

1 July 2014

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Email: standard@asb.gov.au

Dear Kevin

ED 249 Disclosure Initiative (Proposed amendments to AASB 101)

Thank you for the opportunity to comment on the above Exposure Draft (ED). CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered it and our comments are set out below.

CPA Australia and the Institute represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We are very supportive of the decision of the International Accounting Standards Board (IASB) to commence the Disclosure Initiative and advance work on the initiative through a series of short and medium-term projects including this project, which is focused on short-term clarifications to IAS 1 *Presentation of Financial Statements*.

Overall, we support the ED. We consider that a focus of financial statements should be on communication and that the ED proposals if adopted would encourage entities to focus on communication rather than compliance. Our reasons are explained in the attached submission to the IASB, which also includes our response to the specific questions for comment (see Appendix 1).

Our response to specific comments requested by the Australian Accounting Standards Board is included in Appendix 2.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely



Alex Malley
Chief Executive
CPA Australia Ltd



Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

Representatives of the Australian Accounting Profession



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Institute of
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01 July 2014

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via online submission: www.ifrs.org

Dear Hans

ED 2014/1 Disclosure Initiative

Thank you for the opportunity to comment on the above Exposure Draft (ED). CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered it and our comments are set out below.

CPA Australia and the Institute represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

In our submission to the International Accounting Standards Board (IASB) Request on Agenda Consultation 2011 we identified the importance for the IASB to undertake a project that addresses the volume of disclosures in order to reduce the complexity of financial statements. Therefore, we are very supportive of the decision of the IASB to commence the Disclosure Initiative and advance work on the initiative through a series of short and medium-term projects, including this project, which focuses on short-term clarifications to IAS 1 *Presentation of Financial Statements*.

Overall, we support the ED. We consider that a focus of financial statements should be on communication and that the ED proposals if adopted would encourage entities to focus on communication rather than compliance.

Our detailed response to the questions posed in the ED is contained in the attached appendix. If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely

Alex Malley
Chief Executive
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

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?

We consider it important that accounting standards are drafted in a way that encourages entities to focus on communication rather than compliance. We believe that enabling preparers to exercise their professional judgement in applying the materiality principle to the presentation and disclosure of information is fundamental to achieving that focus.

Generally, we believe the proposals to amend IAS 1 as described in ED proposals (a) to (d) above would result in an improved outcome. Nevertheless, we believe that an even more effective outcome might be achieved from additional amendments, which are detailed below:

- We believe it would be helpful if the amendments to IAS 1 contained an encouragement to present disaggregated items adjacent to their 'parent' line item. We note that the approach to disaggregation practiced by some preparers (e.g., a financial institution that wants to show a net margin) is not compatible with adjacent presentation.
- Currently, IAS 1 fails to clarify whether the use of non-GAAP measures through the inclusion of additional columns may be appropriate. For example, some commentators believe that the requirements of IAS 1 allow for the creation of columns headed 'underlying profit', 'adjustments' and 'IFRS total' to be presented on the face of the Statement of Profit or Loss and Other Comprehensive Income. In some countries regulators expressly deny this approach. We believe it would be helpful if the amendments to IAS 1 clarified this matter.
- The proposals to amend IAS 1 include making a distinction between 'present' and 'disclose' (e.g., paragraph 29). Some of the proposals use the word 'presenting' (e.g., paragraph 85B). Clarification would be helpful to ensure consistent usage of these words as we are not certain if this is a reference to 'present' or 'disclose' or both.

- In relation to disclosure of accounting policies, we note the IASB plan to undertake additional work with regard to what is a significant accounting policy. Further, we note the proposed amendments to IAS 1 paragraph 117 de-emphasise the need for a specific note that summarises significant accounting policies. Currently, IAS 1 paragraph 10(e) states that a complete set of financial statements includes a summary of significant accounting policies. We believe it appropriate that its wording is amended to make it consistent with the words agreed upon for use in paragraph 117. Further, we consider the wording in paragraph 117 should not delete the words “significant accounting policies”.

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?

We agree with the proposed amendments.

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?

We agree with the ED proposed transition provisions including that early application is permitted.

1. Do you consider there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a. not-for-profit entities; and**
- b. public sector entities, including GAAP/GFS implications?**

No, we are not aware of any issues arising in the Australian environment that may affect the implementation of the proposals.

2. Overall, do you consider the proposals would result in financial statements that would be useful to users?

We consider that a focus of financial statements should be on communication. We consider that the ED proposals if adopted would result in financial statement statements that would be useful to users as the proposals encourage entities to focus on communication rather than compliance.

3. Do you consider the proposals are in the best interests of the Australian economy?

Yes, we believe the proposals are in the best interests of the Australian economy.

