

IFRS in Focus

IASB proposes amendments to IAS 1 *Presentation of Financial Statements* under the Disclosure Initiative

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This edition of IFRS in Focus outlines the proposed amendments to IAS 1 set out in the recent Exposure Draft ED/2014/1 issued in March 2014 for public comment.

The Bottom Line

- The exposure draft (“ED”) proposes to clarify IAS 1 *Presentation of Financial Statements* through the following narrow-focus amendments:
 - Materiality: proposal to clarify that useful information should not be obscured by aggregating or disaggregating information and that materiality considerations apply to the primary statements, notes and any specific disclosure requirements in IFRSs.
 - Statement of financial position and statement of profit or loss and other comprehensive income: proposal to clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant. Proposal to introduce guidance on subtotals in these statements.
 - Notes: proposal to clarify that entities have flexibility when designing the structure of the notes and to introduce guidance on how to determine a systematic order of the notes. In addition, unhelpful examples with regard to the identification of significant accounting policies are proposed to be removed.
 - Presentation of items of other comprehensive income (“OCI”) arising from equity-accounted investments: proposal to clarify 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.
- The IASB did not provide an effective date for the proposed amendments, however early application is proposed to be permitted. No specific transition provisions are proposed.
- Comments on the proposals are due by 23 July 2014.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Why are the amendments being proposed?

The majority of the amendments proposed in exposure draft ED/2014/1 *Disclosure Initiative: Proposed Amendments to IAS 1* results from the IASB's Disclosure Initiative. This 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 proposed 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.

When would the proposed amendments apply?

The IASB did not provide an effective date for the proposed amendments, however earlier adoption is proposed to be permitted.

The comment period for the ED ends on 23 July 2014.

What are the changes proposed by the exposure draft?

Materiality

The IASB proposes to clarify the materiality guidance in IAS 1. According to the proposed guidance, an entity shall not obscure useful information by aggregating or disaggregating information. Examples given in the ED include the aggregation of line items with different characteristics or overwhelming useful information with immaterial information.

In addition, the IASB proposes to clarify that the materiality guidance applies to the financial statements as 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 IASB is aware that this kind of wording is also used in other IFRSs and intends to review this during a broader review of those Standards.

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

Consistent with the clarifications relating to materiality above, the IASB proposes to 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 amendment would eliminate the misconception that "as a minimum" implies that these line items must be presented regardless of their materiality. This amendment would clarify that entities can aggregate line items in the list if those line items are immaterial. The proposed wording in the ED would make the requirements 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 IASB also proposes to 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. As an example, the ED states that an entity may decide that it would be useful to disaggregate "property, plant and equipment" into its three components.

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 IASB now proposes to clarify that such subtotals should:

- contain only items recognised and measured in accordance with IFRS;
- be presented and labelled in such a way that the subtotal is understandable; and
- be consistent from one period to the next.

For the statement of profit or loss and other comprehensive income, it is also proposed that voluntary subtotals must not be presented with more prominence than subtotals required by the Standard. In addition, any voluntary subtotals must be reconciled to the required subtotals by presenting each excluded item.

Notes

The IASB proposes to clarify the requirements for the presentation of the notes. With regards to structure, the ED proposes to clarify that an entity should consider 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. One example for this could be the grouping of disclosures for all fair value changes recognised in profit or loss together with information on maturities of financial instruments. Another example for how the notes could be structured is the order given in paragraph 114 of IAS 1, i.e.:

- statement of compliance with IFRSs;
- summary of significant accounting policies;
- supporting information for items in the primary financial statements; and
- other disclosures.

In addition, the IASB proposes to eliminate guidance and examples it considers unhelpful on what a significant accounting policy is.

Observation

The IASB is aware of a perception that IAS 1 requires a specific order of notes. The ED proposes to clarify that the order of notes given in the Standard is a mere example for how an entity could structure the notes, rather than a requirement. The IASB wants to make clear that entities have flexibility in structuring their notes. It considers 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.

Presentation of items of other comprehensive income (OCI) arising from equity-accounted investments

The ED proposes to clarify that entities present their share of items of OCI (OCI) arising from associates and joint ventures accounted for by using the equity method separately from the rest of OCI.

This would result in the following categories of OCI presented 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 would be amended accordingly.

Observation

Although included in the ED “Disclosure Initiative – Amendments to IAS 1”, this proposal does not result from the IASB’s disclosure initiative. The proposed amendment arises from a submission to the IFRS Interpretations Committee. The IASB decided to include this amendment in this ED as it was considered at the same time as the Disclosure Initiative amendments and it is, in the IASB’s view, similar in nature. However, the Board chose to present this proposed amendment in a separate section of the ED to show the respective sources of the proposed amendments.

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