STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative: Accounting Policies**
Paper topic	Standardised information and information that duplicates the requirements of IFRS Standards

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Objective and background

1. In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

2. The proposed amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

   (a) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and

   (b) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

3. The comment period for the Exposure Draft closed on 29 November 2019. The staff presented a summary of comment letter feedback to the Board at its February 2020 meeting (see ***February 2020 Agenda Paper 20***).

4. At its May 2020 meeting the Board discussed how to address feedback that the Board is assuming that primary users have a greater knowledge of the requirements of IFRS Standards than is the case (see ***May 2020 Agenda Paper 20B***). At that meeting, the Board asked staff to bring back a paper further analysing whether material accounting

policy information can include standardised information or information that duplicates or summarises the requirements of IFRS Standards.

5. This paper presents that staff analysis and includes recommendations for the Board.

Overview

6. This paper is structured as follows:
   - (a) Summary of staff recommendations (paragraphs 7-8);
   - (b) Summary of feedback to the Exposure Draft (paragraphs 9-13);
   - (c) Approach to staff analysis (paragraphs 14-16);
   - (d) Applying the concept of materiality to accounting policy information that is standardised information or duplicates or summarises the requirements of IFRS Standards (paragraphs 17-20);
     - (i) Staff recommendation and question for the Board (paragraph 20);
   - (e) Can accounting policy information that is standardised information or duplicates or summarises the requirements of IFRS Standards be assessed as material? (paragraphs 21-23);
     - (i) Question for the Board (paragraph 23);
   - (f) Adding an example of a circumstance to proposed paragraph 117B of IAS 1 (paragraphs 24-29);
     - (i) Staff recommendation and question for the Board (paragraph 29);
   - (g) Disclosing accounting policy information that is immaterial to the financial statements but helps facilitate better understanding by primary users (paragraphs 30-38);
     - (i) IFRS Practice Statement 2 (paragraphs 35-36);
     - (ii) Staff recommendation and question for the Board (paragraphs 37-38);

(h) Appendix A—Extract from the Exposure Draft: Proposed amendments to IAS 1;

(i) Appendix B—Alternative View of Mr Martin Edelmann of the Exposure Draft *Disclosure of Accounting Policies*;

(j) Appendix C—Extract from the Basis of Conclusions to the Exposure Draft;

(k) Appendix D—Definition of material (paragraph 7 of IAS 1);

(l) Appendix E—Extract from IFRS Practice Statement 2.

Summary of staff recommendations

7. Staff recommend that the Board applies the concept of materiality to all types of accounting policy information, including accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards (see paragraphs 17-23).

8. To clarify how the concept of materiality applies to all types of accounting policy information staff also recommend that the Board adds (see paragraphs 24-38):

   (a) to proposed paragraph 117B of IAS 1 an example of a circumstance which would clarify that, when the accounting required for a material transaction, other event or condition is complex and would otherwise not be understood by users of financial statements, material accounting policy information could include standardised information or information that duplicates or summarises the requirements of IFRS Standards;

   (b) to the proposed amendments to IAS 1 an explanatory paragraph which would:

      (i) clarify that entities are not prohibited from providing immaterial accounting policy information; and

      (ii) prompt entities to consider whether they are obscuring material accounting policy information with immaterial accounting policy information; and

(c) to the proposed amendments to IFRS Practice Statement 2 guidance to support those changes to IAS 1 as recommended in (a) and (b) above.

Summary of feedback to the Exposure Draft (see *February 2020 Agenda Paper 20*)

Characteristics of primary users

9. Most respondents agreed with the statement in paragraph 117A of the Exposure Draft that '*not all accounting policies relating to material transactions, other events or conditions are themselves material*' (see Appendix A). A few other respondents disagreed with this proposal because they thought accounting policies relating to material transactions, other events or conditions are inherently material.

10. However, many respondents were of the view that the proposals in the Exposure Draft place too much reliance on primary users understanding the requirements of IFRS Standards. Some of these respondents stated that, in their experience, users are not accounting experts and sympathised with the Alternative View in the Exposure Draft (see Appendix B). In particular, they believe that the understandability of financial statements could be affected by the proposals.

