Financial Reporting Council

Françoise Flores
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium

E-mail: Commentletter@efrag.org

7 July 2014

Dear Françoise,

**IASB Exposure Draft '*Disclosure Initiative (Proposed amendments to IAS 1)*'**

Thank you for providing the Financial Reporting Council (FRC) with the opportunity to comment on your draft comment letter (DCL) to the IASB on the Exposure Draft (ED) '*Disclosure Initiative (Proposed amendments to IAS 1)*'.

We broadly support EFRAG's DCL, and we welcome the emphasis from the IASB that the entities need to exercise judgement in determining the appropriate content and structure for the financial statements and notes. However, we believe that there are some sections of IAS 1 *Presentation of Financial Statements* (IAS 1) that the IASB could clarify further. In addition to the points noted by EFRAG, our response to the ED encourages the IASB to:

a) encourage entities to omit disclosures that are not material rather than only to permit their omission, or to require it (as suggested by EFRAG). Further detail on this matter is included in the appendix to this letter;

b) consider the use and definitions of the term 'material', and related terms such as 'significant', 'key' and 'critical', during the 'Materiality' project that is being carried out as part of the wider 'Disclosure Initiative' project. Such terms are not used consistently within the IASB *Conceptual Framework for Financial Reporting* (the Conceptual Framework) and IFRSs;

c) the definition of 'present' seems to be intended to differentiate it from 'disclose', in that 'present' is defined as a type of disclosure that relates only to the primary financial statements. However, this definition of presentation is incompatible with the definition provided for the term 'disclose', which states that 'disclose' refers only to information provided in the notes. The use of these terms in the proposed amendments to IAS 1 and the paragraphs of IAS 1 for which amendments have not been proposed can also be confusing as they appear to be used interchangeably at times;

d) include principles to assist entities in determining an appropriate structure for the financial statements and notes, for example by stating that while consistency in structure from year to year and the comparability of the financial statements of different entities are desirable qualities, understandability and the clear communication of information should take precedence; and

e) state in IAS 1 that disclosure requirements can be met by including a cross-reference in the notes to information provided elsewhere in the financial report, replicating the specific provision in IFRS 7 for representing financial instrument risk disclosures elsewhere. This would reduce the duplication of information in different components of the financial report.

Our responses to the ‘questions for constituents’ set out by EFRAG in the DCL are included in the appendix to this letter. We have also included our response to the IASB for your information.

If you would like to discuss these comments, please contact Rosalind Clarke on 020 7492 2474.

Yours sincerely

Roger Marshall

**Roger Marshall**
**Chair of the Accounting Council**
DDI: 020 7492 2429
Email: r.marshall@frc.org

**Appendix: responses to questions set out in the ED**

**Question to constituents**

Do you share EFRAG's view that to promote a change in behaviour, the IASB should require that entities 'shall not' (rather than 'need not') disclose immaterial information? If no, please explain.

No, we do not believe that the IASB should amend paragraph 30A to state that immaterial information 'shall not' be disclosed, as we do not believe a prohibition of immaterial disclosures would be enforceable. Instead, we have suggested that the IASB consistently encourages entities to omit information that is not material, rather than only permitting entities to do so by stating that they 'need not' disclose it.

In our view, the disclosure of immaterial information can obscure useful information and impair understandability. The IASB acknowledges this in the ED and we believe that continued emphasis on this point will improve the quality of financial reporting. A number of FRC projects, such as the 'Cutting Clutter' and 'Clear & Concise' reporting initiatives, are aimed at encouraging entities to remove immaterial and 'boilerplate' disclosures from financial reports. This theme has been highlighted most recently through the publication of the *Guidance on the Strategic Report*,[1] and in our response to the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.[2]

**Question to constituents**

Do you identify any difficulty in practice in applying or enforcing this requirement? Please explain.

