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Primary Financial Statements Update on Disaggregation

Objective

- 1 The objective of the session is to provide an update to EFRAG FR TEG members on the latest IASB’s tentative decisions in January and March 2023 (which have not been discussed by the EFRAG FR TEG and EFRAG User Panel on 10 May 2023) on disaggregation requirements.

Structure of the document

- 2 In the following sections, for each of the topics listed below, it is provided a summary of the IASB proposal in the Exposure Draft *General Presentation and Disclosures* (“the ED”), EFRAG’s position in its final comment letter, the latest IASB discussions and decision and the EFRAG Secretariat analysis.
- 3 The topics to be discussed are:
 - (a) Disaggregation and other issues:
 - (i) Implications of the IASB's tentative decisions on specific disclosure requirements – Unusual income and expenses (IASB [AP21C](#), January 2023);
 - (ii) Implications of the IASB’s tentative decisions on specific disclosure requirements – Operating expenses by nature (IASB [AP21C](#), January 2023 and IASB [AP21A](#), March 2023);
 - (iii) Other issues on general disaggregation requirements – application guidance on how to improve the description of disaggregated amounts (IASB [AP21D](#), January 2023);
 - (iv) Other issues on general disaggregation requirements – prohibition of disaggregation (IASB [AP21D](#), January 2023); and
 - (v) Other issues on general disaggregation requirements – label “other” (IASB [AP21D](#), January 2023).

Disaggregation and other issues

Background on general disaggregation requirements

- 4 In the IASB 2019 ED, the IASB’s proposals on principles of disaggregation are set out in the table.

Roles of the primary financial statements and the notes	The IASB proposed describing the roles of the primary financial statements and the notes to help companies decide where to present or disclose information.
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Primary Financial Statements – Update on Disaggregation

<p>Principles for aggregation and disaggregation</p>	<p>The IASB proposed principles for aggregation and disaggregation in the financial statements, which a company should apply:</p> <ul style="list-style-type: none"> • identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events; • classify those items into groups based on shared characteristics, so that line items in the primary financial statements comprise items that share at least one characteristic; and • separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes.
<p>Grouping dissimilar immaterial items</p>	<p>The IASB proposed that a company may need to group immaterial items that are not similar to avoid obscuring relevant information. For example, a company may need to group various immaterial expenses in a single line item in the statement of profit or loss.</p> <p>Companies should use meaningful labels for such groups of items, avoiding labels such as ‘other expenses’. If that is not possible, companies would be required to provide information in the notes about the content of such groups of items.</p>
<p>Required line items</p>	<p>The IASB proposed requiring companies to present specific additional line items in the primary financial statements, including goodwill in the balance sheet.</p>

- 5 Most respondents that commented on the roles of primary financial statements and notes agreed with the IASB’s proposals.
- 6 In addition, many respondents that commented on the principles of aggregation and disaggregation and the proposals relating to disaggregation and labelling of items described as ‘other’ agreed with the proposals. Many respondents also called for additional guidance or clarifications, particularly on the proposal relating to items labelled as ‘other’. Nonetheless, some respondent expressed disagreement on the IASB’s proposals relating to items labelled as ‘other’.
- 7 There were mixed views on the IASB’s proposals related to minimum line items. Nonetheless, most respondents that commented on these proposals said further guidance or clarification was needed.
- 8 In response to the feedback received, the IASB tentatively decided (until December 2022) to:

<p>Roles of the primary financial statements and the notes</p>	<ul style="list-style-type: none"> • Include a reference to ‘understandability’ in the description of the role of the primary financial statements (paragraph 20).
<p>Principles for aggregation and disaggregation</p>	<ul style="list-style-type: none"> • Strengthen the application of the proposal to disclose each material class of assets, liabilities, equity, income, expenses and cash flows by clarifying the purpose of disaggregation - items shall be disaggregated if the resulting disaggregated information is material. • Strengthen the application of that principle by emphasising that a single dissimilar characteristic between items would be sufficient to require an entity to disaggregate information about those items if that information were material. • Explore developing guidance for entities on how to use characteristics to identify when to aggregate or disaggregate items.

