

STAFF PAPER

October 2014

IASB Meeting

Project	Disclosure Initiative		
Paper topic	Amendments to IAS 1: analysis on amendments arising from the Disclosure Initiative		
CONTACT(S)	Amy Bannister	abannister@ifrs.org	+44 (0)20 7246 6947
	Kristy Robinson	krobinson@ifrs.org	+44 (0)20 7246 6933

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper sets out our analysis and recommendations on the Exposure Draft *Disclosure Initiative: Proposed amendments to IAS 1 [Presentation of Financial Statements]*.

Structure of paper

2. This paper is structured as follows:
 - (a) background (paragraphs 3–6); and
 - (b) analysis, recommendations and questions for the IASB:
 - (i) ordering of the notes (paragraphs 7–18);
 - (ii) subtotals (paragraphs 19–33); and
 - (iii) other issues (paragraphs 34–41).

Background

3. In March the IASB issued an Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements*. The Exposure Draft proposed narrow-focus, clarifying amendments to address some of the perceived barriers to

the use of judgement when applying IAS 1. The Exposure Draft proposed amendments regarding:

- (a) materiality and aggregation;
- (b) disaggregation in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
- (c) subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
- (d) ordering of the notes; and
- (e) accounting policies.

4. The IASB received 118 comment letters on the Exposure Draft. The main feedback received was summarised in [Agenda Paper 11C for the IASB's September meeting](#).
5. Many respondents to the Exposure Draft were supportive of the project and the amendments. Many of the comments received related to drafting. However, there were some points raised by respondents that warrant further consideration by the IASB. Consequently, in this paper we have analysed these points to determine if and how they should be reflected in the final amendments.
6. Our assessment is that only items (c) *subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position* and (d) *ordering of the notes* justify separate reconsideration by the IASB. There was overwhelming support for the other proposals and, subject to minor drafting improvements, we recommend that the IASB finalise those amendments. (See from paragraph 34 for the specific points related to those items and paragraph 41 for the recommendation).

Analysis, recommendations and questions for the IASB

Ordering of the notes

Exposure Draft

7. Paragraph 113 of IAS 1 requires notes to be presented in a systematic manner. Paragraph 114 of IAS 1 goes on to state that:

An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

...

8. Some understood this paragraph as requiring a specific order for the notes. In particular, some thought that the word ‘normally’ represented a default order for the notes.
9. Consequently, the Exposure Draft proposed amendments to IAS 1 to:
- (a) emphasise that entities should consider the understandability and comparability of its financial statements when deciding the systematic order for the notes.
 - (b) clarify that entities have flexibility as to the systematic order for the notes, which does not need to be in the order listed in paragraph 114 of IAS 1. The Exposure Draft proposed to remove the word ‘normally’ and also include an example of an order of the notes based on importance or grouping of related items.

Feedback received

10. Most respondents were supportive of the amendments regarding the ordering of the notes. They suggested that flexibility in ordering the notes enables entities to emphasise and hence communicate important aspects of their financial position or financial performance better.
11. Many respondents also welcomed the amendment that allowed entities to group accounting policies together with the related notes.

12. However, users of financial statements respondents expressed mixed views. Although some users supported the proposed amendments, some users and one standard-setter did not. Those who did not support these proposed amendments were of the view that:
- (a) notes should have a standardised order, or a default order;
 - (b) the amendments indicated a preference for the order of the notes based on importance to the entity; and/or
 - (c) the amendments would result in changes in the order of the notes on a regular basis.
13. We discussed the mixed responses received from users of financial statements with the Accounting Standards Advisory Forum (ASAF) at its September 2014 meeting. An extract of the draft notes of that ASAF meeting is shown in Appendix A.

Staff analysis

14. When discussing proposing amendments to this paragraph the IASB concluded that paragraph 114 of IAS 1 was not intended to prevent entities from presenting their notes in ways other than by following the structure of the (primary) financial statements. Paragraph 114 of IAS 1 was intended to provide an example of how an entity could order its notes, albeit the most common approach at the time.
15. We think that the proposed amendments are clarifying in nature and do not change existing requirements. In fact, making the order set out in paragraph 114 mandatory would, in our view, be a substantive change to current requirements, which is contrary to what is trying to be achieved by these amendments.
16. However, we think that the amendments proposed in the Exposure Draft may have placed undue emphasis on suggesting that entities vary the order of the notes based on their importance. This seems to have been interpreted by some as the IASB promoting relative importance of the notes as being the preferred order, whereas the amendment was intended to be more neutral. In addition, some respondents think that this will lead to frequent changes to the order of the notes to reflect changes in importance.

