AASB 22-23 October 2014
Agenda paper 3.9 (M141)

ED249 sub 8

Angus Thomson
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

19 September 2014

Dear Angus

Re: Exposure drafts 249 and 250 and Invitation to Comment 30

I am enclosing a copy of PricewaterhouseCooopers' response to the following International Accounting Standards Board's documents:

- ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (ED 249)
- ED/2014/2 *Investment Entities: Applying the Consolidation Exception,* and
- *Request for Information on Post-implementation review: IFRS 3 Business Combinations* (ITC 30).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment on ED 249 and ED 250

We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

The proposals in ED 249 are consistent with our own efforts in streamlining financial reports which we consider to be more relevant and useful for users. We therefore consider they are in the best interests of the Australian economy.

Tier 2 supplement to ED 249

We agree with the AASB's proposal to exclude paragraph 85B from the tier 2 disclosures.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars
Partner, PricewaterhouseCoopers

IFRS Foundation
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23 July 2014

Exposure Draft: Disclosure Initiative (Proposed Amendments to IAS 1)

We are pleased to respond to the invitation by the International Accounting Standards Board (IASB) to comment on the exposure draft on the proposed amendments to IAS 1 arising from the Disclosure Initiative (the 'Exposure Draft'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Exposure Draft.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the ongoing work by the IASB on the Disclosure Initiative. A single standards-level project on disclosures should help clarify the objective of disclosures and how they link to the qualitative characteristics of the financial statements, particularly relevance and understandability.

The Exposure Draft arises from one of the short-term projects under the Disclosure Initiative. It proposes several narrow-focus amendments to clarify how information is presented, disclosed or organised in the financial statements. We acknowledge that the IASB's objective is to address concerns expressed by users and that the proposed amendments are designed to clarify rather than change existing principles.

The IASB should continue to focus on the objective of presentation and disclosure as it develops the Disclosure Initiative. This would be the most effective way to clarify what information should be included on the face of primary financial statements and how information including notes, significant accounting policies and other explanatory information should be organised. This will help preparers make better judgements about the nature and extent of disclosures and facilitate a better understanding by users of an entity's financial performance and position.

Materiality

The concept of materiality is generally well understood by preparers and auditors, but further dialogue might enhance consistent application and more appreciation of the different perspectives of all stakeholders across territories. We welcome the IASB's proposals as part of that dialogue. We also understand that some of the IASB's constituents are concerned that materiality may not be applied well in practice in some circumstances. These concerns are described in the Basis for Conclusions. We support the IASB's objective in proposing amendments to IAS 1 to address these concerns. Further guidance to clarify how the concept of materiality applies to disclosures is helpful and can enhance consistent application in practice.

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We agree with the IASB's clarification in the Basis for Conclusions that the concept of materiality applies to financial statements as a whole and that paragraph 31 of IAS 1 is already clear that the concept of materiality applies to specific disclosures required by an IFRS. We also agree with the IASB that the definition of 'material' already incorporates the notion of individual and collective assessment and that further guidance in this area is unnecessary.

There is a risk that some of the proposed amendments could be misinterpreted. The proposed amendment in paragraph 31 clarifies that an entity need not provide a specific disclosure required by IFRSs if the information is not material. We agree with this clarification, assuming it is intended as elective and not required. We disagree if it is intended to be a requirement. The IASB should be explicit that it is acceptable to include disclosures required by IFRSs, even if those disclosures might not be material. The IASB should also be explicit that the clarifications do not change the current definition of materiality or how materiality is assessed, and that materiality should not be applied differently to disclosures.

The proposals in paragraph 31 state that the entity should disclose additional information 'to meet the needs of users, even if that information is not included in the specific disclosure requirements of the IFRS'. We are concerned, however, that this could be interpreted broadly to mean that financial statements do not comply with IFRSs because they do not meet all the needs of users. The IASB should confirm that additional information should be included if it is material and relevant.

Disaggregation and subtotals

We support the IASB's objective in providing additional guidance on disaggregation and subtotals. Users rely on measures such as operating profit, profit before tax, net profit and earnings per share as a starting point for their analyses of an entity's performance and position and to compare with other entities. A clear, consistent and balanced presentation of subtotals can be helpful to users by providing additional information about an entity, its performance and position.

We are concerned, however, that defining subtotals by reference to 'items recognised and measured in accordance with IFRS' is not clear and could be interpreted differently. Some might conclude that it permits the presentation of subtotals that do not comply with IFRSs (for example, share of revenue of associates or joint ventures). Others might conclude that it prohibits any subtotal not required by IAS 1. The IASB should clarify how the principles in IAS 1 are applied to subtotals rather than creating a specific definition of subtotals by reference to the term 'recognised and measured in accordance with IFRS'.

