STAFF PAPER

13–14 May 2014

IFRS Interpretations Committee Meeting

IFRS IC January 2014

Project	**Finalisation of agenda decision**
Paper topic	IAS 1 *Presentation of Financial Statements*—Issues related to the application of IAS 1

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Introduction

1. In January 2014, the IFRS Interpretations Committee (the 'Interpretations Committee') published a tentative agenda decision not to add to its agenda a request to clarify the application of some of the presentation requirements in IAS 1 *Presentation of Financial Statements*.

2. The submitter had expressed a concern about:

   (a) the absence of definitions in IAS 1;

   (b) the lack of implementation guidance in IAS 1; and

   (c) the fact that IAS 1 was giving significant flexibility to the preparation of financial statements, which the submitter considered could impair the comparability and understandability of financial statements.

3. The particular areas of the guidance in IAS 1 in which the submitter showed concern were:

   (a) presentation of expenses by function;

   (b) presentation of additional lines, headings and subtotals;

(c) presentation of additional statements or columns in the primary statements; and

(d) application of the materiality and aggregation requirements.

4. The Interpretations Committee noted that while IAS 1 does permit flexibility in presentation, it also includes various principles for the presentation and content of financial statements as well as more detailed requirements that are relevant to the submitter's concerns.

5. The Interpretations Committee further noted that the IASB's Disclosure Initiative project is currently discussing some proposed amendments to IAS 1 that would clarify the presentation of totals and subtotals and the concept of materiality in the context of specific disclosure requirements.[1]

6. On the basis of the existing principles in IAS 1 and the fact that some of the issues raised have been brought to the attention of the IASB during the Agenda Consultation and have been discussed as part of the IASB's Disclosure Initiative project, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and, consequently, decided to issue a tentative agenda decision that can be found in the IFRIC Update of January 2014.

Purpose of the paper

7. The purpose of this paper is to:

(a) provide an analysis of the comments received on the tentative agenda decision; and

(b) set out the wording for the final agenda decision (see Appendix A).

[1] The IASB published the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1). Comments are to be received by 23 July 2014.

Comment letter analysis

8. The comment period for the tentative agenda decision ended on 14 April 2014. We received **four** responses. These comment letters are attached to this paper.

9. All respondents agreed in general with the Interpretations Committee's decision not to add the issue raised on IAS 1 onto its agenda for the reasons set out in the tentative agenda decision.

10. Nevertheless, a majority of respondents raised some concerns on the Interpretations Committee's view in the tentative agenda decision regarding the inclusion of additional columns in the financial statements. In this respect the Interpretations Committee noted that:

> IAS 1 requires the presentation of additional information in the notes when this information is not presented elsewhere in the financial statements and it is relevant to an understanding of any of the financial statements (as set out in paragraph 112(c) of IAS 1). The Interpretations Committee noted that the addition of pro forma columns to the primary statements would be unlikely to meet this requirement.

11. We have summarised their comments in this respect in the following paragraphs.

The meaning of the term 'pro forma'

12. Two respondents (PwC and ESMA) think that the reference to the term 'pro forma' in the tentative agenda decision might be misunderstood, because there are different interpretations of this term and they recommend the Interpretations Committee to change it.

13. One of these respondents (PwC) observes that the term 'pro forma' has two different meanings:

    (a) 'pro forma' is a broad term that captures any adjustment to the measures defined by IFRS; for example, presenting in the income statement a measure of profit that excludes non-recurring items or charges.

(b) ‘pro forma’ refers to ‘hypothetical information in the primary financial statements’; for example, a column presenting results as if a business combination was completed on the first day of the year. This respondent thinks that this meaning should be reflected in the final agenda decision.

The presentation of additional columns

14. One respondent (Deloitte) disagrees with the view that the inclusion of additional columns in the financial statements is precluded by IAS 1, because it observes that the inclusion of additional columns in the statement of profit or loss and other comprehensive income is:

(a) common in some jurisdictions; and

(b) consistent with:

(i) paragraph 85 of IAS 1, which allows the inclusion of additional line items, headings and subtotals when such presentation is relevant; and

(ii) paragraphs 97–98 of IAS 1, which allow an entity to present separately material items of income and expense.

