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cutting through complexity

Making financial statements more relevant

Short-term clarifications to IAS 1

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IN THE HEADLINES

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“These proposed amendments are a welcome first step, even if only a small one, in a bigger disclosure initiative.”

– David Littleford, KPMG’s global IFRS presentation leader

The bigger picture

For a while now, preparers of financial statements have been voicing concerns about ‘disclosure overload’ – e.g. presenting ‘at-a-minimum’ disclosures, regardless of their materiality. They have asked for ways to de-clutter financial statement disclosures. Users, in turn, want preparers to provide more company-specific – rather than boilerplate – information, making the financial statements more relevant and telling a coherent story that is unique to their business.

The IASB has factored these concerns into its ‘disclosure initiative’, which aims to improve presentation and disclosure in financial reporting.

One of the initiative’s short-term projects is to address some of the perceived problems with current disclosure requirements through clarifications to IAS 1 *Presentation of Financial Statements*. On 25 March 2014, the IASB issued an exposure draft (ED) proposing narrow-scope amendments to IAS 1.

The clarifications would not require any significant change to current practice, but should facilitate improved reporting. In the meantime, those that choose to can already achieve those improvements under existing standards.

Key proposals to clarify IAS 1

- There is an emphasis on materiality. Specific single disclosures that are not material would not have to be presented – even if they are a minimum requirement of a standard.
- The order of notes to the financial statements would not be prescribed. Instead, companies could choose their own order, and could also combine, for example, accounting policies with notes on related subjects.
- It would be made explicit that companies:
  - should disaggregate line items on the balance sheet and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and
  - can aggregate line items on the balance sheet if the line items specified by IAS 1 are immaterial.
- Specific criteria would be provided for presenting subtotals on the balance sheet and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI.
- The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method would follow IAS 1’s approach of splitting items that may, or that will never, be reclassified to profit or loss.

As is usual for an ED, the proposed amendments to IAS 1 do not suggest an effective date. However, early adoption would be allowed.

“The real ask here is for behavioural change, from preparers, auditors and regulators alike.”

– Mark Vaessen, KPMG’s global IFRS network leader

The road ahead

As part of the initiative, the proposed amendments to IAS 1 will be joined by two other short-term projects to address materiality and changes in debt.

In addition, medium-term projects are planned: to explore the possibility of a single ‘disclosure framework’ for ‘presentation’ standards such as IAS 1, IAS 7 and IAS 8; and to examine disclosure requirements in IFRS to identify conflicts, duplication or overlaps.

More broadly, the IASB is considering presentation and disclosure as part of its revisions to its *Conceptual Framework*. The disclosure initiative complements the Board’s efforts in this respect.

Next steps

Comments are due to the IASB by 23 July 2014. For more information on the ED, please go to the IASB press release or speak to your usual KPMG contact.

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