IASB's Disclosure Initiative: Project Update

Tentative decisions made by the IASB – September 2013

1 At the September 2013 IASB meeting the IASB considered proposed narrow-scope amendments to IAS 1. The proposed amendments are intended to address some of the concerns raised at the IASB's Discussion Forum (summarised in the *Discussion Forum: Financial Reporting Disclosure* Feedback Statement) as well as proposals arising from issues raised to the IFRS Interpretations Committee.

2 The proposed amendments to IAS 1 discussed at the September 2013 meeting were:

(a) proposed amendments to IAS 1;

(b) current/non-current classification of liabilities; and

(c) presentation of items of other comprehensive income arising from equity accounted investments.

3 As noted in Agenda Paper 16.1, many of the proposed amendments have arisen from the discussion forum and the AASB discussed a number of the proposals at the September AASB meeting. The IASB staff have noted that the proposed amendments are intended to clarify, rather than significantly change, existing IAS 1 requirements. The IASB staff proposed to present the proposals (items (a) – (c)) as a single package and published as a single Exposure Draft in Q1 2014.

4 An overview of the IASB tentative decisions are outlined below (refer to Appendix A for an extract of the proposed amendments to the paragraphs in IAS 1).

Proposed amendments to IAS 1

	Overview of IASB Discussion	Preliminary AASB Staff View
1.	**Materiality and aggregation** 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. Materiality should be assessed both for primary financial statements and for the notes to the financial statements.	AASB staff **agree** with this proposed amendment[1].

1 Refer to AASB September board meeting agenda paper 11.2, paragraph 29.

	Overview of IASB Discussion	Preliminary AASB Staff View
2.	**Materiality and aggregation** Wording should be included in the materiality guidance in IAS 1 to highlight that disclosing immaterial information could obscure useful information.	AASB staff **agree** with this proposed amendment[2].
3.	**Information to be presented in the statement of financial position** Paragraph 54 of IAS 1, which deals with presentation of line items in the statement of financial position, should be amended to clarify that the line items listed in that paragraph can be disaggregated and should be disaggregated if doing so would provide relevant information. In addition, a similar amendment should be made to paragraph 82 of IAS 1, which deals with presentation of line items in the profit or loss section or statement.	Having regard to paragraphs 55 and 57 of IAS 1, AASB staff think it should be clear that preparers are not prevented from adding additional line items or amending the descriptions of line items[3]. Therefore, AASB staff **disagree** with the proposed amendment as staff do not think clarification is required regarding the presentation of the financial statements.
4.	**Notes: Presentation order** Paragraph 114 of IAS 1 (including subparagraph 114(c)), which deals with the order of the notes to the financial statements, should be amended to clarify that the order shown in that paragraph is not a requirement, but is one that is commonly used. Wording should also be included in paragraph 113 of IAS 1 to emphasise that an entity should consider the effect on both understandability and comparability when determining the order of the notes to the financial statements.	AASB staff **agree** with this proposed amendment[4]. However, in addition to the proposed amendment, AASB staff suggest that the IASB clarifies the requirements in paragraph 117 – and that the accounting policy note should disclose policies particularly relevant to an understanding of the financial statements of that entity. Currently, it appears that many entities are providing a brief overview of the recognition and measurement requirements of many of the Standards. AASB staff consider the focus of the accounting policy note should be on the choices the entity has made in applying the IFRS, and any relevant techniques it has used in meeting the IFRS requirements that would not otherwise be evident to users.

2 Refer to AASB September board meeting agenda paper 11.2, paragraph 17.
3 Refer to AASB September board meeting agenda paper 11.2, paragraph 49.
4 Refer to AASB September board meeting agenda paper 11.2, paragraph 43.

	Overview of IASB Discussion	Preliminary AASB Staff View
5.	**Disclosure of accounting policies** Paragraph 120 of IAS 1, which gives guidance on identifying which accounting policies should be disclosed, should be amended to remove the income taxes accounting policy example.	While AASB staff **agree** with this amendment, AASB staff think further amendments could also be considered to clarify that the accounting policy note should disclose policies particularly relevant to an understanding of the financial statements of that entity[5].