	<ul style="list-style-type: none"> • Set out the relationship between the general presentation and disclosure requirements and the principles of disaggregation. • Require an entity to explain how a disclosed class of items is included in line items in the primary financial statements. • Include application guidance summarising characteristics that if shared, might form the basis for aggregating items that comprise a class that enhances the understandability of the financial statements; if not shared, might form the basis for disaggregating a single class of items into separate classes that provide material information. <p>Aggregation and disaggregation in the notes</p> <ul style="list-style-type: none"> • Provide application guidance that states that, in general, the more dissimilar characteristics the items have in addition to the shared characteristics that form the basis for the class, the more likely it would be that disaggregation based on some of those dissimilar characteristics would result in material information. <p>Aggregation and disaggregation in the primary financial statements</p> <ul style="list-style-type: none"> • Provide application guidance that states that, in general, the more dissimilar characteristics the items have in addition to the shared characteristics that form the basis for the class, the more likely it would be that disaggregation based on some of those dissimilar characteristics would result in a more understandable overview.
<p>Specified line items</p>	<ul style="list-style-type: none"> • To revise the general principle for the presentation of line items in paragraph 42 of the ED by removing the term ‘relevant’ and instead including a reference to an ‘understandable overview of an entity’s income and expenses or assets, liabilities and equity’. • To remove the term ‘minimum’ from paragraph 42 of the ED. • To require all presentation requirements to apply only when the resulting presentation does not detract from the primary financial statement providing an understandable overview. • To add application guidance that indicates that in the operating category it is unlikely that the presentation of items set out in paragraph 65 of the ED would reduce how useful the statement is in providing an understandable overview of the entity’s income and expenses. • Not to specify any required line items to be presented in the financing category in the statement of profit or loss.

- 9 An important outcome of these decisions is the distinction the IASB tentatively made between the threshold for disaggregation of amounts:
- (a) for disclosure in the notes - materiality; and
 - (b) for amount to be presented in the face of the financial statements - fulfilling the role of the primary financial statements (i.e., structured summary).
- 10 The changes to paragraph 42 of the ED clarify that threshold for amounts to be presented separately as line items in the primary financial statements is a higher threshold than materiality because the role of the primary financial statements is to provide a structured summary. Accordingly, not all material information can be presented in the primary financial statements.
- 11 In its January and March 2023 meetings, the IASB reconsidered whether the general disclosure requirements on disaggregated material amounts should continue to apply in

light of the withdrawal of some specific disclosures requirements proposed in the ED. Namely, the withdrawal of:

- (a) the disclosure of information of unusual items and expenses, and
- (b) disclosure operating expenses by nature when presenting by function.

Implications of the IASB's tentative decisions on specific disclosure requirements – Unusual income and expenses

IASB proposal in the ED

- 12 The ED proposed introducing a definition of “unusual income and expenses” and requiring all entities to disclose information about unusual income and expenses in a single note.

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- 13 EFRAG welcomed the IASB’s efforts to define unusual income and expenses and to require entities to disclose such items in the notes, as such disclosure provides useful information to users of financial statements. However, EFRAG highlighted that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future. Instead, EFRAG suggested that the IASB considered not only items that ‘will not arise for several future annual reporting periods’ (as expressed in the ED) but also items that presently occur in the business, but only for a limited period of time (e.g., those identified in paragraph B15 of the ED such as restructuring costs).

IASB discussions and tentative decisions

- 14 Given the feedback from stakeholders, in September 2022, the IASB tentatively decided not to proceed with any specific requirements for unusual income and expenses as part of this project.
- 15 The main reason of that decision was the difficulty of timely developing a definition of unusual income and expenses that captured the right population of items for all entities.
- 16 The question is whether, having withdrawn proposals for disclosure of unusual items, the general requirement to disclose disaggregated amounts potentially results in an entity disclosing the same information as would have been required under the withdrawn proposals.
- 17 Applying the general requirement to disaggregate amounts in the notes to the financial statements (which include persistence¹ as characteristic for income and expenses to be disaggregated), an entity should assess whether there are items of income or expenses with sufficient dissimilar persistence / recurrence characteristics that disclosing that amounts separately would provide material information.
- 18 The IASB Staff considered that this requirement would capture material unusual income and expenses and require entities to disclose them separately in the notes to financial statements, providing useful information to users.
- 19 Therefore, IASB Staff recommended that the withdrawal of specific requirements on unusual income and expenses should not result in a change of the general requirement to disaggregate material information.
- 20 After discussing this topic, the IASB tentatively decided in line with the recommendations of the IASB Staff.

