

STAFF PAPER

September 2013

World Standard Setters meeting

Project	Disclosure Initiative		
Paper topic	Amendments to IAS 1 – September 2013 IASB paper		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

1. Enclosed is Agenda Paper 8B from the September 2013 IASB meeting.

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Introduction

1. This paper sets out potential amendments to IAS 1 *Presentation of Financial Statements*. The proposed amendments are designed to address matters related to disclosure that were brought to the attention of the IASB during the agenda consultation and in research carried out for the IASB. These specific matters were summarised in the Discussion Forum: Financial Reporting Disclosure (the ‘Discussion Forum’) Feedback Statement¹ (the ‘Feedback Statement’) and form part of a short-term step in the IASB’s Disclosure Initiative.
2. Other matters related to IAS 1 identified in the Feedback Statement that are not included in this paper, namely net debt reconciliations and the presentation of subtotals of IFRS recognised amounts such as EBIT and EBITDA, will be brought to the IASB for consideration in October.

Structure of this paper

3. This paper is structured as follows:
 - (a) Purpose of paper (paragraphs 6–8)
 - (b) Summary of staff recommendations (paragraph 9)
 - (c) Proposed IAS 1 amendments (paragraphs 10–69)

¹ *Discussion Forum – Financial Reporting Disclosure: Feedback Statement – May 2013*

- (i) Materiality and aggregation
 - (ii) Information to be presented in the statement of financial position
 - (iii) Notes: presentation order
 - (iv) Notes: disclosure of accounting policies.
4. The possible IAS 1 amendments are ordered by the paragraph numbers in IAS 1 to which they relate. Proposed wording is shown at the end of each section with new text underlined and deleted text struck through.
 5. For more information about the background of the Disclosure Initiative and next steps, please see Agenda Paper 8A.

Purpose of paper

6. This paper sets out some of the proposed amendments to IAS 1 that seek to address concerns raised during the agenda consultation, in research carried out for the IASB and during the Discussion Forum and related survey.
7. These amendments are intended to clarify, rather than significantly change, existing IAS 1 requirements. In most cases the proposed amendments respond to what IASB staff view as excessively literal interpretations of the wording in IAS 1. For example, in one of the cases we discuss, the words ‘normally present’ appear to have been read by some applying IFRS to mean any other presentation is abnormal and therefore not acceptable.
8. While we were undertaking our analysis, the staff did question whether these changes were necessary. However, the IASB has been told that the matters we are addressing here are a problem in practice. We think that the relatively modest amendments to the wording of IAS 1 will address the problems that have emerged in practice. We think the problems are due in part to inconsistent or unclear wording, compounded by the absence of a Basis for Conclusions for the particular paragraph.

Summary of staff recommendations

9. In this paper, we recommend that:

- (a) additional guidance should be added to the materiality section of IAS 1 to clarify that the concept of materiality should be applied to the specific disclosure requirements set forth in a Standard or Interpretation. This materiality assessment should be made in addition to determining whether any related amounts should be recognised or presented in the primary financial statements. (see paragraphs 12-27);
- (b) wording should be included in the materiality paragraphs of IAS 1 to increase awareness of how disclosing immaterial information could obscure useful information (see paragraphs 31-35);
- (c) paragraphs 54 and 82 of IAS 1 should be amended to clarify that the line items listed in paragraphs 54 and 82 respectively of IAS 1 can be disaggregated and should be disaggregated if it provides relevant information (see paragraphs 36—~~048~~);
- (d) paragraph 114 of IAS 1, including subparagraph 114(c), should be amended to clarify that the order shown in that paragraph is not a requirement, but an example. We also recommend that wording should be included in paragraph 113 of IAS 1 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 (see paragraphs 49-62); and
- (e) paragraph 120 of IAS 1 should be amended to remove the income taxes accounting policy example (see paragraphs 63-69).