11. Some respondents also thought the Board should further consider the importance of the enhancing qualitative characteristic 'understandability'[1]. These respondents thought that including standardised information, or duplicating or summarising the requirements of IFRS Standards, in an accounting policy can be useful when IFRS Standards are particularly complex. This is because describing such policies can help users understand how material transactions, other events or conditions are reflected in financial statements. These respondents suggested the Board consider:

    (a) including a disclosure objective indicating that information about accounting policies should enable users to get a general understanding of how an entity has applied the requirements in IFRS Standards to its own circumstances; or

[1] See paragraphs 2.34-2.36 of the *Conceptual Framework for Financial Reporting*

(b) stating that an entity should make accounting policy disclosures when they believe that such disclosure would provide useful information to their users. For example, in jurisdictions that have a local GAAP, disclosing standardised information or information that duplicates or summarises the requirements of IFRS Standards might help users to understand how the IFRS Standards differ from their local GAAP.

12. Some respondents thought that the proposals imply that accounting policy information which contains standardised information or information that duplicates or summarises the requirements of IFRS Standards should be assessed as immaterial and need not be disclosed. Many of these respondents thought that this could result in material information being omitted from the financial statements.

13. Some respondents also thought accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards can provide context for other information in the financial statements. These respondents also thought that such accounting policy information could give even knowledgeable users a better understanding of assumptions applied by an entity in the financial statements.

Approach to staff analysis

14. Proposed paragraph 117B of the Exposure Draft includes a list of examples of circumstances in which an entity is likely to consider information about an accounting policy to be material to its financial statements (see Appendix A). At its May 2020 meeting, the Board discussed adding an additional circumstance to that paragraph. The additional circumstance discussed was intended to clarify that when the accounting required by an IFRS Standard is complex or may not be generally understood by users of financial statements, material accounting policy information could include standardised information or information that duplicates or summarises the requirements of IFRS Standards (see ***May 2020 Agenda Paper 20B***).

15. However, Board members' views differed about accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards:

    (a) some Board members are of the view that such accounting policy information is unlikely to be material to the financial statements but can be disclosed as long as it does not obscure material accounting policy information;

    (b) some Board members are of the view that such accounting policy information can be material to the financial statements and in such cases must be disclosed—for example, when a class of transactions is considered to be so complex that an entity would conclude that material accounting policy information includes standardised information or information that duplicates or summarises the requirements of the related IFRS Standard(s) alongside entity-specific accounting policy information; and

    (c) some Board members are of the view that such accounting policy information helps primary users to better understand an entity's financial statements and therefore should be disclosed—for example, in line with the Alternative View to the Exposure Draft (see Appendix B), the disclosure of accounting policy information could help primary users to better understand an entity's financial statements even if that accounting policy information is not important enough to be assessed as material.

16. Consequently, staff have analysed the following:

    (a) applying the concept of materiality to accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards (see paragraphs 17-29); and

    (b) disclosing accounting policy information that is immaterial to the financial statements but helps facilitate better understanding of the financial statements by primary users (see paragraphs 30-38).

Applying the concept of materiality to accounting policy information that is standardised information or duplicates or summarises the requirements of IFRS Standards

17. Almost all respondents supported replacing the concept of 'significance' with the concept of 'materiality' in the context of accounting policy disclosures because (see ***February 2020 Agenda Paper 20***):

    (a) most thought the proposal was consistent with the overall objective of the Board's Disclosure Initiative, including the amended definition of material. Some of these respondents thought the proposal would help entities remove immaterial disclosures from financial statements and focus on information that is material;

    (b) many thought the proposal would result in a consistent approach to disclosing accounting policies. These respondents said that, as 'material' is a defined concept and is supported by guidance, it is better understood by preparers and easier to apply than 'significant'; and

    (c) a few thought the concept of materiality is pervasive to the financial statements and is therefore applicable to accounting policy disclosure.

18. Some respondents to the Exposure Draft thought that in some situations, such as when the requirements of an IFRS Standard are particularly complex, useful accounting policy information can also include information that contains standardised information or information that duplicates or summarises the requirements of IFRS Standards. These respondents thought in these circumstances such information is so fundamental to users' understanding of the financial statements that it would be material (see paragraphs 9-13).

