

Issues Paper – ED 249 (ED/2014/1) *Disclosure Initiative*

Introduction and background

- 1 The purpose of this issues paper is to outline potential issues in ED 249 *Disclosure Initiative* and decide whether these issues, or any other issues, should be included in the AASB's submission on IASB ED/2014/1 *Disclosure Initiative*. This paper is structured to correspond to the questions asked by the IASB in ED/2014/1.
- 2 The issues raised in this paper incorporate feedback from submissions received on ED 249 (see Agenda Paper 15.3).
- 3 Staff will raise at the Board meeting any significant issues included in further submissions received that they think have not already been adequately dealt with in this paper.

Overall thoughts on the proposals

- 4 AASB staff generally support the proposals outlined in ED/2014/1 and consider the proposed amendments will provide the guidance and clarification that is being sought by stakeholders on how materiality should be applied. Furthermore, AASB staff think the proposed amendments will help avoid preparers providing unnecessary information and/or obscuring useful information.
- 5 However, while supportive of the proposed amendment to remove the reference to 'as a minimum', AASB staff think the IASB should seek to amend the disclosure requirements in all IFRSs that have a reference to 'as a minimum' by deleting this reference.
- 6 In addition, AASB staff have concerns with the additional reconciliation requirements proposed in paragraph 85B of the ED. AASB staff consider requiring entities to prepare further reconciliations to explain additional subtotals is an additional burden for preparers and could potentially lead to some entities choosing not to include the additional subtotals to avoid the requirement to prepare the reconciliations. Consequently, AASB staff are concerned the proposed amendment may result in preparers depriving users of additional useful information in the financial reports.

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 judgment 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

- 7 AASB staff agree with the proposed amendments to change the terminology used in paragraphs 29 and 30.
- 8 AASB staff consider the current wording of paragraphs 29 and 30, which only refers to ‘present’ and ‘presentation in the notes’, could lead preparers to interpret the requirements of those paragraphs to only apply to presentation on the face of the financial statements. Therefore, AASB staff generally support the proposed amendments to add the words ‘disclose’ and ‘disclosure’. AASB staff think the inclusion of these additional words provides clarification that the materiality requirements in these paragraphs apply equally to the financial statements and the notes to the financial statements. In this regard, in paragraphs S195 and S196 of the [AASB Supplementary Paper to its submission on IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*](#) (dated 6 June 2014)¹, the AASB noted the following:

“... ideally, ‘display’ should be used as the overarching term encompassing the structure of financial reports, the nature and amount of information shown in financial reports and the manner in which that information is set out. This would complement describing

1 http://www.aasb.gov.au/admin/file/content106/c2/AASB_letter_to_IASB_CF_DP_2013_1_AASB_Supplementary_Paper.pdf

‘presentation’ in the same way as paragraph 7.10 of the DP and describing ‘disclosure’ as the display of information in notes (i.e. complementing information presented on the face of the primary financial statements). The AASB considers that using three terms for the subject matter of Section 7 of the DP (i.e. ‘display’, ‘presentation’ and ‘disclosure’) would have the advantage of providing a term that succinctly and specifically describes being displayed in the notes (and thus is distinct from the more general notion of ‘display’).”

- 9 AASB staff recommend reiterating the point in paragraph 8 in the Disclosure Initiative submission.

Question 1 to the Board:

Does the Board agree with the staff recommendation outlined in paragraph 9 above?

- 10 AASB staff strongly support the proposed paragraph 30A, which provides clarification regarding the potential detrimental effect of including immaterial or irrelevant information in the financial statements. As noted in the AASB Staff Paper [*To Disclose or Not to Disclose: Materiality is the Question*](#)², “one significant part of the solution [to the disclosure overload issue] is for preparers to not disclose immaterial and unnecessary information.” Therefore, AASB staff consider the proposed paragraph will provide the guidance and clarification required to help avoid preparers providing unnecessary information and/or obscuring useful information.
- 11 AASB staff support the proposed amendments to paragraph 31, to clarify the requirements concerning the disclosure requirements outlined in other Standards. AASB staff think that the proposals provide clear guidance on how materiality should be applied and clarification for preparers that materiality applies to all disclosures when applying all IFRSs, not just IAS 1.
- 12 While supportive of the proposed amendments regarding materiality and aggregation, AASB staff think a further amendment that could be made by the IASB to clarify the application of materiality is to amend the definition of material in paragraph 7 of IAS 1. In this regard, in paragraph S271 of the [*AASB Supplementary Paper to its submission on IASB Discussion Paper DP/2013/1*](#)³, the AASB noted that,

“The first sentence of paragraph QC11 of the existing IASB Conceptual Framework says: “Information is material if omitting it or misstating it could influence decisions that users make on the basis of

2 http://www.aasb.gov.au/admin/file/content102/c3/RCSP_2-14_Disclosure_and_Materiality.pdf

3 http://www.aasb.gov.au/admin/file/content106/c2/AASB_letter_to_IASB_CF_DP_2013_1_AASB_Supplementary_Paper.pdf

financial information about a specific reporting entity” (emphasis added). The AASB considers that, in a description of ‘material’, “influence” is, of itself, a directionless term that warrants complementing with more precise expression⁴. This is because the omission of immaterial information could (and should) favourably influence users’ decision making by avoiding clutter in the financial report⁵. Clearly, in the context of the description of ‘material’ in paragraph QC11 of the existing IASB Conceptual Framework, insignificant information is not intended to be identified as material on the grounds that its omission would favourably influence users’ decision making. However, such information would appear literally to be identified as ‘material’ under that description. Therefore, to reflect the apparent intended meaning of that description, the AASB recommends amending that description along the lines marked up below:

“Information is material if omitting it or misstating it could adversely influence decisions that users make ...”.