17. We do not think that these amendments should promote one order of the notes over another, but should instead emphasise that entities need to use judgement when determining a systematic order of the notes.
18. In conclusion, we recommend that the IASB:
- (a) finalise, subject to drafting, the amendments regarding the ordering of the notes.
 - (b) draft the amendments in a way that emphasises that entities should use judgement when determining the order of their notes. The final amendments should not promote one way of ordering the notes over another.

Question 1—order of the notes

Does the IASB agree to finalise, subject to drafting, the amendments regarding the order of the notes?

Does the IASB agree that the amendments should be drafted in a way that emphasises that entities should use judgement when determining the order of their notes, and that the final amendments should not promote one way of ordering the notes over another?

Subtotals

Exposure Draft

19. The Exposure Draft proposed requirements for an entity when presenting subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position in accordance with paragraphs 55 and 85 of IAS 1. It proposed that subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position should be:
- (a) made up of items recognised and measured in accordance with IFRS;
 - (b) presented and labelled in a manner that makes what constitutes the subtotal understandable; and
 - (c) consistent from period to period.

20. In addition, the Exposure Draft proposed that subtotals in the statement(s) of profit or loss and other comprehensive income should ‘not be displayed with more prominence than the subtotals and totals specified in this IFRS [IAS 1]’.
21. The Exposure Draft also proposed, in paragraph 85B, that an entity shall reconcile any additional subtotals presented in the statement(s) of profit or loss and other comprehensive income with the subtotals required by IAS 1.

Feedback received

22. Some respondents suggested that the proposed requirements for presenting additional subtotals should also apply to the statement of cash flows. A few respondents suggested that the proposed requirements should also apply to the notes.
23. Some respondents suggested that the proposal that subtotals in the statement(s) of profit or loss and other comprehensive income should not be displayed with more prominence than other subtotals required by IFRS should also be included for the related proposals for the statement of financial position subtotal. They highlighted that subtotals are required for the statement of financial position, namely those in IFRS 14 *Regulatory Deferral Accounts*.
24. Some respondents were concerned with the proposal in paragraph 85B of the Exposure Draft to reconcile additional subtotals in the statement(s) of profit or loss and other comprehensive income with the subtotals required by IAS 1. Views expressed included that the proposal:
- (a) is unclear as to what is required, particularly what is meant by ‘each excluded item’;
 - (b) should permit the reconciliation of subtotals to be provided in the notes and not only in the statement(s) of profit or loss and other comprehensive income;
 - (c) would lead to unnecessary additional disclosure requirements;
 - (d) would lead to relevant and material information being obscured; and
 - (e) implies that ‘non-IFRS’ subtotals are encouraged.

Staff analysis

25. We can see merit in developing a general principle regarding subtotals that would cover the entire financial statements (including the statement of cash flows and the notes). The proposed requirements were intended to describe a fair presentation of subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. Fair presentation, as described in IAS 1, is a pervasive requirement applicable across IFRS and therefore the proposed principles for subtotals could apply more broadly.
26. However, we have the following reservations:
- (a) the amendments were proposed because of problems with subtotals in the statement of financial position and, in particular, the statement(s) of profit or loss and other comprehensive income. We had not heard similar problems about the presentation of subtotals in the statement of cash flows.
 - (b) in the Exposure Draft the requirements for subtotals were only proposed for the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There could be unintended consequences of making the scope of the guidance broader than what was proposed.
 - (c) in the Principles of Disclosure project we are developing principles that will seek to replace the disclosure requirements in IAS 1 and therefore the question whether to extend the guidance on subtotals to cover all parts of a complete set of financial statements may be better placed in that project.
27. On balance, we think that a principle for subtotals in financial statements generally could be useful; however, we consider that research and work on that principle would be better placed in the Principles of Disclosure project.
28. We agree with respondents that the requirements for subtotals should be consistent for both the statement(s) of profit or loss and other comprehensive and the statement of financial position. In particular, we agree that the requirement that subtotals should not be displayed with more prominence than IFRS-required subtotals should also apply to the statement of financial position.