¹ In the agenda paper 21D of the IASB meeting in September 2021, the persistence (i.e., frequency, recurring or non-recurring) of an item of income or expenses is explained as “likely to be related to the risks associated with the asset or liability giving rise to the income or expenses”.

EFRAG Secretariat analysis

- 21 In its *Summary Report and Recommendations*, EFRAG considered that the application of the general requirement to disaggregate amounts whenever information about the disaggregated amounts is material, or as a voluntary disclosure, and reconciliations related to MPMs could mitigate, to a certain extent, the lack of information being provided under the definition of unusual income and expenses.
- 22 Therefore, the EFRAG Secretariat welcomes the IASB's tentative decision but continues to consider that it would be useful for the IASB to also provide clarity on the possibility of showing separately, in the statement of profit or loss, subtotals or items that an entity views as non-recurring or unusual items (e.g., an adjusted subtotal within the IASB's required subtotals or line items such as restructuring).

Questions for EFRAG FR TEG

- 23 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?
- 24 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Implications of the IASB's tentative decisions on specific disclosure requirements – Operating expenses by nature

IASB proposal in the ED

- 25 The ED proposed that an entity that presents operating expenses by function in the statement of profit or loss would be required to disclose in the notes an analysis of total operating expenses by nature.

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- 26 EFRAG recommended the IASB to further investigate the cost/benefit profile of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on which information is most needed by users. In this regard, EFRAG acknowledged the benefits for users of having information by nature but also notes the costs for preparers. EFRAG's outreach has shown that both users and preparers would likely accept a more balanced outcome (e.g., providing a partial presentation by nature of some operational expenses).

IASB discussions and tentative decisions

- 27 Feedback received highlighted the undue costs of providing disclosures of the total operating expenses by nature when presenting function of expenses method.
- 28 Therefore, as part of the redeliberation plan, the IASB tentatively decided to limit the requirements and to require an entity to disclose only the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventories included in each line item in the statement of profit or loss. This decision went in the direction of limiting the costs involved in obtaining the information for some entities.
- 29 In this context, the IASB Staff considered that if an entity that presents operating expenses by function were required to apply general requirement to provide disaggregated material information, then all material information about operating expenses by nature should be disclosed.
- 30 Thus, the balance between benefits and costs achieved by limiting the specific requirements (as redeliberated by the IASB) could be cancelled by the general requirement to disaggregate amounts in the notes to the financial statements.

- 31 The IASB Staff considered that a general cost relief from the general requirement to disaggregate material information would be much broader than needed to address the cost-benefit balance in relation to disclosure operating expenses by nature when presenting by function. In addition, the IASB Staff considered that the application of a general cost relief would be difficult for preparers and auditors to assess and could create conflict with other general requirements of IAS 1 *Presentation of Financial Statements*.
- 32 Therefore, the IASB Staff recommended the IASB to add an exemption to the general requirement to disaggregate material information. The exemption would apply to information about:
- (a) the nature of operating expenses included in a function line item in the statement of profit or loss; and
 - (b) the disaggregation of amounts of the nature of operating expenses specifically required to be disclosed by other IFRS Accounting Standards into the function line items in the statements of profit or loss in which they are included.
- 33 This imply that, with regard to disaggregating function line items into nature expenses, an entity would not be required to provide material information other than that specifically required by the specific disclosure requirements (i.e., depreciation, amortisation, employee benefits, impairments and write-downs of inventories), even if required by other IFRS Accounting Standards and regardless of whether it would be costly to obtain such additional material information or not.
- 34 After discussing this topic in January and March 2023, the IASB tentatively decided:
- (a) to add an exemption to the general requirement to disaggregate material information. As a result, an entity would be exempt from disclosing:
 - (i) in relation to function line items in the statement of profit or loss, the amounts of nature expenses included therein (beyond those specifically required); and
 - (ii) in relation to nature expenses that are required to be disclosed by an IFRS Accounting Standard, the amounts included in each function line item in the statement of profit or loss.
 - (b) not to include a cost threshold in the exemption.