15. Two respondents (Deloitte and ESMA) disagree with the reference to paragraph 112(c) of IAS 1 and think that:

(a) the reference to paragraph 112(c) should be replaced with a reference to paragraph 10 of IAS 1, which defines a complete set of financial statements (ESMA); and

(b) the reference to paragraph 112 (c) relates specifically to the notes to the financial statements and not to the presentation of additional columns in the primary financial statements (Deloitte).

Other comments

16. One respondent (ESMA) suggests that the discussion about the presentation of additional lines, headings and subtotals includes a reference to the presentation of

operating income as a common subtotal that is presented in the statement of profit or loss.

17. Another respondent (Accounting Standards Committee of Germany) disagrees with the approach taken by the tentative agenda decision to prescribe guidance for particular issues (and more specifically, on concluding that pro-forma columns in the primary financial statements are unlikely to comply with paragraph 112(c) in IAS 1). This respondent thinks that the IASB's Disclosure Initiative should deal more comprehensively with the presentation of pro-forma information as well as with the presentation of particular items (ie the presentation of amortisation and impairment losses, or the presentation of the share of profit or loss of associates and joint ventures accounted for using the equity method).

18. In addition, this respondent observes that the IASB's Disclosure Initiative should clarify and/or provide additional guidance on the issues raised in the original submission and suggests that the agenda decision explicitly states that the IASB should address specific issues raised in the submission as part of the Disclosure Initiative; for example, the interaction with interim financial reporting and segment reporting.

Staff analysis

The presentation of additional statements or columns

The meaning of the term 'pro forma'

19. We acknowledge that the term 'pro forma' could have a different meaning for different people. We agree that the term 'pro-forma information' should be clarified in the tentative agenda decision to mean 'hypothetical information in the primary financial statements' because this is the way in which we think the Interpretations Committee used the term in its discussion in January 2014.

The presentation of additional columns in the primary financial statements

20. We concur with the respondent's view that the presentation of additional columns in the statement of profit or loss and other comprehensive income is not precluded

in IAS 1 as long as this information is relevant to understand the financial performance in accordance with paragraph 85 of IAS 1.

21. We further observe that paragraph 55 of IAS 1 contains a similar requirement to paragraph 85 of IAS 1 for the statement of financial position, because an entity presents additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to understanding the entity's financial position.

22. We observe that in applying the requirements in paragraphs 55 and 85 of IAS 1, an entity could decide to add information down or across the primary financial statements to provide a further disaggregation of the entity's actual results or financial position.

23. However, we observe that including pro forma information (i.e. hypothetical information) in an additional column to the financial statements does not meet the requirements in IAS 1, because this information is not based on past events and consequently, it is not relevant to understanding an entity's financial performance or financial position.

24. Consequently, we think that on the discussion about the presentation of additional columns on the face of the primary financial statements, the tentative agenda decision should mention that:

    (a) the principle in paragraphs 55 and 85 of IAS 1 for the presentation of additional line items, headings and subtotals is that an entity should provide information that is relevant to understanding an entity's financial position and financial performance.

    (b) hypothetical information is information that is not based on past events and, consequently, it is not relevant to understanding an entity's financial performance or financial position.

The presentation of additional statements

25. We concur with those respondents who think that the reference to paragraph 112(c) of IAS 1 on the discussion of additional statements in the primary financial

statements is not adequate, because this paragraph refers to the disclosure of relevant information in the notes to the financial statements if that is information is not presented 'elsewhere' in the primary financial statements.

26. Instead, we think that the tentative agenda decision should refer to the guidance in paragraph 10 of IAS 1. We observe that paragraph 10 of IAS 1 defines what constitutes a complete set of financial statements. This paragraph states that a complete set of financial statements comprises the financial statements and the notes to the financial statements (as well as comparative information in respect of the preceding period and a statement of financial position as at the beginning of the preceding period).

27. Consequently, we think that the rationale that should be used in the agenda decision to preclude the inclusion of additional statements that are not part of a complete set of financial statements should be the guidance in paragraph 10 and not the guidance in paragraph 112(c) of IAS 1.

Other comments

28. We agree with the inclusion of a reference to the presentation of the subtotal on operating income within the section that discusses the presentation of additional lines, headings and subtotals. We think that operating income is commonly in the statement of profit or loss despite not being required by IAS 1 or defined by this Standard.