Proposed IAS 1 amendments

Materiality and aggregation—paragraphs 29-31 of IAS 1

10. The structure of the materiality and aggregation section of this paper is as follows:
- (a) Current wording in IAS 1
 - (b) Staff analysis and recommendations regarding changes to IAS 1 in response to:
 - (i) the misconception that disclosures specifically required by IFRS are not subject to materiality guidance in IAS 1 (paragraphs 18–27); and
 - (ii) the concern that too much detail can obscure useful information (paragraphs 31–35).

Current wording

11. Below are relevant extracts from IAS 1 about materiality and aggregation.

Materiality and aggregation	
15	Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the <i>Framework</i>. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.
17	In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity: <ul style="list-style-type: none"> (a) ... (b) ... (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.
29	An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

- 30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- 31 An entity need not provide a specific disclosure required by an IFRS if the information is not material.

Staff analysis and recommendations

12. Part of the disclosure problem identified at the Discussion Forum and from the related survey is that too much irrelevant information is being disclosed in financial statements, ie ‘disclosure overload’. Disclosure overload can mean that useful information is obscured and that the connections between disclosures are not obvious.
13. Some are of the view that a main cause of disclosure overload is that the concept of materiality is not being applied as well as it could be in determining what information should be disclosed in the financial statements. We have heard a number of reasons why this may be the case, including:
- (a) the behaviour of those in the financial reporting process, for example:
 - (i) preparers adopt a ‘better safe than sorry’ approach because of litigation and reputational pressures;
 - (ii) preparers and auditors use a tick-box approach to disclosure; and
 - (iii) regulators challenge the removal of information, even when immaterial;
 - (b) the way in which some Standards are drafted suggests that the concept of materiality in IAS 1 does not apply to the specific disclosure requirements in that Standard; and
 - (c) the guidance on materiality in IAS 1 is not as clear as it could be.
14. Paragraph 7.45 of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, published in July 2013 (the ‘Conceptual Framework 2013 DP’), describes the IASB’s preliminary view that no changes should be

made to the concept of materiality. This is because the IASB believes that the concept is clearly described in the existing *Conceptual Framework*. However the IASB also understands that some in the financial reporting chain say that they have difficulty applying the concept of materiality in practice.

15. As part of the Disclosure Initiative, IASB staff plan to work with preparers, auditors and securities regulators to start a project on materiality. The project will consider work already done in this area with a view to recommending whether additional guidance is needed.
16. The Disclosure Initiative will also consider how disclosure requirements in new Exposure Drafts are drafted along with a longer-term project to perform a thorough and comprehensive review of the presentation and disclosure requirements in existing Standards (paragraph 13(b)).
17. However, we also think that amendments that clarify some aspects of IAS 1 could address some of the specific problems we have heard with regard to applying the materiality guidance in that Standard (paragraph 13(c)). The following paragraphs 18-35 describe those problems and how we propose to address them.

Misconception: disclosures specifically required by an IFRS are not subject to materiality guidance in IAS 1

18. The Feedback Statement noted the following:

The IASB has been told that some people think that the statement about not needing to disclose information if it is not material [paragraph 31 of IAS 1] means that an entity does not need to disclose an item in the primary financial statements... but instead must disclose it in the notes.

.....

The IASB is aware that some people think that the statement in paragraph 31 of IAS 1 ... relates to assessing whether something in the statement of financial position or statement of profit or loss and other comprehensive income is material. If it is a material amount, those people believe that this triggers a requirement to disclose everything about that item that is set out in the related

Standard – IFRS 2 *Share-based Payment* is the most quoted example.

