AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

c/o KAMMER DER WIRTSCHAFTSTREUHÄNDER
SCHOENBRUNNER STRASSE 222–228/1/6
A-1120 VIENNA
AUSTRIA

TEL +43 (1) 81173 228
FAX +43 (1) 81173 100
E-MAIL office@afrac.at
WEB http://www.afrac.at

Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

July 11, 2014

Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the Exposure Draft ED/2014/1 *Disclosure Initiative – Proposed amendments to IAS 1 (March 2014)*.

Principal authors of this comment letter were Peter Geyer, Erich Kandler, Roland Nessmann, Andreas Rauter and Wilfried Rautner. The professional background of these authors is diverse, in order to assure a balanced Austrian view on the ED.

PREAMBLE

Before making some general and some specific comments, we note that the IAS 1 disclosure initiative overlaps the ongoing framework discussion. It picks out specific, albeit important, issues without being comprehensive and without paying proper attention to the forthcoming new framework, which has not been finished yet. We strongly suggest reconsidering whether this is the appropriate time for this Disclosure Initiative, which will require preparers to make potentially significant changes to the way they present their financial information, as it is already clear that another significant change to both content and presentation will result from the revised IFRS framework. The piecemeal approach of this ED – in addition to the other issues which we discuss below – may detract from the benefit of having global financial reporting standards, if IFRSs are to be subject to many fundamental changes in a short period of time.

GENERAL REMARKS

In general, we recognise the proposed amendments to IAS 1 as improvements; they will help prevent financial statements being unnecessarily lengthy and burdensome, by reducing disclosures with extensive descriptions of general policies and accounting rules.

Although the IASB says that the proposed amendments are to be understood as clarifications, we feel that the proposed amendments (particularly those related to materiality) would to an extent make IAS 1 superior to existing standards that do not follow the current new approach to writing standards. Clarification of this issue would be much appreciated.

In current IFRSs, there are a number of 'developing areas' that implicitly involve the principle of materiality (e.g., the upcoming framework and further work within the Disclosure Initiative): we look forward to clearer guidance on how materiality is to be understood.

We believe that the focus on relevant information enhances the understandability and decision usefulness of financial statements. Past experience shows that most preparers have in practice agreed that whenever IFRSs required specific disclosures, the principle of materiality did not apply, even if it would have resulted in superior information.

In our view, the inclusion of non-material information results in useful information being less visible and, as a result, less understandable. Judgement on materiality is required, and hence a clear understanding of what information can – individually or collectively – influence economic decisions. This judgement has to satisfy all stakeholders, and in the EU may be challenged by enforcement authorities.

Further attention must be paid to comparability of financial statements to support the decision usefulness for investors when comparing peers, or companies in different industries. Global trends towards standard taxonomies for certain financial information (e.g., XBRL) and data mining applications could be slowed if information is missing and peers can no longer be compared.

Even if all of these aspects are taken into account, there will always have to be a trade-off between comprehensive, standardised and comparable disclosures and compact, specific and easy-to-read financial information. Only information that satisfies both requirements is likely to be decision useful.

With respect to the proposed amendment to the presentation of items of other comprehensive income (OCI) arising from equity-accounted investments, we feel comfortable with the split of line items into the two OCI categories 'will not be reclassified to profit and loss' and 'will be subsequently reclassified to profit and loss'.

SPECIFIC REMARKS

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);

We agree that the balance sheet preparer should have the opportunity to distinguish between material and non-material items, so as to be able to streamline the financial statements. However, the needs of all users of financial reports must be borne in mind.

Materiality should not only be anchored in IAS 1 but also in other standards, particularly those that include specific disclosure requirements (e.g., IFRS 13). A clearer definition of materiality for disclosures should be included as well.

As noted in our general remarks, we welcome the emphasis on the principles of aggregation and materiality where they result in the improved readability and understandability of financial statements. In our view, all financial statements within a given industry should be structured similarly, to ensure greater comparability.

In principle, IAS 1 deals with materiality with respect to the presentation and disclosure of line items, so we do not interpret it as containing overriding requirements for minimum amounts of information to be disclosed under other standards. Hence, we see the proposed amendments as more than 'clarifying' – we understand them more as an extension of materiality to cover the notes. We agree, however, with the main objective of the amendment.

(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);

Paragraph 30A sets out the principles to be applied in aggregation and disaggregation. In the interests of clarity, we think that paragraphs 54 *et seqq.*, 82, 85A and 85B should include references to aggregation as well.

(c) notes structure (see paragraphs 113–117 and BC16–BC19 of this Exposure Draft); and

It is questionable whether the additional benefits of a company-specific notes structure outweigh the disadvantages arising from reduced comparability. This trade-off needs to be considered.

The elimination of non-material information will mean that useful information is not obscured. Financial statements should always be prepared taking all potential stakeholders into account. Comparability and consistency should not suffer due to materiality considerations.

We support the Exposure Draft in these respects.

(d) disclosure of accounting policies (see paragraphs 120 and BC20–BC22 of this Exposure Draft).

We agree with the removal of the examples, but would recommend leaving the first sentence of the paragraph.

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

Giving priority to the true and fair view and decision usefulness to financial statement users appears legitimate to us. The majority of current standards are too detailed and have too many minimum requirements, which results in part in misleading information. Important decision useful information and a true and fair view were often ranked behind the need to fulfil all requirements on the checklist. We suggest implementing the change of presentation by revising all the standards. A good occasion to do so could be the introduction of the revised conceptual framework, as this will in any event make revision of standards necessary.

With respect to the trade-off between comprehensive and comparable disclosures and individual and user-friendly information, we favour the latter. The current standard on operating segments (IFRS 8) adopts this approach, placing more emphasis on the organisational framework chosen by management than in the more comparable approach adopted in IAS 14.

<u>Question 2—Presentation of items of other comprehensive income arising from equity-accounted investments</u>

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?

In general, we believe that the presentation of items of OCI arising from equity-accounted investments should show separate line items for items that will not subsequently be reclassified to profit and loss and for those that will.

For a shorter description of the relevant entities, we recommend using the term 'investee' rather than 'associates and joint ventures'.

<u>Question 3—Transition provisions and effective date</u>

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?

EU enterprises must only apply the Standard after it has been duly endorsed. As this may involve adapting a large number of other standards, we would suggest that a longer interval after the IASB has published the standard – say, between 24 and 30 months – is appropriate.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl,

Chairman