



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

**Agenda Item
2D**

Date: June 16, 2010
Memo to: Members of the IPSASB
From: Gwenda Jensen
Subject: Conceptual Framework - Presentation and Disclosure

1 Objectives of this Session

1.1 The objectives of this session are to:

- **Consider** Presentation and Disclosure (P&D) work done by the IPSASB and other standard setters
- **Discuss** certain issues related to P&D; and
- **Provide** directions to Staff for development of the draft Consultation Paper.

2 Background

2.1 P&D is included in Group 3 of the IPSASB's Conceptual Framework (Framework) project. The Framework project brief describes P&D as follows:

Presentation and disclosure – this Consultation Paper (or series of papers) will deal with the nature and content of the primary financial statements and notes thereto. It may also include consideration of the presentation and audit status of information presented outside financial statements in a general purpose financial report – for example, presentation and disclosure of information about such matters as budget/prospective financial information, compliance with budgets, and disclosures about the achievement of service objectives in financial reports.

[IPSASB Public Sector Conceptual Framework Project Brief, December 2006]

2.2 At its April 2010 meeting, the IPSASB had a brief discussion of P&D and, based on that, provided initial directions to staff. The IPSASB directed staff to:

- Adopt a principles based approach that would not recommend detailed formats;
- Ensure that the scope includes General Purpose Financial Reports (GPFRs), not just General Purpose Financial Statements (GPFSs); and
- Consider any public sector specific issues raised by P&D.

2.3 The Task Based Group (TBG) for P&D has been working with Staff since the end of May to develop these agenda papers for preliminary discussion of some

specific issues related to P&D. As a reminder, the members of the TBG are Mariano D'Amore, Thomas Mueller-Marques Berger and Tim Youngberry. Subsequent to the meeting, Staff will work with the TBG to consider feedback from the IPSASB and further develop the thinking on these and other issues. It is anticipated that a more detailed discussion of P&D will occur at the November 2010 IPSASB meeting.

3 Overview of Work Done by Other Standard Setters

International Accounting Standards Board (IASB)

- 3.1 Work on the P&D component of the IASB-Financial Accounting Standards Board (FASB) joint conceptual framework project has not started. The IASB-FASB joint project on financial statement presentation and the IASB's project on management commentary raise relevant issues.

GASB, PSAB (Canada) and ASB (United Kingdom)

- 3.2 Standard setters generally have not addressed P&D in detail in their conceptual frameworks. Three exceptions are the United States' Government Accounting Standards Board (GASB), the Public Sector Accounting Board of Canada (PSAB) and the Accounting Standards Board of the United Kingdom (ASB).
- 3.3 GASB's Concepts Statement No.3, "Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements" clarifies the relationships between basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements; and, provides a conceptual basis for selecting communication methods to present items of information within GPFs. The communication methods include recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information, and presentation as supplementary information.
- 3.4 PSAB includes a separate section on 'financial statement objectives,' PS 1100, in its Public Sector Accounting Standards Concepts and Principles, then a section, PS 1200 Financial Statement Presentation, that focuses on 'financial statement presentation.' PSAB's coverage is a mixture of higher level principles, broad objectives for financial statements, and detailed standards level requirements.
- 3.5 The ASB's coverage of 'presentation' begins by describing the characteristics of good presentation:

Good presentation ensures that the essential messages of the financial statements are communicated clearly and effectively and in as simple and straightforward a way as possible. [ASB Statement of Principles, 1999]
- 3.6 ASB then provides principles on how those characteristics can be met within three 'primary financial statements.'

FASB, AcSB (Canada) and FASAB

- 3.7 The FASB added a ‘principles based disclosure framework’ project to its agenda in July 2009. The Canadian Accounting Standards Board (AcSB (Canada)) began work on a disclosure framework in 2003 and produced a preliminary research paper, which the AcSB discussed. Further work has been deferred, due to the joint IASB/FASB conceptual framework project, which is intended to include disclosure in one of the later stages. In December 2009, the Federal Accounting Standards Advisory Board (FASAB) produced a description of work planned for the ‘presentation and communication’ part of its conceptual framework.
- 3.8 The main themes evident in other standard setters’ work is that there is a need to:
- (a) Identify ways to reduce the complexity of financial reports and improve their understandability and comparability.
 - (b) Identify the different parts of a GPFR and the boundaries of GPFR reporting.
 - (c) Develop principles for choices of ‘communication method’ and for ‘placement’ of information in GPFRs.
 - (d) Develop objectives for each ‘primary’ or ‘basic’ financial statement¹.
 - (e) Address specific presentation issues related to the statement of financial performance and other financial statements (for example, treatment of comprehensive income).
 - (f) Develop a framework for decisions on disclosures, in order to improve their quality and address ‘disclosure overload’ concerns.
- 3.9 More detailed information on these standard setters’ consideration of P&D issues is included in paragraphs A6 to A47 of Appendix A. The next section provides an initial, general discussion of public sector issues related to P&D.

4 Public Sector Specific Issues

- 4.1 P&D implications arising from public sector specific issues already addressed in Phase 1 of the Framework and raised as part of Phase 2 and Measurement within Phase 3 will need to be taken into account. Further P&D related public sector specific issues are set out below.
- 4.2 Public sector differences appear likely to result in P&D concept differences at the level of GPFRs. Principles at the level of GPFS may be the same or very similar to those developed by private sector standard setters such as the IASB.
- 4.3 Financial reporting for the public sector is arguably more complex than for the private sector, because such reporting has a:
- (a) Wider set of objectives;
 - (b) Wider reporting scope;

¹ These terms are used in GASB’s Concepts Statement No.3 and the ASB’s Statement of Principles. The IPSASB generally does not use these terms to identify financial statements.

- (c) More diverse group of users;
 - (d) Larger set of reporting areas where entity-specific differences result in different information needs; and,
 - (e) Greater variation in terms of reporting entity.
- 4.4 IPSASs disclosure requirements need to address the greater complexity that exists in the public sector. Generally IPSASs that are based on IFRSs include all the disclosure requirements in the particular IFRS and may then add additional disclosure requirements. Starting from that disclosure base, public sector specific standards such as IPSAS 23 require further disclosures. Examples of areas where additional disclosures are required include information on non-cash generating assets, non-exchange transactions, and budget information.
- 4.5 In addition, IPSASs basic reporting requirements are not homogeneous across all reporting entities. For example, IPSAS 22, “Disclosure of Financial Information about the General Government Sector” only applies to a subset of public sector entities (governments) and then only applies if the entity elects to present information about the general government sector.
- 4.6 The next section presents certain P&D issues and requests the IPSASB to provide direction to Staff for development of the draft Consultation Paper.

