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Disclosure Initiative - Proposed Amendments to IAS 1

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Disclosure Initiative - Proposed Amendments to IAS 1* (the ED).

We fully support the Board's Disclosure Initiative and its objectives. We recognise that the proposals in this ED are intended to achieve limited, short-term improvements and that the ED is one part of this larger initiative. In that context we generally support the ED's proposals and believe they focus on the right areas of IAS 1. We however have some more detailed comments and suggestions which are included in our responses to the individual questions.

We also agree with the proposed amendments concerning comprehensive income arising from equity-accounted investments.

Our detailed responses to the questions in the ED are set out in the Appendix to this letter.

If you have any questions on our response, or wish us to amplify our comments, please contact our Global Head of IFRS, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C Sharp
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Responses to questions in the ED

Question 1

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?

We fully support the Board's Disclosure Initiative and its objectives. We recognise that the proposals in this ED are intended to achieve limited, short-term improvements and that the ED is one part of this larger initiative. In that context we generally support the ED and believe it focuses on the right areas of IAS 1. We agree that the proposals should contribute towards the objectives of the Disclosure Initiative by:

- emphasising the use of judgement in applying IAS 1's presentation and disclosure requirements
- reinforcing the need to consider materiality (particularly) in relation to disclosures
- clarifying certain aspects of IAS 1 that may have been interpreted or applied as prescriptive requirements.

We comment in more detail on each of the four areas (a)-(d) below.

Materiality and aggregation

We agree with the statement in BC2 that the concept of materiality applies to the financial statements as a whole, including disclosure requirements specifically identified in IFRS. Accordingly, if the Board believes that misconceptions about the applicability of the materiality concept to disclosures are widespread, then we agree that this should be addressed. We therefore support the proposed amendments to paragraphs 29–31 of IAS 1.

Notwithstanding this support, we question the extent to which disclosure overload should be attributed to widespread failure to consider materiality. In our experience preparers and auditors already consider materiality in the context of disclosures. However, it should be kept in mind that materiality assessments are hypothetical and highly judgemental. As a tool, materiality is probably better suited to assessing whether identified errors or omissions need to be corrected than to filtering from a long list of specified disclosures. Given this background, we believe materiality judgements about disclosures are based predominantly on quantitative factors and that a degree of "erring on the side of caution" is inevitable.

Moreover, we think it is the role of the Board to specify the disclosure requirements in IFRSs based on its assessment of the information that is relevant to users (following outreach and other due process). The materiality judgements made by preparers should not second-guess the Board's decisions about the relevance of disclosures any more than preparers' views about relevance can override recognition and measurement requirements. For these reasons we believe there are dangers in over-emphasising the role of materiality as a solution to disclosure overload.

We also note that the Board will be undertaking a short-term project to assess the existing guidance on materiality. We welcome this, given the challenges for preparers, auditors and enforcers in applying existing guidance to disclosures with confidence. Tools or guidance to assist preparers, auditors and regulators in applying the materiality concept to disclosures would be of interest.

Statement of financial position and statement of profit or loss and other comprehensive income
We agree with the removal of the wording "as a minimum" from paragraph 54 of IAS 1, for the reasons given in BC9 and BC10.

We agree that the disaggregation of the line items listed in paragraphs 54 and 81 of IAS 1 should be possible. However, we do have the following concerns as to the wording of the proposed amendments in this area:

- it is not clear to us why the disaggregation requirements for line items should differ from the general requirements proposed in paragraph 30A
- certain IFRSs appear to provide a free choice to disclose particular disaggregated information either in the notes or the face of a primary statements (for example paragraph 8 of IFRS 7 *Financial Instruments: Disclosures*). The interaction between these requirements and the ED's proposals should therefore be clarified.
- these proposed amendments are expressed as a strict requirement. The application of this requirement would involve deciding whether it is relevant to provide disaggregated information on the face of the primary statements instead of (or as well as) in the notes. The absolute amount of information is not at issue – merely its location. We question whether it is appropriate and operational to impose such a strict requirement in the context of a judgement about the location of information, especially given the current lack of guidance on how to make that judgement.

For these reasons we would prefer a formulation along the lines:

An entity shall decide, in the light of its circumstances and based upon the principles in paragraph 30A, whether to disaggregate these line items and, if so, to what extent.

We support the intention behind the proposed paragraphs 55A and 85A-85B. This is to promote the understandability and transparency of the primary statements and discipline in their preparation. However, we question whether these objectives can be achieved without also clarifying the use of additional lines items and headings. This is partly because the distinction between lines items, headings and subtotals is not always clear. Also, the requirements for additional line items in paragraphs 55 and 85 are not subject to the proposed requirement to be "made up of items recognised and measured in accordance with IFRS". To illustrate, consider an examples of a statement of profit and loss where the top line is "Revenue including share of associates and joint ventures". This is then reconciled to "Revenue" (an IFRS-compliant amount) by deducting the share of associates' and joint ventures' revenue. This approach would seem to comply with the letter of the proposed wording of paragraphs 55A and 85A-85B, because the subtotal is Revenue. However, it is not clear whether the Board intends the proposed amendments should apply to this type of situation.

In addition:

- paragraph 85 states that: "An entity shall reconcile any subtotals presented in accordance with paragraph 85 to the subtotals or totals required by this IFRS...". We think this will be problematic in view of the small number of subtotals required by IAS 1 in the statement of profit and loss and other comprehensive income. For example, if an entity presents a subtotal for 'gross profit' it is not clear which required total or subtotal that amount would be reconciled to.
- we suggest some additional clarification of what is meant by "made up of items recognised and measured in accordance with IFRS", perhaps by way of adding examples of acceptable and unacceptable approaches in the final Basis of Conclusions.

Notes structure

We agree that entities should have some flexibility to determine how best to structure the notes to their financial statements. Accordingly, we agree that paragraph 114 of IAS 1 should be amended to clarify that the ordering set out in that paragraph is not the only acceptable approach. Indeed we note that a number of (typically larger, listed) entities have made innovations in this area in recent years which have resulted in structures that differ from the traditional approach.

Disclosure of accounting policies

We support the proposed changes in this area. In particular, we welcome the proposal to delete paragraph 120 of IAS 1 which provides unhelpful examples of accounting disclosures in areas in which preparers have limited discretion. In our view the accounting policy disclosures should focus on areas in which the entity has explicit or implicit discretion to select or develop its policy.

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?

We agree.

The proposed amendment will clarify the requirements of paragraph 82A of IAS 1, which are ambiguous at present. We also agree that an investor's share of other comprehensive income (OCI) of its equity-accounted investments should be presented separately, disaggregated into the amount that may be reclassified to profit and loss and the amount that will not, but need not be described further by nature. This is consistent with the Board's intentions in amending IAS 1 in June 2011.

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?

We agree.