EFRAG

European Financial Reporting Advisory Group

22 July 2014

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

Re: *Disclosure Initiative (Proposed amendments to IAS 1)*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft, ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1),* issued by the IASB on 25 March 2014 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG welcomes the Disclosure Initiative project set up by the IASB in 2013 that aims to review the disclosure requirements in existing Standards and to develop principles for disclosures in the notes.

More specifically, EFRAG supports the proposed narrow scope amendments to IAS 1 *Presentation of Financial Statements* to change some of the terminology in the Standard that may have been interpreted too strictly. In EFRAG's view, this should enable entities to exercise more judgement in presenting and disclosing information and hence result in improving the relevance of disclosures in the notes to the financial statements.

Our detailed comments and responses to the questions in the ED are set out in the Appendix. To summarise, EFRAG agrees with the proposals in the ED, but we suggest a number of improvements in the wording as explained below.

If you would like to discuss our comments further, please do not hesitate to contact Filippo Poli, Giorgio Acunzo or me.

Yours faithfully,

Françoise Flores

Françoise Flores
EFRAG Chairman

APPENDIX

EFRAG's responses to the questions raised 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?

EFRAG's general comments

EFRAG believes that short-term improvements to disclosures requirements are warranted and therefore supports the proposed narrow scope amendments to IAS 1 *Presentation of Financial Statements* within the Disclosure Initiative project.

1 EFRAG welcomes the IASB's initiative to clarify the existing guidance in IAS 1 *Presentation of Financial Statements* that was perceived to be overly prescriptive if read and applied too literally. In their Discussion Paper *Towards a Disclosure Framework for the Notes*, published in July 2012, EFRAG, the ANC and the FRC noted that immediate action was needed to ensure that only relevant information is provided in the notes.

2 Furthermore, as noted in our comment letter on the discussion paper *A Review of the Conceptual Framework for Financial Reporting* issued in February 2014, EFRAG believes that good communication is essential in order to achieve relevance and faithful representation and to avoid obscuring relevant information.

3 EFRAG's responses to the questions raised in the exposure draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (the 'ED'), are provided below.

Materiality

EFRAG's response

EFRAG welcomes these proposed amendments that are designed to enhance an entity's ability to apply judgement in presenting and disclosing relevant information.

4 In their Discussion Paper *Towards a Disclosure Framework for the Notes* issued in July 2012, EFRAG, the ANC and the FRC argued that (a) disclosures should not be required if the information is immaterial; and (b) disclosures should not be required for every line item presented in the primary financial statements unless the information would be material.

5 Therefore, EFRAG welcomes the proposed amendments as they improve the application of the materiality principle to the primary financial statements and the notes.

6 In EFRAG's view, entities should be allowed to use judgement when complying with the disclosure requirements in the Standards; they should be allowed to assess whether the resulting financial information is useful to users or whether it reduces the understandability of the financial statements by overwhelming useful information with immaterial disclosures.

7 However, we recommend the following improvements:

(a) Paragraph 5 of the Basis for Conclusions clarifies that the definition of what is material already incorporates the notions of individual and collective assessment. EFRAG believes that this should also be incorporated in paragraph 31;

(b) In EFRAG's view, disclosed information should permit users of financial statements to assess trends over the years. Therefore, we believe that the IASB should improve the drafting of this amendment to clarify that entities, in exercising judgement and assessing materiality of disclosures, should disclose financial information that is consistent over the periods presented in order to preserve the qualitative characteristic of comparability; and

(c) Paragraph 31 states that an entity 'need not' provide a specific disclosure required by an IFRS where the information resulting from that disclosure is not material. EFRAG thinks the use of 'need not' may fail to fully achieve the objectives of these amendments, as entities might continue to disclose immaterial information to remain on the 'safe side', i.e. not be reproached with non-compliance. EFRAG believes that the IASB should use language that clarifies that in applying disclosure requirements, an entity should carefully consider whether a disclosure is material or not, and therefore whether it is needed. In EFRAG's view, this will both permit entities to fully exercise judgment and encourage them to avoid any check-list compliance attitude in deciding what to disclose. Furthermore, this would set the level of compliance with disclosure requirements at a higher level than at present.

Information to be presented

EFRAG's response

EFRAG agrees with the proposed amendments but believes that the drafting should be improved.

8 EFRAG supports the proposal to improve the wording in IAS 1 to ensure that it is not perceived as a prescriptive list of line items that needs to be presented separately and cannot be disaggregated. Therefore, we support the clarification that line items should be disaggregated when it is relevant to understand the entity's financial position and performance.

9 However, we are concerned that, even after removing 'as a minimum', the language in paragraph 54 ('The statement of financial position shall include line items that present the following amounts') could still be interpreted as requiring the separate presentation of the listed items. Therefore, we would suggest to add a cross-reference to paragraph 29 of IAS 1 to clarify that entities should apply materiality in deciding which line items are presented separately. We believe that this would improve the understandability of the primary statements.