29. Regarding the view expressed by one of the respondents that the tentative agenda decision should not prescribe guidance for particular issues, we observe that the tentative agenda decision is highlighting the various principles for the presentation of information according to IAS 1; in a couple of cases, the tentative agenda decision provides some examples on the application of such principles.

30. Moroever, we understand that the IASB's Disclosure Initiative is considering narrow-scope amendments to IAS 1 to address some of the concerns raised at the

Discussion Forum as well as other IAS 1 proposals that have been discussed by the Interpretations Committee.[2]

31. The Disclosure Initiative recently published for public comment an Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1), outlining proposed amendments to IAS 1. We observe that this Exposure Draft addresses the presentation of totals and subtotals and the concept of materiality but does not address any of the other areas brought to the attention of the Interpretations Committee.

32. Furthermore, we observe that the IASB Update and the Disclosure Initiative's website provide up-to-date information about the extent of the IASB's discussions on IAS 1 and for this reason we do not think that the tentative agenda decision should provide further detail in this respect.

Staff recommendation

33. On the basis of this analysis, we propose to the Intepretations Committee that the section in the agenda decision that discusses the presentation of additional lines, headings and subtotals should include a reference to the presentation of the subtotal on operating income. We observe that this subtotal is commonly presented in the statement of profit or loss and other comrpehensive income despite not being required by IAS 1 or defined by this Standard.

34. We recommend that the section addressing the presentation of additional lines, headings and subtotals includes a reference to paragraph 55 of IAS 1 to note the requirements for the presentation of additional line items, headings and subtotals in the statement of financial position. This would supplement the reference to paragraphs 85–86 of IAS 1 (already included in the tentative agenda decision), which contain similar requirements for the statement of profit or loss and other comrpehensive income.

[2] This is described as part of the Disclosure Initiative's short term project. See: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx

35. We also recommend the Interpretations Committee to split the section on the ‘presentation of additional statements or columns in the primary financial statements’ into two as follows:

(a) one section will address the presentation of additional columns in the primary statements; and

(b) the other section will address the presentation of additional statements.

36. On the discussion about the presentation of additional columns on the face of the primary financial statements, we propose that the tentative agenda decision should mention that:

(a) the principle in paragraphs 55 and 85 of IAS 1 for the presentation of additional line items, headings and subtotals is that an entity should provide information that is relevant to understanding an entity’s financial position and financial performance.

(b) adding columns to the primary financial statements to reflect hypothetical information is unlikely to meet the requirements in IAS 1 because this information is not based on past events and, consequently, it is not relevant to understand an entity’s financial performance or financial position. Consequently, it should not be part of the primary financial statements.

37. We propose that in the section dicussing the presentation of additional statements, the Interpretations Committee notes that paragraph 10 of IAS 1 defines what constitutes a complete set of financial statements and that the presentation of information beyond the requirements in this paragraph would not be considered to meet the requirements in IAS 1.

38. We also think that the penultimate paragraph in the tentative agenda decison should be updated to reflect the publication of the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1), which outlines proposed amendments to IAS 1. We think that the tentative decision could observe that this Exposure Draft addresses the presentation of totals and subtotals and the concept of materiality in the context of specific disclosure requirements.

39. We have set out the wording for the final agenda decision in **Appendix A** of this paper.

Questions for the Interpretations Committee

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with our recommendations to finalise the agenda decision? 2. Does the Interpretations Committee agree with the revised wording proposed for the agenda decision in Appendix A of this paper?

Appendix A—Tentative agenda decision

A1. We propose the following wording for the agenda decision showing changes from the tentative agenda decision. Deleted text is struck through and new text is underlined.

IAS 1 *Presentation of Financial Statements*—issues related to the application of IAS 1

The Interpretations Committee received a request to clarify the application of some of the presentation requirements in IAS 1 Presentation of Financial Statements. The submitter expressed a concern that the absence of definitions in IAS 1 and the lack of implementation guidance give significant flexibility that may impair the comparability and understandability of financial statements. The submitter provided examples in the following areas:

- presentation of expenses by function;
- presentation of additional lines, headings and subtotals;
- presentation of additional statements or columns in the primary statements; and
- application of the materiality and aggregation requirements.

