STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**		
Paper topic	Amendments to IAS 1		
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Introduction

1. At its September 2013 meeting, the IASB discussed potential amendments to IAS 1 *Presentation of Financial Statements* as part of the Amendments to IAS 1 project under the Disclosure Initiative.[1]

2. At this meeting we are returning to the matter of whether entities are expected to present their notes to the financial statements in a 'default' order or whether they should have more flexibility in ordering the notes to the financial statements.

3. We have also highlighted in this paper a change that we propose to make to the accounting policies amendments proposed at the September 2013 meeting. We think that both the income taxes example and the foreign currency example should be removed and replaced with an investment property accounting policy example.

[1] A copy of that Staff Paper can be found here: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/September/08B-IAS%201.pdf.

Presentation order—default basis or flexible?

Background

4. At the September 2013 meeting, the IASB discussed paragraphs 113–114 of IAS 1, which are about the order of the notes to the financial statements.

5. We recommended that paragraph 113 of IAS 1 should be amended to emphasise that an entity should consider the impact on both understandability and comparability when determining the order of the notes to the financial statements. The IASB agreed with this recommendation; however it said that the drafting should be clear that an entity should consider the impact on understandability **and/or** comparability.

6. We also proposed that paragraph 114 of IAS 1 should be amended to say "that an entity **could, for example,** present notes in the following order" [emphasis added]; it currently says "an entity **normally** presents notes in the following order" [emphasis added]. This was to address the perception by some that paragraph 114 of IAS 1 requires the notes to the financial statements to be disclosed in the order listed in that paragraph. Appendix A of this paper includes the draft wording proposed in the September 2013 meeting.

7. At that meeting the IASB discussed whether the notes to the financial statements should be presented using a 'default' basis for the ordering, or whether an entity should have flexibility when ordering its notes to the financial statements.

8. There was not a clear consensus by the IASB as to whether IAS 1 should prescribe a particular order of the notes to the financial statements or allow or encourage more flexibility, if it enhances understandability **and/or** comparability.

9. We think that to make a change to this paragraph we need to understand more clearly whether the IASB thinks that there should be a presumption that the notes will follow the order specified in IAS 1 or whether it wishes to allow more flexibility. We will draft the amendments to reflect that decision.

10. We recommend that the IASB includes a proposal to allow more flexibility, with a greater emphasis on understandability and comparability. Our recommendation is on the basis that:

(a) related disclosures can be presented together therefore increasing the connectivity and linking in the financial statements, for example, financial instrument accounting policy and financial instrument note presented together;

(b) more prominence can be given to the main transactions and events affecting an entity; and

(c) users of the financial statements are provided with an insight into what management view as important to the reporting entity.

11. We acknowledge that a less prescriptive approach will be seen by some as reducing comparability, in the sense that fewer entities might present notes in the same order. However, we put more weight on understandability and the factors identified above.

Question
Does the IASB think that entities should: (a) present notes in the specific order listed in paragraph 114 of IAS 1; or (b) have greater flexibility to present the notes to the financial statements in a varied order?

Significant accounting policies

12. In the September 2013 paper we highlighted that there is a perception that the threshold for a significant accounting policy is lower because of the income taxes example in paragraph 120 of IAS 1.

13. We recommended removing the reference to income taxes as an example of an accounting policy that a user would expect to see disclosed by an entity and therefore a significant accounting policy. This is because we think that most

for-profit entities would be expected to be subject to tax and, therefore, this contradicts some of the guidance in IAS 1 about what a significant accounting policy is. The IASB agreed with this recommendation. Appendix A of this paper includes the draft wording proposed in the September 2013 meeting.

14. Some have questioned what a significant accounting policy is and, although there is no clear agreement, most agree that an example of a significant accounting policy that requires disclosure is one that describes a choice specified in an IFRS. In this context, some questioned whether the foreign currency example in paragraph 120 of IAS 1 is a significant accounting policy, mainly because IAS 21 *The Effects of Changes in Foreign Exchange Rates* does not provide an accounting policy choice to an entity and it is not clear that such a policy would be significant. An earlier version of IAS 1 stated that both taxes and foreign currencies were areas where different accounting policies existed.

15. Because of the concerns raised, we recommend that the foreign currency example should also be deleted. Although we expect to deal with what a significant accounting policy is in another project in the Disclosure Initiative, we think that the meaning of paragraph 120 would benefit from the inclusion of a clearer example.

16. We intend to replace both the incomes taxes and the foreign currency examples with an investment property example, because IAS 40 *Investment Property* requires an entity to choose whether to measure its investment properties on a cost or fair value basis.[2] We think few would disagree that a description of this choice made by an entity in compliance with IAS 40 is a significant accounting policy.

[2] Please see paragraph 30 of IAS 40.

Appendix A—drafting proposed in the September 2013 paper

A1. The following drafting was proposed in the September 2013 paper for paragraphs 113–114 of IAS 1 on the order of the notes to the financial statements and for paragraph 120 of IAS 1 on significant accounting policies:

113 An entity shall, as far as practicable, present notes in a systematic manner that enhances either the understandability or the comparability, or both, of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

114 An entity could, for example, ~~normally~~ present~~s~~ notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with IFRSs (see paragraph 16);

(b) summary of significant accounting policies applied (see paragraph 117);

(c) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, which could be disclosed in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see IAS 37) and unrecognised contractual commitments, and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

120 Each 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. For example, ~~users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. W~~when an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.