10 In addition, we note that the proposed amendment in paragraph 54 of IAS 1 provides a disaggregation example of property, plant and equipment. We believe that the IASB should add an aggregation example of line items. This would encourage entities to aggregate line items that are not material, clarify that the description of the line item should be appropriate to the content and confirm that the entity would not need to disclose all immaterial line items that can be aggregated.

11 Furthermore, we note that the current drafting of the introduction to paragraph 82 ('In addition to items required by other IFRSs') is not consistent with the proposed wording in paragraph 54. We believe that the IASB should make the wording of these paragraphs consistent.

12 We support the proposed clarifications regarding the use of subtotals in the financial statements. However, we are concerned that paragraphs 55A and 85A ('be consistent from period to period') may be read to imply that after an entity chooses the structure of its statement of financial position and of its statement(s) of profit or loss and other comprehensive income, it is not allowed to change them in future periods. The IASB explains in paragraph BC14(b) of the ED that changes would be possible in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* We suggest adding a reference to IAS 8 in paragraphs 55A and 85A.

13 Furthermore, we believe that the IASB should explain the interactions between the proposed amendments that require consistent presentation over time and the general requirement already set in paragraphs 45 and 46 of IAS 1.

14 Finally, EFRAG notes that entities should be able to justify and document their choice of presenting additional sub-totals. The inclusion of sub-totals should not be detrimental to the presentation of financial information that faithfully represents all the phenomena that affected the entity's financial position, its cash flows and its performance.

Structure of the notes

EFRAG's response

EFRAG agrees with the proposed amendments but believes that the drafting should be improved.

15 EFRAG agrees that an entity should present notes in a systematic manner that ensures the understandability and the comparability of its financial statements. Accordingly, we support the IASB's proposals to clarify current guidance in IAS 1 that was read as a prescriptive order of the notes.

16 However, we believe that the IASB should improve the drafting of these amendments by requiring that, in ordering the notes 'in a way that gives prominence to disclosures that it views as more relevant to an understanding of its financial position or financial performance or makes the relationship between some disclosures more understandable', entities should preserve a neutral depiction of financial information. In EFRAG's view, the order of the notes that the entity chooses should not be detrimental to the presentation of financial information that faithfully represents all the phenomena that affected its financial position, its cash flows and its performance.

17 Finally, we recommend to the IASB to consider the interactions between a more flexible structure of the notes and the XBRL taxonomy. In our view, it should be avoided that the structure of the XBRL taxonomy may become a constraint to the application of the principles-based guidance in IAS 1.

Disclosure of accounting policies

EFRAG's response

EFRAG welcomes the proposed amendment, which removes examples of accounting policies that entities felt compelled to disclose even if they did not result in relevant information. We recommend that IAS 1 should to state clearly that entities should not merely reproduce the content of IFRSs.

18 EFRAG welcomes the IASB's proposals to delete paragraph 120 of IAS 1 that was read to be an overly prescriptive requirement.

19 However, we believe that entities should disclose only those accounting policies that are both relevant to them and for which they are allowed a degree of discretion in choosing and applying the policy in circumstances where IFRSs permit alternatives.

20 EFRAG understands that some believe that it should be possible to read financial statements as a self-contained document, i.e. including all significant accounting policies, regardless of whether they result from a choice. However, when an entity merely reproduces parts of the existing Standards this may have little or no information value.

21 Therefore, we suggest that paragraph 119 be amended to state that disclosure of accounting policies as a summary of a Standard is generally not useful. Useful disclosure provides insights into the selection and application of accounting policies.

22 Finally, we welcome that the IASB is allowing entities in paragraph 113A to group accounting policies together with the other disclosures that relate to them. In EFRAG's view, this may help users in reading and understanding financial information also when it is disclosed in a detailed fashion.

Presentation of items of other comprehensive income arising from equity-accounted investments

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?

EFRAG's response

EFRAG agrees with the proposed amendments. However we recommend the IASB to use defined terms that are consistent with current Standards in order to avoid the need for future amendments.

23 EFRAG agrees with these proposed amendments. However, we note that the IASB is currently addressing the issue of reintroducing the option to use the equity method of accounting in separate financial statements also to measure investments in subsidiaries together with associates and joint ventures. Therefore, we believe that the IASB should use the term 'investee' currently in IAS 28 *Investments in Associates and Joint Ventures* and in IFRS 10 *Consolidated Financial Statements* rather than the terms 'associates and joint ventures' in order to avoid future amendments to IAS 1.

24 Furthermore, we believe that the IASB should remove the 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').

Transition requirements

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?

EFRAG's response

EFRAG agrees with the proposed transition requirements.

25 EFRAG agrees with the IASB's proposals.