29. Sitzung IFRS-FA am 01.08.2014
29_11a_IFRS-FA_DI_FSP

STAFF PAPER

July 2014

IASB Meeting

Project	**Research Programme**		
Paper topic	Financial Statement Presentation		
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Introduction

1. Over the last six months we have heard increasing calls for the IASB to restart the suspended Financial Statement Presentation (FSP) project. The purpose of this paper is to consider how the IASB should respond to those calls.

2. As we will explain, simply restarting the FSP project is not feasible. Work being undertaken in the Conceptual Framework project and the Disclosure Initiative overlaps with substantial parts of the FSP project. The scope of any project based on FSP would therefore need to be revised in the light of developments since the project was suspended.

3. In this paper we provide a brief history of the FSP project and analyse the Staff Draft developed in that project for a planned replacement of IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*. We conclude by recommending that the IASB should add a project to its Research Programme on *Performance Reporting*, although how much priority we should give to this project relative to the Disclosure Initiative is not so clear.

Calls to restart the FSP project

Demand

4. Respondents to the 2011 Agenda Consultation identified *Financial Statement Presentation (excluding OCI)* as a low-priority project, with many recommending that it should be removed from the agenda.[1] Most of these respondents were preparers and they gave the following reasons for not restarting the project:

   (a) The costs of finishing this project at this point outweigh the benefits.

   (b) The focus should be on clarifying OCI and defining 'performance' and other elements of the financial statements.

   (c) Disaggregation is a materiality issue. A reduction in disclosures would be more useful to users of financial statements.

   (d) Financial statement presentation should not be addressed until there is a stable platform for financial reporting.

5. However, users who responded to the Agenda Consultation told us that FSP (excluding OCI) should be a high-priority project of the IASB.[2] Those respondents expressed a view that improvements to financial statement presentation could greatly improve the understanding and comparability of financial statements.

6. More recently, as part of the discussions in the Conceptual Framework project and the Disclosure Initiative, we have received a growing number of questions about whether the IASB plans to restart its FSP project. In the feedback received on the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, some respondents, including several users, suggested that the IASB should restart its FSP project.[3] In addition, within the context of the Disclosure Initiative, we have also heard that some think that the FSP project should be reactivated as a separate project. In their view there was broad support for some of the high level principles in the FSP project and these could be developed quickly into a final IFRS.

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[1] Paragraph 36-38 of Agenda Paper 5C, January 2012 IASB meeting.

[2] Paragraph 39 of Agenda Paper 5B, January 2012 IASB meeting

[3] Paragraph 51 of Agenda Paper 10H and paragraph 21 of Agenda Paper 10I, March 2014 IASB meeting

7. Constituent demand for an ‘FSP’ project seems to be split, almost exclusively along the line dividing preparers (who generally do not support restarting the original project) and users of financial statements (who are far more supportive).

Scope

8. It is not clear that everyone who advocates the IASB starting an ‘FSP’ project has a common understanding of what the FSP project set out to achieve or which parts have been already incorporated into other IASB projects.

9. Many of the matters within the scope of the FSP project at the time it was suspended have been incorporated in the Conceptual Framework project and the Disclosure Initiative. In the next parts of this paper we have provided a brief history of the FSP project and our assessment of the aspects that have not been picked up by these other projects.

Brief history of the FSP project

10. FSP began as a project looking at Other Comprehensive Income (OCI). However, in 2001 it shifted focus to examine performance reporting (ie the income statement). In 2004 the scope was broadened (once the FASB had joined) to look at financial statement presentation as a whole (the primary financial statements and the notes), but excluding OCI.