- 13 AASB staff recommend reiterating the point in paragraph 12 in the Disclosure Initiative submission.

Question 2 to the Board:

Does the Board agree with the staff recommendation outlined in paragraph 13 above?

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

- 14 AASB staff strongly support the proposed deletion of the words ‘at a minimum’ from paragraph 54. Furthermore, AASB staff think that the IASB staff should seek to amend all statements in IFRSs that particular items should be disclosed ‘as a minimum’. For example paragraph 92 of IFRS 13 states: ‘... an entity shall consider ... the level of detail necessary to satisfy the disclosure requirements; ... how much emphasis to place on each of the various requirements; [and] ... how much aggregation or disaggregation to undertake...’ However, this is followed by the requirement in paragraph 93 ‘To meet the objectives in paragraph 91, an entity shall disclose, at a minimum...’ AASB staff believe that, without supporting clarification, the wording of paragraph 93 could be misinterpreted as contradicting the message in

4 The AASB noted that “influence” is also used without qualification in the definition of ‘material’ set out in paragraph 7 of IAS 1 and paragraph 5 of IAS 8. The AASB suggested also considering this issue at a standards level within the IASB’s Disclosure Initiative project.

5 Note that in paragraph S76 above, the AASB recommended that the revised IASB Conceptual Framework should state that recognition of immaterial classes of assets and liabilities should not occur to the extent that users of financial reports would be impeded from identifying the information that is important for making resource allocation decisions.

paragraph 92 and the statement in paragraph 31 of IAS 1 *Presentation of Financial Statements* that an entity need not provide a specific disclosure required by an IFRS if the information is not material. AASB staff consider this problem to be indicative of a lack of clarity regarding the application of materiality in IFRSs.

- 15 In regard to the proposed amendments to paragraphs 54 and 82, AASB staff can accept the additional guidance to these paragraphs to provide guidance regarding disaggregation of line items. However, AASB staff think that it is already clear through paragraphs 55 and 57 (for the profit or loss statement) and paragraph 85 (for the statement of financial position), that preparers are not prevented from adding additional line items, disaggregating line items or amending the descriptions of line items.
- 16 In addition, AASB staff can accept, given the additional clarification provided in paragraphs 54 and 82 regarding the disaggregation of line items etc., and the concerns raised by constituents, the proposed additional requirements in paragraphs 55A and 85A.
- 17 However, AASB staff are concerned with the additional reconciliation requirements proposed in paragraph 85B. The disclosure initiative project was driven by the feedback received from stakeholders that there was disclosure overload and the Standards require too much disclosure. Therefore, AASB staff consider that requiring entities to prepare further reconciliations to explain additional subtotals that they deem to be necessary for users to understand the financial statements is an additional burden for preparers and could potentially lead to some entities choosing not to include the additional subtotals to avoid the requirement to prepare the reconciliations. Alternatively, entities may seek out other means of providing the same information to users, for example through analyst updates or other 'press release' type announcements. Therefore, AASB staff are concerned the proposed amendment may result in preparers depriving users of additional useful information in the financial reports.
- 18 In addition, AASB staff are concerned that the proposed paragraph is unclear as to whether the reconciliation is to be included within the statement of profit or loss and other comprehensive income, or in the notes. AASB staff think that clarification on this point is required.

Note structure

- 19 AASB staff strongly support the proposed amendments to paragraphs 113, 114, 115 and 116. The proposed amendments will help ensure that the notes are ordered in a manner that is more understandable for users as well as improving comparability. In particular, AASB staff strongly support the proposed addition of paragraph 113A that requires an entity to select the most appropriate order for notes to the financial statements. AASB staff consider this requirement is likely to discourage entities producing 'boilerplate' notes and will potentially result in financial statements being more understandable, comparable and therefore more useful to users.

Disclosure of accounting policies

- 20 AASB staff support the proposed deletion of paragraph 120. Given the other proposed amendments to the Standard regarding the notes to the financial statements, AASB staff agree with the IASB that the paragraph is no longer necessary.

Question 3 to the Board:

- (a) Does the Board agree with the staff comments made in paragraphs 7–20 above?
- (b) Are there any other issues in relation to the Disclosure Initiative amendments the Board wishes to raise to the IASB?

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?

- 21 AASB staff support the proposed amendments to paragraph 82A regarding the presentation of items of other comprehensive income arising from equity accounted investments to clarify that entities shall present the share of the other comprehensive income of associates and joint ventures accounted for using the equity method as a single line item, analysed between portions that:
- (a) will not be reclassified subsequently to profit or loss; and
 - (b) will be reclassified subsequently to profit or loss when specific conditions are met.

Question 4 to the Board:

- (a) Does the Board agree with the staff comments noted in paragraph 21 above?
- (b) Are there any other issues in relation to presentation of items of other comprehensive income arising from equity-accounted investments the Board wishes to raise to the IASB?

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)?

- 22 AASB staff support the proposed transition provisions for the amendments to IAS 1 outlined in paragraph 139N.

Question 5 to the Board:

- (a) Does the Board agree with the staff comment noted in paragraph 22 above?
- (b) Are there any other issues in relation to the Transition provisions and effective date the Board wishes to raise to the IASB?