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The Chairman
Australian Accounting Standards Board
PO BOX 204
Collins Street
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29 July 2014

Dear Mr Thomson

Ernst & Young's global submission to the IASB on the Invitation to comment – Exposure Draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)*

Please find enclosed Ernst & Young's global submissions to the IASB on the above exposure draft.

Yours sincerely

Ernst & Young

Encl:

International Accounting Standards Board
30 Cannon Street
London,
EC4M 6XH

23 July 2014

Dear IASB members,

Invitation to comment - Exposure Draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (the ED) issued by the International Accounting Standards Board (the Board) in March 2014.

We support the Board's efforts to address some of the problems that have been identified with disclosures in financial statements.

Although the proposed amendments generally seem to be in line with the common understanding of the current IAS 1 *Presentation of Financial Statements*, we believe the ED highlights some of the problems in the existing practice. Therefore, it represents a meaningful first step towards the improvement of presentation and disclosure requirements. We look forward to the anticipated next steps announced in the ED.

We believe that the ED needs some additional consideration, clarification and/or guidance in certain areas so that it could be effectively applied in practice. These are explained in the Appendix as responses to the specific questions asked by the ED.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

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) We support the Board's proposal to emphasise that providing immaterial information can obscure useful information in financial statements, but not to prohibit entities from disclosing immaterial information. We agree with the Board that the latter requirement may not be operational. For instance, local requirements in certain jurisdictions may require additional disclosures of information that would otherwise be considered immaterial.

However, we have the following comments on the amendments suggested in paragraph 31:

- ▶ The intent of the second sentence is unclear, as it is requiring an entity to assess ("*shall* assess") the need for presentation and disclosure, while, as mentioned above, an entity may choose to present and disclose immaterial information. Requiring an entity to assess materiality, but not to act on it by distinguishing immaterial information from material information, is not meaningful, in our view. We therefore suggest the second sentence is deleted. If the second sentence is kept, we believe it must be clarified because it does not say how "an entity shall assess whether all of that information needs to be presented or disclosed (...)". We believe such assessment should be based on materiality. The first part of the sentence does not reconcile with the second part because of the conjunction "or whether", which may be replaced by "if".
- ▶ The fourth sentence in the paragraph, starting with "This is the case even if...", seems redundant as it repeats what is already said in the third sentence.

- ▶ Furthermore, it is unclear why the Board proposes inclusion of the last sentence in paragraph 31, since a similar requirement is already contained in paragraph 17(c). Duplication may in effect give rise to additional “clutter” in the financial statements.

Therefore, we would recommend amending paragraph 31 as follows:

~~“Some IFRSs identify information that is required to be presented or disclosed in the financial statements of an entity. Notwithstanding these specific requirements, an entity shall assess whether all of that information needs to be presented or disclosed, or whether some of the information is immaterial and presenting or disclosing it would reduce the understandability of its financial statements by detracting from the material information. An entity need not provide a specific disclosure required by an IFRS in the financial statements, including in the notes, if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether information about matters addressed by an IFRS needs to be presented or disclosed to meet the needs of users of financial statements, even if that information is not included in the specific disclosure requirements of the IFRS.”~~

- (b) We agree that the lack of specific guidance on how to comply with paragraphs 55 and 85 is causing diversity in practice. Therefore, we support the proposal to clarify the characteristics of subtotals in the proposed paragraphs 55A and 85A.

We do not believe the removal of the wording “as a minimum” in the introduction of paragraph 54 alone would resolve the issue, i.e., the possible misconception that the current wording prevents entities from aggregating the line items specified if those line items are immaterial. We believe the word “shall” should be replaced with “may” or “would normally” in the first sentence of paragraphs 54 and 82, in order to achieve the intended effect.

Furthermore, we have the following comments on paragraphs 54 and 82:

- ▶ The added guidance on disaggregation of line items seems redundant, and potentially misleading. Generally, we do not believe that any of the items listed would require disaggregation on the face of the financial statements to achieve an understanding of the financial position and performance. In most cases the disclosure of disaggregated information in the notes would be sufficient. In particular, the example added at the end of paragraph 54 is not helpful, because we do not think disaggregation of “property, plant and equipment” into separate line items of “property”, “plant” and “equipment” would add value to the users of financial statements. Overall, we are concerned that the added disaggregation guidance in paragraphs 54 and 82 in practice would have the effect of including unnecessary information in the financial statements, instead of reducing the “clutter”. Furthermore, it is not clear to us what the intended interaction between

the proposed disaggregation guidance in paragraphs 54 and 82 and the additional line items guidance in paragraphs 55 and 85 is.

