



Australian Government

**Australian Accounting
Standards Board**

Level 4, 530 Collins Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

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IAS 1 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Proposed Amendments to IAS 1 *Presentation of Financial Statements*

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*. In formulating these comments, the AASB has sought and considered the views of Australian constituents.

In general, the AASB does not support implementing the proposed amendments, and urges the IASB not to proceed with them and to focus on Stage B of the project. The AASB considers that the proposals:

- will not make any substantive improvement to IAS 1;
- do not address any of the key issues that IFRS adopters are presently experiencing in practice, such as the issues concerning paragraph 60(d) of IAS 1 (noted below);
- do not bring IAS 1 closer to US GAAP in any substantive way [as is the stated intention (“This Exposure Draft ...proposes to bring IAS 1 largely into line with the US standard—Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income*” – paragraph 4 of the Introduction)], and in some ways take IFRSs further away from US GAAP; and
- are poorly timed, since further amendments to IAS 1 will be required after the planned Phase B of the IASB and FASB convergence project on presentation of financial statements.

The proposal that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements (that is, presentation of three balance sheets), specifically concerns the AASB because it seems to be an ad hoc measure on an issue (comparative information) that requires a comprehensive answer. The FASB has indicated that it is likely to propose that a full set of financial statements includes three balance sheets, but that a requirement is many years away.

The AASB received a large number of comments from its constituents raising concerns about the change to the definition of general purpose financial statements. The AASB is concerned about the change to the second sentence of the definition of *general purpose financial statements* in paragraph 7, which states “general purpose financial statements include those that are presented separately or within other public documents such as a regulatory filing or report to shareholders”. Firstly, this sentence could be interpreted as defining all financial

statements filed with **any regulator** to be general purpose financial statements, which may create confusion or may lead to unintended interpretations considering the existence of various types of regulatory authorities and the number of registers that exist, some being public and some not. Secondly, the use of the word “include” may be interpreted to indicate that **all information** contained in regulatory filings should be seen as a synonym of general purpose financial statements, although regulatory filings and shareholders’ reports contain other financial information which is clearly beyond the scope of the IASB Exposure Draft. The AASB concluded that the term “regulatory filing” has a possible wider interpretation than intended by the IASB and that the IASB should explain what is meant by the new terminology. The AASB does, however, agree with the deletion of “prospectus” from the definition of general purpose financial statements, because the Framework (paragraph 6) identifies prospectuses as an example of special purpose financial statements. The AASB is further concerned that the reason(s) for such a significant change to IAS 1 has not been highlighted and/or discussed in the IASB’s Exposure Draft. The inclusion of the wording in the Exposure Draft will actually widen the scope of applicability of IFRSs to small businesses in Australia, which we would not believe to be the intention of the proposed amendment. We received a substantial number of responses (approximately 160) expressing concern over the widening of the scope of applicability.

As noted above, the AASB considers that the proposals do not address any of the key issues that IFRS adopters are present experiencing in practice, such as the issues concerning paragraph 60(d), particularly in view of the IASB’s aim of being closer to US GAAP. IAS 1 paragraph 60(d) seems to go well beyond US GAAP, stating that a liability shall be classified as current when “the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date” and many Australian constituents (both financial statement preparers and users) have concerns about its application, mainly in respect of employee benefit liabilities. [An AASB staff paper on the issues is available.]

The AASB notes that a similar issue (whether the liability component of a convertible instrument should be classified as current or non-current) has been raised with the IFRIC. The IASB staff indicate in Agenda paper 10(ix) “IAS 1 *Presentation of Financial Statements* - Whether the Liability Component of a Convertible Instrument should be classified as Current or Non-current”, prepared for the July 2006 IFRIC meeting, that they believe the requirements in IFRSs, in particular, IAS 1 and the Conceptual Framework, appear to be in conflict on this issue. The AASB suggests that these proposed amendments be reconsidered when Phase B of the IASB and FASB convergence project on presentation of financial statements is dealt with.

In the event that the IASB proceeds with considering the current proposals, the AASB offers its responses to the specific questions accompanying the Exposure Draft in the attachment to this letter.

If you have any queries regarding any matters in this submission, please contact Aletta Boshoff (aboshoff@aasb.com.au) or myself.