11. In 2008 a joint Discussion Paper was published: *Preliminary Views on Financial Statement Presentation.*[4] The boards developed an Exposure Draft (ED) *Financial Statement Presentation*, which they planned to release as a staff draft (rather than as a full ED), pending a full ED release. However, the project was suspended in 2010, days before the staff draft was due to be released. The staff draft is available on our public website.[5]

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[4] http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/DP08/Pages/DP08.aspx

[5] http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/Pages/Staff-draft-of-proposed-standard.aspx

Main proposals in the FSP staff draft

12. The staff draft combined IAS 1 and IAS 7 into a new (draft) Standard on Financial Statement Presentation. The draft carried over from IAS 1 *Presentation of Financial Statements* the general structure and content of the financial statement package. Most of the current paragraphs in IAS 1 and IAS 7 were incorporated into the staff draft (with some modifications).

13. There were some new proposals. The most significant of these were:

    (a) High level principles for (see Appendix A for the staff draft descriptions):

        (i) Disaggregation

        (ii) Cohesiveness

    (b) A requirement for information in the primary financial statements (Statement of comprehensive income, Statement of financial position and Statement of cash flows) to be organised into new defined sections, categories and subcategories (being the application of disaggregation), namely (see Appendix B for the staff draft descriptions):[6]

        (i) Business sections, split between an operating subcategory and investing subcategory;

        (ii) Financing section, split between a debt category and equity category;

        (iii) Income tax section;

        (iv) Discontinued operations section; and

        (v) Multi-category section.

        (The proposal required that OCI should also be separated into these sections and categories.)

    (c) Application of cohesiveness to the presentation of these sections, categories, subcategories, across the primary financial statements.

    (d) Additional disclosures about:

        (i) Remeasurements; and

[6] Note that OCI was left untouched.

(ii) Analyses of changes in assets and liabilities—ie reconciliations.

Why the project was suspended

14. At the time the project was suspended both boards were working to complete new Standards on revenue recognition, leases, insurance contracts and financial instruments. The boards were concerned that fundamentally changing the structure of the financial statements at the same time as they planned to issue all of these Standards would overwhelm preparers and users. In addition, feedback had highlighted that many of our constituents had significant concerns about the proposals:

(a) the planned structuring of profit or loss into prescribed sections, categories and subcategories was perceived as being too prescriptive;

(b) the application of the cohesiveness principle across all the primary financial statements (combined with the profit or loss structure) was perceived as being severe and necessitating a direct cash flows statement and leading to a statement of financial position that for many was counterintuitive; and

(c) the reconciliation requirement was perceived to be onerous.

15. The boards therefore decided to focus on the other projects and to suspend the FSP project until they had been completed.

Work undertaken since the FSP project was suspended

16. As we have indicated, many aspects of the FSP project have been incorporated into other projects. We have mapped areas covered by the FSP Staff Draft to work being undertaken in the Conceptual Framework Project and in the Disclosure Initiative to identify which work has been incorporated in those projects.

Conceptual Framework project

17. The Conceptual Framework project is addressing financial statement presentation and performance reporting in two areas:

(a) High level principles regarding the scope and content of financial statements, including the objective of financial statements; and

(b) Presentation in the statement of comprehensive income regarding:

   (i) the distinction between profit or loss and other comprehensive income; and

   (ii) the concept of recycling.

18. Although these areas of focus will not directly address most of the issues discussed in the FSP project, it is envisaged that the concepts developed will provide underlying principles that can be used in further work on financial statement presentation and performance reporting.

Disclosure Initiative

19. In the *Disclosure Initiative—Principles of Disclosure* (POD) project we plan to develop content and communication principles for the display of information in the financial statements. These principles build on the objective of financial statements and the qualitative characteristics of useful information in the *Conceptual Framework for Financial Reporting* (Conceptual Framework).

20. In addition, we plan to explore whether the work undertaken in the FSP project on the general principles of disaggregation (aggregation) and cohesiveness could be usefully incorporated into the set of disclosure principles for IFRS. For example, should there be an overall disclosure principle dealing with presentation and grouping of disclosures based on an entity's activities and how does an entity determine whether an amount (representing an aggregation of similar items) is presented as a line in the primary financial statements or in the notes?

21. We also plan to explore overall principles for the disclosure/presentation of cash flows. The scope of this work is yet to be determined and is being undertaken by the UK Financial Reporting Council.

