

## AASB Staff Issues Paper on IASB Conceptual Framework Discussion Paper

### Section 7—Presentation and Disclosure

#### Introduction

- 1 This AASB Staff Issues Paper provides the focus for the Board’s non-deliberative high-level ‘educational’ session at the forthcoming AASB meeting on Section 7 of the IASB Conceptual Framework Discussion Paper (DP), dealing with ‘Presentation and disclosure’. That section is included in the attached extracts from the DP: see Agenda Paper 9.5.
- 2 This paper includes the questions that AASB members will be asked to discuss regarding the above-mentioned extract from the IASB DP. Those questions are whether Board members:
  - (a) tentatively agree with AASB project staff’s main concerns about Section 7 of the DP; and
  - (b) have any comments on the IASB’s Questions 16 – 18 (regarding its preliminary views in Section 7) set out on pages 148 – 149 of the DP, other than those relating to the AASB project staff’s main concerns.

Because some aspects of presentation and disclosure have been discussed by the Board in previous meetings, those aspects are not repeated here.

- 3 Because, as noted below, AASB project staff think Section 7 of the DP leaves unaddressed some of the key conceptual issues concerning presentation and disclosure, this paper focuses on our key concerns rather than answering in order the questions within Questions 16 – 18 of the IASB DP.

#### **Main Concern: limitation to a description of current presentation and disclosure constructs**

- 4 AASB project staff do not think this largely descriptive section of the DP would:
  - (a) satisfy the demands for a meaningful disclosure and presentation framework to meet the information needs of users of financial statements; or
  - (b) be sufficient to help the IASB decide how to avoid excessive disclosures and make information more relevant.
- 5 We think more is required of a Conceptual Framework than a documentation of the accounting constructs currently employed. It is important to explain the ways to determine disclosures that more directly and efficiently link with the objective of financial reporting.
- 6 This main concern is also reflected in the specific concerns in the following comments on Section 7 of the DP.

## **Other Key Concerns**

### ***Unclear relationship with other IASB projects***

- 7 AASB project staff think it is important that the IASB clarifies the relationship between its Conceptual Framework project and its medium-term research project on Presentation and Disclosure in IFRSs, which we understand is aimed at, in effect, creating a disclosure framework for IFRSs. The IASB staff papers for the IASB's September 2013 meeting on the IASB's Disclosure Initiative indicate exploratory work on possible amendments to IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and on Financial Statement Presentation being conducted "in parallel with the Conceptual Framework", but it is unclear where (and when) the more fundamental aspects of presentation and disclosure will be addressed.

### ***Primary financial statements [IASB DP, paragraph 7.14 and Question 16(a)(i)]***

- 8 The DP notes the statements that presently compose 'primary financial statements'. It does not discuss whether the items that should, in concept, be presented and disclosed warrant additional primary financial statements.
- 9 AASB project staff think the Conceptual Framework should, in due course, address more fundamentally the information that should be presented and disclosed. This would, at an appropriate point, include considering the stocks and flows identified in AASB Essay 2013-1 *Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework*.

### ***Classification [IASB DP, paragraphs 7.20 – 7.28 and Question 16(a)(iii)]***

- 10 Paragraph 7.21 of the DP observes that "Classification is the sorting of items based on shared qualities." However, the DP does not seem to explore in depth which qualities should be used to classify items (e.g. elements). Paragraph 7.26 says the IASB believes that classification and aggregation into line items and subtotals should be based on similar properties, such as an item's function or nature, or how it is measured. However, the reasons for identifying these bases for classification and aggregation are not provided.
- 11 AASB project staff think the Conceptual Framework should identify the qualities underlying classification (and aggregation) of items in financial statements, to develop focused presentation and disclosure principles which, in turn, may serve to help avoid excessive disclosures and make information more relevant.

### ***Future net cash inflows [IASB DP, paragraph 7.34 and Question 16(b)(i)]***

- 12 Paragraph 7.34 of the IASB DP reminds readers that the 'Objective' chapter of the IASB Conceptual Framework says that, to be useful, information needs to help users of financial statements understand the amount, timing and uncertainty of an entity's future net cash inflows (it says this in the context of the objective of an entity's notes, but this comment seems relevant to presentation and disclosure generally in financial statements). AASB project staff think focusing on providing information for assessing future cash flows would not, of itself, be very useful in identifying which stocks and

flows of an entity should be reported and how they should be grouped and disaggregated.

***Forward-looking information [IASB DP, paragraphs 7.38 – 7.40 and Question 16(b)(ii)]***

- 13 Paragraph 7.39 of the DP says the IASB’s preliminary view is that it should require forward-looking information to be included in the notes to the financial statements only if it provides relevant information about assets and liabilities that existed at the end of the reporting period or during the reporting period. AASB project staff are concerned that it appears the DP does not relate this view to the objective of general purpose financial reporting, i.e. it does not seem to explain why some information useful for making assessments about the future in making resource allocation decisions should not be reported in the notes. For example, we understand that future-oriented information about ‘non-adjusting events after the reporting period’ (as defined in paragraph 3(b) of IAS 10 *Events after the Reporting Period*) would not continue to be required to be disclosed—however, the reason for that change is unclear to us. A possible illustration of such information is an announcement, after the reporting period, of a plan to discontinue or restructure an operation.

**Questions for Board members**

- Q1** Do you tentatively agree with AASB project staff’s main concerns about Section 7 of the DP, as set out in paragraphs 4 – 13 above?
- Q2** Do you have any comments on the IASB’s Questions 16 – 18 set out on pages 148 – 149 of the DP, other than those covered in your response to Question 1?