5 Key Issues

- 5.1 The following four issues are considered:
- (a) Meaning of ‘presentation’ and ‘disclosure’
 - (b) P&D’s boundaries
 - (c) P&D principles applicable to GPFRs
 - (d) Type of GPFS P&D issues to be addressed

Key Issue #1: Meaning of ‘Presentation’ and ‘Disclosure’

- 5.2 A starting point for consideration of P&D issues is clarification of the meaning of ‘presentation’ and ‘disclosure.’ IPSASs do not currently define ‘presentation’ or ‘disclosure’. Some standard setters have used ‘presentation’ to refer to how information is displayed on the face of the statements, while ‘disclosure’ has been used to refer to the notes to the financial statements. However this is a general statement only and is not a consistent approach. The IPSASs use the terms in an interrelated fashion and somewhat interchangeably. For example, IPSAS 1 focuses on ‘presentation’, but the majority of its requirements involve the option of ‘disclosing’ an item either on the face of a statement or in the notes. Disclosure standards (for example, IPSAS 18, “Segment Reporting” and IPSAS 22, “Disclosure of Financial Information about the General Government Sector”) include presentation requirements that apply to the required information. Most of the coverage in IPSAS 28 Financial Instruments: Presentation is about classification of items.

- 5.3 So it's clear that there is little common agreement currently on what each of these terms is meant to address. As a starting point to developing principles on presentation and disclosure it is necessary first to have a common understanding of what the IPSASB means by each of the terms, including considering whether they need to be specifically defined for these purposes.
- 5.4 P&D descriptions produced in draft research by the IASB and the AcSB (Canada) are included in paragraphs A2 to A5 of Appendix A to provide some basis for discussion. Staff welcomes members' views on what they consider 'presentation' and 'disclosure' to mean and whether and how these should be defined for Framework purposes.

Action Requested:

- 5.5 Members are requested to provide initial direction to Staff on:
- (a) Whether the P&D consultation paper should include explanations of the meaning of 'presentation' and 'disclosure.'
 - (b) What you understand each of the terms, 'presentation' and 'disclosure', to mean.
 - (c) Whether the terms should be defined for purposes of the Framework.

Key Issue #2 P&D's Boundaries

- 5.6 The approach to P&D needs to be integrated with the approach taken by the IPSASB on other parts of the Framework. For example, the approach to P&D will need to be grounded in the objectives, users of general purpose financial reporting and the qualitative characteristics proposed in Group 1. It is understood that high level reporting models will be dealt with in Elements, rather than in P&D, since that work has been progressed in that phase of the project.
- 5.7 Following from the understanding of what 'presentation' and 'disclosure' are as set out in Issue 1 above, P&D issues potentially exist across three broad areas indicated by the three questions: what, where, and how should information be reported in GPFRs?
- 1) *What* information should be reported in GPFRs, where the focus is on decisions about whether or not a particular item of information should be reported at all, rather than questions of where and how. (For example, principles to guide disclosure requirements, which are expected to impact on the overall *quantity* of disclosures.)
 - 2) *Where* information should be reported in GPFRs, *where* the focus is on information placement. (For example, principles to guide whether information should be reported on the face of a financial statement, in the notes, or somewhere else such as narrative information or another type of 'supplementary' information.)
 - 3) *How* information should be reported *in GPFRs*, which raises questions of order of presentation and the grouping of items within a particular statement (items constant, location constant, but different arrangements

within that location are possible). (For example, whether expenses should be reported above or below revenue in the statement of financial performance.)

- 5.8 For each of these three areas, there are two types of boundary issues. First, what is the boundary between P&D issues and issues to be addressed in other parts of the Framework? Second, what is the boundary between P&D concepts and standard level P&D issues?
- 5.9 The second type of issue is illustrated under Key Issue #4, which attempts to clarify the boundary between P&D concepts and standard level P&D issues for GPFSs. With respect to the first type of boundary issue, other parts of the Framework also address issues in each of these three broad areas. For example, Phase 1's work on scope established that GPFRs include a wide set of different types of information (addressing 'what information should be reported') and Phase 2's work on Elements will establish criteria for reporting information on the face of the financial statements (addressing both 'what and where information should be reported').
- 5.10 One specific issue that the TBG will be discussing further is whether disclosure principles should focus exclusively on placement of information (*where* the information should be reported) or whether principles for *what* should be disclosed should also be developed. Interest group concerns about disclosure overload argue in favor of consideration of 'what' as well as 'where.' But such concerns may be better addressed at standards level rather than in the Framework. An initial direction from the IPSASB on this scope issue would be appreciated.
- 5.11 The scope matrix provided below, in Table 1 on the following page, is proposed as a tool for Members' consideration of boundary issues between P&D and other parts of the Framework. Table 1 uses examples of P&D issues taken from other standard setters' work, then groups them under the headings 'what' 'where' and 'how.' The examples are illustrative rather than exhaustive in terms of possible P&D coverage and relevant coverage in other parts of the Framework.
- 5.12 As the project progresses it will be necessary to keep the boundaries clear as to the interrelationships across the phases of the Framework and their implications for P&D.

Table 1: P&D Coverage: Illustrative examples for P&D and Other Parts of the Framework

Information	Example P&D items	Example items from other parts of the Framework
What reported?	<p>Establish an overarching disclosure framework to guide choices of financial statement disclosures.</p> <p>Include analyses in the notes that example key difference (e.g. changes in carrying amount of all significant asset and liability items).</p>	<p>Phase 1 establishes the scope of GPFs, which establishes the types of information that could be reported.</p> <p>Phase 2 ‘Elements’ establishes criteria for what items are reported on the face of the financial statements.</p>
Where reported?	<p>Establish the relationship between items across financial statements, seeking ways to better integrate information provided in financial statements, narrative reporting, and other parts of an entity’s GPFs/GPFS.</p> <p>Develop information placement principles and identify the different communication methods used in GPFs/GPFSs.</p>	<p>Phase 2 ‘Elements’ establishes criteria for when items are reported on the face of the financial statements.</p>
How reported	<p>Address high level financial statement structure issues. (See Key Issue #4 for further consideration of GPFS issues)</p> <p>Establish aggregation principles for information reported on the face of a statement.</p> <p>Consider principles to guide whether new information requirements should be reported in the form of a new statement or as additional information in an existing statement.</p>	<p>The discussion in Phase 2 ‘Elements’ of choice of reporting models has implications for how information is reported on the face of the financial statements and for defining totals and subtotals.</p>

Action Requested:

- 5.13 Members are requested to provide initial direction on whether:
- (a) The scope matrix presented above is helpful in understanding the boundaries between P&D and other parts of the Framework; and
 - (b) Disclosure principles should focus exclusively on placement of information (*where* the information should be reported) or whether principles for *what* should be disclosed also need to be developed.

