ISSUE 2015/05
FEBRUARY 2015
WWW.BDO.COM.HK

HKFRS / IFRS UPDATE 2015/05

DISCLOSURE INITIATIVE (AMENDMENTS TO HKAS/IAS 1)

Summary

In December 2014, the International Accounting Standards Board (IASB) has issued *Disclosure Initiative (Amendments to IAS 1)* as part of a wider project to improve the presentation of, and disclosures in, IFRS financial statements. On 28 January 2015, the HKICPA issued the corresponding amendments to HKFRS.

The amendments made to a number of aspects of HKAS/IAS 1 *Presentation of Financial Statements* include:

a) Materiality

- Aggregation or disaggregation should not obscure useful information. Materiality applies to each of the primary financial statements, the notes and each specific disclosure required by HKFRSs/IFRSs.

b) Line items in primary financial statements

- Additional guidance for line items to be presented in primary statements and new requirements regarding the use of subtotals.

c) Notes to the financial statements

- Determination of the order of the notes should include consideration of understandability and comparability of financial statements. It has been clarified that the order listed in HKAS/IAS 1.114(c) is illustrative only.

d) Accounting policies

- Removal of the examples in HKAS/IAS 1.120 in respect of income taxes and foreign exchange gains and losses.

In addition, the following amendments to HKAS/IAS 1 arose from a submission received by the IFRS Interpretations Committee:

e) Equity accounted investments

- An entity's share of other comprehensive income from equity accounted interest in associates and joint ventures would be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

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

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2016

ACCOUNTING IMPACT

May result in changes to the presentation of an entity's financial statements and note disclosures.

Changes the presentation of an entity's share of other comprehensive income from investments in associates and joint ventures.

Background

As a result of the IASB's *Agenda Consultation 2011*, the IASB received requests to review the disclosure requirements within the existing standards and to develop a disclosure framework.

The IASB has considered elements of presentation and disclosure as part of its revision of the *Conceptual Framework for Financial Reporting*. In addition, and to complement the work being done in relation to the *Conceptual Framework* project, the IASB started its *Disclosure Initiative* project during 2013. The *Disclosure Initiative* is a portfolio of projects affecting existing IFRSs, as well as other implementation and research projects.

The amendments to IAS 1 have resulted predominately from decisions made during the *Disclosure Initiative* project, with one additional proposal, regarding the presentation of an entity's share of other comprehensive income (OCI) from equity accounted interest in associates and joint ventures, arising from a submission received by the IFRS Interpretations Committee.

Summary of the proposals

The amendments made to HKAS/IAS 1 are designed to address concerns expressed by constituents about existing presentation and disclosure requirements and to encourage entities to use judgement in the application of HKAS/IAS 1 when considering the layout and content of their financial statements.

In addition, an amendment is made to HKAS/IAS 1 to clarify the presentation of an entity's share of other comprehensive income (OCI) from its equity accounted interests in associates and joint ventures. The amendment requires an entity's share of other comprehensive income to be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

This would result in amendments to various paragraphs of HKAS/IAS 1:

a) Materiality and aggregation (paragraphs 29 to 31)

b) Statement of financial position (paragraphs 54 to 55A), and statement of profit or loss and other comprehensive income (paragraphs 82 and 85 to 85B)

c) Notes to the financial statements (paragraphs 112 to 116)

d) Accounting policies (paragraphs 117 to 121)

e) Equity accounted investments (paragraph 82A).

a) Materiality and aggregation

- Information is not to be aggregated or disaggregated in a manner that obscures material information and reduces the understandability of financial statements (eg 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 consequently whether presentation or disclosure of that information is warranted. This combines with the existing definition of materiality in HKAS/IAS 1.7, which requires consideration of items both individually and collectively, because a group of immaterial items may, when combined, be material. Preparers also need to consider whether particularly significant items mean that disclosures, in addition to minimum requirements specified in HKFRSs/IFRSs, are required to provide an appropriate amount of information.

b) Statement of financial position, and statement of profit or loss and other comprehensive income

- It is clarified 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 this is relevant to an understanding of the entity's financial position and performance.
- New requirements are introduced when an entity presents subtotals in primary statements in accordance with HKAS/IAS 1.55 and 85. The amendments clarify that additional subtotals must be made up of items recognised in accordance with HKFRSs/IFRSs, need to be

presented and labelled in a manner that makes the subtotals understandable and consistent from period to period, and are not permitted to be displayed with more prominence than the subtotals and totals required by HKFRSs/IFRSs.

c) Notes

- It is emphasised that understandability and comparability of financial statements should be considered by an entity when deciding the order in which the notes are presented.
- It is clarified that entities have flexibility for the order of the notes, which do not necessarily need to be presented in the order listed in HKAS/IAS 1.114 (eg it may be decided to give more prominence to areas that the entity considers to be most relevant to its financial performance and position, such as grouping together information about items that are measured at fair value).

d) Disclosure of accounting policies

The examples in HKAS/IAS 1.120 of accounting policies for income taxes and foreign exchange gains and losses have been removed, because the examples were unclear about why a user of financial statements would always expect these specific policies to be disclosed.

e) Equity accounted investments

This amendment clarifies the presentation of an entity's share of other comprehensive income (OCI) from equity accounted associates and joint ventures.

