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**Comment on Exposure Draft, *Proposed Amendments to IAS 1***

**General comments**

1. The Accounting Standards Board of Japan ('ASBJ' or 'we') welcomes the opportunity to provide comments on the International Accounting Standards Board's ('IASB') Exposure Draft ('ED'), *Disclosure Initiative Proposed Amendment to IAS 1*, which was published as part of its Disclosure Initiative. The ASBJ supports the IASB's Disclosure Initiative, as we believe that this initiative is expected to address concerns expressed by market participants and promote the quality of an entity's financial information by making improvements to the presentation and disclosure requirements of IFRSs.

2. In addition, the ASBJ welcomes publication of the ED, because the proposed narrow-focus amendments to IAS 1 *Presentation of Financial Statements* are expected to address some of the concerns expressed about existing presentation and disclosure requirements, and help entities exercise sound judgment when applying that Standard within a reasonable time period.

3. However, the ASBJ recommends that the IASB improve the proposals in the ED through the following:

   (a) **Application of the concept of materiality**: To initiate a project to develop educational material about the concept of 'materiality' as well as a project to review disclosure requirements in individual Standards of IFRSs, as soon as practicable.

   (b) **Presentation of subtotals**: To clarify the extent to which presentation of subtotals are required even when the presentation is not separately required, and consider establishing an additional requirement with regard to presentation of 'operating income' in the statement of profit or loss and other comprehensive income (OCI).

(c) **Notes structure**: To consider withdrawing the proposed requirements of paragraphs 113, 114 and 117 of the ED, given the overwhelming feedback from users that the benefit of a more prescriptive approach would outweigh the benefit of allowing flexibility in the note structure of an entity.

4. For our comments on specific questions in the ED, please refer to the Appendix to this letter.

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We hope our comments will contribute to the forthcoming deliberations of the Disclosure Initiative project.

Yours sincerely,

Atsushi Kogasaka
Chairman of the Technical Committee for ASAF
Vice Chairman of the Accounting Standard Board of Japan

**Appendix**

**<u>Comments on Specific Questions in the ED</u>**

| **Question 1- Disclosure Initiative amendments** |
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| 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 judgment when applying that Standard.<br><br>The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgment.<br><br>The proposed amendment related to:<br><br>(a) Materiality and aggregation<br><br>(b) Statement of financial position and statement of profit or loss and other comprehensive income<br><br>(c) Notes structure<br><br>(d) Disclosure of accounting policies<br><br>Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments? |

*<u>Materiality and aggregation</u>*

5. The ASBJ generally agrees with the proposed amendments in paragraphs 29 to 31 of the ED, which are designed to promote financial statement preparers (preparers) to exercise sound judgment as to (i) how an entity should aggregate or disaggregate the information and (ii) whether information should be presented or disclosed, taking into account the concept of materiality. The ASBJ believes that the proposed amendments would help address the concerns that useful information is obscured by inappropriate aggregation of items with different characteristics or is overwhelmed with too much immaterial information.

6. However, the ASBJ recommends that the IASB give further consideration to the following matters so as to better achieve the intended objective of the proposed amendments.

   (a) *Requirements to consider users' needs*: Paragraph 31 of the ED proposes to require an entity to consider whether information about matters addressed by an IFRS needs to be presented or disclosed to meet the needs of financial statement users (users), even if that information is not included in the specific disclosure requirements of the IFRSs. Given that this ED was issued primarily to address the concerns of excessive disclosures in financial statements, the ASBJ questions if this proposed requirement is in line with the intended objective. In addition, the ASBJ questions if it is ever possible for preparers to consider the needs of users, given that users' needs are greatly diverse. Accordingly, the ASBJ recommends that the IASB withdraw this proposed requirement.

(b) *Separate section for the concept of 'materiality'*: In order to emphasise the importance of the concept of 'materiality' in IFRSs, the ASBJ suggests separating the sub-heading 'Materiality and aggregation' further into 'Materiality' and 'Aggregation', such that requirements and guidance relating to the concept of 'materiality' become more prominent.

