Jonathan Faull
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

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Dear Mr Faull

Adoption of *Disclosure initiative – Amendments to IAS 1*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the *Disclosure initiative – Amendments to IAS 1* ('the Amendments'), which was issued by the IASB on 18 December 2014. It was issued as an Exposure Draft in March 2014 and EFRAG commented on that draft.

The objective of the Amendments is to encourage entities to apply professional judgement in determining what information, and where and in what order it is presented and disclosed in their financial statements. Furthermore, the Amendments clarify that entities should use professional judgement in the financial disclosures. A description is included in Appendix 1 to this letter.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued its initial assessment for public comment and it took the comments received in response into account when finalising this letter of advice. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and therefore are not contrary to the true and fair view principle.

Having considered all relevant aspects, EFRAG assesses also that adopting the Amendments is conducive to the European public good.

Having assessed that the amendments meet all criteria in the IAS Regulation, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix 2 – Assessing whether the Amendments meet the technical requirements for endorsement' and 'Appendix 3 – Assessing whether the Amendments are conductive to the European public good'.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX 1

A SUMMARY OF THE AMENDMENTS

Background

1 The Disclosure Initiative – Amendments to IAS 1 (the 'Amendments'), includes a number of clarifications to current requirements in IAS 1 *Presentation of Financial Statements*.

What has changed?

Materiality

2 The Amendments clarify that the concept of materiality applies to the whole financial statements and that information which is not material need not be presented in the primary financial statements or disclosed in the notes even if required by an IFRS.

3 The Amendments also clarify that when an entity aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances and it should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information or by aggregating material items that have different natures or functions.

4 Finally, the Amendments clarify that entities shall consider providing additional disclosures when complying with IFRSs if the minimum requirements in them are insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Information to be presented in the statement of financial position and in the statement of profit or loss (or the profit or loss section of the statement of profit or loss and other comprehensive income)

5 The Amendments clarify that a specified line item included in the statement of financial position and in the statement of profit or loss (or the profit or loss section of the statement of profit or loss and other comprehensive income) could be disaggregated to meet presentation requirements if the resulting information is relevant to an understanding of the entity's financial position and financial performance.

6 Furthermore, the Amendments clarify that when an entity presents subtotals additional to those required by IFRS these subtotals shall:

(a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS;

(b) be presented and labelled in a manner that makes them clear and understandable;

(c) be consistent from period to period; and

(d) not displayed with more prominence than the subtotals and totals required by IFRS.

7 Finally, the Amendments require entities to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method separately from other items in OCI and divided between the share of items that:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

Structure of the notes and disclosures of accounting policies

8 The Amendments clarify that IAS 1 does not prescribe a specific order for the notes and that, when determining the order of the notes, an entity shall consider the effect on the understandability and comparability of its financial statements.

9 They also clarify that significant accounting policies do not need to be disclosed in one note; but instead can be included with related information in other notes. They remove the examples of significant accounting policies that were contained in IAS 1, as they were deemed unhelpful, and clarify that entities should consider the nature of their operations and information that users would find relevant in deciding whether a particular accounting policy should be disclosed.

10 The Amendments also include minor consequential changes to IFRS 7 *Financial Instruments: Disclosures* and to IAS 34 *Interim Financial Reporting* regarding disclosures of significant accounting policies.

When do the Amendments become effective?

11 The Amendments apply for annual periods beginning on or after 1 January 2016 with early application permitted.

APPENDIX 2

ASSESSING WHETHER THE AMENDMENTS MEET THE TECHNICAL REQUIREMENTS FOR ENDORSEMENT

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for EU endorsement?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:

(a) are not contrary to the principle of 'true and fair view' set out in Article 4 (3) of Council Directive 2013/34/EU; and

(b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 In the following analyses, EFRAG has considered each issue from both usefulness for decision-making and for assessing the stewardship of management. In all cases, EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making economic decisions and assessing the stewardship of management.

Relevance

3 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.

4 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

Materiality

5 In EFRAG's view, the Amendments improve the application of the materiality principle to the primary financial statements and the notes because they aim to avoid obscuring relevant information with immaterial information or by aggregating material

items that have different natures or functions. Therefore, EFRAG believes that they enhance an entity's ability to apply judgement in presenting relevant information.

6 The Amendments further clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and hence not relevant for users of financial statements. In EFRAG's view, this would result in greater relevance in applying IAS 1.

Information to be presented in the statement of financial position and in the statement of profit or loss (or the profit or loss section of the statement of profit or loss and other comprehensive income)

7 EFRAG believes that the Amendments result in relevant information insofar as they clarify that additional line items, headings and subtotals (including the disaggregation of the line items listed in IAS 1) are presented when such presentation is relevant to an understanding of the entity's financial position.

8 Furthermore, EFRAG also believes that these Amendments result in financial information that is relevant when an entity provides subtotals because they clarify that subtotals should be:

(a) comprised of line items made up of amounts recognised and measured in accordance with IFRS where a minimum level of relevance is ensured;

(b) presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable thus resulting in financial information that is useful for users; and

(c) displayed with no more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income and, therefore, not obscuring financial information that is relevant.

9 Finally, EFRAG believes that these Amendments result in information that is relevant because they clarify that entities should take into consideration all relevant facts and circumstances when they decide to aggregate information in the financial statements, including the notes, without reducing understandability. In EFRAG's view, this results in producing financial information that is useful for users in making economic decisions.