The principle for presenting subtotals should be consistent with the fair presentation requirement in paragraph 15 of IAS 1. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria set out in the Conceptual Framework. Information should be presented in a manner that provides relevant, reliable, comparable and understandable information.

The application of this principle to the presentation of subtotals suggests that a subtotal should be a relevant, neutral and accurate depiction of an entity's performance or position. A subtotal should be clearly labelled, consistently used, and displayed with no more prominence than the subtotals required by IFRSs. It should also be described in a way that explains the contents of the subtotal and why it is presented. This principle should be applied equally to the subtotals in the statement of financial position, the statement of profit and loss and other comprehensive income and the statement of cash flows.

Disclosure of accounting policies

We support the proposed amendments on the disclosure of significant accounting policies and we acknowledge that the proposals are not intended to address wider concerns about accounting policy disclosures. We believe, however, that the disclosure of accounting policies is an area where further improvements can be made. We recommend that the IASB take this opportunity to make additional amendments to facilitate better disclosure. We suggest specifically that IAS 1 should be amended to be explicit that significant accounting policies should explain how IFRSs are applied to the specific circumstances and transactions of an entity.

Organisation and structure

The Exposure Draft proposes several changes to clarify how information is organised in the financial statements. The proposed changes include:

- defining 'present' and 'disclose';
- clarifying that the notes need not be presented in a specific order; and
- removing the reference in paragraph 117 to a 'summary of significant accounting policies' to allow more flexibility in the way that these disclosures are provided.

We support the IASB's effort to allow more flexibility in the organisation of information in the financial statements. Allowing more flexibility could increase understandability of the financial statements but reduce comparability between entities. However, the increased use of electronic versions of financial statements allows users to search for, locate and compare information within the financial statements and between entities more easily. More flexibility in organising information should not, therefore, impair comparability.

We acknowledge that there is a trade-off between understandability and comparability. However, the proposed amendments in paragraph 113 emphasise that an entity should consider both understandability and comparability when determining the order of the notes. The IASB should consider and clarify how the objective of comparability is applied in this context.

The IASB has also proposed amendments to clarify that the term 'present' relates to disclosure as a line item on the face of the primary financial statements, and the term 'disclose' relates to disclosures in the notes. The proposed amendments are designed to achieve consistency in the use of these terms (for example, in paragraph 29 regarding disaggregation). However, the changes are made piecemeal. For example, paragraph 113 reads, 'An entity shall, as far as practicable, present notes in a systematic manner.' This clearly does not mean that notes should be 'presented' on the face of the primary financial statements. These proposed changes could result in confusion and complexity in application of the existing principles. The terms 'present' and 'disclose' are used extensively throughout IFRSs and it would be difficult to use these terms consistently. Therefore, it is not necessary to define 'present' and 'disclose'.

Our answers to the specific questions in the Exposure Draft provide more detail on the views expressed above and are included in the Appendix.

If you have any questions on this letter, please contact Tony de Bell (+44 207 213 5336).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

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APPENDIX

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?

(a) Materiality and aggregation

We support the IASB's objective in proposing amendments to IAS 1 to address the concerns expressed by some of the IASB's constituents around the application of materiality. However, there is a risk that some of the proposals could be misinterpreted or could add complexity to the application of the existing principles.

The proposed amendment in paragraph 31 clarifies that an entity need not provide a specific disclosure required in IFRSs if the information is not material. We agree with this clarification, assuming it is intended as elective and not mandatory. We do not agree if it is intended to be a requirement. The IASB should be explicit that it is acceptable to include disclosures required by IFRSs, even if those disclosures might not be material. The IASB should also state specifically that the clarifications do not change the current definition of materiality or how materiality is assessed, and that materiality should not be applied differently to disclosures.

The proposals in paragraph 31 state that the entity should disclose additional information 'to meet the needs of users, even if that information is not included in the specific disclosure requirements of the IFRSs. This could be interpreted very broadly to imply that financial statements do not comply with IFRSs because they do not meet all the needs of users. Paragraphs 55 and 85 of IAS 1 already require that additional information is presented in the primary financial statements when it is relevant to an understanding of the entity's financial position and performance. The IASB should confirm that an entity should include additional information in the financial statements if the information is material and relevant.