29. Regarding feedback on the proposed introduction of paragraph 85B into IAS 1, the IASB proposed that additional subtotals should be reconciled to subtotals in IAS 1, because it thought that such reconciliation would help users of financial statements understand the relationship between any additional subtotals presented and the subtotals required by IAS 1.
30. We think that what was intended by this proposal was that any material items excluded from an additional subtotal presented in the statement(s) of profit or loss and other comprehensive income would be presented in that statement. An example showing subtotals in the statement of profit or loss and other comprehensive income is already included in the Guidance on implementing IAS 1:

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	<u>(245,000)</u>	<u>(230,000)</u>
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ¹	<u>35,100</u>	<u>30,100</u>
Profit before tax	161,667	128,000
Income tax expense	<u>(40,417)</u>	<u>(32,000)</u>
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	<u>—</u>	<u>(30,500)</u>
PROFIT FOR THE YEAR	121,250	65,500

31. In addition, we think that such a requirement is already covered by the materiality requirements in paragraph 29 of IAS 1:

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial. [The Exposure Draft proposed some amendments to this paragraph.]

32. Consequently, we think that it may be unnecessary to reproduce this requirement for subtotals in the statement(s) of profit or loss and other comprehensive income. Not including the proposals in paragraph 85B of the Exposure Draft would have the advantage that:
- (a) the subtotals amendments for the statements(s) of profit or loss and other comprehensive income and the statement of financial position are consistent; and
 - (b) there would no inconsistency/duplication with paragraph 30 of IAS 1 that materiality should determine whether entities disclose information as a line item in the statement(s) of profit or loss and other comprehensive income or in the notes.
33. In summary, we recommend that the IASB:
- (a) finalises, subject to drafting, the amendments for the subtotals requirements for the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
 - (b) makes the requirements for subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position consistent;
 - (c) *does not* extend the requirements for subtotals to other areas in the financial statements; and
 - (d) *does not* finalise the proposed amendment to paragraph 85B of IAS 1 regarding reconciling additional subtotals in the statement(s) of profit or loss and other comprehensive income to the IAS 1 required subtotals.

Question 2—subtotals

Does the IASB agree to finalise, subject to drafting, the amendments for the subtotals requirements for the statement(s) of profit or loss and other comprehensive income and the statement of financial position?

Does the IASB agree that the requirements for subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position should be consistent?

Does the IASB agree that it should *not* extend the requirements for subtotals to other areas in the financial statements?

Does the IASB agree that it should *not* finalise the proposed amendment to paragraph 85B of IAS 1 regarding reconciling additional subtotals in the statement(s) of profit or loss and other comprehensive income to the IAS 1 required subtotals?

Other issues

Exposure Draft

34. The Exposure Draft also proposed amendments regarding:
- (a) materiality;
 - (b) disaggregation of line items; and
 - (c) accounting policies.
35. The Exposure Draft proposed to amend the materiality requirements in IAS 1 (see paragraphs 29–31 of the Exposure Draft) to emphasise that:
- (a) entities shall not aggregate or disaggregate information in a manner that obscures useful information;
 - (b) the materiality requirements apply to the statement(s) of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows, the statements of changes in equity and the notes;
 - (c) when a Standard requires a specific disclosure, the resulting information shall be assessed to determine whether it is material and therefore whether presentation or disclosure of that information is warranted; and
 - (d) entities shall also consider whether information about matters addressed by a Standard need to be presented or disclosed to meet the needs of users of financial statements, even if that information is not included in the specific disclosure requirements of the Standard.
36. Paragraphs 54 and 82 of IAS 1 require entities to present specified line items in the statement(s) of profit or loss and other comprehensive income and the

statement of financial position respectively. The Exposure Draft proposed to amend those paragraphs to clarify that the presentation requirement for line items in those statements may be fulfilled by disaggregating a specified line item.

37. The Exposure Draft also proposed to remove the guidance in paragraph 120 of IAS 1 for identifying a significant accounting policy, including removing potentially unhelpful examples.
38. In addition, in the Exposure Draft the term ‘presentation’ was used to mean disclosure as a line item on the statement(s) of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity, and the term ‘disclose’ to mean disclosure in the notes. This was explained in paragraph BC7 of the Exposure Draft.

Feedback received and staff analysis

39. Many respondents provided drafting comments and suggestions. In our view these comments should not cause changes to the broad principles proposed and will be considered during drafting.
40. Some respondents raised other issues on the Exposure Draft that warrant further consideration by the IASB and we have summarised these, and our response, in the following table.