The amendment would require entities to include two separate line items in OCI for those items, being amounts that will and will not be reclassified to profit or loss.

An example of the proposal's effects on the other comprehensive income section of the statement of profit or loss and other comprehensive income is set out in Figure 1 at the end of this Update.

What the amendments mean

Respondents to the IASB's *Agenda Consultation 2011* asked the IASB to review the disclosure requirements of existing IFRSs and to develop a disclosure framework. A number of these requests arose from the increasing length of many financial statements prepared in accordance with IFRS, and disclosure overload in those financial statements.

In 2013, to complement work being carried out to revise the *Conceptual Framework*, the IASB started its *Disclosure Initiative*. This is made up of a number of short and medium term projects, and on-going activities, which are looking at how to improve presentation and disclosure principles in existing IFRSs.

The materiality requirements of IAS 1 have been amended to emphasise that information should not be aggregated or disaggregated in a way that obscures material information. The changes also highlight that materiality applies to all aspects of financial statements, including the primary financial statements, the notes and specific disclosures required by individual IFRSs. The purpose is to encourage entities (and others involved in the preparation and review of financial statements) to give careful consideration to presentation requirements, and to the items that need to be included in financial statements.

The content of primary statement line items has been clarified, including that as well as aggregating immaterial items, individual lines that contain significant items may need to be disaggregated. Additional guidance has also been added for the use of subtotals, requiring that these are derived using amounts that are reported in accordance with IFRS.

The amendment related to the submission to the IFRS Interpretations Committee and addresses uncertainty about, and diversity in, the presentation of an entity's share of other comprehensive income (OCI) from equity accounted associates and joint ventures. The effect is to include two separate line items in OCI for items that will, and for items that will not, be reclassified to profit or loss.

What should entities do in response to the amendments?

Disclosure overload and the increased complexity of financial reporting have been key drivers in the IASB's decision to start its *Disclosure Initiative*. The amendments are designed to encourage entities to improve the understandability, comparability and clarity of their financial statements.

Although the amendments do not introduce many new requirements to IAS 1 (and are not inconsistent with its existing guidance), they would encourage additional thought to be given to the content and layout of financial statements. Entities may wish to revisit:

- Their application of materiality
- The level of aggregation and disaggregation of line items in the financial statements
- The 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 accounting policies
- The amount of information to disclose for material transactions so that the economic substance of the transaction can be adequately explained
- Which accounting policies are significant to users of financial statements in understanding specific transactions

The focus on disclosing material and relevant information are likely to require on going application of judgement. Entities may also consider engagement with their auditors and shareholders as part of their process of determining which disclosures are material and relevant for the current reporting period.

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

Effective date and transition

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

Entities are not required to disclose the information required by HKAS/IAS 8.28-30 in relation to these amendments (prior to adoption, the likely effects and, on adoption, the effects on the current and comparative periods). However if an entity alters the order of the notes or the information presented or disclosed compared to the previous year, in accordance with HKAS/IAS 1.38 it should also adjust the comparative information to align with the current period presentation and disclosure.

	20X5 (Existing HKAS/IAS 1)	20X5 (Amendments to HKAS/IAS 1)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	xxx	xxx
Remeasurements of defined benefit pension plans	xxx	xxx
Share of gain (loss) on property revaluation of associates	(400)	-
Share of gain (loss) remeasurements of defined benefit pension plans of associates	200	-
Share of other comprehensive income of associates	-	(200)
Income tax relating to items that will not be reclassified	xxx	xxx
	xxx	**xxx**
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	xxx	xxx
Available-for-sale financial assets	xxx	xxx
Cash flow hedges	xxx	xxx
Share of 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	xxx	xxx
	xxx	**xxx**
Other comprehensive income for the year, net of tax	**xxx**	**xxx**

Figure 1: Effects on the other comprehensive income section of the statement of profit or loss and other comprehensive income of the amendments regarding equity accounted investees.

BDO's support and assistance on HKFRS/IFRS

For any support and assistance on HKFRS/IFRS, please talk to your usual BDO contact or email info@bdo.com.hk

Click here for more BDO publications on HKFRS/IFRS.

www.bdo.com.hk