Yours sincerely



David Boymal
Chairman

**Exposure Draft of Proposed Amendments to
IAS 1 Presentation of Financial Statements: A Revised Presentation**

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

- (a) statement of financial position (previously ‘balance sheet’);
- (b) statement of recognised income and expense;
- (c) statement of changes in equity; and
- (d) statement of cash flows (previously ‘cash flow statement’).

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

***Question 1** – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?*

A number of AASB constituents are concerned about changing the terminology because of the potential for confusion. Some constituents view changes to terminology as being indicative of a change in substance to the requirements of Standards. The AASB urges the IASB to decide on its terminology and only make changes when absolutely necessary. The AASB strongly supports the existing and proposed position that the use of particular titles is not mandated, because different titles may be more meaningful in different situations. The AASB has a particular interest in this, given the wide range of entities that are required to apply Australian equivalents to IFRSs.

The AASB notes that, contrary to the policy proposed (and currently used in IAS 1) IAS 19 *Employee Benefits* requires an entity to use the title ‘statement of recognised income and expense’ if the option to recognise actuarial gains and losses in equity is chosen. The AASB considers that this inconsistency should be addressed.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6–BC9 of the Basis for Conclusions).

***Question 2** – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?*

The AASB is concerned about practical problems that might arise from having to include an additional column in financial statements, particularly in view of the common practice of presenting parent and group financial statements together in columnar format. The information would generally be available from previous financial statements. Perhaps the IASB should consider requiring a third balance sheet only in cases where a restatement of previous financial statements has been necessary.

The Exposure Draft states at paragraph 5 of the Introduction that it "...proposes to bring IAS 1 largely into line with the US standard—Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income*. However, US GAAP does not presently require a third balance sheet. The FASB has indicated that it is likely to propose that a full set of financial statements includes three balance sheets, but a requirement is many years away. The AASB considers that the IASB has not established an adequate case for requiring the extra statement at this time. The whole issue of comparative information should be comprehensively addressed in Phase B of the IASB and FASB convergence project on presentation of financial statements.

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (i.e. 'owner changes in equity') separately from other changes in equity (i.e. 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).

Question 3(a) – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

The AASB supports the proposal that non-owner changes in equity should be referred to as 'recognised income and expense' only if a single statement of recognised income and expense is presented. The AASB does not support the proposal that non-owner changes in equity should be referred to as 'recognised income and expense' if two statements are presented, as the AASB is of the view that the use of the word "recognised" may indicate that the items in the other statement are "unrecognised".

The AASB supports not making the terminology mandatory for the reasons noted under Question 1.

Question 3(b) – Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

The AASB considers that it is helpful to use the term 'recognised income and expense' in the Standard for ease of reference, even though other terms are permitted in practice.

Question 4 – Do you agree that all non-owner changes in equity (i.e. components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

The AASB supports the proposal on the basis that the two types of changes in equity are different in nature. However, we note that this decision should be reconsidered in the context of Phase B of the IASB and FASB convergence project on presentation of financial statements and any progress made by that time on revisions to the *Framework*.

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

The AASB prefers the presentation of components of recognised income and expense in a single statement. It represents the current Australian practice and no significant problems have been experienced in practice. If the IASB, however, allows the presentation of the components of recognised income and expense in two statements, the AASB has concerns about the proposed names of the two statements (refer to our comments on question 3(a)). The AASB is of the view that this decision should be reconsidered in the context of Phase B of the IASB and FASB convergence project on presentation of financial statements.

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

The AASB supports the proposal and agrees that, in principle, there is no reason to require a particular location for the disclosures.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

The AASB does not support this proposal. The AASB is of the view that although the income tax can be allocated to each component of other recognised income and expense, the reason for and benefit of such a disclosure is unclear.

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

The AASB considers that, as a general principle, it is reasonable to allow some element of judgement to financial report preparers in determining the most useful location for certain disclosures, provided the relative prominence of voluntarily disclosed information is not used to obscure the information required by the Standards. Accordingly, we do not generally support mandating what can and cannot be disclosed on the face of the financial statements. However, it seems appropriate not to change IAS 33 at this stage, outside the context of Phase B of the IASB and FASB convergence project on presentation of financial statements.