IFRS

STAFF PAPER

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ASAF meeting

Project	**Primary Financial Statements**		
Paper topic	Structuring Standard(s) and outreach plan		
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Introduction and purpose of the session

1. In May 2019, the Board decided to publish an Exposure Draft seeking feedback on proposals in the Primary Financial Statements project.

2. At this meeting we would like to seek your advice on:

   (a) possible approaches to structuring the new requirements (see paragraphs 4–15); and

   (b) outreach (see paragraphs 16–17).

3. As background for this discussion, agenda paper 4A summarises the Board's tentative decisions.

Questions for the ASAF

Question for the ASAF
1. To help us decide on the structure of the Exposure Draft, please provide your advice on the following: (a) the approaches described in paragraph 6. Have we correctly identified advantages and disadvantages of Approaches 1 and 2? (b) are there any alternative approaches you think we should consider?

Question for the ASAF
2. To help us prepare an outreach plan, please provide your advice on: (a) project topics, if any, that are likely to be of particular interest to stakeholders in your jurisdiction; and (b) any events that could be used as an opportunity to discuss the project with stakeholders in your jurisdiction.

Structuring the new requirements

4. IAS 1 *Presentation of Financial Statements* includes:

   (a) requirements on the structure and content of the primary financial statements.[1] These include requirements that will be affected by the project proposals (for example, requirements on the structure and content of the statement(s) of financial performance) as well as requirements that will not (for example, requirements on the structure and content of the statement of changes in equity).

   (b) requirements relating to disaggregation of financial information that will be affected by the project proposals.

   (c) other requirements, which will not be affected by the project proposals (for example, requirements on going concern and fair presentation and compliance with IFRSs).

5. We are considering how the Board can best structure the new requirements[2] so that:

   (a) they are understandable and accessible;

   (b) the structure of the new requirements does not introduce complexity; and

[1] Primary financial statements consist of the statement of financial position, the statement(s) of financial performance, the statement of changes in equity and the statement of cash flows.

[2] We are not discussing approaches to drafting amendments to IAS 7 *Statement of Cash Flows*. We think that, because the Board is making limited amendments to IAS 7, and may make further changes to the statement of cash flows proposed in future projects, the only feasible approach is to amend IAS 7. It would be counterintuitive to include the statement of cash flows in a new Standard, for example, and then make amendments to that new Standard.

(c) it is clear which requirements in IAS 1 are unchanged.

6. We have identified three possible approaches to structuring the new requirements:

   (a) Approach 1—withdraw IAS 1 and replace it with a new Standard (for example, IFRS 18);

   (b) Approach 2—amend IAS 1 to remove requirements in paragraphs 4(a) and 4(b) and include the new requirements in a new Standard; and

   (c) Approach 3—amend IAS 1 without developing a new Standard.

What would the approaches look like?

7. Approach 1 would mean moving all requirements from IAS 1 to a new Standard. This would include moving requirements in paragraph 4(c) into the new Standard.

8. Approach 2 would mean moving only requirements in paragraphs 4(a) and 4(b) to a new Standard and retaining requirements in paragraph 4(c) in an amended IAS 1. Applying this approach, we would need to amend the title of IAS 1 to reflect its revised content.[3] Appendix B includes a table indicating, paragraph by paragraph, our initial thinking on which parts of IAS 1 would be moved to a new Standard and which parts would be retained in an amended IAS 1.

9. Approach 3 would mean amending the requirements in IAS 1 that are affected by the project proposals. We may add or delete some paragraphs but the basic structure of IAS 1 would be retained.

Analysis of the approaches

10. The staff do not support Approach 3 because:

    (a) the project proposals will substantially change the requirements in IAS 1. Labelling these substantial changes as an amendment to a Standard may mislead stakeholders.

[3] The Board took a similar approach when it developed IFRS 10 *Consolidated Financial Statements*. It moved the requirements relating to consolidated financial statements from IAS 27 *Consolidated and Separate Financial Statements* to IFRS 10 and amended the title of IAS 27 to *Separate Financial Statements*.

(b) the Basis for Conclusions on an amendment to IAS 1 will be more difficult to draft than the Basis for Conclusions on a new Standard and it may be difficult to integrate with the Basis for Conclusions on IAS 1.

(c) a new Standard would be more prominent than an amendment to a Standard, signalling the project's importance to the Board.

11. We have analysed advantages and disadvantages of Approaches 1 and 2 below.

Advantages and disadvantages of Approach 1

12. Approach 1 (replacing IAS 1) has the following advantages:

(a) it would be possible to restructure the requirements in IAS 1 (including the requirements in paragraph 4(c)) in a clearer and more understandable way.

(b) a single new Standard would still include all IAS 1 requirements.

(c) it would be possible to improve the drafting of IAS 1. Because IAS 1 is an old Standard that has been amended many times, the drafting is out of date or inconsistent in places. We might be able to use this opportunity to update the drafting without changing the requirements.

13. However, Approach 1 has the following disadvantages:

(a) it might not be clear to stakeholders which parts of the new Standard have been changed and which have not, particularly if the drafting of unchanged requirements is amended. A table of concordance could be provided to help stakeholders understand the changes, but there is still a risk of confusion.

(b) it might take longer to finalise the Standard. Although we are not making any substantial changes to any requirement unaffected by the project proposals, we would need time to fit those requirements into the new Standard and align the drafting.

(c) arguably some requirements in IAS 1 do not fit in a Standard on presentation (for example, the concept of going concern or accrual basis of accounting).

Advantages and disadvantages of Approach 2

14. Approach 2 (moving part of IAS 1 to a new Standard) has the following advantages:

    (a) it will be clearer to stakeholders what are new requirements and what is unchanged; and

    (b) finalising the revised requirements is likely to be quicker and easier because we will not need to make drafting changes to those requirements that are retained in the amended IAS 1.