22. We think that the work already planned for the POD project, combined with the materiality review and an inventory (and assessment) of current disclosure requirements is taking on those areas that received broad support in the FSP project.[7]

23. We plan to propose general principles for how information should be presented consistently across the financial statements and aggregated in a meaningful way. On the face of it these are the principles of cohesiveness and disaggregation. We know that some preparers have expressed concerns about these principles. However, our assessment is that it was the combination of introducing new specified categories in the primary financial statements, and then requiring these categories to be applied cohesively across all of the primary financial statements, that generated the concerns expressed by preparers.

Components of FSP not currently being addressed

24. It is the categorisation of the primary financial statements proposed in the FSP project that is the main part of that project which is not currently included in the work of the Conceptual Framework or Disclosure Initiative.

25. We think most constituents are interested mainly in the structure of the Statement of Comprehensive Income.[8] In other words, people are more interested in performance reporting. Although the distinction between profit or loss and OCI, and the conceptual basis for recycling, will be considered as part of the IASB's Conceptual Framework project, the feedback on the CF DP suggests that many respondents want us to do more.

26. We know that other standard-setters are also interested in performance reporting. For example, in January 2014 the FASB added a *Financial Performance Reporting* project to its research agenda. That project was originally called a

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[7] Even this statement is not uncontentious. Although we think there was general support for having more consistency across the structures of the primary financial statements, not everyone agreed with how this was captured in the cohesiveness principle, particularly among preparers.

[8] We say Statement of Comprehensive Income because feedback on the Conceptual Framework project makes it clear that respondents are interested in the relationship between profit or loss and OCI. From 2004 the FSP Project did not consider what should go into OCI or whether items in OCI should be recycled.

Financial Statement Presentation project, but in June 2014 the project was renamed to reflect its revised focus.[9]

27. The primary objective of the FASB's project is to assess ways to improve the relevance of information presented in the performance statement, focusing on:

    (a) a framework for determining an operating performance metric; and

    (b) distinguishing between recurring and nonrecurring or infrequently occurring items within the performance statement.

28. The FASB also plans to look at: additional disaggregation in the performance statement; transparency of remeasurements; related changes to segment reporting; and linkages across the primary statements.

Conclusion

29. Our assessment is that the Conceptual Framework project and the Disclosure Initiative have already picked up most of the matters covered by the FSP Project—which is unsurprising, because the Disclosure Initiative and the FSP Project both set out to combine and replace IAS 1 and IAS 7. However, there are some differences.

    (a) There are several areas where we think the Disclosure Initiative is developing improvements beyond those proposed in the FSP staff draft—our work on materiality and accounting policies and the narrow-scope amendments to IAS 1 are all addressing matters beyond those within the scope of the FSP project.[10] The Staff Draft of the FSP Standard carried forward the paragraphs that we are proposing to change in the package of IAS 1 amendments.

    (b) The Disclosure Initiative has not been considering the categorisation of the primary financial statements that was developed in the FSP project.

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[9] Reflects tentative decisions at June 2014 FASB Meeting http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FActionAlertPage&cid=1176164167190

[10] In addition, at a practical level, we are already starting to see evidence of changes in practice that suggest that the initiative is changing behaviour. We have always said that improvements to financial reporting do not depend solely on standard-setting activity.

Although the categorisation proposals in the FSP applied across all of the primary financial statements, they were driven from the Statement of Comprehensive Income, which is why we characterise this as performance reporting.

How the IASB should respond to calls to restart the FSP project

Timeliness and institutional memory

30. We think the calls for us to restart the FSP Project are partly driven by a misunderstanding of the extent of the work being undertaken in the Disclosure Initiative. We think outside parties are not aware that we have been assessing so many matters that were formerly parts of the FSP proposals.