10 Regarding the presentation in the statement of profit or loss and other comprehensive income of the share of OCI of associates and joint ventures accounted for using the equity method, EFRAG believes that the guidance will result in relevant information as the Amendments clarify how entities should present the share of other comprehensive income of associates and joint ventures accounted for using the equity method depending on the nature of the underlying item and therefore determining whether or not an amount will be reclassified to profit or loss.

Structure of the notes and disclosures of accounting policies

11 EFRAG believes that the Amendments result in relevant information because they clarify that the notes should be structured in a fashion that is useful for users of financial statements for example, by giving prominence to the areas of an entity's activities that the entity considers to be most relevant to an understanding of its financial performance and financial position.

12 Furthermore, they clarify that in deciding whether a particular accounting policy should be disclosed an 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. In EFRAG's view, this also results in information that is useful for users and therefore relevant.

<u>Conclusion on relevance</u>

13 EFRAG's overall assessment is that the Amendments would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

14 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

15 EFRAG believes that the Amendments would raise no concerns about freedom from material error and bias, faithful representation, and completeness, as they merely clarify, rather than change, the existing requirements in IAS 1 and enhance the entity's ability to apply judgement when meeting the presentation and disclosure requirements in that Standard.

16 Therefore, EFRAG's overall assessment is that the Amendments satisfy the reliability criterion.

Comparability

17 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

18 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

19 The Amendments do not affect comparability, as defined above, as they do not change the way transactions are accounted for, but only clarify how current guidance in IAS 1 applies and enable entities to exercise judgement in presenting and disclosing information so as to improve the relevance of information in the primary finantial statements and in the notes. EFRAG observes that less uniformity in presentation between entities does not necessarily lead to a loss of comparability if entities apply judgement to provide information that is relevant, based on the specific nature of their operations.

20 Therefore, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Understandability

21 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

22 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

23 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.

24 In EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability.

25 Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

Prudence

26 The Amendments do not affect recognition and measurement requirements. EFRAG has therefore concluded that they raise no issues in relation to prudence.

True and Fair

27 Information can be relied on to meet the true and fair view principle when it faithfully represents the financial performance and position of an entity. To do so, accounting requirements should help provide information that is relevant, reliable, comparable and understandable and leads to prudent accounting. EFRAG's assessment on each of the criteria of relevance, reliability, comparability, understandability is positive and has concluded that the Amendments raise no issues in relation to prudence. EFRAG therefore concludes that the application of the Amendments would not be contrary to the true and fair view principle.

28 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments satisfy the technical criteria for EU endorsement.

APPENDIX 3

ASSESSING WHETHER THE AMENDMENTS ARE CONDUCIVE TO THE EUROPEAN PUBLIC GOOD

Introduction

1 EFRAG considered, based on an assessment of whether the Amendments are likely to improve the quality of financial reporting and on a cost-benefit analysis and on evidence brought to its attention by constituents, whether they would be conducive to the European public good.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

2 EFRAG notes that the Amendments are designed to help preparers increase the relevance of disclosures and contribute, even though on a marginal basis, to eliminate the heavily criticised "disclosure overload". Benefits brought to users are justified in more detail in the analysis below.

3 EFRAG has therefore concluded that the Amendments are likely to improve financial reporting.

EFRAG's analysis of the costs and benefits of the Amendments

Cost for preparers

4 EFRAG observes that the Amendments clarify, rather than change, existing requirements in IAS 1 and provide additional guidance to assist entities to apply judgement when meeting the presentation and disclosure requirements in IFRS. The Amendments do not affect recognition and measurement. They allow, but do not require, entities to reassess judgements about presentation and disclosure made in periods prior to the application of these Amendments.

5 In addition, EFRAG notes that the Amendments may reduce the administrative costs of producing financial information for preparers as they provide guidance on the application of the concept of materiality to disclosures in practice and clarify that immaterial information need not be presented or disclosed even if required by an IFRS.

6 Overall, EFRAG's assessment is that the Amendments will not result in increased costs to preparers, i.e., it is likely to be cost neutral.

Costs for users

7 EFRAG's assessment is that there may be some one off costs for some users to bring information into a comparable format as a result of the Amendments enabling entities to exercise more judgement in applying the presentation and disclosure requirements in IAS 1. EFRAG believes that ongoing costs for users are generally likely to be insignificant since the requirements will not affect recognition and measurement.

8 In addition, EFRAG notes that the Amendments are likely to reduce the administrative costs of analysing financial information as the Amendments clarify overly prescriptive interpretations of the wording in IAS 1 and revise, or remove, existing language in the Standard that results in the production of information that is not always relevant for users.

9 Overall, EFRAG's assessment is that the implementation of the Amendments is likely to result in insignificant costs for users.

Benefits for preparers and users

10 EFRAG's assessment is that the Amendments are likely to result in more relevant and understandable financial information for both preparers and users because they further encourage entities to apply professional judgement in determining what information to disclose in their financial statements and how to disclose it and emphasise that the understandability of financial statements should not be reduced by the provision of immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions.

11 Overall, EFRAG's assessment is that users and preparers are likely to benefit from the Amendments, as they enable entities to exercise more judgement in presenting and disclosing information and hence result in improving the relevance for users of information in the financial statements.

Conclusion on the costs and benefits of the Amendments

12 EFRAG's assessment is that the overall benefits of the Amendments are likely to outweigh the associated costs to implement them.

Conclusion

13 Having considered all relevant aspects, EFRAG assesses that adopting the Amendments is conducive to the European public good.