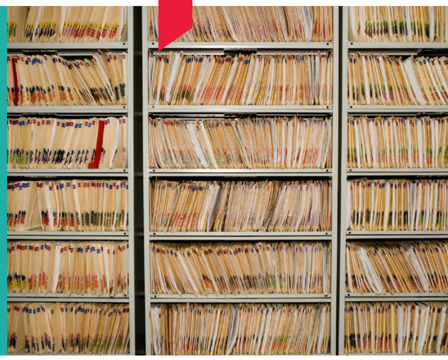
EXPOSURE DRAFT – DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 1)
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/03



Summary

The International Accounting Standards Board (IASB) has issued Exposure Draft 2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (the ED) for public comment.

The ED proposes amendments to a number of aspects of IAS 1 *Presentation of Financial Statements*. Areas addressed in the proposals include:

(a) Materiality

- Aggregation or disaggregation should not obscure useful information. Materiality applies to each of the primary financial statements, the notes and each specific disclosure required by IFRSs.

(b) Line items in primary financial statements

- Additional guidance for the list of line items required to be presented in primary statements, in particular that it may be appropriate for these to be disaggregated, and new requirements regarding the use of subtotals.

(c) Notes to the financial statements

- Determination of the order of the notes should include consideration of understandability and comparability of financial statements. The order listed in paragraph 114 of IAS 1 is illustrative only.

(d) Accounting policies

- Removal of the examples in paragraph 120 of IAS 1 in respect of income taxes and foreign exchange gains and losses.

In addition, the ED also includes the following proposal which arose from a submission received by the IFRS Interpretations Committee:

(e) Equity accounted investments

- An entity's share of other comprehensive income would be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

The proposals are open for comment until 23 July 2014.

STATUS
Exposure Draft

EFFECTIVE DATE
To be confirmed

ACCOUNTING IMPACT
May result in changes to the presentation of an entity's financial statements.

Changes proposed for the presentation of an entity's share of other comprehensive income from investments in associates and joint ventures.

Background

As a result of the IASB's *Agenda Consultation 2011*, the IASB received requests to review the disclosure requirements within the existing standards and to develop a disclosure framework.

The IASB has considered elements of presentation and disclosure as part of its revision of the *Conceptual Framework for Financial Reporting*. In addition, and to complement the work being done in relation to the *Conceptual Framework* project, the IASB started its *Disclosure Initiative* project during 2013.

The proposals within the ED have resulted predominately from decisions made during the *Disclosure Initiative* project, with one additional proposal, regarding the presentation of an entity's share of other comprehensive income (OCI) from equity accounted interest in associates and joint ventures, arising from a submission received by the IFRS Interpretations Committee.

Because these issues were similar in nature, and were considered by the IASB concurrently, they have been included within a single exposure draft.

Summary of the proposals

The ED proposes a number of narrow-scope amendments to IAS 1 to address concerns expressed by constituents about the existing presentation and disclosure requirements and to encourage entities to use judgement in the application of IAS 1 when considering the layout and content of their financial statements.

In addition, the ED also includes an amendment to the presentation of an entity's share of other comprehensive income (OCI) from its equity accounted interests in associates and joint ventures. The proposals would require an entity's share of other comprehensive income to be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

This would result in amendments to various paragraphs of IAS 1:

a) Materiality and aggregation (paragraphs 29 to 31)

b) Statement of financial position (paragraphs 54 to 55A), and statement of profit or loss and other comprehensive income (paragraphs 82 and 85 to 85B)

c) Notes to the financial statements (paragraphs 112 to 116)

d) Accounting policies (paragraphs 117 to 121)

e) Equity accounted investments (paragraph 82A).

a) Materiality and aggregation

The amendments to the materiality requirements in IAS 1 emphasise that:

- Information is not to be aggregated or disaggregated in a manner that obscures useful information
- The materiality requirements apply to the
  - Statement(s) of profit or loss and other comprehensive income
  - Statement of financial position
  - Statement of cash flows
  - Statement of changes in equity
  - Notes to the financial statements.
- In addition, when a standard requires a specific disclosure, that disclosure would be assessed to determine whether it is material and consequently whether presentation or disclosure is warranted.