The Interpretations Committee noted that IAS 1 addresses the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The Interpretations Committee also noted that while IAS 1 does permit flexibility in presentation, it also includes various principles for the presentation and content of financial statements as well as more detailed requirements. These principles and more detailed requirements are intended to limit the flexibility such that these principles and requirements provide transparency in the financial statements. The Interpretations Committee identified some of the principles and guidance in IAS 1 that are relevant to the submitter's concerns. In particular paragraph 15 of IAS 1 sets out the overall requirement for a fair presentation. Among other things, this requires an entity to comply with applicable IFRSs and, in accordance with paragraph 17 of IAS 1:

(a) to select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Regarding the more specific issues raised:

- presentation of expenses by function: the Interpretations Committee noted that paragraph 99 of IAS 1 requires an entity to choose between presenting an analysis of expenses, by a classification based on either their nature or their function, on the basis of whichever provides information that is reliable and more relevant. The Interpretations Committee further noted the requirements of paragraph 104 of IAS 1 for entities classifying expenses by function to disclose additional information on the nature of the expense and observed that, when items of income and expense are material, an entity shall disclose their nature and amount separately in accordance with paragraph 97 of IAS 1.
- presentation of additional lines, headings and subtotals: the Interpretations Committee noted that paragraphs 85 and 86 of IAS 1 require an entity to present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other

comprehensive income when such presentation is relevant to understanding the entity's financial performance and assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity also considers factors including materiality and the nature and function of the items of income and expense. The Interpretations Committee observed that operating income is a subtotal that is commonly presented despite not being required in IAS 1 or defined by this Standard. Furthermore paragraph 55 of IAS 1 requires an entity to present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to understanding the entity's financial position.

- presentation of additional ~~statements or~~ columns in the primary statements: the Interpretations Committee noted ~~that IAS 1 requires the presentation of additional information in the notes when this information is not presented elsewhere in the financial statements and it is relevant to an understanding of any of the financial statements (as set out in paragraph 112(c) of IAS 1)~~ the requirements in paragraphs 55 and 85 of IAS 1 regarding the presentation of additional line items, headings and subtotals in the financial statements and observed that that an entity should provide information that is relevant to understand an entity's financial position and financial performance. The Interpretations Committee further noted that adding ~~the addition of pro forma~~ columns to the primary statements ~~would be unlikely to meet this requirement~~ to reflect 'hypothetical information' is unlikely to meet the requirements in IAS 1 because this information is not based on past events and, consequently, it is not considered relevant to understand the performance or financial position of an entity and should not be part of the primary financial statements.
- presentation of additional statements: the Interpretations Committee noted that paragraph 10 of IAS 1 defines what constitutes a complete set of financial statements and observed that the presentation of information beyond the requirements in this paragraph would not be considered to meet the requirements in IAS 1.
- materiality and aggregation: the Interpretations Committee noted in accordance with 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". It also observed that in accordance with paragraph 31 of IAS 1, "an entity need not provide a specific disclosure required by an IFRS if the information is not material".

The Interpretations Committee further noted that the IASB's Disclosure Initiative recently published for public comment an Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1), outlining proposed amendments to IAS 1. This Exposure Draft addresses the presentation of totals and subtotals and the concept of materiality in the context of specific disclosure requirements.

On the basis of the existing principles in IAS 1 and the fact that some of the issues raised have been brought to the attention of the IASB during the agenda consultation and have been discussed as part of the IASB's Disclosure Initiative project, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard should be made and consequently ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B – comment letters submitted

(included in the following page)

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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7 April 2014

Dear Mr Upton

Tentative agenda decision - IAS 1 *Presentation of Financial Statements*: Issues relating to the application of IAS 1

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of some of the presentation requirements of IAS 1.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. However, we do not believe that paragraph 112(c) of IAS 1 (which relates specifically to the notes to the financial statements) is relevant to the presentation of additional columns in the primary statements.

The inclusion of additional columns in the statement of profit or loss and other comprehensive income (which is common, accepted practice in some jurisdictions) is not currently precluded by IAS 1 and might reasonably be considered consistent with the practice required by paragraph 85 of IAS 1 of including additional line items, headings and subtotals when such a presentation is relevant to an understanding of financial performance and the requirement of paragraphs 97 and 98 of IAS 1 to present separately material items of income and expense. If the committee believes that such a presentation should not be permitted, we recommend that an amendment to IAS 1 to this effect be proposed as part of the IASB's Disclosure Initiative project.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Deloitte.