31. Most people want us to move quickly to improve disclosure requirements. We sense that some outside parties think we intend to start from scratch, not by building off what we learned in the FSP project, which to them suggests that they must expect a long process. On the other hand, when we mention FSP to some people they are concerned that we plan to simply push on with the FSP Staff Draft. We want to make it clear that both fears are unfounded. We are not ignoring the FSP work and nor are we ignoring the concerns that grew out of that project.

32. We think this discussion and the papers on the POD project will go some way to remedying these misunderstandings.

Staff recommendations

Performance reporting

33. We think the IASB should add as part of the research programme a project on performance reporting. There is strong demand from users for the IASB to undertake a project on performance reporting.

34. Nevertheless, we want the IASB to understand that this will be a challenging project. The IASB has considered performance reporting, on and off, for more than a decade. There have been several proposals, including a 'matrix' presentation and different

principles for aggregating components. In spite of all these proposals having been made, none of them have been incorporated into a Standard.

35. The IASB is not alone here. Performance reporting has proved to be challenging for all standard-setters. The IASB needs to understand that a performance reporting project can polarise views. Despite this, we think it is important that the IASB should take the initiative in this area.

36. The FSP project identified and documented the main problems with the current requirements, which means that the work would focus on developing solutions.

Priority

37. When that work should start is another matter. We applied the same thinking that is embodied in Agenda Paper 8 on research programme priorities. Starting a project now has the following advantages. It:

    (a) responds in a timely way to requests (mainly from users) to provide more guidance about presentation of line items and subtotals in the statement of comprehensive income; and

    (b) takes advantage of being able to consider performance reporting at the same time that related concepts and principles are being developed in the Conceptual Framework project and the Disclosure Initiative. This would give a more ‘holistic’ approach that might arguably result in better principles;

38. Conversely, classifying the project as medium-term means placing the project behind the other parts of the Disclosure Initiative. We think that assigning a lower priority has the following advantages:

    (a) the principles regarding presentation and disclosures in the Conceptual Framework and the Disclosure Initiative would be more fully developed. These would form a consistent conceptual basis from which to develop principles on performance reporting;

(b) there is a risk that starting work immediately could distract resources and focus from the improvements being developed in the Disclosure Initiative; and

(c) we will have completed the 2015 agenda consultation, which should provide the IASB with more input on the demand for such a project, in the light of the outputs from the Conceptual Framework and Disclosure Initiative.

39. Our views on whether to make this a high-priority short-term project or a medium-term project are not fully aligned. One of us thinks the risks of causing distraction from the work in the Disclosure Initiative (resources and focus) are too great to develop it concurrently with other parts of the Disclosure Initiative. The other agrees that this is a risk, but thinks that the benefits of starting now and taking a more holistic approach justify that risk—we can adjust the priorities and resource allocations as appropriate.

40. We therefore recommend that the IASB should add a project to its agenda, but our recommendation on priorities is split.

Staff recommendations
The staff recommend that the IASB should:
(a) add a project to its Research Programme on *Performance Reporting*; and
(b) specify that the project is a [short-term/medium-term] project.

Next steps

41. If the IASB decides to start a research project immediately, the next steps would be for the staff to determine how to operationalise the project and inform the Advisory Council and ASAF about it.

42. If the IASB decides to assign a lower priority, the Disclosure Initiative team will continue to monitor developments on performance reporting (eg the FASB project,

issues arising from consideration of cash flows) and update the IASB when appropriate.

Appendix A—Core principles of financial statement presentation

–Extract from the Financial Statement Presentation 2010 Staff Draft

44 **An entity shall present information in its financial statements in a manner that:**

(a) Disaggregates information to explain the components of its financial Position and financial performance; and

(b) Portrays a cohesive financial picture of the entity's activities.

45 **The disaggregation and cohesiveness principles work together to enhance the understandability of an entity's financial statement information.**

Disaggregation principle

46 An entity shall present information in its financial statements so that:

(a) The activities the entity engages in are clear;

(b) The cash flows of the entity are clear; and

(c) The relationships between an asset or a liability and the effects of a change in that asset or liability are faithfully represented across the statements of financial position, comprehensive income and cash flows.