Key Issue #3: P&D Principles Applicable to General Purpose Financial Reports

5.14 In Conceptual Framework Consultation Paper #1 the IPSASB expressed its view that the scope of financial reporting is wider than financial statements. The scope of financial reporting covers financial statements and other general purpose financial reports such as information on compliance with legislation and regulation, including legally adopted or approved budgets; achievement of service delivery objectives; prospective financial information; and other information about the reporting entity’s future service delivery activities and objectives, and the resources necessary to support those activities. At the Board’s April 2010

- meeting, the IPSASB expressed an initial view that the P&D concepts should apply to GPFRs and not be limited to GPFSs. It is noted that P&D work done by other standards setters generally has not considered P&D from the wider perspective of GPFRs.
- 5.15 Staff interpreted this initial view to mean that P&D concepts should be developed that apply broadly to all GPFR information, including but not limited to GPFS information. Arguably, the wider GPFR scope makes consideration of principles related to P&D more important, because GPFRs involve more risk that reports could lack coherence, have an over-abundance of disclosure requirements, be complex and difficult to understand, and fail to achieve their expected aims due to problems with information placement decisions.
- 5.16 GPFR principles could include:
- (a) Definition of the different components of a GPFR (e.g. Following the GASB approach of identifying financial statements, notes to financial statements, required supplementary information, and supplementary information, but expanding on that approach to take into account the wider set of information reported in GPFRs).
 - (b) Principles for placing information in different locations within the GPFR, including coverage of flexibility with respect to choice of information placement.
- 5.17 On the other hand, it may be questionable whether it is possible to develop useful concepts that are general and high level enough to apply to the wide range of different types of information reported in GPFRs could be asked. For example, principles for notes disclosure would need to appropriately address notes disclosure issues raised by financial statements, disclosures for the statistical basis of accounting, and by service performance reports.

Action Requested:

- 5.18 Members are requested to provide initial direction on whether:
- (a) The IPSASB envisages P&D principles applicable generally to GPFRs, or does the IPSASB envisage one set of P&D principles for GPFSs and a separate set of principles for the ‘non-GPFS’ information required by GPFRs?

Key Issue #4: Type of GPFS P&D Issues to be Addressed

- 5.19 At the Board’s April 2010 meeting, Members provided an initial view that, after considering P&D concepts relevant to GPFRs, the consultation paper should then ‘drill down’ into GPFS P&D issues. A principles based approach should be applied. Coverage should not recommend detailed formats for financial statements, because detailed formats are addressed in specific standards. This paper seeks clarification of the boundary between the conceptual framework and standard level P&D issues for GPFSs.

- 5.20 Although the consultation paper is not expected to provide detailed coverage of financial statement structure, there may be some broad issues relating to financial statement structure that the IPSASB considers should be covered. In addition, the boundary between high level principles and specific standards is not always clear. For example, IPSAS 1 describes the benefits of the financial statements that fall within its scope, while IPSAS 2 describes the objectives of cash flow statements. So the IPSASB deals with these at a standards level, whereas other standard setters, for example the ASB, include this in their conceptual frameworks.
- 5.21 The four points below illustrate a selection of GPFS issues, with the first three points being fairly high level, general principles and the fourth point providing a list of more specific issues. The Staff view is that these first three points should be addressed in the P&D Consultation Paper. The IPSASB's view is requested on whether the type of issues raised under point (4) should be addressed in the P&D Consultation Paper or at a standards level.
1. Develop *broad qualitative principles* applicable to financial statement presentation. (For example, the IASB-FASB financial statement presentation (FSP) project proposes the principle that: "Information should be presented in the financial statements in a manner that portrays a cohesive financial picture of an entity's activities.")
 2. Develop *a presentation model* that requires entities to provide information organized in a manner that clearly communicates an integrated financial picture of an entity. (For example, the IASB-FASB FSP project has proposed a presentation model that requires an entity to present information about the way it creates value separate from information about the way an entity finances its activities.)
 3. Identify the *focus of each financial statement*. (For example, the ASB Statement of Principles has the following 'focus' for the statement of financial position: 'The presentation of information on financial position focuses on the types and functions of assets and liabilities and relationships between them.')
 4. Develop views on specific issues related to *financial statement structure*:
For example, develop views on:
 - (a) Whether the statements of financial performance and movements in assets/net equity should be replaced with a single statement that reports comprehensive financial performance. (This point is linked to the analysis done in Elements, at Agenda Item 2B.)
 - (b) Whether the option of presenting operating cash flows using either a direct or an indirect method of presentation should be continued.
 - (c) Whether the statement of financial performance presentation order should present expenses before revenue (to reflect public sector entities' role of wealth distributors rather than wealth accumulators).
 - (d) Whether expenses should be classified by nature or by function.

Action Requested:

5.22 Members are requested to give initial direction on:

- (a) Whether the P&D Consultation Paper's coverage should include high level principles such as those illustrated in points (1) through (3); and
- (b) Whether the type of issues raised under point (4) should be addressed in the P&D Consultation Paper or at a standards level.

APPENDIX A

A Context for P&D Issues

A.1 This section provides further detail on work done by other standard setters and the context for P&D issues. The first section sets out P&D descriptions produced in draft research by the IASB and the AcSB (Canada). Subsequent sections cover (ii) more detail on work done by other standard setters on P&D concepts (completed or in progress), (iii) a selection of the IPSASB's preliminary views from Phase 1 of the Framework and existing P&D coverage in IPSASs, and (iv) presentation and disclosure issues raised recently by interest groups.

(i) 'Presentation' and 'Disclosure' Descriptions

A.2 This section sets out P&D descriptions produced in draft research by the IASB and the AcSB (Canada), as a basis for the IPSASB's discussion of the meaning of 'presentation' and 'disclosure'.

A.3 Draft research by the AcSB (Canada) includes the following working definitions for 'presentation' and 'disclosure':

Presentation is the display of information in the income statement, balance sheet, statement of changes in equity and statement of cash flows.

Disclosure is information provided in notes² to the financial statements that supplements the information provided in those statements.

A.4 The AcSB draft research adds further commentary on 'disclosure' as follows:

Presentation and disclosure are inter-related and together are the communication of financial information through financial statements.

This paper focuses on disclosure. The determination of what information should be recognized and presented in the financial statements and what should be disclosed is important, especially given evidence that many users pay less attention to note disclosures. However, consistent with the view that disclosure is not a substitute for recognition, it is assumed that recognition, measurement and presentation³ have been determined by standard setters prior to addressing disclosure.