Area	Feedback	Staff analysis
Materiality	The Exposure Draft proposed that entities shall also consider whether other information not specifically required by IFRS needs to be presented or disclosed to meet the needs of users of financial statements. Some respondents suggested that this proposal was too broad and may not be operational. In addition, a few respondents suggested that it is unclear what is meant by ‘the needs of users’ in this instance.	<p>We think that the notion to disclose information not specifically required by IFRS is already captured in paragraph 17(c) of IAS 1.</p> <p>We think it is helpful to include the same notion in the materiality requirements in IAS 1, because it highlights that materiality includes decisions about both including and excluding information.</p> <p>We recommend that the wording for the requirement to disclose information not specifically required by IFRS should be amended to be consistent with paragraph 17(c) of IAS 1.</p>

Area	Feedback	Staff analysis
Disaggregation	Some respondents to the Exposure Draft suggested that it should be made clearer that the line items specified in paragraphs 54 and 82 of IAS 1 should only be provided when they are material, ie an entity does not need to present a line item if, for that entity, it is not material. Suggestions include adding ‘when they are material’ to the requirements.	<p>The materiality requirements are set out in paragraphs 29–31 of IAS 1. Those requirements apply to all Standards, including the list of line items to be presented in paragraphs 54 and 82 of IAS 1.</p> <p>We do not think that we should reference materiality for the requirements in paragraphs 54 and 82 of IAS 1, because materiality is not referenced in other disclosure requirements in IFRS. Doing so could cause confusion as to when materiality applies to those other disclosure requirements.</p>
Accounting policies	Some respondents suggested that the first sentence of paragraph 120 of IAS 1 should be retained. That sentence states ‘Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity’. Some respondents suggested that the sentence provides useful guidance and its removal could increase the use of boilerplate disclosures.	<p>We agree that the first sentence could be helpful for entities when considering which accounting policies to disclose.</p> <p>We also think that the amendments should be limited to removing the unhelpful accounting policy examples from IAS 1, and any further potential guidance on accounting policy disclosures should be considered in the Principles of Disclosure project. (The IASB tentatively decided to include a discussion on accounting policy disclosures in the Principles of Disclosure Discussion Paper at its September 2014 meeting.)</p> <p>Consequently, we recommend that the first sentence of paragraph 120 of IAS 1 should be retained.</p>
Terminology—presentation and disclosure	<p>Some respondents suggested that the terms ‘presentation’ and ‘disclosure’ have not been used consistently throughout IAS 1 and they suggested that IAS 1 should be reviewed with the purpose of making their use consistent.</p> <p>A few respondents suggested that changes to the terminology of presentation and disclosure are fundamental and should not just be in the Basis for Conclusions of the proposed amendments.</p>	<p>We agree that the Exposure Draft and IAS 1 do not use the terms presentation and disclosure consistently.</p> <p>We agree with respondents that the use of the terms in IAS 1 should be reviewed.</p> <p>However, this is a more pervasive problem that could be considered as we develop the Principles of Disclosure Discussion Paper.</p> <p>In finalising these amendments, we will ensure that we do not exacerbate this confusion.</p>

41. We think that the IASB should finalise the other amendments proposed in the Exposure Draft, ie the amendments regarding materiality, disaggregation and accounting policies, subject to drafting, and the recommendations set out in the table in paragraph 40.

Question 3—other issues

Does the IASB agree to finalise the other Disclosure Initiative amendments proposed in the Exposure Draft, subject to drafting, and with the staff analysis and recommendations set out in the table in paragraph 40?

Appendix A—an extract from the draft notes of the September 2014 ASAF meeting

- A1. The IASB staff provided a brief introduction, noting that the feedback received on the Exposure Draft was generally positive. The IASB asked for ASAF members' views on the ordering of the notes to the financial statements. The IASB was asking for this because responses from investors had been mixed as to whether any order should be specified at all.
- A2. Some ASAF members were of the view that comparability should take precedence over flexibility. These members were concerned that flexibility makes it difficult for users to locate information and compare information between reporting periods and/or between entities.
- A3. Other ASAF members were of the view that flexibility offers preparers scope to give prominence to important information.
- A4. A number of ASAF members suggested the use of cross-referencing within the notes to enhance their understandability and added that encouraging the use of indexing or of a table of contents would be helpful to the users.
- A5. One member explicitly mentioned that wider use of XBRL would make comparisons and location of information easier, regardless of its exact positioning or ordering within the financial statements.