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

The ED proposes amendments to:

- Clarify that the presentation requirements for line items may be fulfilled by disaggregating a specific line item, and
- Introducing new requirements for an entity when presenting subtotals in accordance with paragraphs 55 and 85 of IAS 1.

c) Notes

The IASB proposes to amend the requirements regarding the structure of the notes by:

- Emphasising that understandability and comparability of financial statements should be considered by an entity when deciding the systematic order for the notes
- Clarifying that entities have flexibility as to the systematic order for the notes, which does not necessarily to be in the order listed in paragraph 114 of IAS 1.

d) Disclosure of accounting policies

The ED proposes to remove the examples in paragraph 120 of IAS 1 of accounting policies for income taxes and foreign exchange gains and losses.

e) Equity accounted investments

This proposal is aimed to address uncertainty and diversity in the presentation of an entity's share of other comprehensive income (OCI) from equity accounted associates and joint ventures.

The effect would be to include two separate line items in OCI for those items, being amounts that will and will not be reclassified to profit or loss.

An example of the proposal's effects on the other comprehensive income section of the statement of profit or loss and other comprehensive income is set out below:

	20X4 (excl. proposals)	20X4 (incl. proposals)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	xxx	xxx
Remeasurements of defined benefit pension plans	xxx	xxx
Share of gain (loss) on property revaluation of associates	(400)	-
Share of gain (loss) remeasurements of defined benefit pension plans of associates	200	-
Share of other comprehensive income of associates	**-**	**(200)**
Income tax relating to items that will not be reclassified	xxx	xxx
	xxx	**xxx**
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	xxx	xxx
Available-for-sale financial assets	xxx	xxx
Cash flow hedges	xxx	xxx
Share of available-for-sale financial assets of associates	100	-
Share of other comprehensive income of associates	**-**	**100**
Income tax relating to items that may be reclassified	xxx	xxx
	xxx	**xxx**
Other comprehensive income for the year, net of tax	**xxx**	**xxx**

Figure 1 – Effects on the other comprehensive income section of the statement of profit or loss and other comprehensive income of the proposed amendments regarding equity accounted investees.

What the proposals mean

Respondents to the IASB's *Agenda Consultation 2011* asked the IASB to review the disclosure requirements of existing IFRSs and to develop a disclosure framework. A number of these requests arose from the increasing length of many financial statements prepared in accordance with IFRS, and disclosure overload in those financial statements.

In 2013, to complement work being carried out to revise the *Conceptual Framework*, the IASB started its *Disclosure Initiative*. This is made up of a number of short and medium term projects, and on-going activities, which are looking at how to improve presentation and disclosure principles in existing IFRSs.

The materiality requirements of IAS 1 would be amended to emphasise that information should not be aggregated or disaggregated in a way that obscures useful information. The changes would also highlight that materiality applies to all aspects of financial statements, including the primary financial statements, the notes and specific disclosures required by individual IFRSs. The purpose is to encourage entities (and others involved in the preparation and review of financial statements) to give careful consideration to presentation requirements, and to the materiality of amounts and items that might be included in financial statements.

The content of primary statement line items would be clarified, including that individual line items may need to be disaggregated, with additional guidance being added for the use of subtotals.

The amendment related to the submission to the IFRS Interpretations Committee addresses uncertainty and diversity in the presentation of an entity's share of other comprehensive income (OCI) from equity accounted associates and joint ventures. The effect would be to include two separate line items in OCI for items that will and will not be reclassified to profit or loss.

What should entities do in response to the ED?

Disclosure overload and the increased complexity of financial reporting have been key drivers in the IASB's decision to start its *Disclosure Initiative*. The proposals in the exposure draft are designed to encourage entities to improve the understandability, comparability and clarity of their financial statements.

Although the amendments would not introduce many new requirements to IAS 1, they would encourage additional thought to be given to the content and layout of financial statements. In advance of the proposals being finalised, entities may wish to revisit:

- Their application of materiality
- The level of aggregation and disaggregation of line items in the financial statements
- The use of subtotals
- The order of the notes to the financial statements
- The content and presentation of their accounting policies.

Entities with interests in associates and/or joint ventures should note that if the proposals are finalised as drafted, this may result in a different presentation of items within OCI.

Effective date and comment period

The effective date is yet to be confirmed. The proposals are open for comment until 23 July 2014.

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