- ▶ If the Board decides to keep the added guidance on disaggregation, we believe further clarification is needed on what kind of disaggregation would be appropriate. For example, it is not clear whether, in the context of paragraph 82, it would be appropriate to disaggregate the amount of the share of profit or loss of associates and joint ventures accounted for using the equity method by grossing it up and presenting the underlying components of the investee's income and expenses. Therefore, we believe the Board should clarify whether the disaggregated line items themselves should be measured and presented in accordance with other IFRSs.
- ▶ The Board should clarify whether the disaggregated items must be presented adjacent to each other, or if disaggregated line items may be placed non-adjacent, for instance, by including the share of profit or loss from some associates and joint ventures in operating income, while including the share of profit or loss from other associates and joint ventures below operating income, if such a split can be justified by reference to how operating income is defined. We have observed that current practice is mixed.
- ▶ The Board should also clarify whether the total of disaggregated items need to be presented. We have observed that current practice is mixed.

Finally, it is unclear what the meaning of the term "'non-GAAP' measures" in paragraph BC15 is. If the intention of the Board is to refer to "additional line items, headings and subtotals", as discussed in paragraphs 55 and 85, it should be reworded accordingly. Otherwise the meaning of the term "'non-GAAP' measures" needs to be clarified.

- (c) The suggested amendment in paragraphs 113-117 is intended to encourage alternative structures in the notes to enhance understandability of the financial statements. Paragraph 113A introduces a new approach for determining a systematic ordering of the notes. Placing this paragraph before paragraph 114, describing the "conventional approach", in combination with the added word "alternatively" at the introduction of paragraph 114, seems to suggest that the 113A approach is the preferred one. We do not believe that is the intention.

At the same time, the amendment added in paragraph 113 introduces a requirement for an entity to consider a comparability condition when deciding on a systematic approach to the structuring of the notes. Comparability in this context may both be referring to consistency across periods, as well as comparability across entities. The latter notion seems to restrict entities in the selection of notes structuring approaches. It is not clear to us if this is an intended effect of including the comparability condition. Therefore, we find these proposed amendments potentially inconsistent and suggest the Board to provide further clarifications.

Furthermore, paragraph BC19 states that the IASB acknowledges that there is a trade-off between understandability and comparability of financial statements. We agree with

this statement. The last sentence in BC19 then suggests that, with today's technology, there is less need for prescribing the order/structure of the notes. We agree with this as well. The combination of these two observations suggests that comparability may play a relatively less important role and, therefore, that in the trade-off with understandability, more emphasis should be put on the latter. We believe it would be helpful if the Board clarifies the role of the comparability threshold referred to in paragraph 113.

One additional issue that we believe the Board should consider in clarifying the use of judgement related to notes structure is the interaction between the financial statements and other reports. Paragraph 49 of IAS 1 requires that the financial statements are clearly distinguishable from other information. IFRS 7 *Financial Instruments: Disclosures* and IAS 34 *Interim Financial Reporting* both allow for certain information to be disclosed outside the financial statements provided it is incorporated by cross-reference (the cross-referencing option in IAS 34 only applies to condensed financial statements). Therefore, generally, entities include all required disclosures in the financial statements themselves, except where specific standards (as mentioned above) allow for placing the information outside the financial statements accompanied by appropriate cross-references. However, we are aware of some diversity in practice, which we believe results from alternative interpretations of paragraph 49. Therefore, we believe the Board should consider clarifying whether the requirements of paragraph 49 can be met by cross-referencing information outside the financial statements and, in that case, why IFRS 7 and IAS 34 include separate provisions about such cross-referencing.

- (d) We generally support the proposed deletion of paragraph 120. However, BC21 seems to suggest an accounting policy needs to be entity-specific to warrant disclosure, i.e. that policy disclosures are only required if IFRS allows for policy choices. We do not believe this is the intention of the proposed amendments as it would not be consistent with the requirement in paragraph 117 to disclose the accounting policies relevant to an understanding of the financial statements. Therefore, we would recommend the Board to clarify the intention of the proposed amendment in the Basis for Conclusions.

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?

The introductory section of paragraph 82A, as currently drafted, does not make sense grammatically. We recommend the Board to reword it as follows: "The other comprehensive income section shall present line items for the period for the amounts ~~for the period~~ of: ...".

We are also concerned that, in the ED, none of the illustrative examples illustrate a share of other comprehensive income of associates/joint ventures that may be reclassified subsequently to profit or loss. We believe that illustration of the share of other comprehensive income of associates only within "Items that will not be reclassified to profit or loss" section may be misleading. Even though the IASB tried to clarify this point by adding an explanatory footnote, we are concerned that the footnotes are not as visible as the example itself and may be overlooked. Therefore, we recommend the Board to extend some or all illustrative examples by including a line item for the share of other comprehensive income of associates/joint ventures within "Items that may be reclassified subsequently to profit or loss" section. However, if the Board decides to leave the examples as is, we believe that references to footnote (b) should also be added to line item "Share of other comprehensive income of associates" on pages 26 and 29 of the ED.

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 support the proposed transition provisions.