The component parts of the financial statements interrelate because they reflect different aspects of the same transactions, events and elements of financial position. In particular, financial statement disclosures complete the financial statements by providing additional information about financial statement elements, including disaggregation of reported items (for example, the components of long-term debt), recognition and

² While such information is usually provided in notes, it may also be provided in supplementary schedules that are an integral part of the financial statements. (IASB Framework paragraph 7). In some cases this information may be provided as part of the line-item in the income statement, balance sheet or cash flow statement.

³ The joint IASB/FASB project on Financial Statement Presentation is addressing presentation issues.

measurement policies, and other attributes of both reported and unreported items necessary to understand the financial statements. However, this does not include the explanation or interpretation of financial performance or financial position, or providing a context within which to understand these. Therefore, while the notes to the financial statements may include certain explanations, these are intended to provide additional information about items in the balance sheet, income statement and cash flow statement, that is, to clarify rather than explain or interpret.

- A.5 The IASB Management Commentary discussion paper provides the following discussion of ‘disclosure’:

155 There are, arguably, two dimensions to disclosure—what and where. The ‘what’ relates to identifying the type of, or specific, information that should be disclosed. The ‘where’ relates to where this information should be presented within a financial report. Placement is concerned with ‘where’, not ‘what’.

157 Nothing in our discussion on placement implies anything about what should be disclosed. It is only when an entity, or a standard-setter, has decided that some information is important enough to be disclosed that a placement framework assists in determining where it might be best to disclose that information.

(ii) Work by Other Standard Setters (Completed or In Progress)

- A.6 This section begins with work done by the IASB, then covers conceptual framework coverage (GASB, PSAB (Canada), and ASB (United Kingdom)) followed by P&D work-in-progress (FASB, AcSB (Canada) and FASAB).

IASB (Work In Progress and Relevant Other Projects)

- A.7 Phase E of the IASB/FASB framework project will address presentation and disclosure. An objective for this phase is to:

‘...determine the concepts underlying display and disclosure of financial information, including the boundaries of such information that will achieve the objective of general purpose financial reporting.’

- A.8 Phase E is presently inactive. The IASB has not yet either deliberated or made decisions regarding concepts for presentation and disclosure. But the IASB project on management commentary has considered issues related to the boundaries of financial reporting and placement of information within financial reports. The IASB-FASB joint project on financial statement presentation is also relevant.

- A.9 The IASB’s management commentary project raised the issue of whether management commentary should be mandatory, which points to the larger issue of the boundaries of financial reporting:

Views were divided on the status any IASB guidance [on management commentary] should have. Some wished to see a mandatory standard

while others preferred non-mandatory guidance. The consensus at that meeting supported the eventual inclusion in IAS 1 Presentation of Financial Statements of a requirement to prepare a narrative report, coupled with non-mandatory implementation guidance on what ought and ought not to be included in such a report. [IASB Discussion Paper: Management Commentary (October 2005)]

- A.10 The discussion paper includes the project team's view that an entity's financial report:

...should be viewed as a package comprising the primary financial statements, accompanying notes and MC (section 1). [IASB Discussion Paper: Management Commentary (October 2005)]

- A.11 Having concluded that management commentary should be required, the project team then concluded that it is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented:

... they believe that any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to determine what information is necessary to meet these requirements, and to determine how the information is presented. The project team have also suggested that it is appropriate to consider ways to limit the amount of information management discloses, as a way of ensuring that only relevant information is presented to investors (see sections 3 and 4). [IASB Discussion Paper: Management Commentary (October 2005)]

- A.12 This illustrates another option for standards setters in terms of requirements with respect to different types of reported information. It also illustrates the linkage between a statement's 'content' or presentation and its purpose. IPSAS 1 and IPSAS 2 preface their specific requirements for the different financial statements with a description of the purpose or objectives of these statements.

- A.13 The management commentary discussion paper also raised the issue of information 'placement,' referring to GASB's Concepts Statement 3. The paper argued for a 'placement framework' to support standard setters' decisions on disclosures and proposed 'placement criteria.' As noted above, the paper explained that placement is concerned with 'where' not 'what'.

- A.14 The IASB decided that placement should be addressed within the context of disclosure principles developed as part of its conceptual framework project:

The Board noted that Phase E of the conceptual framework includes the development of disclosure principles. Consequently, the Board views Phase E of the conceptual framework as the appropriate project to resolve questions about the placement of disclosures in the financial reports. [BC 45, Management Commentary, Exposure Draft ED/2009/6]

- A.15 The IASB-FASB joint project on financial statement presentation aims to:

...establish a standard that will guide the organization and presentation of information in the financial statements with the objective of improving the usefulness of the information provided⁴.

A.16 Phase A, which revised IAS 1 and IAS 7, has been completed. Phase B is ongoing. Phase B aims to:

Address fundamental issues for presentation of information in the financial statements, including aggregating and disaggregating information in each financial statement, defining totals and subtotals, and considering the use of a direct or an indirect method of presenting operating cash flows.

A.17 Issues to be addressed include the:

- (a) Relationship between items across financial statements (the cohesiveness objective);
- (b) Disaggregation of information so that it is useful in predicting an entity's future cash flows (the disaggregation objective); and
- (c) Provision of information to help users to assess an entity's liquidity and financial flexibility (the liquidity and financial flexibility objective).

5.23 A discussion paper (DP) was published in October 2008⁵. The following three principles are proposed in the DP:

- Cohesiveness objective: An entity should present information in its financial statements in a manner that portrays a cohesive financial picture of its activities.
- Disaggregation objective: An entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing and uncertainty of its future cash flows.
- Liquidity and financial flexibility objective: An entity should present information in its financial statements in a manner that helps users to assess the entity's ability to meet its financial commitments as they become due and to invest in business opportunities.