EFRAG Secretariat analysis

- 35 In its comment letter to the IASB 2019 ED, EFRAG recommended that the IASB further investigated the costs and benefits of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on which information is most needed by users.
- 36 In addition, in its *Summary Report and Recommendations*, EFRAG considered the IASB proposal of limiting the specific requirements as a compromise with the objective of achieving a better balance of the related costs and benefits (although it may be difficult and result in significant costs for some preparers).
- 37 Therefore, the EFRAG Secretariat agrees with the IASB's tentative decision to add an exemption to the general requirement to disaggregate material information and shares the arguments presented by the IASB Staff.

Questions for EFRAG FR TEG

- 38 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?
- 39 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Other issues on general disaggregation requirements – application guidance on how to improve the description of disaggregated amounts

IASB proposal in the ED

- 40 Paragraph 26 of the ED proposed that the description of items presented in the primary financial statements or disclosed in the notes should faithfully represent the characteristics of the items.

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- 41 EFRAG welcomed the IASB’s proposal to describe the respective roles of primary financial statements, the notes and the proposal for principles, and the general requirements on the aggregation and disaggregation, as a complement to the additional subtotals in the statement of profit or loss.

IASB discussions and tentative decisions

- 42 The IASB Staff noted that, in November 2021, the IASB tentatively decided to add application guidance on how an entity could apply the requirement to describe a MPM in a clear and understandable manner that would not mislead users.

- 43 The IASB Staff considered that similar guidance could apply to disaggregate amounts.

- 44 Therefore, in January 2023 and consistently with the approach for MPMs, the IASB tentatively decided to clarify that an entity is required to:

- (a) describe disaggregated amounts in a clear and understandable way that would not mislead users of financial statements; and
- (b) be transparent about the meaning of the terms it has used and the methods it has applied to the disaggregation.

EFRAG Secretariat analysis

- 45 The EFRAG Secretariat agrees with the IASB’s tentative decision and shares the arguments presented by the IASB Staff.

Questions for EFRAG FR TEG

- 46 Do EFRAG FR TEG members have any comments on the IASB’s tentative decisions?
- 47 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Other issues on general disaggregation requirements – prohibition of disaggregation

IASB proposal in the ED

- 48 Paragraph 43 of the ED stated that “*when an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall: (a) comprise line items made up of amounts recognised and measured in accordance with IFRS Standards...*”.

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- 49 EFRAG welcomed the IASB’s efforts to improve the general requirements on disaggregation as a complement to the created additional subtotals in the statement of profit or loss.

IASB discussions and tentative decisions

- 50 The IASB Staff recommended the IASB to extend the requirement in paragraph 43 of the ED (“*made up of amounts recognised and measured in accordance with IFRS Standards...*”)

to all line items presented in the statement(s) of financial performance and the statement of financial position.

- 51 At the same time, the IASB Staff recommended the IASB not to prohibit disaggregation of income and expenses into components not recognised and measured in accordance with IFRS Accounting Standards in the notes to the financial statements.
- 52 In recommending these requirements, the IASB Staff referred to disaggregation of income and expenses from a single transaction (or unit of account) into components. Examples of that type of disaggregation are:
- (a) disaggregation of the change in the fair value of cash-settled employee share option into current service cost and remeasurements of past service costs;
 - (b) disaggregation of the change in fair value of financial assets at FVPL into “interest revenue” and other changes.
- 53 The IASB Staff made the following considerations:
- (a) amount recognised and measured in accordance with IFRS Accounting Standards include components of income and expenses that are identified in an IFRS Accounting Standard;
 - (b) requiring that any additional line items consist of amounts recognised and measured in accordance with IFRS Accounting Standards would be consistent with the requirement in paragraph 43 of the ED and would enhance the comparability and understandability of the statement(s) of financial performance;
 - (c) feedback from the IASB *Disclosure Initiative* project indicated that most of stakeholders’ support that in some circumstances information not required by IFRS Accounting Standards are permitted in the financial statements;
 - (d) there are circumstances where disaggregation of income and expenses into components not recognised or measured in accordance with IFRS Accounting Standards would provide useful information, but it would be difficult to identify when this is the case and when it is not;
 - (e) the risk that the disaggregation does not provide useful information would be mitigated by the fact that it should be a faithful representation and that the disaggregation should not obscure information or reduce the understandability of the information disclosed.
- 54 Therefore, in January 2023, the IASB tentatively decided:
- (a) to add a requirement that any line items an entity presents in its statement(s) of financial performance and statement of financial position are recognised and measured in accordance with IFRS Accounting Standards.
 - (b) not to prohibit an entity from disaggregating income and expenses in the notes to the financial statements into components not recognised or measured in accordance with IFRS Accounting Standards.