15. However, Approach 2 has the following disadvantages:

    (a) our preliminary analysis in Appendix B shows that the amended IAS 1 would include only generic requirements. One might argue that the amended IAS 1 would be too short and generic to be a separate Standard.

    (b) the Board's ability to improve the drafting of requirements retained in the amended IAS 1 could be limited.

    (c) for some requirements (for example, requirements related to comparative information or consistency of presentation), it would not be straightforward to determine whether they should be included in a new Standard or retained in the amended IAS 1.

Outreach planning

16. The Board plans to publish the Exposure Draft by the end of 2019. The Board has not yet decided on the length of the comment period, but it is likely that we will be seeking feedback on the Exposure Draft during the first half of 2020.

17. To help us prepare our outreach plan we would like your advice on:

    (a) project topics, if any, that are likely to be of particular interest to stakeholders in your jurisdiction. Appendix A provides an overview of project topics.

    (b) any events that could be used as an opportunity to discuss the project with stakeholders in your jurisdiction.

Appendix A—Overview of project topics

A1. The Primary Financial Statements project is part of the Board's plan to promote Better Communication in Financial Reporting. This project aims to help users make better decisions by improving the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance.

A2. The project started in 2016, in response to feedback on the Board's 2015 Agenda Consultation that identified this project as a priority. The Board has since discussed and tentatively decided on the project's scope and proposals. The key topics in the project scope are:

(a) additional required subtotals in the statement(s) of financial performance:
   (i) operating profit;
   (ii) operating profit and share of profit of integral associates and joint ventures; and
   (iii) profit before financing and income tax;

(b) management performance measures;
   (i) entities are required to identify any management performance measures—measures of aspects of profit or loss used in public communications with users of financial statements outside financial statements, and which, in management's view, complement (sub)totals defined by IFRS Standards in communicating an entity's performance; and
   (ii) entities are required to disclose related information, such as a reconciliation to the most directly comparable (sub)total including tax and non-controlling interest effect of each adjusting item, narrative information about why management performance measures provide management's view and reason of any changes over time in calculation;

(c) disaggregation of information in the financial statements:
   (i) disaggregation principles;
   (ii) disaggregation of operating expenses either by nature or by function in the statement(s) of financial performance;
   (iii) minimum line items in the statement(s) of financial performance; and
   (iv) unusual items; and

(d) limited changes to the statement of cash flows to improve the consistency of classifications.

Appendix B—Preliminary analysis on which parts of IAS 1 could be moved to a new Standard applying Approach 2

B1. Table B1 shows the staff's preliminary analysis of which parts of IAS 1 could be moved to a new Standard applying Approach 2 (see paragraphs 6(b) and 8). We have not conducted a full analysis and there may be changes to this analysis during drafting if we were to take this approach. We would also publish a table of concordance that shows the relationship between IAS 1 and the new Standard and an amended IAS 1.

Table B1—Preliminary analysis of IAS 1

(Topics affected by the project proposals are shaded)

IAS 1 (sub)section title*	Paragraph number	Basis for Conclusions on IAS 1	Amended IAS 1	New Standard
FINANCIAL STATEMENTS				
Purpose of financial statements	9		✓	
Complete set of financial statements**	10–14	BC14–BC22	✓	✓
General features				
Fair presentation and compliance with IFRSs	15–24	BC23–BC30	✓	
Going concern	25–26		✓	
Accrual basis of accounting	27–28		✓	
*Materiality and aggregation***	29–31	BC30A–BC30J	✓	✓
Offsetting	32–35			✓
Frequency of reporting	36–37		✓	
Comparative information	38–44	BC31–BC36	✓	
Consistency of presentation	45–46		✓	
STRUCTURE AND CONTENT				
Introduction	47–48			✓
Identification of the financial statements	49–53			✓
Statement of financial position				
Information to be presented in the statement of financial position	54–59	BC38A–BC38G		✓
Current/non-current distinction	60–65			✓
Current assets	66–68	BC38H–BC38K		✓
Current liabilities	69–76	BC38H–BC38K, BC38L–BC48		✓

IAS 1 (sub)section title*	Paragraph number	Basis for Conclusions on IAS 1	Amended IAS 1	New Standard
Information to be presented either in the statement of financial position or in the notes	77–80A			✓
Statement of profit or loss and other comprehensive income				
(No subsection title)	81A–81B	BC49–BC56		✓
Information to be presented in the profit or loss section or the statement of profit or loss	82	BC57–BC58		✓
Information to be presented in the other comprehensive income section	82A–87	BC58A–BC64		✓
Profit or loss for the period	88–89			✓
Other comprehensive income for the period	90–96	BC65–BC73		✓
Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes	97–105			✓
Statement of changes in equity				
Information to be presented in the statement of changes in equity	106	BC37–BC38		✓
Information to be presented in the statement of changes in equity or in the notes	106A–110	BC74–BC75		✓
Statement of cash flows	111	BC76		✓
Notes				
Structure	112–116	BC76A–BC76E		✓
Disclosure of accounting policies	117–124	BC76F–BC78		✓
Sources of estimation uncertainty	125–133	BC79–BC84		✓
Capital	134–136	BC85–BC100		✓
Puttable financial instruments classified as equity	136A	BC100A–BC100B		✓
Other disclosures	137–138			✓
Implementation guidance (illustrative examples)				✓

*Both the new Standard and an amended IAS 1 would include sections on the objective and scope, like all other Standards. Both of them would also include an appendix describing defined terms or a section on definitions. These sections are not included in this table.

**These sections would be split between the new Standard and an amended IAS 1, with necessary revisions.