47 **An entity shall use the following factors in determining the items to disaggregate and present in its financial statements:**

(a) The function of the item;

(b) The nature of the item; and

(c) The measurement basis of the item.

48 In this [draft] IFRS, 'function' refers to the primary activities (and assets and Liabilities used in those activities) in which an entity is engaged, such as selling Goods, providing services, manufacturing, advertising, marketing, business development or administration.

49 In this [draft] IFRS, 'nature' refers to the economic characteristics or attributes that distinguish assets, liabilities, income and expense items[3] and cash flows that do not respond similarly to similar economic events, such as wholesale revenues and retail revenues; materials, labour, transport and energy costs; or fixed-income investments and equity investments.

50 In this [draft] IFRS, 'measurement basis' refers to the method or basis used to measure an asset or a liability, such as fair value or historical cost.

Cohesiveness principle

57 **An entity shall present information in its financial statements so that the relationship among items across the financial statements is clear.**

58 **To present a cohesive set of financial statements, an entity shall present disaggregated information in the sections, categories and subcategory in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements.**

59 For the purpose of this [draft] IFRS, a *section* is the largest group of items in the financial statements, a *category* is a group of items within a section and a *subcategory* is a group of items within a category.

60 Financial statements that are consistent with the cohesiveness principle complement each other as much as possible. To that end, an entity shall display and label line items in a way that clearly associates related information across the statements and helps a user understand those relationships. For example, an entity aligns the line item descriptions of information presented in the statements of financial position, comprehensive income and cash flows to help users find an asset or a liability, and the related effects of a change in that asset or liability, in the same place in each financial statement. For example, an entity with long-term debt presents interest expense and cash paid for interest in the same section and/or category as the long-term debt and labels the line items in such a way that a user of the financial statements can understand that the amounts are related.

61 If a change in an asset or a liability gives rise to one item of income, expense or cash flow, cohesiveness across the financial statements may be at the line item level. If a change in an asset or a liability gives rise to multiple items of income, expense or cash flows, cohesiveness across the financial statements may be at the category level. For example, a change in trade payables could result from various expenses that are presented on separate lines in the statement of comprehensive income, thus the statements would not align at the line item level, but they would align within the category.

Appendix B—Structure of the financial statements

–Extracts from the Financial Statement Presentation 2010 Staff Draft

Presenting information in sections, categories and a subcategory

62 An entity shall present information in its financial statements about its assets, liabilities, equity, income, expenses and cash flows in sections, categories and a subcategory that are cohesive across the statements of financial position, comprehensive income and cash flows. An entity's financial statements shall include the following sections, categories and subcategory if applicable:

(a) a business section, containing:

(i) an operating category;

(ii) an operating finance subcategory; and

(iii) an investing category.

(b) a financing section, containing:

(i) a debt category; and

(ii) an equity category.

(c) an income tax section.

(d) a discontinued operation section.

(e) a multi-category transaction section.

…

68 An entity with more than one reportable segment shall classify items in its financial statements into the sections, categories and subcategory that reflect the functions of the items in its reportable segments (as defined in IFRS 8 Operating Segments).

69 For example, an entity may have three reportable segments: manufacturing, financial services and retail, each with a portfolio of financial instruments.

(a) In the manufacturing segment, the financial liabilities are borrowings incurred for the purpose of obtaining capital and, therefore, shall be classified in the debt category of the financing section.

(b) In the financial services segment, the day-to-day activities consist of using that segment's resources together to earn a higher return on financial assets than is paid on financial liabilities and, therefore, those financial assets and liabilities shall be classified in the operating category of the business section. However, if the financial services segment has also entered into some financial liabilities for the purpose of obtaining capital, those financial liabilities shall be classified in the debt category of the financing section.

(c) In the retail segment, the financial instruments provide a return that is unrelated to the synergies between the segment's resources. As a result, the financial instruments shall be classified in the investing category of the business section.