19. We think that the views described in paragraph 18 above are different aspects of the same misconception, namely that:
- (a) materiality is assessed only within the context of primary financial statements; and
 - (b) that disclosures in the notes to the financial statements specifically required by IFRS are not subject to paragraph 31 of IAS 1.
20. In our view, the concept of materiality applies both to the primary financial statements² and to the accompanying notes. Paragraph 31 of IAS 1 makes this clear by specifically referring to “disclosure required by an IFRS”. Because IFRS relates to financial statements as a whole, it would be incorrect to limit the application of paragraph 31 of IAS 1 to information provided in the primary financial statements.
21. Our interpretation is consistent with recent tentative views expressed by the IASB in paragraph 7.11 of the Conceptual Framework 2013 DP:
- 7.11 ‘Disclosure’ has a broader meaning than presentation. Disclosure is the process of providing useful financial information about the reporting entity to users. The financial statements, including the amounts and descriptions presented in the primary financial statements and the information included in the notes to the financial statements, are, as a whole, a form of disclosure
22. In addition, we think that paragraph 31 of IAS 1 is clear that materiality applies within a Standard, by referring to “a **specific** disclosure required by an IFRS” [emphasis added], not to a Standard as a whole. Consequently, an entity should separately assess the materiality of information provided by individual disclosure requirements within an IFRS. This means that even if an amount is material

² Paragraph 7.14 of the Conceptual Framework 2013 DP identified the ‘primary financial statements’ as: the statements of financial position, the statement of profit or loss and OCI (or the statement of profit or loss and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows. We have used that same definition in this paper.

relative to a primary financial statement, an entity need not make a related disclosure specified in IFRS if the information provided by that disclosure is not material.

23. However, we understand that there is also a perceived conflict between the materiality requirements in IAS 1 and the way in which disclosure requirements are worded. For example, the disclosure requirements in paragraphs 44-45 of IFRS 2 are as follows:

44 An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

45 To give effect to the principle in paragraph 44, the entity shall disclose at least the following....

We are told that by saying that an entity shall disclose **at least/at a minimum** and then providing a list of disclosures leads some applying IFRS to conclude that it is difficult for a general materiality statement in IAS 1 to override the specific requirements in an IFRS.

24. Other examples of where the conflicting wording appears include:

- (a) Related parties/related party transactions;
- (b) Financial instrument disclosures;
- (c) Level 3 fair value measurements; and
- (d) Operating segments.

Relevant extracts for these Standards are shown in Appendix A to this paper.

25. None of these Standards includes a Basis for Conclusions supporting why the IASB chose the 'at a minimum' wording. We therefore think that amending these disclosure requirements to change/remove the 'at a minimum'/'at least wording' requires further research and assessment. We also think that it would be better to amend the language of disclosure requirements during one project so changes are not made piecemeal and are more consistent.

26. Consequently, we think that amending the specific disclosure requirement wording of Standards should be undertaken during the broader review of Standards' disclosure requirements. This is a medium-term research project under the Disclosure Initiative (see Agenda Paper 8A).
27. However, we recommend that additional guidance should be added to the materiality section of IAS 1 to clarify that the concept of materiality should be applied to the specific disclosure requirements set forth in a Standard or Interpretation. This materiality assessment should be made in addition to determining whether any related amounts should be recognised or presented in the primary financial statements. Making it clear in IAS 1 that materiality applies to the specific disclosure requirements within a Standard could help to alleviate some of the problems currently seen in practice.

Proposed wording

Materiality and aggregation	
31	An entity need not provide a specific disclosure required by an IFRS <u>in the financial statements, including the notes to the financial statements</u> , if the information is not material.
31A	<u>When an entity determines that a matter addressed by a Standard or Interpretation is material, it need not provide a specific disclosure that is set forth in that Standard or Interpretation if the information that would be provided by that specific disclosure is not material.</u>

Question 1

Does the IASB agree with the proposed amendments to paragraph 31 of IAS 1 and the insertion of a new paragraph 31A to IAS 1 for the reasons stated in paragraphs 12-27 above?

28. We received a suggestion that paragraph 31 of IAS 1 be amended to reemphasise that materiality needs to be assessed both individually and collectively. This would reinforce the definition of material omissions provided in paragraph 8 of IAS 1:

Material Omissions or misstatements of items are material if they could, individually or collectively,

influence the economic decisions that users make on the basis of the financial statements...

29. The following draft wording was suggested:

An entity need not provide a specific disclosure required by an IFRS in the financial statements, including the notes to the financial statements, if the information is not material both on an individual basis and on a collective basis. In the collective assessment the entity assesses if the omission of a specific disclosure combined with the omission of other specific disclosures that are individually not material could influence the economic decisions that users make on the basis of the financial statements.