19. Staff considered moving away from the concept of materiality by providing guidance stating that accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards should be disclosed if it helps users better understand an entity's financial statements, even if that information is not important enough to be assessed as material (see paragraph 15(c)). However, we do not recommend the Board take this approach because:

(a) we would be creating an exception to the notion that the definition of material should drive accounting policy disclosure which would be contrary to the proposals in the Exposure Draft that were largely supported by respondents (see paragraph 17); and

(b) such a change would be likely to undermine the improvements to accounting policy disclosures the Board is seeking to achieve (ie it would be unlikely to prompt entities to consider removing from the financial statements immaterial accounting policy information that users say they do not find useful).

Staff recommendation and question for the Board

20. For the reasons discussed in paragraphs 17-19, staff recommend that the concept of materiality should be applied to all types of accounting policy information, including accounting policy information that is a standardised information or information that duplicates or summarises the requirements of IFRS Standards.

Question 1
Does the Board agree with the staff recommendation in paragraph 20?

Can accounting policy information that is standardised information or duplicates or summarises the requirements of IFRS Standards be assessed as material?

21. Some respondents to the Exposure Draft and some Board members hold the view that only entity-specific accounting policy information provides useful information to users of financial statements. This is because accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards is publicly available and users of financial statements can easily find this information outside the financial statements. Consequently, accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards would be unlikely to be assessed as material (see paragraph 15(a)). They also think that improvements to

accounting policy disclosures can only be achieved if entities are discouraged from providing such accounting policy information.

22. Staff agree that entity specific accounting policy information is likely to be more useful to users than information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards. However, we also agree with those respondents that thought that, at times, accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards can be material (see paragraph 18). This is because:

    (a) not all accounting policy information that is standardised information would be publicly available to users of financial statements;

    (b) in many jurisdictions, regulators require financial statements to be able to be read and understood by users without having to refer to publicly available information outside the financial statements; and

    (c) in line with proposed paragraphs 117A-B of IAS 1 (see Appendix A), we think that the decisions that primary users make on the basis of the financial statements could be affected if they do not understand how an entity has accounted for a material class of transactions, other events or conditions.

23. In particular, staff think that accounting policy information that includes standardised information or information that duplicates or summarises the requirements of IFRS Standards could be assessed as material in the following circumstances:

    (a) if that information is needed for a user to understand other information provided about a material class of transactions, other events or conditions in the financial statements. For example, an entity applying IFRS 9 *Financial Instruments* does not have a choice regarding the classification of its financial instruments. However, a user of that entity's financial statements may not be able to understand how the entity has accounted for its material financial instruments without also understanding how the entity has classified its financial instruments;

    (b) an entity applying IFRS Standards reports in a jurisdiction in which entities also report using local GAAP. For example, in such jurisdictions, users may need information that duplicates or summarises the requirements of IFRS Standards to understand how the IFRS requirements differ from those of the local GAAP; and

(c) if the accounting required by an IFRS Standard is complex and not generally understood by users of financial statements. For example, when a material class of transactions, other events or conditions is accounted for applying more than one IFRS Standard. In such cases, users may need information that duplicates or summarises the requirements of the relevant IFRS Standards to understand how those Standards interact.

Question for the Board

Question 2
Does the Board agree that, at times, accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards can be material and should be disclosed?

Adding an example of a circumstance to proposed paragraph 117B of IAS 1

24. If the Board agrees with Question 2, the Board will also need to consider whether developing an example of a circumstance in which accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards is likely to be material would help entities apply the amendments to IAS 1 (see Appendix A).

25. Staff still think that adding an example of a circumstance in which an entity may assess as material standardised accounting policy information or accounting policy information that duplicates or summarises the requirements of IFRS Standards has merit. This is because it supports the application of the concept of materiality to all types of accounting policy information, including accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards (see paragraphs 17-23), and would:

(a) prompt entities to consider whether primary users have sufficient information about the entity's accounting policies to understand its material transactions, other events or conditions; and

(b) help address the concern raised that the proposals, as drafted, may result in material information being omitted from the financial statements.

