IFRS Global office
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IFRS in Focus
IASB issues amendments to IAS 1 under the Disclosure Initiative

Contents

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This edition of IFRS in Focus outlines the recent narrow-scope amendments to IAS 1 *Presentation of Financial Statements* under the Disclosure Initiative

The Bottom Line

- The following narrow-scope amendments have been made to IAS 1 *Presentation of Financial Statements:*
  - Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information; and that materiality considerations apply to the primary statements, notes and any specific disclosure requirements in IFRSs, i.e. disclosures specifically required by IFRSs need to be provided only if the information is material.
  - Statement of financial position and statement of profit or loss and other comprehensive income: clarifies that the list of line items specified by IAS 1 for these statements can be disaggregated and aggregated as relevant. Additional guidance has been added on the presentation of subtotals in these statements.
  - Presentation of items of other comprehensive income ("OCI"): clarifies that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
  - Notes: clarifies that entities have flexibility when designing the structure of the notes and provides guidance on how to determine a systematic order of the notes. Also, unhelpful examples regarding the identification of significant accounting policy have been removed.
- The amendments are effective 1 January 2016 with earlier application permitted.

Why have the amendments been issued?

The IASB's Disclosure Initiative comprises several smaller projects to improve presentation and disclosure requirements in existing Standards. It is therefore seen as a complement to the IASB's comprehensive review of the *Conceptual Framework*, which is currently taking place. As part of this revision, the IASB aims to provide improved presentation and disclosure guidelines for future Standards.

The amendment related to the presentation of items of other comprehensive income arising from equity-accounted investments is a result of a submission to the IFRS Interpretations Committee.

The IASB has now made amendments to clarify the existing requirements in IAS 1, following publication of the ED in March 2014 and consideration of the comments received.

What are the amendments to IAS 1?

Materiality

The amendments clarify the materiality guidance in IAS 1. Following the amendments, an entity shall not obscure useful information by aggregating or disaggregating information, for example by aggregating material items with different characteristics or obscuring useful information with immaterial information. The decision as to whether to aggregate or disaggregate information and how should be based on all relevant facts and circumstances.

In addition, the amendments clarify that the materiality guidance applies to the financial statements as a whole, including the primary statements and the notes and that disclosures are only required if the information is material. The materiality guidance also applies if there are specific disclosure requirements in a Standard, even if those disclosures are required "as a minimum" by that Standard.

The amendments further clarify, that additional disclosures may be necessary if the information specifically required by IFRSs is not sufficient for an understanding of the impact of particular transactions, events or conditions on the entity's financial position and performance.

> **Observation**
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> Clarification of the point that the concept of materiality applies to the inclusion of disclosures in the notes as well as to recognition and measurement in the primary statements is intended as a first step in addressing the perception that financial statements are 'cluttered' by irrelevant disclosures.
>
> This topic will be considered more fully as part of the IASB's wider scope project on the principles of disclosure, which is expected to be the subject of a discussion paper to be issued in the first half of 2015.

Statement of financial position and statement of profit or loss and other comprehensive income

Consistent with the clarifications relating to materiality above, the amendments delete the words "as a minimum" in IAS 1 from the list of line items that need to be presented in the statement of financial position. This deletion is to eliminate the misconception that "as a minimum" implies that these line items must be presented regardless of their materiality. The amendments clarify that entities can aggregate line items in the list if those line items are immaterial. This is consistent with the requirements for the statement of profit or loss and other comprehensive income, which do not contain the reference to "as a minimum".

The amendments also clarify that the line items listed in IAS 1 for the statement of financial position and the statement of profit or loss and other comprehensive income should be disaggregated if this is relevant to an understanding of the entity's financial position.

The existing guidance in IAS 1 requires entities to introduce subtotals in the statement of financial position or in the statement of profit or loss and other comprehensive income if such presentation is relevant to an understanding of the entity's financial position or performance, respectively. The amendments to IAS 1 clarify that such subtotals should:

- contain only line items made up of amounts recognised and measured in accordance with IFRSs;
- be presented and labelled in such a way that the subtotal is understandable;
- be consistent from one period to the next; and
- not be given more prominence than the subtotals and totals required by IFRSs.

For any such subtotals presented in the statement of profit or loss and other comprehensive income, the line items should be disclosed that reconcile those subtotals back to the line items required by IFRSs.

Presentation of items of other comprehensive income (OCI) arising from equity-accounted investments
Following the amendments, entities should present their share of items of OCI arising from associates and joint ventures accounted for by using the equity method separately from the rest of OCI. This results in the following categories of OCI in the statement of other comprehensive income:

- items of OCI (excluding from associates or joint ventures accounted for using the equity method), classified by nature, grouped into those items that:
  - will not be reclassified subsequently to profit or loss; and
  - will be reclassified subsequently to profit or loss when specific conditions are met; and
- share of OCI from associates or joint ventures accounted for using the equity method, in aggregate, separated into the share that:
  - will not be reclassified subsequently to profit or loss; and
  - will be reclassified subsequently to profit or loss when specific conditions are met.

The illustrative presentation of financial statements in the implementation guidance of IAS 1 has been amended accordingly.

Notes
The amendments clarify the requirements with respect to the presentation of the notes. Regarding the structure of notes, the amendments clarify that an entity should consider the understandability and comparability of its financial statements when determining a systematic approach to presenting notes. This could, for example, be achieved by structuring the notes in a way that puts emphasis on information that is more relevant or that highlights the relationship between some disclosures. The amendments include examples for how the notes could be structured:

- giving prominence to those that are most relevant to an understanding of the financial performance and position, e.g. grouping together information about particular activities;
- grouping together items measured similarly, e.g. assets measured at fair value; or
- following the order of items in the primary statements, e.g.:
  - a statement of compliance with IFRSs;
  - significant accounting policies;
  - supporting information for items presented in the primary financial statements in their respective order; and
  - other disclosures, including contingent liabilities and unrecognised contractual commitments and non-financial disclosures (e.g. about financial risk management objectives and policies under IFRS 7).

In addition, the amendments eliminate unhelpful guidance and examples on what a significant accounting policy is.

Observation
The amendments address a perception that IAS 1 requires a specific order of notes. The amendments clarify that the order of notes previously given in the Standard is a mere example for how an entity could structure the notes, rather than a requirement. Therefore, entities have flexibility in structuring their notes. The IASB considered that in times of increased use of electronic financial statements and the search functions that accompany them, a prescriptive order of the notes is no longer appropriate. Therefore, entities may wish to consider whether restructuring the notes would provide more useful information to the users of their financial statements.

When do the new requirements apply?
The amendments apply for annual periods beginning on or after 1 January 2016 with earlier application permitted. An entity does not need to disclose the fact that it applies the amendments earlier.

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