30. However, we have not included these additional words in our recommended amendments to paragraph 31 of IAS 1 because we think they provide guidance on what assessing materiality on a collective basis means and therefore think that this would be better placed in the other project on materiality under the Disclosure Initiative.

Concern: too much detail can obscure useful information

31. As discussed in paragraphs 12-13, too much irrelevant information was highlighted as part of the disclosure problem. The following was noted in the Feedback Statement:

More recent Standards have included a statement explaining that too much detail can obscure useful information—ie an explanation about why materiality should filter out entity-specific information that is not relevant to the users of the financial statements of a particular entity.

The IASB will be asked to consider adding a similar explanation to IAS 1. Although this will not change the meaning of, or interpret, materiality, it should bring a stronger focus on the existing words by explaining why they are important.

32. Providing too much irrelevant/immaterial information can obscure useful information included in financial statements and therefore make useful information less visible and potentially less understandable.
33. Recent Exposure Drafts have reinforced this point, for example the Regulatory Deferral Account Exposure Draft:

23 If any of the disclosures set out in paragraphs 25–33 are not considered relevant to meet the requirements in paragraph 22, they may be omitted from the financial statements. If the disclosures provided in accordance with paragraphs 25–33 are insufficient to meet the requirements in paragraph 22, an entity shall disclose additional information that is necessary to meet those requirements.

24 To meet the disclosure requirements in paragraph 22, an entity shall consider all of the following:

- (a) whether the rate-regulated activities are material to the financial performance or position of the entity;
- (b) the level of detail that is necessary to satisfy the disclosure requirements;
- (c) how much emphasis to place on each of the various requirements;
- (d) how much aggregation or disaggregation to undertake; and
- (e) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Similar wording was included in the recent Insurance Contracts Exposure Draft.

34. We think that similar language to that quoted in paragraph 33 of this paper should be included in the materiality paragraphs of IAS 1. The purpose would be to focus preparers and auditors on the fact that providing too much immaterial information can obscure useful information. We think this could help to change

some of the behavioural aspects of the disclosure problem highlighted in paragraph 13(a).

35. We do not recommend including a requirement for immaterial information not to be disclosed because we think such a requirement would not be operational. However we recommend that wording should be included in the materiality paragraphs of IAS 1 to increase awareness of how disclosing immaterial information could obscure useful information.

Proposed wording

Materiality and aggregation

- 29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- 30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- 30A An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of immaterial detail or the aggregation of items that have different characteristics.

Question 2

Does the IASB agree with the proposed amendments to paragraph 30 of IAS 1 for the reasons stated in paragraphs 31-35 above?

**Information to be presented in the statement of financial position—
paragraph 54**

Current wording

- 54 As a minimum, the statement of financial position shall include line items that present the following amounts:**
- (a) ...;**
 - (c) intangible assets;**
 - (d) ...;**
 - (h) trade and other receivables;**
 - (i) ...;**
 - (k) trade and other payables;**
 - (l) ...;**
 - (r)**
- 55 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

Staff analysis and recommendations

36. The Feedback Statement noted the following:

IAS 1 has some very specific disclosure items that some preparers seem reluctant to adapt, or are discouraged from adapting to the specific circumstances of their entity. They are simple things such as requirements to disclose intangible assets (including goodwill), trade and other receivables, and trade and other payables.

The consensus among preparers and users is that an entity should be able to present, on the face of the primary financial statements, goodwill as a separate item and then other intangible assets, or trade receivables as separate items. Many preparers think that IAS 1 prevents them from doing so or that they must use the specific terms used in IAS 1.

37. The current wording of paragraph 54 of IAS 1 could be interpreted as requiring the line items listed in that paragraph to be presented in the statement of financial position exactly as shown. However, as noted in the Feedback Statement, there is a view held by some preparers and users that an entity should have more

flexibility when presenting line items in the statement of financial position and other primary financial statements.