Yes. It would be difficult for the FRC to enforce a prohibition on the disclosure of immaterial information due to the judgement involved in an entity determining whether a specific disclosure is material to the users of its financial statements. In challenging judgements on materiality, it is possible to make reasonable hypotheses of why a particular piece of information may be influential in economic decision-making, i.e. to argue that it is material. However, it is much more difficult to make reasonable hypotheses that such information would never be influential and hence is clearly immaterial.

Nevertheless, we believe that the IASB can encourage a change in behaviour by ensuring the language throughout IAS 1 consistently encourages entities to omit immaterial information. In our view, eliminating immaterial disclosures from financial statements will continue to be a gradual process.

.

[1] The *Guidance on the Strategic Report* is available at https://frc.org.uk/Narrative-Reporting.aspx

[2] A copy of the FRC response to the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* is available at https://frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRC-response-to-IASBs-A-Review-of-the-Conceptual.pdf

**Question to Constituents:**

Do you agree that an entity should disclose only those accounting policies for which the entity was allowed a degree of discretion in choosing and applying the policy? Please explain.

No, we believe that there are a number of circumstances in which the disclosure of an accounting policy provides relevant information, which include the circumstance noted by EFRAG (when there is a degree of discretion in choosing and applying the policy). The FRC's Financial Reporting Lab has also conducted a research project in this area, to identify the circumstances in which investors find accounting policy disclosures useful.[3]

The circumstances in which we believe the disclosure of accounting policies provides relevant information are outlined in paragraph 44 of our draft response to the IASB. In our view the disclosure of accounting policies is an area of financial reporting where there is scope for improvement, through a reduction of generic and 'boilerplate' disclosures that reproduce sections of IFRSs and are of limited use to the users of financial statements. We believe that the IASB could facilitate such improvements through further amendments to IAS 1 and by clarifying the definition of a 'significant accounting policy' through its 'Materiality' project.

[3] The Financial Reporting Lab's report *Accounting policies and integration of related financial information* will be published at https://www.frc.org.uk/Lab.

Financial Reporting Council

Ms Kristy Robinson
Technical Principal
International Accounting Standard Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

7 July 2014

Dear Kristy,

**Response to Exposure Draft '*Disclosure Initiative (Proposed amendments to IAS 1)*'**

This letter sets out the comments of the UK Financial Reporting Council (FRC) on the Exposure Draft (ED) '*Disclosure Initiative (Proposed amendments to IAS 1)*'.

The FRC welcomes the IASB's 'Disclosure Initiative' project. We believe that this project will encourage more effective communication of information in financial statements leading to improvements in the quality of financial reporting.

The ED proposes narrow-scope amendments to IAS 1 *Presentation of Financial Statements* (IAS 1) to clarify the requirements of the Standard. The FRC supports the IASB's decision to undertake this short term project to reinforce key messages while the wider 'Disclosure Initiative' project takes place over the medium-term.

In our view, the proposed amendments to IAS 1 provide useful clarification on the application of materiality to IFRS financial statements (including the notes), the flexibility available in structuring disclosures and the presentation of information in the primary financial statements.

Our main comments on the ED are summarised below with the detailed responses to the consultation questions included in the appendix to this letter.

**Materiality and aggregation**

1. We anticipate that the proposed amendments will result in financial reporting that is clearer and more concise. We welcome the emphasis placed on the need for judgement to be exercised regarding the level of disclosure that is appropriate. However, we believe that the IASB should ensure the language in IAS 1 consistently encourages entities to omit disclosures that are not material (either individually or in aggregate), as we believe that the disclosure of immaterial information can impair understandability and obscure useful information.

**8th Floor, 125 London Wall, London EC2Y 5AS** Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2399 www.frc.org.uk

2. The term ‘material’ and related terms such as ‘significant’, ‘key’ and ‘critical’, are not used consistently within the Conceptual Framework and IFRSs. We note that the IASB is considering the use of these terms as part of its ‘Materiality’ project, and also intends to provide clarification of the circumstances in which an accounting policy should be considered to be ‘significant’. We encourage the IASB to ensure that the definition of ‘material’ provided within the defined terms for IAS 1 is in line with the definition that will be included in the revised Conceptual Framework.

