ey.com/IFRS

Issue 98 / December 2014

IFRS Developments

IASB makes progress on the Disclosure Initiative

What you need to know

- In December 2014, the IASB issued amendments to IAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in their financial statements.
- The amendments may be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.
- The IASB also issued an exposure draft proposing amendments to IAS 7 to respond to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances.
- The comment period for the exposure draft ends on 17 April 2015.

The IASB continues to explore ways to improve presentation and disclosure in financial statements.

Highlights

In December 2014, the International Accounting Standards Board (the IASB or the Board) issued amendments to IAS 1 *Presentation of Financial Statements* and an exposure draft proposing amendments to IAS 7 *Statement of Cash Flows* as part of its Disclosure Initiative.

The IASB's Disclosure Initiative is made up of a number of implementation and research projects, including a materiality project, a fundamental review of IAS 1, IAS 7, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and a general review of disclosure requirements in existing standards.

Amendments to IAS 1

The amendments to IAS 1 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income (OCI) arising from equity accounted investments

Building a better working world

Materiality

The amendments clarify that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

The amendments reemphasise that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted.

Disaggregation and subtotals

The amendments clarify that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.

The Board introduces requirements for how an entity shall present additional subtotals, i.e. in addition to those already required in IFRS, in the statement(s) of profit or loss and OCI and the statement of financial position. In particular, subtotals must:

- Be comprised of line items made up of amounts recognised and measured in accordance with IFRS
- Be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable
- Be consistent from period to period
- Not be displayed with more prominence than the subtotals and totals currently required in IFRS for the statement of financial position or the statement(s) of profit or loss and OCI

For additional subtotals presented in the statement(s) of profit or loss and OCI, an entity must also present the line items that reconcile any such subtotals with the subtotals or totals currently required in IFRS for such statement(s).

Notes structure

The amendments clarify that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasise that understandability and comparability should be considered by an entity when deciding on that order.

Examples of systematic ordering or groupings of the notes include:

- Giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities
- Grouping together information about items measured similarly, such as assets measured at fair value
- Following the order of the line items in the statement(s) of profit or loss and OCI and the statement of financial position, similarly to the order listed in the current paragraph 114 of IAS 1

Disclosure of accounting policies

The amendments remove the examples of significant accounting policies in the current paragraph 120 of IAS 1, i.e., the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be.

Presentation of items of OCI arising from equity accounted investments

The amendments also clarify that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss.

Effective date and transition

The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The amendments clarify existing requirements in IAS 1 that do not directly affect an entity's accounting policies or accounting estimates. Therefore, an entity need not disclose the information required by IAS 8 for changes in accounting policies, whether on early or mandatory application of these amendments.

How we see it

Although the amendments to IAS 1 generally seem to be in line with the common understanding of the current requirements of the standard, we believe these narrow-focus improvements will address some of the problems observed in existing practice. As such, they represent a meaningful first step towards the improvement of presentation and disclosure requirements. We look forward to the anticipated next steps of the Disclosure Initiative announced by the IASB.

Proposed amendments to IAS 7

Simultaneously with the amendments to IAS 1, the IASB also released an exposure draft (ED) proposing amendments to IAS 7. This ED is another of the projects in the Disclosure Initiative portfolio.

The IASB is proposing that an entity should disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. This proposal would mean that investors will be provided with disclosures about movements in an entity's debt during the reporting period.

Furthermore, the IASB is proposing to extend the disclosures required by IAS 7 about an entity's liquidity. It is proposed that disclosures be made of the restrictions over the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances. This proposal is intended to allow users of the financial statements to better assess the accessibility of cash and cash equivalents.

The proposed amendments would be applied retrospectively in accordance with IAS 8, with early application permitted.

Next step

The comment period on the exposure draft closes on 17 April 2015.

How we see it

We encourage stakeholders to provide feedback to the IASB in the form of a comment letter, to contribute to a well-grounded and robust discussion of the issues by the IASB.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's International Financial Reporting Standards Group
A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting, to key business decisions you make. We have developed extensive global resources — people and knowledge — to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

EYG No. AU2836

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com