38. If an entity is more flexible in presentation of the line items in the statement of financial position, the line items could be presented in a more entity-specific and therefore, potentially more appropriate manner. However, some have noted their concern about allowing greater flexibility. For example, some users noted that they are required to analyse many sets of financial statements at speed and allowing greater flexibility decreases their ability to do this and also decreases comparability between entities and between periods for the same entity.
39. We note that paragraph 54 of IAS 1 requires the disclosure of those line items **at a minimum**. It does not prohibit an entity from disaggregating those line items on the statement of financial position so that the ‘minimum’ requirement is represented by two or more line items.
40. In addition, paragraph 55 of IAS 1 states that an entity should present additional line items if relevance is thereby increased. This again implies that the line items listed in paragraph 54 of IAS 1 should be disaggregated (thereby presenting additional line items) if doing so is relevant to an understanding of the entity’s financial position.
41. The Guidance on Implementing of IAS 1, Part I: *Illustrative presentation of financial statements* shows an example of a statement of financial position with goodwill shown as a separate line item and other intangible assets shown as another line item. This therefore implies that the intention of paragraph 54 of IAS1 is not to require presentation of specific line items as listed; instead, it means that disaggregation of those line items is permitted.
42. We also note paragraph 57(a) and paragraph 58 of IAS 1 (among others) which again state/imply that additional line items can be presented:
- 57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of: ...

- 43. Although we note the concern raised by some about consistency, we do not think that amending IAS 1 to state more explicitly that the list in paragraph 54 of IAS 1 is not a strict prescriptive list will contradict the intention of this paragraph.
- 44. Although we think that IAS 1 is clear that additional line items can be presented in the statement of financial position we recognise that others have not interpreted it in this way. Therefore to respond to the understanding that IAS 1 paragraph 54 has been interpreted as prohibiting separating the line items listed, we think that additional language could be included to further clarify that they can be.
- 45. We therefore recommend that paragraph 54 of IAS 1 should be amended to clarify that the line items listed in that paragraph can be disaggregated and should be disaggregated if it provides relevant information.

Proposed wording

54 As a minimum, the statement of financial position shall include line items that present the following amounts:

- (a) ...;
- (c) intangible assets;
- (d) ...;
- (h) trade and other receivables;
- (i) ...
- (k) trade and other payables;
- (l) ...;
- (r)

An amount listed above should be disaggregated if it provides relevant information, and the disaggregated amounts should be presented separately. For example, separate line items for “goodwill” and “other intangible assets” could replace “intangible assets” listed in subparagraph (c) above.

55 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

46. We also note that paragraph 82 of IAS 1 contains a similar list of information to be presented in the profit or loss section or the statement of profit or loss:

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:

(a) revenue;

(aa) gains and losses arising from the recognition of financial assets measured at amortised cost;

(b) finance costs;

...

(ea) ...

47. We note that this paragraph does not include the ‘at a minimum’ wording; however, paragraph 85 of IAS 1 contains a similar requirement to paragraph 55 of IAS 1

85 An entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.

48. Consequently, we also recommend that paragraph 82 of IAS 1 should also be amended to be consistent with paragraph 54.

Question 3

Does the IASB agree with the proposed amendment to paragraph 54 of IAS 1 for the reasons stated in paragraphs 36-048? Do you also agree that a similar amendment should be made to paragraph 82 of IAS1?

Notes: presentation order—paragraphs 113 and 114 of IAS 1

Current wording

113 An entity shall, as far as practicable, present notes in a systematic manner. 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 normally presents 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, in the order in which each statement and each line item is presented; and
- (d) other disclosure, 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).

Staff analysis and recommendations

49. The Feedback Statement noted the following in relation to presentation order:

Investor respondents to the IASB survey and participants at the Discussion Forum told the IASB that they want to be able to see how disclosures are related. They consider the financial statements to be disjointed, making it difficult to connect relevant information together.

...

Some preparers told the IASB that this perception of ‘normal’ [that paragraph 114 of IAS 1 prescribes an order] makes it difficult for an entity to present the explanatory notes in order of importance or to present related information together in cohesive sections...