[IASB Discussion Paper: Preliminary Views on Financial Statement Presentation (October 2008)]

A.18 An exposure draft was expected to be issued in May 2010, but was not yet available in early June. In the DP, the boards proposed a presentation model that requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities). The proposed presentation model is designed to make an entity's financial statements more useful by

⁴ Information from the IASB website at:
<http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Financial+Statement+Presentation.htm>

⁵ The DP can be accessed from: http://www.fasb.org/DP_Financial_Statement_Presentation.pdf

- requiring entities to provide detailed information organized in a manner that clearly communicates an integrated financial picture of an entity.
- A.19 In October 2009, the two Boards tentatively decided to include an analysis of changes in balance of all significant asset and liability items. This is similar to an recommendation from the FASB’s Investors Technical Advisory Committee that statements include a ‘roll-forward analysis,’ which would be ‘a roll-forward of the activity in the account balances from period to period showing gross (un-netted) changes by the nature of the change (e.g. change in balance resulting from new issuances, repurchases, changes in interest rates and changes in credit quality).’
- A.20 The presentation of Other Comprehensive Income (OCI) was part of this project, but in October 2009 the IASB decided to consider this issue as a separate matter, so that it could be progressed more quickly. An exposure draft (ED) was issued in May 2010⁶. The ED, following the same approach as that in the discussion paper, proposes to require that entities present profit or loss and other comprehensive income in separate sections of a continuous statement. The IASB also proposes that items in OCI be grouped on the basis of whether they will eventually be ‘recycled’ into the profit or loss section of the income statement. This work focuses on where items are located rather than on which items are to be reported, although it is informed by the type of items presently being reported within profit and loss and other comprehensive income and items that appear likely to be reported in the future.
- A.21 These two proposals reflect the IASB’s belief that both profit and loss and other comprehensive income contain important and interrelated information about the financial performance of an entity. Current requirements in IFRSs have not been developed on a consistent basis, with the result that there is somewhat inconsistent use of OCI within IFRSs and occasions when an IFRS will allow similar items to be presented in both statements.
- A.22 The definition of discontinued operations and the related disclosure requirements were also part of the project. Work on this was separated out and accelerated. The IASB and FASB published exposure drafts in September 2008. In January 2010 the boards decided to re-expose the proposals in an ED, which is planned for issue in the second quarter of 2010. The ED was not available as of early June 2010⁷.
- A.23 In Phase C the FASB will consider the presentation and display of interim financial information in US generally accepted accounting principles (GAAP). The IASB may also reconsider the requirements in IAS 34 Interim Financial Reporting.

⁶ ED/2010/5 can be accessed from:
<http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Phase+B+OCI/Exposure+Draft/Exposure+draft.htm>

⁷ For information about this part of the IASB’FASB’s joint project see:
<http://www.iasb.org/Current+Projects/IASB+Projects/FSP+Discontinued+Operations/Amendments+to+IFRS+5+Non-current+Assets+Held+for+Sale+and+Discontinued+Operations.htm>

GASB Concepts Statement 3

- A.24 GASB’s Concepts Statement No.3, “Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements” focuses on GPFSs and related narrative information. It does not include broader information within GPFR. For example items such as reports on ‘service efforts and accomplishments’ or reports on economic condition are excluded from consideration.
- A.25 Concepts Statement 3 clarifies the relationship of ‘basic financial statements’, ‘notes to basic financial statements’, and ‘supporting information presented with basic financial statements’ within the framework of general purpose external financial reporting. It provides principles for selecting ‘communication methods’ to present items of information. Four communication methods are defined and high level criteria provided to help the GASB determine the appropriate method to use to communicate an item of information.
- A.26 The four communication methods and related high level criteria are:
- (a) Recognition in financial statements: Items that are
 - (i) Elements of financial statements, and
 - (ii) Measurable with sufficient reliability, and
 - (iii) Essential for communicating with users the financial position or inflows and outflows of resources of the reporting unit in conformity with generally accepted accounting principles.
 - (b) Notes to financial statements: Items that:
 - (i) Have a clear and demonstrable relationship to information in the financial statements to which they pertain, and
 - (ii) Are essential to a user’s understanding of those financial statements and
 - (iii) Are essential for communicating with users the financial position or inflows and outflows of resources of the reporting unit in conformity with generally accepted accounting principles.
 - (c) Presentation as required supplementary information (RSI):
 - (i) RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.
 - (ii) RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context.
 - (iii) RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit’s future financial position, (b) predictions about the effects of future events on future

financial position, or (c) information unrelated to the financial statements.

- (iv) RSI is required to be presented with basic financial statements and notes.
- (d) Presentation as supplementary information (SI):
 - (i) Supplementary information (SI) is supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context.
 - (ii) SI is not required to be presented by the GASB.

A.27 Statement 3 is helpful as one approach to identifying the different components that make up GPFSS. It also provides a useful description of the purpose and coverage of notes to the financial statements. Statement 3 represents the only available example of a ‘placement framework’ or ‘placement criteria’ for standard setters’ decisions on location of information within GPFSS. The perspective of ‘communication method’ rather than either ‘presentation’ or ‘disclosure’ is helpful, because it allows the two separate issues of ‘presentation’ and ‘disclosure’ to be treated in an integrated way, with the whole set of reported information (financial statements, notes, etc) being considered from the perspective of ‘communication.’ But communication related terms (e.g. sender, ‘message’, and ‘recipient’) do not appear to add significantly to the discussion.

A.28 Statement 3 does not cover GPFSS issues, says little about disclosures on the face of financial statements (beyond the recognition criteria as the primary basis for disclosure), and does not address standard setters’ decision-making with respect to required versus optional disclosures on the face of the financial statements. The terms ‘required supplementary information’ and ‘supplementary information’ are confusing, since the names suggest that one category is a subset of the other, when instead they are mutually exclusive categories.

Canadian Public Sector Accounting Board (PSAB)

A.29 In its Public Sector Accounting Standards Concepts and Principles the Canadian Public Sector Accounting Board (PSAB) includes a separate section, PS 1100, on ‘financial statement objectives,’ then a section, PS 1200 Financial Statement Presentation, that focuses on ‘financial statement presentation.’

A.30 PS 1100 aims to identify and describe financial statement objectives that ‘...are generally acceptable to the users and preparers of the statements.’ The coverage initially appears similar to that in Phase 1 of the IPSASB’s Framework (objectives and scope), but goes into further detail about individual statements, including naming them and discussing what information should be portrayed. A useful description of public sector specific differences applicable to financial statement presentation and their reporting implications is included.

A.31 PS 1200 Financial Statement Presentation (PS 1200) aims to establish ‘...general reporting principles and standards for the disclosure of information in government

financial statements.’ It does not address information outside of the financial statements. The coverage is a mixture of high level principles (general reporting principles’), which could be helpful to the IPSASB in developing P&D coverage within the IPSASB Framework, broad objectives for financial statements, and detailed standards level requirements (both found in the ‘standards of presentation and disclosure’).

A.32 Illustrative examples of PS 1200’s ‘general reporting principles’ are:

- (a) The financial statements of a government should be clearly identified and should include or be accompanied by an acknowledgment of the government’s responsibility for their preparation.
- (b) Notes and schedules that are integral to the financial statements should be clearly identified.
- (c) Notes and supporting schedules in financial statements should not be used as a substitute for proper accounting treatment.
- (d) Financial statements should present any information required for the fair presentation of a government’s financial position, results of operations, change in net debt, and cash flow.

