - (b) without a quantitative materiality threshold, the proposals could lead to disclosure of immaterial information;
 - (c) the proposed principles could cause significant costs, especially for smaller entities;
 - (d) the principles may not be useful without additional guidance, for example on how to determine shared characteristics;
 - (e) an entity could apply the principles to aggregate or disaggregate items opportunistically; and
 - (f) the requirements should be included in the Conceptual Framework, expanding on existing guidance.

Alternative approaches

23. Many respondents commented that additional guidance or clarification is needed, including a few respondents who agreed with the proposals. The respondents asked for the following additional guidance:
- (a) some asked the Board to provide more guidance for the proposals in general. For example, they asked for guidance on the minimum level of disaggregation, on what is meant by relevant information and faithful representation, and an illustrative example of best practice for items labelled as ‘other’. A few users

asked for the disaggregation requirements to be strengthened to achieve what they regarded as essential improvements in disaggregation;

- (b) some asked the Board to provide additional guidance on what is meant by shared characteristics;
 - (c) some suggested the proposals explicitly state that materiality still applies. These respondents were mostly preparers and accountancy bodies; and
 - (d) a few asked the Board to clarify the relationship between the proposed minimum line items and the general disaggregation guidance.
24. A few respondents suggested alternative approaches including a specific disaggregation threshold, which could be either mandatory quantitative threshold or a rebuttable one and could apply either to items labelled as ‘other’ or more generally.
25. A few respondents asked the Board to clarify whether use of ‘other’ as a label would be prohibited.

Proposed minimum line items

26. The Exposure Draft did not have a specific question relating to proposed requirements for minimum line items. However, some respondents commented on these proposals. Of those, some agreed with the requirements and some disagreed, mainly from preparers. Most respondents that commented on the requirements said further guidance or clarification is needed.
1. Respondents’ feedback related to the following minimum line items is discussed in other feedback papers and are not repeated in this paper:
- (a) Agenda Paper 21C includes discussion of proposed minimum line item for expenses from financing activities; and
 - (b) Agenda Paper 21D includes discussion of proposed minimum line items for integral and non-integral associates and joint ventures, both in the statement of profit or loss and statement of cash flows.
27. Some respondents who commented agreed with the separate presentation of goodwill in the statement of financial position and some disagreed. Some respondents that agreed with the separate presentation also said that impairment of goodwill should

also be required to be presented separately in the statement of profit or loss. Those that disagreed said that goodwill is not sufficiently different from other intangible assets to justify separate presentation in the statement of financial position. A few respondents were concerned that requiring presentation of goodwill in the statement of financial positions could lead to disclosure of immaterial information.

28. Most respondents who commented said that additional guidance or clarification is needed. These respondents asked for the following guidance or clarification:
- (a) some asked the Board to clarify the relationship between the minimum line items and the proposal to prohibit a mixture of the nature of expense method and the function of expense method (this is discussed further in Agenda Paper 21F);
 - (b) some asked for the rationale or conceptual basis for the minimum line items, for example why is impairment for financial asset a minimum line item whereas impairment of non-financial assets is not;
 - (c) some asked for further guidance and clarification on the application of materiality to minimum line items; and
 - (d) some suggested a comprehensive review of the required minimum line items to consider, for example:
 - (i) whether all minimum line items should remain, especially when those would be presented in categories below operating profit. A few specifically suggested entities should not be required to present income and expenses from cash and cash equivalents when classified in the financing category.
 - (ii) consistent approach in setting out minimum line item requirements (for example requiring presentation of impairment for either both financial and non-financial assets or neither).

Fieldwork findings

29. The following section discusses the fieldwork findings related to the statement of cash flows. The findings are organised by the following categories corresponding to the objectives of the fieldwork:
 - (a) observations on how the requirements were applied (paragraphs 32–35);
 - (b) aspects of the Exposure Draft that participants identified as being unclear (paragraphs 36–39); and
30. In relation to process or systems changes that may be required to apply the requirements, a few participants said additional general ledger accounts may be required to capture newly disaggregated items.
31. The methodology of the fieldwork is described in Agenda Paper 21A *Feedback summary—Overview*.

Observations on how the requirements are applied

32. Although the guidance applies equally to all of the primary financial statements and the notes, the fieldwork instructions requested a revised statement of profit or loss and a revised statement of cash flows. In these statements, few participants made any changes to aggregation and disaggregation.
33. Many participants said that the guidance on avoiding the use of non-descriptive labels such as ‘other’ appeared to emphasise immaterial information. These participants currently use ‘other’ to aggregate several immaterial items and were concerned that the guidance could lead to excessive disaggregation, focusing on a quantitative view of materiality. Some participants said that they could not find a more descriptive label than ‘other’ because the items labelled as ‘other’ included many different expenses. Therefore, these participants continued to use the label ‘other’.
34. Two participants aggregated all operating expenses into a single line item. These participants had previously presented multiple line items using the function of expense method and presented a gross profit subtotal, which they also removed. However, these participants did not explain why they thought this change was needed.

35. Participants were not specifically asked to provide disclosures relating to their implementation of the guidance for disaggregation of items labelled as ‘other’ for the purpose of the fieldwork. However, one participant provided a note disaggregating other revenue presented in the statement of profit or loss, which represented a considerable portion of total revenue.

Aspects of the Exposure Draft participants identified as unclear

36. Most participants said the additional guidance on the roles of the primary financial statements and the notes, and on aggregation and disaggregation, was clear and was easy to apply, although as noted above only a few appeared to make changes as a result of the guidance.
37. Some participants asked whether the disaggregation guidance prevented the net presentation of items currently presented on a net basis. For example, one participant in the financial industry said, applying requirements in IFRS Standards, they presented net income from assets carried at fair value. This participant asked whether the disaggregation guidance would require them to separate gains and losses on assets carried at fair value.
38. Some participants that present operating expenses using the function of expense method said that it would be helpful to have specific guidance on applying the aggregation principles to the required note disclosure analysing expenses by nature.
39. A few participants said they were unclear about what additional characteristics should be considered or the order of their importance in applying the principles of aggregation.

Question for the Board

Does the Board have any comments or questions on the feedback discussed in this paper? Specifically:

- a) Is there any feedback or fieldwork evidence that is unclear?

- b) Are there any points, or fieldwork evidence, you think the Board did not consider in developing the Exposure Draft but should consider in the re-deliberations?
- c) Are there any points, or fieldwork evidence, you would like staff to research further for the re-deliberations?

Appendix A—relevant questions in the Exposure Draft

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation

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| <ul style="list-style-type: none"> (a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes. (b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information. |
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<p>Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board’s reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?</p>
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