**Presentation and disclosure**

3. In paragraph BC7 of the ED, the definition of ‘present’ seems to be intended to differentiate it from ‘disclose’, in that ‘present’ is defined as a type of disclosure that relates only to the primary financial statements. This definition of presentation is incompatible with the definition provided for the term ‘disclose’, which states that ‘disclose’ refers only to information provided in the notes. In addition, the definition of ‘disclose’ in paragraph BC7 does not explain the concept as the definition provided is circular.

4. The use of these terms in the proposed amendments to IAS 1 and the paragraphs of IAS 1 for which amendments have not been proposed can also be confusing as they appear to be used interchangeably at times. We recommend that these definitions are reconsidered and further developed as part of the IASB’s review of the Conceptual Framework.

**Structure of the notes**

5. The proposed amendments to IAS 1 outline the flexibility permitted when structuring the notes to the financial statements; however, the ED does not provide any principles to guide entities on whether to prioritise understandability over consistency from year to year or the comparability of the financial statements with those of other entities when determining an appropriate structure. We believe that, while consistency and comparability are desirable qualities, understandability should take precedence as it is essential for meeting the objective of financial reporting.

6. We support the IASB’s intention to clarify the objective of the notes to the financial statements as part of the ‘Disclosure Initiative’ project and we also note that the IASB is considering the use of cross-referencing as part of the ‘Principles of Disclosure’ project. We believe that IAS 1 should state that disclosure requirements for the notes can be met by including a cross-reference in the notes to information provided elsewhere in the financial report. This would reduce the duplication of information in different components of the financial report. The FRC has recently published guidance on the placement of information, cross-referencing of disclosures and signposting to complementary information in the *Guidance on the Strategic Report*.[1]

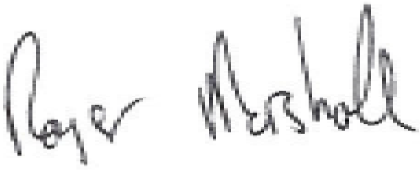
**Consistency**

7. Finally, we request that the IASB consider the consistency of the proposed narrow-scope amendments with the sections of IAS 1 for which the ED does not propose amendments, to ensure that revised terminology and definitions are applied consistently throughout the Standard.

[1] The *Guidance on the Strategic Report* is available at https://frc.org.uk/Narrative-Reporting.aspx

If you would like to discuss these comments, please contact me or Rosalind Clarke on 020 7492 2474.

Yours sincerely



**Roger Marshall**
**Chair of the Accounting Council**
DDI: 020 7492 2429

Email: r.marshall@frc.org.uk

**Appendix: responses to questions set out in the ED**

**Question 1 – Disclosure Initiative Amendments**

The amendments to IAS 1 arising from the Disclosure Initiative aim to make narrow-focus amendments that will clarify some of its presentation and disclosure requirements to ensure entities are able to use judgement when applying that Standard. The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgement.

The proposed amendments relate to:

(a) materiality and aggregation (see paragraphs 29–31 and BC1–8 of this Exposure Draft);

(b) statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 54, 55A, 82, 85A and 85B and BC9–BC15 of this Exposure Draft);

(c) notes structure (see paragraphs 113–117 and BC16–BC19 of this Exposure Draft); and

(d) disclosure of accounting policies (see paragraphs 120 and BC20–BC22 of this Exposure Draft).

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

**Materiality and aggregation**

<u>The disclosure of immaterial information</u>

8. We believe that the disclosure of immaterial information is a source of clutter in financial statements. We welcome the IASB's emphasis on the importance of judgement in determining whether an item should be disclosed. However, we believe that some changes to the proposed amendments would provide more clarity.

9. We believe that the wording of paragraph 30A could be interpreted to imply that it is appropriate to present or disclose some information that is not material or 'useful'. We do not see any rationale for disaggregating information to a level of detail that is not material or 'useful'. We suggest that the IASB amends this paragraph to remove the reference to 'overwhelming' :

'…An entity shall not aggregate or disaggregate information in a manner that ~~obscures~~ detracts from useful information, such as by aggregating items that have different characteristics ~~or by overwhelming useful information with immaterial information~~ or by disaggregating items to the extent that useful information is obscured.'