The proposals add 'disclose' in paragraph 29 to clarify that an entity should present and disclose separately each material class of similar items or items with dissimilar nature or function unless they are immaterial. We acknowledge that the IASB's intention is to clarify that the existing materiality principle applies equally to the primary financial statements and the notes. However, the changes are made piecemeal and could result in confusion and complexity in application of the existing principles. We believe that it is not necessary to define 'present' and 'disclose'. See further discussion in the cover letter under 'Organisation and structure'.

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

We support providing additional guidance on subtotals. Subtotals can be helpful to users by providing additional information about an entity, its performance and position. The presentation of subtotals should be clear, consistent and balanced.

The proposed amendments in paragraphs 55A(a) and 84A(a) state that subtotals are 'items recognised and measured in accordance with IFRS'. We are concerned that this definition is not clear and could be read in different ways. It might be read as allowing presentation of subtotals that do not comply with IFRSs (for example, share of revenue of associates or joint ventures). It could also be read as prohibiting any subtotal not required by IAS 1, which would prohibit any subtotals in the income statement other than profit or loss. We suggest that the presentation of subtotals should reflect the principle of fair presentation in paragraph 15 of IAS 1 rather than a rule or specific definition that refers to the term 'recognised and measured in accordance with IFRS'.

Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria set out in the Conceptual Framework. Information should be presented in a manner that provides relevant, reliable, comparable and understandable information.

A subtotal should therefore depict a relevant, neutral and accurate aspect of an entity's performance or position. It should be clearly labelled, consistently used and displayed with no more prominence than the subtotals required by IFRSs. An entity should also reconcile any additional subtotals to the subtotals or totals required by IFRSs by disclosing the reconciling items. The level of detail in the primary financial statements should be determined based on what is relevant to an understanding of the entity's financial performance or position.

The proposed amendments in paragraphs 55A(b) and 85A(b) require that subtotals are 'presented or labelled in a manner that makes what constitutes that subtotal understandable'. Understandability is a broader principle in the Conceptual Framework. It means classifying, characterising and presenting information clearly and concisely making it understandable. It is unclear how this principle applies to labelling a subtotal. We suggest that paragraphs 55A(b) and 85A(b) are amended to require that 'additional subtotals should be presented and labelled in a manner that explains to users the contents of the subtotal'.

The proposals on subtotals apply slightly different requirements for the statement of financial position and the statement of profit and loss and other comprehensive income. We believe that the principle of fair presentation should be applied equally to the subtotals in the statement of financial position, the statement of profit and loss and other comprehensive income and the statement of cash flows.

(c) Notes structure

We support the proposed amendments allowing more flexibility for entities to determine the order of the notes in an entity-specific manner.

We are, however, concerned that some of the proposed guidance is unclear. The proposed amendments in paragraph 113 state that when determining the order of the notes, an entity should consider the understandability and comparability. It is unclear how allowing more flexibility in the order of notes enhances comparability. The IASB should consider and clarify how the objective of comparability is applied in this context.

The Exposure Draft also proposes other changes to allow more flexibility to determine how information is presented, disclosed or organised in the financial statements. We acknowledge that the IASB's intention in making these proposals is to alleviate the concerns expressed by users, and that the changes are designed to clarify rather than change existing principles. We suggest that the IASB should focus on the objective of presentation and disclosure as it develops the Disclosure Initiative and clarify how information in the financial statements should be organised. See further discussion in the cover letter under 'Organisation and structure'.

(d) Disclosure of accounting policies

We agree with the proposal to remove two examples, income taxes accounting and foreign currency accounting, from paragraph 120 of IAS 1.

The disclosure of accounting policies is an area where further improvements could be made. We recommend that the IASB take this opportunity to make additional amendments to facilitate better disclosure. We suggest that IAS 1 should be amended to be explicit that significant accounting policies should explain how IFRSs are applied to the specific circumstances and transactions of an entity (for example, the revenue recognition policy under IAS 18 should explain under what circumstances the risks and rewards are transferred to customers).

The explicit reference to the summary of significant accounting policies in paragraph 117 of IAS 1 has been removed from the Exposure Draft. We believe that this reflects the IASB's intention to allow more flexibility in the location of the significant accounting policies disclosures. The IASB should clarify the reason for removing this requirement to facilitate better understanding of the amendment. The IASB might also consider whether paragraph 10(e) of IAS 1 should be modified, as it also refers to the requirement to include a summary of significant accounting policies.

We agree with allowing flexibility in how information in the financial statements is organised, so long as the objective of presentation and disclosure is established and clarified. See further discussion in the cover letter under 'Organisation and structure'.

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 IASB's proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments.

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 proposed transition provisions for the amendments to IAS 1 described in the Exposure Draft.