4. Unless already provided in response to specific matters for comment 1 – 3 above, do you have any comments on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

We expect that the refocusing of financial statements away from compliance onto communication will bring a net benefit to the Australian capital market and economy.



Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Mr Stevenson

Exposure Draft (ED) 249 Disclosure Initiative (Proposed amendments to AASB 101)

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the ED: Disclosure Initiative (Proposed amendments to AASB101).

HoTARAC is supportive of the proposed requirements, in particular, the clarification on the application of materiality and allowing entities to use their own discretion in the organisation of the notes in their financial statements.

Comments by HoTARAC on questions from the ED are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance on 02 6215 3551.

Yours sincerely



David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

1 July 2014

ATTACHMENT

Questions for respondents

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?

HoTARAC agrees with (c) and (d). HoTARAC agrees with the intent of the proposed amendments to (a) and (b), but recommends the following:

(a) materiality & aggregation

HoTARAC believes the IASB's intentions could be better achieved by linking the guidance back to the purpose and objective of financial reporting. A similar approach to that used in paragraph 59 of IASB ED/2013/6 (AASB ED 242) Leases could be used. HoTARAC suggests alternative wording to replace proposed paragraphs 30A as follows:

- 30A When applying this and other IFRSs, an entity shall decide:
- (a) the level of detail; and
 - (b) the degree of aggregation or disaggregation that would provide useful information to a wide range of users as required by paragraph 9 and achieve fair presentation as set out in paragraph 15 of this Standard. An entity shall aggregate or disaggregate presentations or disclosures so that useful information is not obscured by including a large amount of insignificant detail or by aggregating items that have different characteristics.

Additionally, BC 8 of this ED refers to IASB's short term project to assess existing guidance on materiality. HoTARAC suggests that any additional guidance or education produced as a result of this project have an effective date which aligns with the effective date of this updated standard.

(b) statement of financial position and statement of profit or loss and other comprehensive income

HoTARAC notes that the proposed requirement in Paragraph 55A(c) to ensure '*subtotals shall:... c) be consistent from period to period*' could be considered an application of the principle of paragraph 45 of IAS 1 (AASB 101) which requires an entity to present and classify information consistently. If the IASB retains paragraph 55A(c), HoTARAC recommends the IASB cross reference to paragraph 41 and 45 of IAS 1 (AASB 101) within paragraph 55A.

Other Comments

HoTARAC notes that the proposed amendments seek to address specific concerns raised in various forums (paragraph BC1). HoTARAC believes that the concerns raised may also be addressed by clarifying how entities can achieve the purpose and objectives of the financial statements, in addition to the specific amendments proposed.

HoTARAC notes that the 'objective of financial statements is to provide information ... that is useful to a wide range of users in making economic decisions' (IAS 1.9/AASB 101.9). Further, 'Financial statements shall present fairly the financial position, financial performance and cash flows of an entity ... The application of IFRS, with additional disclosure when necessary, is presumed to result in ... fair presentation' (AASB 101.15/IAS 1.15). As such, HoTARAC recommends providing guidance about how the financial statements *as a whole* can provide useful information and achieve fair presentation. This could involve requiring preparers to consider:

- (a) the level of detail that is useful to a wide range of users;
- (b) how much emphasis to place on each item presented in the statements or information disclosed in the notes;
- (c) how much aggregation or disaggregation to undertake; and
- (d) whether users of financial statements need additional information to evaluate.

Similar guidance was provided in paragraph 92 of IFRS 13 (AASB 13) Fair Value Measurement.

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?

HoTARAC agrees.

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?

HoTARAC agrees

AASB Specific Matters for Comment

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- (a) not-for-profit entities; and
- (b) public sector entities, including GAAP/GFS implications;

HoTARAC is not aware of any regulatory issues affecting public sector entities. HoTARAC is unable to comment on other not for profit (NFP) entities.

Paragraph 55A and 85A allows subtotals to be used where they are made up of items recognised and measured in accordance with IFRS. This may be inconsistent with some of the subtotals presented in:

- NFP entity financial reports that comprise items measured using the Aus paragraphs applying to NFP entities - HoTARAC suggests that the AASB clarify that for NFP entities, subtotals can be made up of items measured in accordance with Australian Accounting Standards, including Aus paragraphs; and
- harmonised GFS/GAAP statements prepared under AASB 1049.

2. whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC believes the proposals would result in financial statements useful to users.

3. whether the proposals are in the best interests of the Australian economy; and

No comment

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

HoTARAC consider the costs minimal. The exclusion of immaterial items from the financial statements potentially results in more relevant financial statements and some saving in preparation time. These impacts are hard to quantify.