A.33 PS 1200 states that financial statements should include a statement of financial position, a statement of operations, a statement of change in net debt, and a statement of cash flow. It then discusses information that should be reported in each statement, explaining why the information needs to be reported. For example, with respect to financial position, PS 1200 explains that:

Financial statements need to provide information to describe a government’s financial position in terms of its assets and liabilities at the end of the accounting period. They must report the government’s net debt and its accumulated surplus or deficit because these figures are indicators that can be used to determine whether a government’s financial position has improved or deteriorated.

[PS 1200 Financial Statement Presentation, PSASB (Canada)]

A.34 Moving from this relatively general statement about information to be reported, PS 1200 then specifies detail on required information. The level of detail is similar to that in IPSAS 1 and IPSAS 2. For example, PS 1200 states that:

The statement of financial position should report liabilities segregated by main classifications, such as:

- (a) accounts payable and accrued liabilities;
- (b) liabilities for employee future benefits;
- (c) deferred revenue;
- (d) borrowings; and
- (e) loans from other governments.

[PS 1200 Financial Statement Presentation, PSASB (Canada)]

ASB (United Kingdom) Statement of Principles

A.35 In the Accounting Standards Board's (ASB's) Principles of Accounting Chapter 7 addresses the 'presentation of financial information.' It begins with the characteristics of good presentation, and then provides high level principles on how those characteristics can be met within three primary financial statements. The three primary financial statements are identified as the statement of financial performance, the statement of financial position or balance sheet, and the cash flow statement. Sub-headings within the presentation chapter are:

- (a) Presentation of information in financial statements
 - (i) Clear, effective and simple presentation
 - (ii) Highly structured and aggregated
 - (iii) Classification
- (b) Good presentation
 - (i) Balance sheet
 - (ii) Income statement
 - (iii) Cash flow statement
- (c) Accompanying information
- (d) Highlights and summary information

A.36 The chapter states that:

Good presentation ensures that the essential messages of the financial statements are communicated clearly and effectively and in as simple and straightforward a way as possible. [ASB Statement of Principles, 1999]

A.37 It then explains that financial statements comprise 'primary financial statements' and 'supporting notes that amplify and explain the primary financial statements.' For each of the three identified primary statements a focus is specified, as follows:

- (a) The presentation of information on financial performance focuses on the components of that performance and on the characteristics of that performance.
- (b) The presentation of information on financial position focuses on the types and functions of assets and liabilities and relationships between them.
- (c) The presentation of cash flow information will show the extent to which the entity's various activities will generate and use cash and in particular will distinguish between those cash flows that result from operations and those that result from other activities. [ASB Statement of Principles, 1999]

A.38 With respect to notes it is stated that notes:

...amplify and explain the primary financial statements,' and disclosure in the notes '...is not a substitute for recognition and does not correct or justify any misrepresentation or omission in the primary financial statements. [ASB Statement of Principles, 1999]

FASB Disclosure Framework Project

- A.39 The Financial Accounting Standards Board (FASB) added a disclosure framework project to its agenda in July 2009. Staff is conducting initial research. Board deliberations are expected to begin in the second quarter of 2010, leading to an initial Discussion Paper in the fourth quarter of 2010.
- A.40 The project's objectives are to:
- (a) Establish an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant, and
 - (b) Seek ways to better integrate information provided in financial statements, MD&A, and other parts of a company's public reporting package⁸.
- A.41 The project is a response to recommendations received from several constituents, including the FASB's Investors Technical Advisory Committee (ITAC) and the Securities and Exchange Commission's (SEC) Advisory Committee on Improvements to Financial Reporting. It is envisioned that a disclosure framework would enable all entities to focus on making more coherent disclosures in their annual reporting package, move away from what some assert has become a compliance exercise, and perhaps facilitate XBRL electronic tagging of information.
- A.42 Staff has noted the tentative decision to include an analysis of changes in balance of all significant asset and liability items, which was made as part of the joint IASB-FASB financial statement presentation project.
- A.43 Further areas that the project will address are whether the disclosure framework should:
- (a) Focus only on high-level principles; and
 - (b) Focus only on notes to financial statements or extend to ways to better integrate information provided in financial statements, MD&A, and other parts of a company's public reporting package.
- A.44 The following two disclosure objectives have been drafted by staff:
- (a) To amplify (expand) on the information recognized and measured in financial statements (to avoid the loss of relevant information that of necessity has been simplified, condensed, or aggregated in the process of recognition, measurement and presentation on the face of financial statements).
 - (b) To provide relevant/essential information about matters that do not qualify for recognition and measurement in financial statements, which includes information:
 - (i) About an entity's economic resources, claims, and changes in them

⁸ For information about the FASB's disclosure framework project see:
http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176156344894

- (ii) About an entity's financial performance during the period, including its use of entity resources
- (iii) Useful/essential in assessing an entity's prospects for generating cash flows.

Accounting Standards Board (Canada) Disclosure Framework Project

A.45 The Accounting Standards Board of Canada (AcSB (Canada)) staff began preliminary research on a disclosure framework in 2003. The project description explains that

The AcSB (like the other major standard setters) is without a well-defined process for determining the disclosure requirements to be included in new standards. The lack of adequate guidance in this area has resulted in inconsistencies in the type and extent of disclosure requirements in various accounting standards, and differences in disclosures by preparers applying the same standards to similar circumstances. There is general concern about existing disclosures in financial statements. Users are demanding more and higher quality disclosure. At the same time, some express the view that the growth in disclosures, together with poor presentation, often makes it hard to understand the disclosures currently provided. For their part, preparers complain about disclosure overload and question whether a number of existing disclosure requirements are useful to financial statement users. A framework that provides a more thorough conceptual underpinning for the determination of presentation and disclosure requirements for new accounting standards, and assists preparers in deciding on information to be disclosed in their financial statements, would help address these issues. [AcSB Preliminary Research Paper (2003)]

A.46 Further work has been deferred, due to the joint IASB/FASB conceptual framework project, which will include disclosure in one of the later stages. This preliminary research was presented to the AcSB, but is not publicly available. The preliminary research paper proposes that key components for a disclosure framework are:

- (a) The scope of information that should be disclosed in financial statements (vs. other business reporting vehicles such as the MD&A);
- (b) The information needs of users;
- (c) The application of the qualitative characteristics of relevance, reliability and comparability to disclosure;
- (d) Understandability – disclosures should communicate information clearly and effectively for the user.
- (e) Constraints on the provision of information e.g. cost, competitive harm. This includes what practical limits there should be on the extent of disclosure – the information overload issue.