EFRAG Secretariat analysis

- 55 The EFRAG Secretariat agrees with the IASB’s tentative decision and shares the arguments presented by the IASB Staff.
- 56 Nonetheless, if some of the disaggregated information is inconsistent with the measurement requirements under IFRS, it may be useful to specifically mention this in the disclosures. For example, if an entity disaggregates in the notes the revenue recognised in accordance with IFRS 15 *Revenue from Contracts with Customers* into an amount measured on a non-GAAP basis (for example cash or a constant currency measurement) and an

adjustment to reconcile to the IFRS 15 amount, then it may be useful to state that these amounts in the disaggregation are inconsistent with the measurement requirements under IFRS.

- 57 In addition, the EFRAG Secretariat notes that companies would also be able to present in the notes other non-IFRS information such as adjusted revenue (e.g. revenue as reported in the statement(s) of financial performance plus revenue of associates and/or joint ventures) which, according to the EFRAG Secretariat understanding, would not fall under the scope of MPMs. In such cases, it may be useful to state that these amounts are also inconsistent with the measurement requirements under IFRS.

Questions for EFRAG FR TEG

58 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

59 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Other issues on general disaggregation requirements – label “other”

IASB proposal in the ED

- 60 The ED illustrated the requirements for aggregations of immaterial items in paragraphs 27 and 28 of the ED, that stated:

“27. An entity may aggregate immaterial items that do not share characteristics. However, using a non-descriptive label such as ‘other’ to describe a group of such items would not faithfully represent those items without additional information. Except as described in paragraph 28, to faithfully represent aggregated items, an entity shall either:

(a) aggregate immaterial items with other items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items; or

(b) aggregate immaterial items with other items that do not share similar characteristics but which may be described in a way that faithfully represents the dissimilar items”.

“28. If the steps set out in paragraphs 27(a)–27(b) do not lead to descriptions that result in a faithful representation, an entity shall disclose in the notes information about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation”.

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- 61 Commenting the ED, EFRAG highlighted that some further clarifications on the principle of (dis)aggregation were necessary. In particular, EFRAG noted that it was unclear how an entity can avoid that the application of the proposals in paragraphs 27 and 28 of the ED could lead to presentation and disclosure of immaterial items obscuring the presentation of relevant information.

IASB discussions and tentative decisions

- 62 The IASB Staff considered that there could be three different types of aggregation that could be labelled “other”:

- (a) an aggregation of material items;
- (b) an aggregation of a material item with immaterial items;
- (c) an aggregation of immaterial items.

- 63 Even though the requirements in paragraphs 27 and 28 of the ED only referred to the type of disaggregation described in (c), feedback to the ED indicated that guidance on the use of the label “other” would be helpful for all types of aggregation.
- 64 Therefore, in January 2023, the IASB tentatively decided:
- (a) to extend the proposals in the ED relating to the label ‘other’ to require an entity to use this label only if it is unable to find a more informative label. If an entity is unable to find a more informative label:
 - (i) for an aggregation of varied material items — the IASB would require it to use a label that is as precise as possible about the type of item the ‘other’ amount is, for example, ‘other operating expenses’ or ‘other finance expenses’.
 - (ii) for an aggregation of varied immaterial items — the IASB would require an entity to consider whether the aggregated amount is large enough that users of financial statements might question what it includes. If so, further information about that amount is material and accordingly would be provided by the entity.
 - (b) to include as examples of material information about the amount described in (a)(ii):
 - (i) an explanation that no material items are included in the amount;
 - (ii) an explanation that the amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item.

EFRAG Secretariat analysis

- 65 The EFRAG Secretariat welcomes the IASB’s tentative decisions which bring more clarity on the use of the label “other”.

Questions for EFRAG FR TEG

- 66 Do EFRAG FR TEG members have any comments on the IASB’s tentative decisions?
- 67 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?