10. We recommend that the following amendments are made to the proposed drafting of paragraph 31, to make it clearer that the assessment of the materiality of information should determine which information is presented and disclosed:

    'Some IFRSs identify information that is required to be presented or disclosed in

    the financial statements of an entity. Notwithstanding these specific requirements, an entity shall determine which information to present or disclose based on an assessment of whether all of ~~that~~ the information specified by an IFRS disclosure requirement is material ~~needs to be presented or disclosed~~, or whether some of the information is immaterial and presenting or disclosing it would reduce the understandability of its financial statements by detracting from the material information.

    ~~An entity need~~Entities are encouraged not to provide a specific disclosure required by an IFRS in the financial statements, including the notes, if ~~the information resulting from~~ that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether information about matters addressed by an IFRS needs 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 IFRS.'

11. In our view the IASB should 'encourage' entities to omit disclosures that are not material, rather than only permitting this by stating that they 'need not' be provided, as immaterial disclosures obscure useful information and do not achieve the objective of financial reporting (as set out in paragraph OB2 of the Conceptual Framework).

12. We suggest that paragraph 31 is divided into two separate paragraphs, to ensure that sufficient emphasis is given to the important content of this paragraph.

13. It would also be helpful for this section of IAS 1 to clarify whether, when considering if an item is material for disclosure, entities are only required to consider the materiality of the item for the reporting period or also for comparative periods presented in the financial statements. We encourage the IASB to consider the application of materiality to comparative information during the 'Materiality' project as this is not addressed in the Conceptual Framework and IFRSs.

Terminology related to materiality

14. IAS 1 contains a variety of terminology related to the concept of materiality. For example: paragraphs 55 and 85 refer to providing information 'relevant to an understanding of the entity's financial position/ performance'; paragraph 31 refers to 'information… presented or disclosed to meet the needs of users…'; paragraph 30 refers to 'useful information'; accounting policies which require disclosure are referred to as 'significant'; and paragraph BC18(c) refers to 'insight into what management view as important to the entity'.

15. We encourage the IASB to more clearly define the terminology used in relation to materiality to ensure greater consistency throughout IAS 1 and other IFRSs. However, we are mindful

that it may be challenging to assess the appropriateness of revised terminology prior to the conclusion of the IASB's 'Materiality' project.

The definition of 'present' and 'disclose'

16. The terms 'present' and 'disclose' are not used consistently in IAS 1 and are not defined terms within the 'definitions' section of the Standard. The IASB has, however, provided definitions of these terms in paragraph BC7 of the ED, and we believe that these definitions are problematic for the reasons set out below. We urge the IASB to reconsider these definitions as clarity in this area is critical to the effective communication of information, the progress of the broader 'Disclosure Initiative' project and to the development of the Conceptual Framework.
17. Paragraph BC7 states that 'In this Exposure Draft the IASB has used the term 'present' to mean disclosure as a line item on the statement(s) of profit or loss and other comprehensive income, statement of financial position, statement of cash-flows and statement of changes in equity and the term 'disclose' to mean disclosure in the notes.'
18. This definition of 'present' seems to be intended to differentiate it from 'disclose', in that 'present' is defined as a type of disclosure that relates only to the primary financial statements. However, this definition of presentation is incompatible with the definition provided for the term 'disclose', which states that 'disclose' refers only to information provided in the notes.
19. Furthermore, using the word 'disclosure' in the definition of presentation is confusing as it blurs the boundary between the two concepts. In addition, the definition provided for 'disclose' does not explain the concept as the definition is circular.
20. We note that, in some cases, the definitions provided in paragraph BC7 do not correspond to the use of the terms within the ED. For example, paragraph 112 states that 'The notes shall… present information…', which is inconsistent with the definition of 'present' as relating only to the primary financial statements. Another example is the third sentence of paragraph 31; the term 'disclosure' is used in this sentence to refer to the provision of information either in the notes or in the primary financial statements, whereas paragraph BC7 states that 'disclose' only applies to the notes.
21. We also encourage the IASB to review the use of the terms 'presentation' and 'disclosure' in the paragraphs of IAS 1 for which the ED does not propose amendments, to ensure that the terms are used consistently throughout the Standard.
22. We believe that further development of the concepts of 'presentation' and 'disclosure' is needed for there to be clarity on the objectives and boundaries of each one. We are aware that the IASB intends to consider these issues further during the development of the Conceptual Framework. We recommend that the definitions provided in paragraph BC7 of the ED are removed whilst this further work takes place.