Yours sincerely

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Wayne Upton
Chairman of the
IFRS Interpretations Committee
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Berlin, 7 April 2014

Dear Wayne,

IFRS IC tentative agenda decisions in its January 2014 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several IFRS IC tentative agenda decisions, published in the January 2014 *IFRIC Update*. We list the decisions and our detailed comments in appendix A to this letter.

Further, we comment on one issue on which a final agenda decision has been made (see appendix B). We are particularly concerned about the short and probably incomplete rationale for this (final) decision as conveyed in the *IFRIC January 2014 Update*.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

Appendix A – Comments on recent tentative agenda decisions

IAS 1 – Issues related to the application of IAS 1

We agree with the IFRS IC's decision in general. In particular, we agree with the rationale that IAS 1 is designed to allow for diversity in practice, as this supports financial information to be presented in a decision-useful manner – depending on the individual entity and/or business. Thus, diversity cannot be marked as negative in all cases; it is rather essential to allow for individually useful presentation.

This said, we would not support if specific presentation formats, (dis)aggregation levels, etc. were mandated and fixed. This might be in the particular interest of some constituents, but not in the interest of IFRS financial reporting in general. Any change requiring more prescriptive presentation schemes would have to be the outcome of a comprehensive project to revise IAS 1.

However, to our understanding the IFRS IC makes a judgement on one particular issue amongst the numerous issues mentioned in the submission. If we understand it correctly, the IFRS IC concludes that additional pro-forma columns in the primary statements are unlikely to comply with IAS 1.112(c). We deem this statement being made unintentionally; otherwise it would conflict with the central idea of the general decision of not prescribing specific presentation. This might warrant amending the wording of this decision.

Nevertheless, we think there are indeed some examples for which (existing or expected) diversity might not be in line with IAS 1. However, it is difficult to determine for which particular issue diversity is deemed appropriate (and which, thus, may not be restricted by IAS 1) and for which it is not. In the examples given in the submission, we acknowledge that:

- example a.1) ("presentation of amortisation and impairment losses on capitalised development cost") would demonstrate that there were circumstances where a required way of presentation would be appropriate;
- example b.3) ("presentation of the share of profit or loss of associates or and joint ventures accounted for using the equity method") would demonstrate that there were circumstances (e.g. different subsidiaries within a group presenting it differently) where a required single-line presentation would not be appropriate.

Thus, we would support if clarification or guidance on these or any other examples were developed only through a more comprehensive review, e.g. as part of the current disclosure initiative. The IASB and the IFRS IC should ensure that such clarification or guidance is not developed only for selected issues that have been raised incidentally through a submission, but rather on a systematic manner.

IAS 12 – Recognition and measurement of DTA when an entity is loss-making

We do not support the outcome of recent discussions of issue #2 in the respective submission, which is whether a deferred tax asset (DTA) shall be recognised at a restricted amount when there is a legal "minimum taxation restriction". Whilst we acknowledge that this is not yet a tentative agenda decision (TAD), we deem our early comments being appropriate since a TAD on the related issue #1 of the very same submission has already been made by the IFRS IC. That former TAD (and its rationale) on issue #1 in particular make the outcome from recent discussions of issue #2 look surprising, or even inconsistent.

As a matter of fact, we note that in our jurisdiction tax law limits the extent to which tax losses can be recovered against future profits, i.e. only 60 % of future profits can be utilised for deducting tax losses carried forward in any given year. Thus, the issue is relevant and widespread. Recognition of a DTA without limitation (resulting from minimum taxation) is the predominant practice.

We note that a minimum taxation by tax law would not apply (ie. does not have any implication) in case future losses were expected. Thus, it appears inappropriate if in that case the amount to be recognised as a DTA was restricted.

However, due to the main underlying rationale for the IFRS IC's decision on issue #1 – which we clearly support –, the expectation of tax losses (or taxable profits) is not taken into account when determining the amount of a DTA to be recognised. Hence, recognising a DTA solely depends on the existence of reversing taxable temporary differences (being a deferred tax liability (DTL)), irrespective of whether future tax losses are expected. Thus, even in loss-making periods a DTA would be recognised in full, provided that a DTL was available.