26. At the May 2020 meeting staff recommended that the Board add a circumstance to proposed paragraph 117B of IAS 1 which would clarify that an entity is likely to consider accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards to be material when the accounting required by the related IFRS Standard is considered complex (see ***May 2020 Agenda Paper 20B***).

27. However, at that meeting the Board expressed concern about how an entity would identify when an IFRS Standard is complex. Staff agree, and in line with the analysis in paragraphs 17-23, we do not think an entity would assess whether information is material based on whether the IFRS Standard itself is complex, but rather whether the accounting required for transactions, other events or conditions is complex. Consequently, we think that further clarity can be added by instead focusing on the complexity of the accounting required for a material class of transactions, other events or conditions rather than the complexity of an individual IFRS Standard. An example of such a circumstance is described in paragraph 23(c).

28. Staff used the example described in 23(c) about complexity to illustrate that standardised accounting policy information or accounting policy information that duplicates or summarises the requirements of IFRS Standards can be assessed as material because this example:

(a) has been suggested by respondents (see paragraph 18);

(b) is more specific than the example described in paragraph 23(a); and

(c) is more generally applicable than the example described in paragraphs 23(b).

We think an example of such a circumstance could be added to the list in proposed paragraph 117B of IAS 1 which reads:

> An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:
>
> …
>
> (x) the accounting required for those material transactions, other events or conditions is complex and would otherwise not be understood by users of the entity's financial statements (for example, when more than one IFRS Standard is applied to an individual class of material transactions).

Staff recommendation and question for the Board

29. For those reasons discussed in paragraphs 24-28, staff recommend that Board add to proposed paragraph 117B of IAS 1 an example of a circumstance which would clarify that, when the accounting required for a material transaction, other event or condition is complex and would otherwise not be understood by users of financial statements, material accounting policy information could include standardised information or information that duplicates or summarises the requirements of IFRS Standards.

Question 3
Does the Board agree with the staff recommendation in paragraph 29?

Disclosing accounting policy information that is immaterial to the financial statements but helps facilitate better understanding by primary users

30. In line with the Alternative View to the Exposure Draft (see Appendix B), some respondents thought that accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards could give even knowledgeable users a better understanding of an entity's financial statements, even when that information is judged to be immaterial. For example, these respondents thought that such accounting policy information can

provide context for other material information in the financial statements (see paragraphs 9-13).

31. We do not think it was the Board's intention in developing the proposals to prohibit entities from disclosing immaterial accounting information such as standardised information or information that duplicates or summarises the requirements of IFRS Standards in their accounting policies. Instead, the Board is seeking to help entities provide accounting policy disclosures that are more useful to users of financial statements.

32. Staff agree that accounting policy information that is assessed as immaterial to the financial statements can, at times, provide helpful information to primary users (see paragraph 30). For example, including some standardised information or information that duplicates or summarises some of the requirements of IFRS Standards can be helpful in setting context for entity-specific information.

33. However, we think an entity needs to carefully judge when to disclose that information given:

   (a) feedback from users indicates that they do not always find such accounting policy information useful (see Appendix C); and

   (b) the definition of material requires entities not to obscure material information with immaterial information in their financial statements (see Appendix D).

34. Consequently, we think guidance should be added to the amendments to IAS 1 explaining that, while an entity is not prohibited from disclosing immaterial accounting policy information, such information must not obscure material accounting policy information. For example, a paragraph could be added to the proposed amendments to IAS 1 which reads:

117X	Nevertheless, in addition to disclosing material accounting policy information, an entity is not prohibited from disclosing standardised information or information that duplicates or summarises the requirements of IFRS Standards even if that information is not material. However, such information must not obscure accounting policy information that is material.

IFRS Practice Statement 2

35. To support adding guidance to IAS 1 about accounting policy information that is standardised information or information that duplicates or summarises the requirements of IFRS Standards (see paragraphs 24-34), staff think the proposed guidance for IFRS Practice Statement 2 could also be revised. For example, this could be done by adding guidance about:

    (a) entity-specific information as described in proposed paragraph 117C of IAS 1 (see Appendix A); and

    (b) standardised accounting policy information or accounting policy information that duplicates or summarises the requirements of IFRS Standards (as described in paragraph 23).