The components above are inter-related and in deciding what disclosures should be made, they need to be considered both individually and as a whole. A decision by a standard setter, or by a preparer, may depend on their judgment of the relative significance of each component in the particular circumstances. [AcSB Preliminary Research Paper (2003)]

FASAB Communication and Presentation Concepts

A.47 The Federal Accounting Standards Advisory Board (FASAB) describes its planned work on concepts related to ‘communication and presentation’ as follows:

Concepts – The Financial Report

Project Objective:

The FASAB has noted that essential features of a sound framework of objectives and fundamental concepts include describing the financial statements used to present elements, identifying means of communicating information necessary to meet reporting objectives, and describing when to use a particular means of communication. This project will address these features and is the third phase of the FASAB’s five-phased Conceptual Framework Acceleration Plan (see the chart below).

The Financial Report project focuses on the financial report and its key components for communicating information, such as management’s discussion and analysis (MD&A), financial statements, notes, required supplemental information (RSI), and other accompanying information (OAI). The project will:

- describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what statements are essential to meeting the objectives; and
- provide guidance for determining when a means of communicating information should be used.

To accomplish its objective, the project includes identifying financial reporting objectives not yet addressed through financial statements and suggesting alternatives to meeting them. Two primary topics that will be studied in this area are sustainability and performance reporting. Also, the project will review prior concepts and standards and consider financial reporting issues that have developed since the FASAB issued its initial set of concepts and standards about a dozen years ago.

Ultimately, the project will help ensure that federal financial accounting standards are based on a sound framework of objectives and concepts regarding the nature of accounting, financial statements, and other communications methods.⁹

⁹ For information on this FASB project see: <http://www.fasab.gov/conceptsfinan.html>

(iii) Phase 1 Views and IPSASs (Existing and Planned)

IPSASB Preliminary Views – Phase 1 of the Framework Project

A.48 Objectives, scope and qualitative characteristics appear to have the highest relevance to P&D, but other coverage within Consultation Paper 1, for example financial statement users and reporting entity will also be relevant.

Preliminary View 4- The Objectives of Financial Reporting

A.49 The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFs for:

- (a) Accountability purposes; and
- (b) Making resource allocation, political and social decisions.

Preliminary View 5 - The Scope of Financial Reporting¹⁰

A.50 The scope of financial reporting encompasses the provision of financial and non-financial information about:

- (a) Economic resources of the reporting entity at the reporting date and claims to those resources;
- (b) The effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- (c) The reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- (d) The reporting entity's achievement of its service delivery objectives; and
- (e) Prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFs.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFs (following paragraph 4.40)

A.51 The qualitative characteristics of information included in GPFs of public sector entities are:

¹⁰ Note that Preliminary View 6 also states that: "The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting."

- (a) Relevance, which encompasses confirmatory value, predictive value, or both;
 - (b) Faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
 - (c) Understandability;
 - (d) Timeliness;
 - (e) Comparability; and
 - (f) Verifiability (including supportability).
- A.52 Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

IPSASs: Existing and Planned

- A.53 IPSASs include Standards that focus primarily on disclosure (e.g. IPSAS 18, “Segment Reporting,” IPSAS 20, “Related Party Disclosures,” IPSAS 22, “Disclosure of Financial Information about the General Government Sector” and IPSAS 30, “Financial Instruments: Disclosures”) and Standards that focus primarily on presentation (e.g. IPSAS 1, “Presentation of Financial Statements,” IPSAS 24, “Presentation of Budget Information in Financial Statements,” and IPSAS 28, “Financial Instruments: Presentation”). The basic components of a GPFR vary between different reporting entities, with some components applicable to all entities, others only applicable to a subset, and others optional for all. IPSAS 24, for example, impacts differently on reporting entities according to their budget basis and whether an entity publishes its budget.
- A.54 IPSAS 1 addresses presentation, although the majority of IPSAS 1 requirements involving the option of ‘disclosing’ an item either on the face of a statement or in the notes. Standards related to information to be disclosed in the notes (for example, IPSAS 18, “Segment Reporting” or otherwise disclosed (for example, IPSAS 22, “Disclosure of Financial Information about the General Government Sector”) include presentation’ requirements that apply to the required information.
- A.55 ‘Single topic standards’ generally cover disclosure requirements for that specific topic, but do not specify presentation requirements, which are addressed in IPSAS 1 and IPSAS 2. One exception to this is IPSAS 25, “Employee Benefits,” which includes coverage of both presentation and disclosure. Generally the individual topic standards require disclosures without stipulating whether the disclosure has to be made on the face of the financial statements or in the Notes to the financial statements. Some disclosures (e.g. narrative about risks) will ‘obviously’ not be shown on the face of a financial statement. Other disclosed items (classes of PP&E) could be shown as separate items on the face of a financial statement, but it is left up to preparers to make that decision.
- A.56 Further detail on IPSAS 1 is provided below.

IPSAS 1, "Presentation of Financial Statements"

- A.57 In IPSAS 1 the word 'presentation' is associated with items that are shown or requirements that impact on the face of a financial statement, while the word 'disclosure' is associated with items shown in the Notes. Disclosure is also applied to items for which preparers have the option of including them either on the face of a statement or in the notes.
- A.58 IPSAS 1 sets out minimum requirements for items to be shown (presented) on the face of three of the four primary financial statements, while IPSAS 2 specifies minimum requirements for the cash flow statement. IPSAS 1 also establishes presentation rules, addressing issues such as scope to off-set items. With a few exceptions, these two Standards establish all presentation requirements, with Standards on specific topics only stipulating disclosure requirements.
- A.59 IPSAS 1 illustrates that presentation and disclosure for financial statements generally involves:
- (a) A small set of items that are *required* to be shown 'on the face of the financial statements;'
 - (b) A larger set of items that are required either to be shown on the face of the financial statements or in the notes to the accounts;
 - (c) A further set of items that are encouraged, but not required, to be disclosed (location not specified – see paragraphs 25 and 26)
- A.60 For the three financial statements included in its scope, IPSAS 1:
- (a) Describes the objectives/benefits of each financial statement.
 - (b) Requires certain items (a minimum) be included on the face of each financial statement;
 - (c) Stipulates the particular financial statement in which an item is required to appear;
 - (d) Requires that certain items be separately disclosed either on the face of the financial statements or in the Notes to the Accounts, without stipulating one or the other; and
 - (e) Identifies further information that is encouraged to be disclosed (location is not specified).