Current/non-current classification of liabilities

5 This issue concerns the current/non-current classification of liabilities and has been discussed by the Interpretations Committee six times and twice by the IASB since September 2010.

6 In 2010 the Interpretations Committee conducted outreach on this topic and as a result of this consultation recommended a proposed amendment to IAS 1 as part of the Exposure Draft: *Annual Improvements to IFRSs: 2010-2012 Cycle*. The proposed amendment was to add the words 'with the same lender, on the same or similar terms,' to paragraph 73 of IAS 1[6].

7 The AASB agreed with this proposed amendment in its comment letter to the IASB. However, at its March 2013 meeting the IASB agreed not to proceed with the proposed amendment as part of the 2010-2012 Annual Improvements project and asked IASB staff to develop an alternative approach to clarifying the requirements of IAS 1.

8 At the September IASB 2013 meeting, IASB staff summarised the possible approaches identified up to and including the IASB's March 2013 meeting:

5 Refer to September board meeting agenda paper 11.2, paragraph 44.

6 IAS 1, paragraph 73 currently reads:

> "If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

(a) *Approach A*: specify that loans longer than 12 months from an existing lender are non-current and all loans from a new (ie future) lender are current and define when terms are 'the same or similar' (but not in terms of financial instrument derecognition).

(b) *Approach B*: clarify the meaning of 'unconditional right' in paragraph 69(d) and 'discretion' in paragraph 73; and/or

(c) *Approach C*: distinguish 'settlement of the liability' in paragraph 69(d) with 'refinance' or 'roll over an obligation' in paragraph 73.

9 IASB staff also outlined a more general approach that is based on an assessment of arrangement(s) in existence at the reporting date and addresses the tension between an unconditional right in paragraph 69(d) of the Standard and the entity's discretion in paragraph 73 of the Standard. Staff noted that this approach could also be extended to link the classification of liabilities with the timing of cash outflows.

10 After consideration of the four possible approaches to clarifying the Standard the IASB tentatively decided to develop a more general approach based on an assessment of the arrangement(s) in existence at the reporting date.

11 AASB staff **agree** with the tentative decision to develop a more general approach based on an assessment of the arrangement in existence at the reporting date. However staff are concerned with linking the classification of liabilities with the timing of cash outflows. Although this may result in the clearer application of the Standard for liabilities that are settled in cash, staff note that there could be liabilities that may not be settled in cash (e.g. non-fixed for fixed equity-settled instrument). Therefore, staff believe an approach based on the timing of cash outflows may be too narrow and would prefer the only amendment made to paragraph 69(d) in regard to settlement of the liability is the removal of the words 'an unconditional'.

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

12 At its July 2013 meeting, the IFRS Interpretations Committee considered a request to clarify the requirements in paragraph 82A of IAS 1 for presenting an entity's share of the other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method. This issue arose because there was confusion about how the wording in the Standard was to be interpreted. In particular, questions were raised about whether the IASB intended in its June 2011 amendments to IAS 1 to require the

presentation of the share of the OCI arising from equity method investments separately by nature, or in aggregate as a single line item.

13 The Committee recommended that the IASB should amend paragraph 82A of IAS 1 to clarify that entities shall present the share of the OCI of associates and joint ventures accounted for using the equity method in aggregate as a single line item. This share should be classified between whether those items will or will not be subsequently reclassified to profit or loss. In addition, the Interpretations Committee recommended amending the Implementation Guidance in IAS 1 to reflect that change.

14 At the September 2013 IASB meeting, the IASB members agreed with the Interpretations Committee recommendation to amend paragraph 82A and the Implementation Guidance to clarify that items of OCI arising from equity-accounted investments should be presented in aggregate as a single line item, classified by whether those items will or will not be reclassified to profit or loss.

15 As noted in September 2013 AASB meeting Agenda Paper 4.2, AASB staff **agree** with the tentative decision to amend paragraph 82A to clarify that entities shall present the share of the OCI of investments accounted for using the equity method in aggregate as a single item.

Appendix: Proposed amendments to IAS 1

1. Materiality and aggregation

31 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.

31A 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.

2. Materiality and aggregation

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.

3. Information to be presented in the statement of financial position

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

(a) …;

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.

4. Notes: Presentation order

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:

…

5. Disclosure of accounting policies

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.