50. As noted, the IASB has heard that saying ‘normally presents’ in paragraph 114 of IAS 1 has been interpreted as a requirement that entities must present in this way. As noted in the Feedback Statement, this could mean that an entity feels prevented from:

- (a) varying the order of the notes, for example, to a more entity-specific way such from the most important to the entity to the least important; and
- (b) combining disclosures, for example, combining the accounting policy for financial instruments with the notes for financial instruments.

51. Some users have indicated that an entity-specific order or combination of notes to the financial statements can be useful because it allows them to identify what is important to the reporting entity and its management.

52. We also note that in the survey on financial reporting disclosure that we carried out earlier this year, user respondents noted that ‘poor communication’ was a key cause of the disclosure problem with 79 per cent of those who responded to the question either agreeing or strongly agreeing.

53. We also asked users about a number of potential different causes of ‘poor communication’, including:

User response	Strongly agree & agree	Indifferent	Strongly disagree & disagree
The order of disclosures does not reflect priority or importance	55%	33%	12%
Disclosures throughout the annual report are not linked or connected	79%	9%	12% ³

54. However, we have heard from other users that the ordering of disclosures should be consistent between entities and from reporting period to reporting period of an entity. One reason is because, owing to the amount of financial statements they have to read in a short space of time, consistency of order helps this to be undertaken as quickly as possible.
55. Mixed views on this topic were also noted by EFRAG in their recent Feedback Statement on the Discussion Paper *Towards a Disclosure Framework for the Notes*:⁴

Respondents expressed mixed views about the ordering of information. Twelve respondents argued in favour of a standardised ordering, claiming it was more intuitive and less burdensome; eight argued in favour of a more flexible structure that would give prominence to the main transactions and events. Some respondents suggested that having a summary could bridge the two approaches.

56. Paragraph 113 of IAS 1 states that an entity shall, as far as practicable, present notes in a systematic manner. We think that this means that there must be a system (reason) behind the ordering of the notes to the financial statements, which could include, for example, ordering by:
- (a) importance to the entity;
 - (b) line item in the primary financial statements; or
 - (c) a combination of the above.

³ The data in this table does not include those participants who did not respond to this question or answered ‘Don’t know’.

⁴ http://www.efrag.org/files/Disclosure%20Framework/130423_Disclosure_Framework_-_feedback_stmt.pdf

57. We note that the wording in paragraph 114 of IAS 1 states that an entity **normally presents** in a certain manner. However, it does not say that an entity **must** present in that order. We therefore think that the wording was not intended to be interpreted as a requirement to disclose information in the order listed in paragraph 114 of IAS 1, but was instead intended to provide an example of how an entity could order the notes.
58. We also think that the wording in paragraph 114(c) of IAS 1 (that supporting information is presented in the order in which each statement and each line item is presented) is not helpful, because it again reinforces the idea that there is a set order to the notes to the financial statements that is required.
59. We have identified two approaches to how to amend IAS 1 to make the clarification:
- (a) Approach 1: delete paragraph 114 of IAS 1; and
 - (b) Approach 2: retain paragraph 114 of IAS 1 but amend the language so it is clearer that the order listed is an example and not a requirement.
60. We think that there are a number of arguments for Approach 1:
- (a) paragraph 113 of IAS 1 contains the requirement for the ordering of the notes (ie presentation in a systematic manner). Because of this, paragraph 114 of IAS 1 may not be necessary; and
 - (b) paragraph 114 of IAS 1 only gives one example of the order of notes and therefore this may not be helpful to preparers when they apply the requirement for notes to be presented in a systematic manner.
61. However, deleting paragraph 114 of IAS 1 may be perceived to be a bigger change than we think it actually is. In addition, preparers may find the example of ordering the notes to financial statements shown in paragraph 114 of IAS 1 helpful. Finally, on the basis of what we have heard, users may appreciate the consistency that the example in paragraph 114 of IAS 1 has the potential to create, in the absence of a more useful order of presentation.
62. Consequently, on balance, we recommend that the wording of paragraph 114 of IAS 1, including subparagraph 114(c), should be amended (Approach 2) to clarify that the order shown in that paragraph is not a requirement, but only an example.