7. Furthermore, the ASBJ believes that the proposed changes in the ED would not be sufficient to address concerns that too many immaterial disclosures undermine effective communication between an entity and users. Accordingly, the ASBJ encourages the IASB to undertake part of its mid-term initiative: the project to develop educational material regarding the concept of 'materiality' as well as the project to review disclosure requirements in individual standards of IFRSs, as soon as practicable.

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

8. Paragraphs 54 to 85B of the ED propose to:

(a) Remove the misconception that a list of line items presented in paragraphs 54 and 82 of IAS 1 cannot be disaggregated; and

(b) Provide discipline when an entity presents subtotals by clarifying what factors should be reconsidered when aggregating amounts that have been measured and recognised in accordance with IFRSs into a subtotal.

*(Disaggregation of line items)*

9. The ASBJ generally supports the proposed amendments in paragraphs 54 and 82 of the ED, because in our view these amendments would help reduce the perceived misunderstanding about whether and how to disaggregate line items. However, the ASBJ believes that these paragraphs can be further improved through the following changes:

(a) These paragraphs propose to require an entity to disaggregate line items when such presentation is *relevant* to the understanding of the entity's financial position or performance. Although we agree that an appropriate level of disaggregation would help users to understand financial statements, it would be difficult to identify the instances where disaggregation would be *irrelevant* to understanding an entity's financial position or financial performance. In addition, the ASBJ thinks that excessive disaggregation would hinder understandability of an entity's financial position or financial performance. Accordingly, the ASBJ recommends that the IASB revise these paragraphs as follows:

> *An entity shall disaggregate ~~T~~these line items ~~shall be disaggregated~~ when it is relevant to an understanding of the entity's financial performance (or financial position) such that it is reasonably expected that such disaggregation would enhance the understanding of the entity's financial performance (or financial position) in light of the common information needs of users. [Additions are underlined and deletions are struck through.]*

(b) Paragraph 54 of the ED proposes to state that, as an example of how to disaggregate line items, 'property, plant and equipment' can be disaggregated into separate line items: 'property', 'plant' and 'equipment'. In the ASBJ's view, however, this example is not appropriate, because such disaggregation would not enhance the ability of users to understand an entity's financial position. If the IASB were to continue to use the example of 'property, plant and equipment', the ASBJ suggests that 'property, plant and equipment' be disaggregated into separate line items by their nature (for example, 'land', 'building' and 'machinery'[1]).

*(Presentation of subtotals)*

10. The ASBJ shares the concern that some subtotals are misleading in practice given their undue prominence. Therefore, the ASBJ supports the proposal to improve the quality of disclosure practice by providing discipline when an entity presents subtotals.

11. However, the ASBJ recommends that the IASB make further improvements as follows:

(a) *Clarification of the scope for paragraphs 55A and 85A*: It is not clear what is intended by the term 'subtotals' stated in paragraphs 55A and 85A of the ED.

[1] Please see paragraph 37 of IAS 16 *Property, Plant and Equipment*

For example, some may question if (i) these paragraphs are intended to cover the situations where subtotals are calculated other than by simple additions and/or subtractions (this might include 'EBTDA'), or (ii) they are intended to require the presentation of subtotals that would represent profit or loss that exclude the effect of non-recurring items. At the least, the ASBJ believes that presenting subtotals calculated other than by simple additions and/or subtractions on the face of financial statements should be prohibited, because it may undermine users' understandability of financial statements.

(b) Presentation of 'operating income': The existing IAS 1 does not require or permit the presentation of 'operating income', which is widely used in practice. The ASBJ understands the difficulty of properly defining the term 'operating income' but the ASBJ wonders if it can be defined simply as profit or loss other than that which results from financing and investing activities. Accordingly, the ASBJ recommends that the IASB undertake research on the use of the term in practice and stimulate the discussion as to what definitions could be possible and practicable.

*Notes structure*

12. Paragraphs 113 to 114 of the ED propose to give an entity more flexibility in determining a manner of financial statement presentation.