If this rationale was carried over to issue #2, since future tax losses (or profits) were not taken into consideration, taxable temporary differences that allowed for recognising a DTA should not be limited to a certain percentage due to a minimum taxation requirement.

From a conceptual perspective, the decision on both issues should primarily depend on the existence of a DTL and not on the availability of future taxable profits or tax losses. As this is the underlying rationale for the TAD on issue #1, it should, consequently, result in supporting view 2 (or 1B) for issue #2 – which would be that a DTA is recognised without limitation by minimum taxation.

To summarise our reservations: It appears, as confirmed by the IFRS IC in its TAD on issue #1, that IAS 12 applies a formalistic approach in assessing the recognition of DTAs when DTLs are recognised at the same time. If sufficient DTLs were recognised one would not have to assess whether sufficient taxable amounts would be available against which the DTAs could be used. This implies that the actual tax impact in the year when the temporary difference reverses is not relevant as long as there are sufficient DTLs recognised. This becomes especially clear, when the DTA results from a tax loss carry-forward, as those unused losses cannot be used if no sufficient taxable income is available. From our point of view, the same formalistic approach needs to be applied in a tax regime where there is a minimum tax restriction. Otherwise, the recognition of a DTA, when actually tax losses are expected, would depend on the arbitrary assumption of the actual tax implications when no tax losses are expected under this tax regime. So far, the current decisions on both issues do not follow the same rationale and are, thus, inconsistent with each other.

IAS 12 – Threshold of recognition on an asset if the tax position is uncertain

We support the decision. However, the question being answered here is also relevant in other circumstances, which look similar but are not within the scope of IAS 12 – i.e. taxes other than *income* taxes. The IFRS IC's decision leaves open how to account for these issues. While discussing similar issues, another (third) view has emerged: Payments to escrow accounts or deposits in court are similar to a deposit and would constitute a financial asset; hence, IAS 39 / IFRS 9 would likely be the relevant standard in these circumstances, and they require recognition of an asset.

IAS 19 – Guaranteed return on contributions or notional contributions

We note the IFRS IC's view that this issue is too broad to be addressed in an efficient manner. Nevertheless, as the IFRS IC observed, these plans are part of a growing range of plan designs and the accounting for these plans results in diversity in practice. Therefore, we would welcome guidance on how to account for these plans.

This issue is the second IAS 19 issue recently removed from the IFRS IC's agenda because it was deemed too broad to be addressed by the IFRS IC. In addition, there are other issues relating to IAS 19 that are, or have recently been, under discussion (e.g. discount rates, regional market issue, etc.). This shows that a more fundamental review of IAS 19 by the IASB is warranted in the near future. Thus, we urge the IASB to carry out a comprehensive review of IAS 19 rather than a piecemeal approach.

Furthermore, we suggest that the IASB clearly define the scope of issues the IFRIC IC is able to solve. This should allow for a process that leads to answering issues rather than rejecting them for formal reasons; and it may result in adjustments to the due process handbook in order to clarify the borderline of responsibilities between the IASB and the IFRS IC, either in a general sense or, at least, with regard to potential minor "narrow-scope amendments" and/or interpretations.

Appendix B – Comments on a recent (final) agenda decision

IAS 32 – MCB convertible upon a contingent "non-viability" event

We basically support the IFRS IC's decision not to add this issue to its agenda. In our opinion, though, the decision is not well explained. We do not agree with the wording of the agenda decision as it does not include any statement by the IFRS IC on how to account for the submitted case. So far, it remains unclear whether the instrument may be considered a hybrid instrument and how its components (notional amount, interest payments) are to be accounted for.