36. Step 3 of the four-step materiality process provides guidance about how an entity can organise material and immaterial information in the financial statements (see Appendix E). We think a cross reference from the accounting policies section of IFRS Practice Statement 2 to that guidance would help entities exercise judgement about how to communicate accounting policy information clearly and concisely.

Staff recommendation and question for the Board

37. For those reasons discussed in paragraphs 30-34, staff recommend that the Board add an explanatory paragraph to the proposed amendments to IAS 1 which would:

    (a) clarify that entities are not prohibited from providing immaterial accounting policy information; and

    (b) prompt entities to consider whether they are obscuring material accounting policy information with immaterial accounting policy information.

38. Staff also recommend that, to support those changes recommended in paragraphs 29 and 37, the Board develop additional guidance for IFRS Practice Statement 2 (see paragraphs 35-36).

Question 4

Does the Board agree with the staff recommendation to add:

a) an explanatory paragraph to the proposed amendments to IAS 1 which would (i) clarify that entities are not prohibited from providing immaterial accounting policy information; and (ii) prompt entities to consider whether they are obscuring material accounting policy information with immaterial accounting policy information; and

b) guidance to IFRS Practice Statement 2 to support those changes to IAS 1 as recommended in paragraphs 29 and 37?

Appendix A—Extract from the Exposure Draft: Proposed amendments to IAS 1

Disclosure of accounting policies

117 An entity shall disclose its ~~significant~~ material accounting policies. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements. ~~comprising:~~

~~(a) the measurement basis (or bases) used in preparing the financial statements; and~~

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

117B An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

(a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;

(b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;

(c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;

(d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

(e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

117C Information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards.

117D If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

118 [Deleted]~~It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular~~

~~classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~

119 [Deleted]~~In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~

120 [Deleted]

121 [Deleted]~~An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.~~

122 An entity shall disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Appendix B—Alternate View of Mr Martin Edelmann of the Exposure Draft *Disclosure of Accounting Policies*

AV1 Mr Edelmann voted against the publication of the Exposure Draft *Disclosure of Accounting Policies* which proposes to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

AV2 In Mr Edelmann's view, accounting policies should be disclosed if management believes the disclosure would assist users of financial statements in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Not all primary users of financial statements are accounting experts (see paragraph 2.36 of the *Conceptual Framework of Financial Reporting*). Hence, the disclosure of accounting policies could help them to better understand an entity's reported financial performance and financial position even if such accounting policies are not important enough to be assessed as material because they would not be expected to influence the investment decisions of users.

AV3 Mr Edelmann suggests that, in some cases, accounting policies available from sources, such as IFRS Standards, should be disclosed because they may help users to better understand financial performance and position. Such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.

Appendix C—Extracts from the Basis of Conclusions to the Exposure Draft

…

BC9 The Board has received feedback that:

(a) accounting policy disclosures are useful to users of financial statements only when they:

(i) relate to material transactions, other events or conditions; and

(ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies;

(b) users of financial statements do not find accounting policy disclosures useful when they:

(i) contain standardised information, sometimes referred to as ‘boilerplate’; and

(ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

…

Appendix D—Definition of material (paragraph 7 of IAS 1)

7 …

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

…

Appendix E—Extract from IFRS Practice Statement 2

…

Step 3—organise

56 Classifying, characterising and presenting information clearly and concisely makes it understandable. An entity exercises judgement when deciding how to communicate information clearly and concisely. For example, the entity is more likely to clearly and concisely communicate the material information identified in Step 2 by organising it to:

(a) emphasise material matters;

(b) tailor information to the entity's own circumstances;

(c) describe the entity's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;

(d) highlight relationships between different pieces of information;

(e) provide information in a format that is appropriate for its type, eg tabular or narrative;

(f) provide information in a way that maximises, to the extent possible, comparability among entities and across reporting periods;

(g) avoid or minimise duplication of information in different parts of the financial statements; and

(h) ensure material information is not obscured by immaterial information.

57 Financial statements are less understandable for primary users if information is organised in an unclear manner. Similarly, financial statements are less understandable if an entity aggregates material items that have different natures or functions, or if material information is obscured, for example, by an excessive amount of immaterial information.

58 Furthermore, an entity considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.

59 The output of Step 3 is the draft financial statements.

…