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

Paragraph 54

23. We recommend that the following amendment is made to the proposed drafting of paragraph 54:

    'The statement of financial position shall include line items that present the following amounts, when material:'

24. While all assets, liabilities and equity must be presented somewhere in the statement of financial position, without this clarification the paragraph implies a prescriptive list of requirements and does not encourage the use of judgement as to whether presentation of a separate line item is warranted.

25. We are also concerned that the proposed drafting of the final section of paragraph 54 may have the unintended effect of bringing much of the disclosure from the notes into the statement of financial position; it may be appropriate to disclose disaggregated information in the notes if it is 'relevant to an understanding of the entity's financial position', so this criterion alone may not be sufficient for determining whether information should be presented in the primary financial statements. We recommend that the following amendments are made to the proposed drafting, to emphasise that judgement is required:

    'These line items shall be disaggregated when such presentation is the most effective way of communicating the information ~~is~~ relevant to an understanding of the entity's financial position.'

Paragraph 82

26. In line with our suggested amendments to paragraph 54, we recommend that the following amendments are made to the proposed drafting of paragraph 82:

    'In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period, when material:….These linked items shall be disaggregated when such presentation is the most effective way of communicating the information ~~is~~ relevant to an understanding of the entity's financial performance.'

Paragraphs 55A (c) and 88A (c)

27. We recommend that the following amendment is made to the proposed drafting of paragraphs 55A (c) and 88A (c):

    'be consistent from period to period when the disaggregated information is material.'

28. While consistency in presentation is desirable, in our view clear and concise communication should override concerns regarding consistency of presentation from period to period as understandability is essential to meeting the objective of financial reporting. The materiality of certain items may change over time and in such cases it would be appropriate for the items that are aggregated or disaggregated, and the level of detail provided, to be reconsidered.

Paragraph BC15

29. Paragraph BC15 of the ED states that 'the IASB does not want to propose amendments that could be seen as encouraging the proliferation of 'non-GAAP' measures'. We believe that in some cases it is appropriate to provide alternative performance measures where such measures provide useful information that could influence the resource allocation decisions of users of the financial statements, for example by enabling comparison with competitors in the same industry. We encourage the IASB to consider the disclosure and placement of alternative performance measures as part of the wider 'Disclosure Initiative' project.

30. The FRC has considered the use of alternative performance measures further in its response to the Consultation Paper '*ESMA Guidance on Alternative Performance Measures'.*[2]

**Structure of the Notes**

Understandability versus comparability

31. We welcome the explicit permission for flexibility in determining an appropriate structure and order for the notes, as set out in the amendments to paragraphs 113 and 113A and in paragraph BC17. We anticipate that these amendments will encourage entities to structure disclosures in a way that facilitates clearer communication. However, we think that the proposed wording of paragraph 114 undermines this aim by providing a format that is likely to continue to be used as a template.

32. We note that prior to the release of this ED the majority of UK entities have followed the format set out in paragraph 114, and may be discouraged from giving sufficient consideration to alternative structures if the amended IAS 1 includes this example structure. We recommend that the IASB deletes paragraph 114. We are also concerned that the use of the word 'systematic' may imply a more prescriptive and inflexible structure for the notes than is intended.