We also recommend that wording should be included in paragraph 113 of IAS 1 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.

Proposed wording

- 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~~ presents 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).

Question 4

Does the IASB agree with the proposed amendments to paragraphs 113 and 114 of IAS 1 for the reasons stated in paragraphs 49-62?

Notes: disclosure of accounting policies—paragraphs 119-121 of IAS 1*Current wording*

- 119 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. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.
- 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. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchanges gains and losses.
- 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

Staff analysis and recommendations

63. Paragraph 117 of IAS 1 requires that significant accounting policies are disclosed. IAS 1 also includes guidance for how an entity should assess whether an accounting policy is significant. For example, paragraphs 119-121 of IAS 1 note the following indicators for assessing whether an accounting policy is significant:
- (a) whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reporting financial performance and position;

- (b) the nature of the its operations and the policies that users would expect to be disclosed should be considered by the entity;
- (c) disclosure is especially useful when there are accounting policy alternatives in IFRSs;
- (d) whether disclosure of the accounting policy is specifically required by a Standard;
- (e) the nature of the entity’s operations. This is because the accounting policy may be significant even if the current or prior periods amount is not material, ie the disclosure is qualitatively significant; and
- (f) that is it appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but that the entity selects and applies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

64. However, as noted in the Feedback Statement, IAS 1 then includes language which could be interpreted as contradicting the description of ‘significant’ given in IAS 1. Specifically, paragraph 120 of IAS 1 states that “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”.

65. This example seems to contradict the guidance given in IAS 1 (referenced in paragraph 63 above). Most profit-making entities would be assumed to be subject to income taxes over some period during their corporate life. Being liable to income taxes is therefore in the nature of operations for many entities and is unlikely to be entity-specific. Consequently, referencing that a user would expect the accounting policy for income taxes to be disclosed does not seem to be consistent with “the nature of the entity’s operations and policies” being an indicator of significance.

66. We do not think that the income tax example given in paragraph 120 of IAS 1 helps preparers to apply the significant accounting policy disclosure requirements in IAS 1 and so it could be unhelpful.

67. We therefore recommend that paragraph 120 of IAS1 should be amended to remove the income taxes accounting policy example.

68. We did consider recommending that a different example should replace the income taxes example. However there are a number of other examples already included in these paragraphs (references to IAS 40 *Investment Property*, IAS 16 *Property, Plant and Equipment* and foreign operations), so we did not think it was necessary.
69. We have also heard that more clarity needs to be given in the guidance for what a significant accounting policy is. Although we acknowledge these requests for greater clarity, we think that determining whether revised guidance is needed would be better placed in the longer-term research project into the replacement of IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8.

Proposed wording

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.~~ 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.

Question 5

Does the IASB agree with the proposed amendments to paragraph 120 of IAS 1 for the reasons stated in paragraphs 63-69?

Appendix A—Disclosure requirements in current Standards

A1. The following table shows disclosure requirements in current Standards that use the ‘at a minimum’/‘at least’ wording followed by a list of specific disclosures.

Standard	Text	
IFRS 2 <i>Share-based Payment</i>	44	An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.
	45	To give effect to the principle in paragraph 44, the entity shall disclose at least the following: ...
IFRS 2	46	An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.
	47	If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following: ...
IFRS 2	50	An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.
	51	To give effect to the principle in paragraph 50, the entity shall disclose at least the following: ...
IFRS 7 <i>Financial Instruments: Disclosures</i>	42E	To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 3.2.6(a) and (c)(i) of IFRS 9) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

Standard	Text	
IFRS 8 <i>Operating Segments</i>	27	<p>An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:</p> <p>...</p>
IFRS 13 <i>Fair Value Measurement</i>	93	<p>To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:</p> <p>...</p>
IFRS 13	93	<p>...</p> <p>(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:</p> <p>(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).</p> <p>...</p>

Standard	Text	
IAS 24 <i>Related Party Disclosures</i>	18	<p>If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:</p> <p>...</p>