IASB PAVES THE WAY FOR 'DECLUTTERING' FINANCIAL STATEMENTS BY FINALISING AMENDMENTS TO IAS 1

Background

On 18 December 2014, the International Accounting Standards Board (IASB) finalised the amendments to IAS 1 *Presentation of Financial Statements* that are part of a major initiative to improve disclosure requirements in IFRS financial statements under the IASB's Disclosure Initiative. The Australian amendments have been approved as AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*.

Decluttering

The aim of the project is to make financial statements more relevant to investors and to reduce the burden on preparers by allowing them to apply judgement when deciding which disclosures are relevant, and which are not. Currently, fear of regulator reprisal has resulted in many entities overloading their financial statements with information which is not necessarily material to investors, resulting in 'cluttering', and annual reports of some entities such as HSBC being close to 600 pages long.

Changes to AASB 101

To give effect to these 'decluttering' amendments, the following changes have been made to AASB 101:

AREA	SUMMARY OF CHANGES
Materiality	Clarifies that: • Information is not to be aggregated or disaggregated in a manner that obscures useful information (e.g. when aggregating items that have different natures or functions, or overwhelming useful information with immaterial information) • Materiality applies to all four primary financial statements and the notes to the financial statements • Even when a standard contains a list of specific minimum disclosure requirements, preparers need to assess whether each required disclosure is material, and therefore whether presentation or disclosure of that information is warranted. Preparers also need to consider whether other disclosures, in addition to specific minimum requirements, are required to meet the needs of users of financial statements.
Line items in 'statement of financial position' and 'statement of profit or loss and other comprehensive income'	**Line items** Clarifies that the requirements to present specific line items in the 'statement of profit or loss and other comprehensive income' and 'statement of financial position' can be met by disaggregating these line items if it is relevant to an understanding of the entity's financial position and performance. **Subtotals** Clarifies that additional subtotals must: • Be made up of items recognised in accordance with IFRSs. This means that showing EBITDA (earnings before interest, tax, and depreciation and amortisation) would be acceptable as it is made up of items recognised in accordance with IFRSs, but subtotals such as 'Earnings before abnormal items' would not be permitted because 'abnormal items' is not an IFRSs measure • Be presented and labelled in a manner that makes the subtotals understandable and consistent from period to period, and • Not be displayed with more prominence than the subtotals and totals required in IFRSs.
Notes	Emphasises that understandability and comparability of financial statements should be considered by an entity when deciding the systematic order for the notes. Clarifies that entities have flexibility to order the notes to give more prominence to areas it considers most relevant, for example, by inserting notes relating to the largest items in the statement of financial position before smaller items, and grouping together information about items that are measured at fair value. This means that notes do not necessarily need to be in the order listed in paragraph 114 of AASB 101.
Disclosure of accounting policies	When deciding which accounting policies to disclose, an entity should consider the nature of its operations, and the policies that users would expect to be disclosed for that type of entity. The examples in paragraph 120 of AASB 101 of accounting policies for income taxes and foreign exchange gains and losses have been removed.

Equity accounted investments

The IASB has also finalised an amendment relating to a submission to the IFRS Interpretations Committee dealing with equity accounted investments.

The amendment clarifies that entities must include two separate line items for their share of other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method, being:

- Amounts that will be reclassified to profit or loss in future, and
- Amounts that will not be reclassified to profit or loss in future.

Example:

	20X5 (EXISTING AASB 101)	20X5 (AMENDMENTS TO AASB 101)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	100	100
Remeasurements of defined benefit pension plans	150	150
Share of gain (loss) on property revaluation of associates	(400)	-
Share of gain (loss) remeasurements of defined benefit pension plans of associates	250	-
Share of other comprehensive income of associates	-	(150)
Income tax relating to items that will not be reclassified	(75)	(75)
	25	**25**
Items that will not be reclassified to profit or loss:		
Exchange differences on translating foreign operations	500	500
Gains on available-for-sale financial assets	400	400
Cash flow hedges	200	200
Share of gains on available-for-sale financial assets of associates	100	-
Share of other comprehensive income of associates	-	100
Income tax relating to items that may be reclassified	(330)	(330)
	870	**870**
Other comprehensive income for the year, net of tax	**895**	**895**

Effective date and transition

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

On transition, entities are not required to disclose the information required by AASB 108, paragraphs 28 and 29, in relation to these amendments. However, if an entity changes the order of the notes or the information presented or disclosed compared to the previous year, AASB 101, paragraph 38 requires that it should adjust the comparative information to align with the current period presentation and disclosure.

Action points

Although the amendments do not introduce many new requirements to AASB 101, they do encourage more thought to be given to the content and layout of financial statements.

In this regard, you may wish to revisit:

- Your application of materiality
- The level of aggregation and disaggregation of line items in the financial statements
- Your use of subtotals
- Presenting information in an orderly and logical manner
- The order of the notes to the financial statements
- The content and presentation of your accounting policies - What accounting policies are significant to the user in understanding specific transactions? Accounting policies should be specific to your transactions and balances and not 'boilerplate'
- Level of information to disclose for material transactions so that the economic substance of the transaction can be adequately explained.

The focus on disclosing material and relevant information is likely to require ongoing application of professional judgement. You may also consider ongoing engagement with your auditors and shareholders to discuss what disclosures are material and relevant for the current reporting period.

Entities with interests in associates and/or joint ventures should also note that the amendments may result in a different presentation of items within OCI.