33. Structuring of the notes in the 'order in which each statement and each line item is presented' (per paragraph 114(c)) is unlikely to achieve the most effective communication, as the most important information may be given insufficient prominence and thereby obscured. We note that some investors do prioritise comparability between the financial statements of different entities or consistency in structure from year to year over flexibility. However, as noted in the cover letter, we believe that while consistency and comparability

[2] A copy of the FRC response to the ESMA consultation is available at https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRC-Response-to-Consultation-Paper-â€˜ESMA-Guideline.pdf

are desirable qualities, understandability should take precedence as it is essential for meeting the objective of financial reporting.

34. We believe it would be helpful for the IASB to develop placement criteria to guide the decisions of entities on how to structure disclosures. We suggest that the communication principles in the Conceptual Framework should state that disclosures be structured to ensure that the most important information is given sufficient prominence.

The objective of the notes

35. Paragraph 112(c) states that '[the notes shall] provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them'. In our view this boundary for the content of the notes is too broad; all disclosures in the financial report should be relevant to an understanding of the financial statements. For example, it would be possible to interpret the current wording as implying that management commentary must be included in the notes to the financial statements.

36. We support the IASB's intention to clarify the objective of the notes to the financial statements as part of the 'Principles of Disclosure' sub-project within the 'Disclosure Initiative' project. This would be helpful in clarifying the boundary between the disclosures to be made in the notes and the disclosures to be made elsewhere in the financial report.

37. We believe that IAS 1 should state that disclosure requirements can be met by including a cross-reference in the notes to information provided elsewhere in the financial report, replicating the specific provision in IFRS 7 for representing financial instrument risk disclosures elsewhere. This would reduce the duplication of information in different components of the financial report.

Paragraph 115

38. Paragraph 115 should state 'deleted' and the paragraph now labelled 115 should be re-labelled 115A.

**Disclosure of accounting policies**

Paragraph 117

39. We believe that the IASB's intention in removing the words 'in the summary of significant accounting policies' from paragraph 117 was to emphasise that it is not mandatory to disclose significant accounting policies in a single summary; they can instead be disclosed as part of the other notes to which the policies relate as described in the amendments paragraph 116. However, the removal of these words from paragraph 117 could be interpreted as mandating the disclosures described in the paragraph for all accounting policies (including those not deemed to be significant). We therefore suggest that the word 'other' is replaced with the word 'significant' in paragraph 117(b).

Identification of significant accounting policies

40. We believe that the disclosure of accounting policies is an area where improvements can be made, through a reduction in generic and 'boilerplate' disclosures that reproduce sections of IFRSs and remain largely unchanged from year to year. We believe that the IASB could facilitate such improvements through additional amendments to this section of IAS 1.

41. However, we also suggest that the IASB consider relocating this section of IAS 1 to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* It would be appropriate for the disclosure requirements for significant accounting policies to be detailed within the Standard that relates to accounting policies.

42. We note that the reproduction of sections of IFRSs in the accounting policy disclosures provides information that is generally already known to users, and does not include entity specific detail on the application of the policies to enable users to fully understand the accounting for the transactions or balances to which they apply. As a result such disclosures do not comply with the principle for determining whether an accounting policy disclosure is appropriate, outlined in paragraph 119 of IAS 1:

    'In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.'

43. The FRC's Financial Reporting Lab (the Lab) has conducted a research project entitled 'Accounting policies and integration of related financial information',[3] and has noted that investors generally prefer entities to disclose only the key accounting policies in relation to their business in the financial statements. However, we note that some retail investors informed the Lab that they would prefer all accounting policies to be disclosed in the financial statements.

44. In our view, there are certain circumstances where disclosure of an accounting policy provides additional information that is useful to the users of financial statements, for example:

(i) when IFRSs allow a choice of accounting policy, an entity should disclose the option selected and the rationale for why the treatment selected is the most appropriate for the entity's business;

(ii) when an accounting policy relates to transactions that form a significant part of an entity's operations or business model it should be disclosed;

(iii) when the accounting for material transactions or balances requires a significant level of estimation or judgement, the interpretation and application of the accounting treatment required by the relevant IFRS should be disclosed and, when practicable, the range within which the judgement was made;

(iv) when there has been a change in accounting policy during the period, the change in policy, the rationale for the change and the impact of the change on the financial statements should be disclosed, along with the expected impact for future years when practicable; and

[3] The Financial Reporting Lab's report *Accounting policies and integration of related financial information* will be published at https://www.frc.org.uk/Lab.

