Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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Ref.: WPS/AKI/HBL/PPA/SRO

Dear Mr Hoogervorst,

**Re: FEE comments on IASB Exposure Draft: Disclosure Initiative – Proposed Amendments to IAS 1**

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with our comments on the Exposure Draft: Disclosure Initiative – Proposed Amendments to IAS 1 ("ED").

FEE welcomes the IASB's initiative to review the IAS 1 requirements as the first step of the IASB Disclosure Initiative to address the overload of disclosure requirements of IFRSs, which impose significant costs on preparers that may outweigh the benefits to users.

As a result of the lack of clarity on how to apply the materiality concept to notes disclosures, entities may tend to err on the side of caution and comply with all requirements, albeit sometimes through boilerplate disclosures which do not serve the purpose of presenting relevant information to users. This has turned financial statements into a compliance tool rather than a means of communication between the entity and the users. This is why FEE supports the IASB's efforts towards setting out a clear disclosure framework that would, among other things, clarify the application of materiality to disclosures. During this process FEE urges the IASB to work with other constituents and also to take into account any concerns of regulatory bodies in order to eliminate any divergence in practice on the application of materiality.

Therefore, in principle, FEE agrees with the proposed amendments regarding materiality, presentation of the statement of financial position and statement of profit or loss as well as with the proposed amendments regarding the structure of the notes as included in the ED. However, we believe that some drafting adjustments are necessary to ensure that the preparers and users of financial statements better understand the principles behind the proposed amendments.

Regarding the disclosure of accounting policies FEE agrees in general with the need to identify the significant accounting policies and supports the IASB's decision to consider further this issue within the context of the Disclosure Initiative.

In conclusion, FEE supports the IASB's initiative and agrees with the proposed amendments. However, FEE urges the IASB to proceed with the Disclosure Initiative project in the near future as this ED is only a first step towards the clarification of important principles in the financial statements. In order to enhance financial reporting in a meaningful way, key issues (in particular materiality) need to be addressed in a more comprehensive manner. It will also be important as part of the Disclosure Initiative to review, and amend if necessary, disclosure requirements of existing Standards, including the manner in which the requirements are spelled out (i.e., making sure to distinguish the objectives of the disclosures from the illustrations of how the objectives may be achieved).

While not directly linked with the purpose of the ED, FEE would like take the opportunity of this review of IAS 1 to reiterate the concerns we expressed in our response on 21 January 2014 about the lack of a requirement in the standard for preparers to include a positive statement regarding the going concern status of the entity.

For further information on this letter, please contact Pantelis Pavlou, Project Manager, from the FEE Team on +32 (2) 2854074 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Encl. Appendix – FEE comments on ED Questions

**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?

(1) FEE agrees in general with the proposed amendments in IAS 1 relating to materiality and clarification of specific requirements of the standard. However, FEE urges the IASB to proceed with the Disclosure Initiative project in the near future as this ED is only a first step towards the clarification of important principles in the financial statements. In order to enhance financial reporting in a meaningful way, key issues (in particular materiality) need to be addressed in a more comprehensive manner.

*Materiality*

(2) Materiality is a concept that applies to disclosures as well as to the primary financial statements. However, in practice, it is not always clear how materiality applies to disclosure requirements. As a consequence, the financial statements contain a lot of information that might not be material for users. It contributes to preparers providing boilerplate disclosures simply to comply that add to complexity and impair the usefulness of the information to the users.

(3) FEE agrees with the proposed amendments as they reiterate that materiality applies to disclosures. However, FEE believes that, in order for these proposed amendments to have an impact in financial reporting, the IASB must proceed with the overall Disclosure Initiative project to consistently define and explain *how* to apply the concept of materiality to disclosures. However, we notice that materiality is not consistently defined which may lead regulators seeing the necessity to define materiality. Therefore, FEE urges the IASB to work with other relevant constituents to clarify materiality and how it applies not only to the main financial statements, but also to the disclosures.

(4) This guidance would need to consider how to assess materiality in the context of standards (such as *IFRS 8 – Operating Segments)* that address solely disclosure requirements. Can failure to provide the required disclosures be deemed immaterial when it results in ignoring an entire standard?

*Statement of financial position and statement of profit or loss and other comprehensive income*

(5) FEE agrees with the clarification of the ED regarding the presentation of the line items on the statement of financial position and the concept that an entity can exclude from the presentation on the statement of financial position those line items that are not material. However FEE believes that some drafting enhancements are needed in the final standard.

(6) For example, FEE agrees with the deletion of the phrase “as a minimum” from paragraph 54 as these words may have been interpreted as indicating that each lines needed to be presented regardless of its materiality. But we believe that the deletion of these words may not be sufficient. Hence, we suggest that it be specified that line items may be aggregated when they are not material.

(7) In addition, FEE suggests that the example introduced at the end of paragraph 54 does not necessarily explain the concept of disaggregation. An example that illustrates disaggregation based on significant difference in the nature of a class of asset or difference in the measurement basis would be more relevant.

(8) FEE agrees with the proposals regarding the statement of profit and loss. The IASB correctly identifies that the IAS 1 does not prescribe any subtotals for the statement of financial position (paragraph BC14 (c) of the ED). FEE believes that the same statement is valid for the statement of profit or loss as well; therefore we have some concerns with the requirement in paragraph 85A (d).

*Notes Structure*

(9) FEE agrees with the proposed amendments in the ED regarding the structure of the notes in the financial statements but believes that the final standard would need some drafting enhancements.

(10) FEE believes that an entity should have the flexibility to present the most important notes first (according to its assessment of what is important) and group or ungroup disclosures in such a manner that will enhance the usefulness of the financial statements to the users.

(11) In addition, FEE suggests that the reference to comparability in paragraph 113 might be misleading. In FEE’s opinion the concept of comparability in this paragraph refers to consistency in the structure of the notes. Therefore, we suggest that the IASB should reconsider and clarify this requirement before the final standard is issued.

*Disclosure of accounting policies*

(12) FEE identifies that, currently, the accounting policy disclosure requirement leads to entities to provide boilerplate disclosures simply to comply with the requirements of IFRSs. In addition, FEE identifies that sometimes these disclosures are a summary of the actual standards instead of providing information on how the entity applies the requirements and how it chooses its accounting policies.

(13) Therefore FEE suggests that an entity should disclose the accounting policies that it uses and how it applies the judgments that are required in these policies. In addition, FEE suggests that IAS 1 should allow some flexibility to the entities regarding the order in which they can disclose the accounting policies. For example, the more relevant policies can be disclosed in the beginning of the notes while the less relevant, or those that relate to more general accounting policies, can be disclosed at the end.

(14) Finally, FEE supports the IASB's intention to consider, as part of its broader Disclosure Initiative, how an entity can disclose accounting policies in a way that enhances the relevance and usefulness of the information that is included in the financial statements.

**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?

(15) FEE agrees with the clarification of the presentation of the other comprehensive income arising from equity-accounted investments.

(16) To ensure that the amendment is well understood, FEE suggests that the example included in the Guidance on implementing IAS 1 should present a line for the "share of other comprehensive income of associates" for both, within items that will be reclassified to profit or loss and within items that may be reclassified subsequently to profit or loss.

**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?

(17) FEE agrees with the transition provisions and effective date as proposed in the ED.

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