(iv) **Presentation and Disclosure Issues Raised by Interest Groups**

- A.61 Several reports have either been produced or are planned by interest groups, with the main concern expressed being disclosure overload and over-complexity of financial reporting. Reports have been produced by the Global Accounting Alliance, the International Federation of Accountants, and the Securities and Exchange Commission (SEC). Projects have been initiated by the UK Financial Reporting Council and the European Financial Reporting Advisory Group (EFRAG). These reports and projects are described further below.

Global Accounting Alliance (GAA) Report

A.62 The Global Accounting Alliance (GAA) report ‘Getting to the Heart of the Matter: Can financial reporting be made simpler and more useful?’ was in response to:

‘...increasing complaints from preparers and users of financial statements about the length and complexity of those financial statements. Yet many users have claimed that some of the most important information just isn’t there, or isn’t easily accessible or understandable.’

A.63 The research considered ten questions, with questions (8) and (9) being relevant to P&D:

8. Should general purpose financial statements be developed and published in XBRL format to allow users to drill down to whatever level of detail is required?

9. Should company communication be improved through the use of clearer language, less jargon and coded language, and a focus on clarity and transparency?

A.64 The summary of findings expresses these presentation related views:

There is certainly a consensus for the idea of changing the nature of financial statements, in an effort to combat their growing complexity. Those interviewed wanted the emphasis in the future to shift away from being dominated by compliance to a system where communication was the driving principle. Also, there should be an acceptance that different users have different needs, and encouragement for the greater use of XBRL to create an information database which would allow those users greater flexibility in pursuing the information that they specifically require in a form which was useful to them.

Underlying all these elements in the efforts to reduce complexity was the desire for the use of clearer language, less jargon and coded language and a focus on clarity and transparency.

International Federation of Accountants (IFAC)

A.65 The March 2008 International Federation of Accountants (IFAC) report “Financial Reporting Supply Chain: Current Perspectives and Directions” reported on the results of a global survey and a series of telephone interviews undertaken in late 2007. The report describes concerns related to disclosure overload and financial reports’ understandability and complexity. This was followed by an information paper “Developments in the Financial Reporting Supply Chain—Results from a Global Study among IFAC Member Bodies,” published in 2009 and based on a global research study.

A.66 Listed below are the issues with regard to the ‘usefulness of financial reports’ that were identified in the 2008 Financial Reporting Supply Chain report and then followed up in the global research study:

- (a) Reduced usefulness due to complexity;
 - (b) Focus by companies on compliance instead of essence of the business;
 - (c) Regulatory disclosure overload;
 - (d) Difficulties with the interpretation of fair values in accounting;
 - (e) Difficult, often changing financial reporting standards; and
 - (f) Lack of forward-looking information.
- A.67 The 2009 study found that little progress had been made on the usefulness of financial reports. In addition to the issues listed above, participants in the 2009 study identified a number of other issues that need to be addressed in their countries or jurisdictions, such as insufficient reporting on non-financial indicators, risks and sustainability results; and, the unclear link between reporting and an organization's environment, its strategy, and the implementation of that strategy.

UK Financial Reporting Council

- A.68 The United Kingdom Financial Reporting Council commenced a project in 2008 to look at 'the complexity and relevance of current reporting requirements' and 'whether corporate reporting requirements are disproportionate to their intended benefits and whether there are opportunities for improvement.' The project is also addressing 'the risk that these requirements, and related influential guidance, are contributing to the increasing complexity of corporate reports without making them more useful or understandable.'

The SEC and its Committee on Improvements to Financial Reporting (CIFIIR)

- A.69 The SEC established a Committee on Improvements to Financial Reporting (CIFIIR) (also called the Pozen Committee). The Committee aimed to reduce unnecessary complexity and make information more useful and understandable for investors. The Committee presented its recommendations on 1 August 2008. The recommendations included that:

The SEC and FASB should work together to develop a disclosure framework to:

- Integrate existing SEC and FASB disclosure requirements into a cohesive whole to ensure meaningful communication and logical presentation of disclosures based on consistent objectives and principles.
- Require disclosure of the principal assumptions, estimates, and sensitivity analyses that may impact a company's business, as well as a qualitative discussion of the key risks and uncertainties that could significantly change those amounts over time.

Investors Technical Advisory Committee (ITAC)

A.70 ITAC proposed in December 2007 that the FASB should develop a “principles-based” disclosure framework that would identify the types of disclosure necessary for ‘significant’ financial statement items. The proposal envisions information presented in three areas:

- (a) *General* – outlining the basis of presentation for a particular financial statement line item.
- (b) *Composition* – outlining the composition of line items and analysis of changes period over period for *material* line items
- (c) *Assumptions and uncertainties* – outlining principal assumptions, estimates, sensitivity analyses, and a *qualitative discussion* regarding risks and uncertainties and the potential of the amounts to change over time.

European Financial Reporting Advisory Group (EFRAG)

A.71 The European Financial Reporting Advisory Group (EFRAG) is initiating a project on developing a disclosure framework, with a call for advisory panel members made in early 2010. The aim of the project is to make a significant contribution to improving the presentation and relevance of information in financial reports. The project is being led by EFRAG and supported by the UK ASB. The context for the project and its aims are described as follows:

There is some criticism of the financial disclosure requirements under IFRS. Analysts claim that disclosures are deficient in quantity, relevance and clarity; individual investors often complain that disclosures are so voluminous and incomprehensible that they ignore them; preparers express concern over the significant costs involved in satisfying such requirements.

This project aims to improve the relevance of disclosure and make them more effective, coordinated and less redundant. The output will be a discussion paper that is expected to be issued in 2011 to stimulate discussion and debate in Europe about the content and form of disclosures in the financial statements in order to influence a wider global debate.

A.72 EFRAG’s Pro-active Accounting Activities in Europe (PAAinE) group has also produced two papers on financial statement presentation. Both papers focus on reporting of financial performance. Issues discussed include:

- (a) Should the net income line be retained?
- (b) (If it should be retained), what should the basis be for determining whether something is within net income or outside net income?
- (c) What role should recycling have in performance reporting?

A.73 The most recent paper, Discussion Paper Performance Reporting: A European Discussion Paper states that:

... performance is a complex, multi-faceted notion that cannot be encompassed in one or a few numbers. Nevertheless both preparers and users want some key performance reporting lines to convey headline numbers and to provide a starting point for analysis. It is therefore important that items of income, expense, gains and losses are disaggregated, grouped and aggregated in a way that ensures that the most useful key lines are presented. The paper notes that whether recycling is needed also depends on the aggregation/disaggregation model used. The final chapters of the paper discuss various disaggregation models.