(v) when an accounting policy is not specifically required by IFRSs, but selected in accordance with IAS 8, the policy and the reason for its selection should be disclosed (per paragraph 121 of IAS 1).

45. We note that in paragraph BC22 of the ED the IASB recognises that further work is required in relation to the disclosure of significant accounting policies and we strongly support the IASB's intention to provide more clarity in this area. The term 'accounting policies' is defined in IAS 8, however we suggest that the IASB 'Materiality' project provides a set of principles for determining when an accounting policy should be considered 'significant' in order to clarify the circumstances in which disclosure is required.

<u>Paragraph 120</u>

46. We agree with the IASB's proposal to delete paragraph 120. No rationale was provided for why these particular accounting policies were considered to be significant accounting policies, as noted by the IASB in paragraph BC21 of the ED.

<u>Paragraph 121</u>

47. It would be helpful for the IASB to clarify what is meant by the reference in paragraph 121 to an accounting policy that is 'significant because of the nature of the entity's operations even if amounts for the current and prior periods are not material'. Is the intention of this to refer to accounting policies for unrecognised but material items which may affect future cash-flows, such as contingent liabilities?

**Question 2 – Presentation of items of other comprehensive income arising from equity-accounted investments**

Do you agree with the IASB's proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments amendments (see paragraphs 82A, BC1–BC6 and the Guidance on implementing IAS 1)?

If not, why and what alternative do you propose?

**Presentation of equity accounted investments in the statement of other comprehensive income**

48. The FRC agrees with the IASB's proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments. The proposed

amendments clarify that an entity's share of other comprehensive income from associates and joint ventures should be separately identifiable and classified according to whether the amounts will be reclassified subsequently to profit or loss.

49. However, we noted some drafting points on the proposed amendments to this section of IAS 1:

(i) The example financial statements provided assume that the share of associates' other comprehensive income relates only to property valuation and, as a result, the example entity's share of the associates' other comprehensive income is presented in a single line item that will not be reclassified subsequently to profit or loss. It would be helpful if the example financial statements were for an entity where a proportion of the associates' other comprehensive income will be reclassified subsequently to profit or loss, so that the entity's share of the associates' other comprehensive income is presented within two separate line items as described in paragraph 82A(b).

(ii) There is an inconsistency between the wording in paragraphs 82A(a)(ii) and 82A(b)(ii) (which both require the identification of items that '*will* be reclassified subsequently to profit or loss when specific conditions are met') and the labelling in the example financial statements (which identifies 'items that *may* be reclassified subsequently to profit or loss') [*italics* added for emphasis].

**Question 3 – Transition provisions and effective date**

Do you agree with the proposed transition provisions for the amendments to IAS 1 as described in this Exposure Draft (see paragraphs 139N and BC23–BC25)?

If not, why and what alternative do you propose?

**Transition provisions and effective date**

50. We agree that no transition provisions are necessary, as the proposed amendments to IAS 1 have no impact on recognition or measurement in the financial statements.

51. However, the current wording of the final sentence of paragraph BC24 could be interpreted to imply that previous judgements in relation to presentation and disclosure should not be reconsidered, and that therefore financial statements should continue to be structured in the same way as in previous years even when an alternative structure for presenting or disclosing information would result in more effective communication. We believe that this sentence was meant to state that any changes to presentation or disclosure resulting from the application of the amendments to IAS 1 would not need to be applied retrospectively to

the financial statements for previous periods. We suggest the following amendment to paragraph BC24 to clarify this:

'…It is not proposed that these amendments should result in the reassessment of the judgements about presentation and disclosure ~~made in~~ applied to the financial statements for periods prior to the application of these amendments.'