More generally, we note that numerous requests with respect to IAS 32 have been submitted to the IFRS IC during the recent years. In our impression, these issues have been dealt with in a casuistic manner. Thus, we are concerned about IAS 32 related interpretations and decisions being inconsistent. Therefore, we recommend the IFRS IC to deliberate further whether the recent decision on the issue mentioned above is consistent with other interpretations/decisions made by the IFRS IC regarding IAS 32.

pwc

Mr Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
30 Cannon Street
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14 April 2014

Dear Mr Stewart

Tentative agenda decision: IAS 1 Presentation of Financial Statements—issues related to the application of IAS 1

We are responding to the invitation to comment on the above Tentative Agenda Decision, published in the January 2014 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Tentative Agenda Decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee's decision not to take this item onto the agenda because the issues presented in the submission are currently being considered in the IASB's ongoing Disclosure Initiative. We are however concerned that the reference to 'pro forma' in the tentative agenda decision in the discussion about the presentation of additional statements or columns in the primary statements might be misunderstood.

Some understand the term 'pro forma' to be limited to hypothetical financial information prepared to provide users additional information on potential transactions or transactions after the reporting date, for example, in advance of a planned acquisition or change in capital structure. Others understand 'pro forma' to be broader, capturing any adjustment to the measures defined by IFRS, for example, presenting in the income statement a measure profit that excludes non-recurring items or charges.

We understand that the term 'pro forma' in the tentative agenda decision is intended to capture the former, that is, it is limited to hypothetical financial information. We therefore suggest the following clarification to reflect that intention:

> The Interpretations Committee noted that ~~the addition of pro forma columns to the primary statements~~ the presentation of hypothetical information in the primary statements, for example, a column presenting results as if a business combination was completed on the first day of the year, would be unlikely to meet this requirement.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins (020 7804 2497).

Yours sincerely

PricewaterhouseCoopers International Ltd.

esma European Securities and Markets Authority

The Chair

23 April 2014
ESMA/2014/426

Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
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United Kingdom

Re: The IFRS Interpretations Committee's tentative agenda decision on IAS 1 - *Presentation of financial statements*: issues related to IAS 1

Dear Mr. Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IFRS Interpretations Committee's (IFRS IC) tentative decision not to add to its agenda the request it received from ESMA to clarify the application of IAS 1 – *Presentation of financial statements* in relation to some presentation requirements[1], on the basis of existing IAS 1 principles of and the fact that some of the issues raised have been brought to the attention of the International Accounting Standards Board (IASB) during its agenda consultation and have been discussed as part of the IASB's *Disclosure Initiative* project.

ESMA concurs with the IFRS IC assessment that the issues should be addressed by the IASB and welcomes that the IASB already included some of them in the Exposure Draft ED/2014/1 – *Disclosure Initiative – Proposed Amendments to IAS 1*, issued in March 2014.

ESMA strongly believes that clarification and/or additional guidance on the elements included in our submission is needed in order to ensure the consistent application of IFRS. Given the significant divergence in practice observed, ESMA is of the view that all the issues raised should be considered and ad-

[1] Letter: Agenda item request: Issues related to the application of IAS 1 - *Presentation of financial statements*, European Securities and Markets Authority, ESMA/2013/1555, 30 October 2013

dressed comprehensively as part of the *Disclosure Initiative* project on a timely basis. The IFRS IC should consider especially the issues related to the presentation of the income statement and provide authoritative guidance on the application of materiality in financial reporting.

Regarding the tentative agenda decision itself, ESMA supports the analysis of the specific requirements of IAS 1 but would suggest the following drafting changes:

- In relation to the presentation of subtotals, ESMA suggests to add a reference in the agenda decision to the arguments put forward in paragraph BC 56 of IAS 1 as operating income is a subtotal that is often used in the IFRS financial statements;
- With regards to the presentation of additional statements or columns in the primary financial statements, ESMA suggests to add a reference to paragraph 10 of IAS 1 and to provide the staff analysis, concluding that IAS 1 defines a complete set of financial statements and it does not allow adding additional statement(s) to the primary statements, in the decision. Furthermore, ESMA considers that the addition of 'pro-forma columns' to the primary statements will unlikely meet the requirements of paragraph 112(c) of IAS 1. However, ESMA believes that the term 'pro-forma' used in the wording of the tentative agenda decision should be replaced as this term has another specific meaning in some legal environments (such as the European Union). Its use in this context could lead to confusion;
- ESMA would prefer that the agenda decision explicitly states that the IASB should address specific issues raised in the submission, as e.g. interaction with interim financial reporting and segment reporting are part of the Disclosure Initiative.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

Cc: Hans Hoogervorst, Chairman, International Accounting Standards Board