13. Having heard feedback from our market constituents (including users), the ASBJ believes that the benefits of a more prescriptive approach would outweigh the benefits of increased flexibility proposed in the ED. This is because the ASBJ finds that users tend to place greater value on the benefit of increased comparability of financial statements across different entities, than the benefit of increased prominence of disclosures based on an entity's assessment of relative importance. Specifically, the ASBJ heard the following messages from our constituents:

(a) Presenting information in order of their relative importance would heighten the risks that users may have to spend more time locating information that they find useful, or users might even fail to find that information.

(b) Some argue that the increased use of electronic versions of financial statements (including the use of XBRL format) lessen the burden on users to search for, locate and compare information within the financial statements and between entities (see paragraph BC19 of the ED). However, considering the actual usage of financial information by users and the precision of the existing search tools, these arguments would not necessarily hold true.

14. Based on the above discussion, the ASBJ recommends that the IASB withdraw the proposed requirement in paragraph 113A of the ED.

15. In addition, paragraph 113 of the ED proposes to require an entity to consider the understandability and *comparability* of its financial statements in determining a systematic approach to present notes [emphasis added]. If this notion of 'comparability' is intended to refer to the comparability between entities, the ASBJ thinks that an entity would find it significantly challenging to determine its manner of financial statement presentation, because the entity cannot be aware of the format of financial statement presentation of other entities until their financial statements are published. This would mean that the trade-off relationship envisaged in the proposed requirement (see paragraph BC19 of the ED) is difficult to achieve. Accordingly, the ASBJ recommends that the IASB eliminate this additional requirement proposed in paragraph 113 of the ED.

16. Furthermore, in addition to paragraph 115 of the ED which proposes to maintain a requirement to cross-reference an item presented on the face of the financial statements to related information in the notes, the ASBJ recommends that the IASB also require an entity to cross-reference information in the notes, where the information is relates to other information in the notes.

*Disclosure of accounting policies*

17. Paragraphs 117 to 120 of the ED proposes to eliminate:
    (a) A reference to 'in the summary of significant accounting policies' in paragraph 117 of IAS 1; and
    (b) Examples of an accounting policy that the users would expect to be disclosed.

18. Consistent with what we stated in paragraph 12 of this letter, the ASBJ believes that users would benefit more from increased comparability across entities' financial statements, if accounting standards prescribe the manner of financial statement presentation. Therefore, the ASBJ recommends that the IASB withdraw the proposed change in paragraph 117 of the ED, so that IFRSs continues to require the section 'summary of accounting policies'.

19. As for the proposal in paragraph 120 of the ED, the ASBJ agrees with the proposed deletion of the examples of an accounting policy.

| **Question 2- Presentation of items of other comprehensive income arising from equity-accounted investments** |
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| 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)?<br><br>If not, why and what alternative do you propose? |

20. The ASBJ supports the proposal to amend IAS 1 for the presentation of items of OCI arising from equity-accounted investment amendments, for the following reasons:

    (a) The proposed approach is consistent with the general concept of the equity method, which requires a net presentation of profit or loss, OCI and changes in net assets of investees.

    (b) Requiring separate presentation of the share of OCI relating to equity-accounted investments by nature would contradict the said general concept of the equity method. In addition, this approach is likely to undermine the understandability of financial statements for users by presenting an excessive number of line items on the face of financial statements.

    (c) Presenting the share of OCI relating to equity-accounted investments within items of the same nature of the reporting entity's own OCI would blur the distinction between outcomes resulting from the group (that is, a parent company and its subsidiaries) and that resulting from equity-accounted investees.

21. In addition, the ASBJ suggests that the IASB require the share of OCI arising from equity method investments be disaggregated by nature, and that the effect of disaggregation be disclosed in the notes.

| **Question 3- Transition provisions and effective date** |
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| Do you agree with the proposed transition provisions for the amendments to IAS 1 as described in the Exposure Draft (see paragraphs 139N and BC23-BC25)?<br><br>If not, why and what alternative do you propose? |

22. The ASBJ supports the proposed transitional provisions for the amendment to IAS 1 as stated in the ED.