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## **Approval by the Board of IAS 1 issued in September 2007**

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International Accounting Standard 1 *Presentation of Financial Statements* (as revised in 2007) was approved for issue by ten of the fourteen members of the International Accounting Standards Board. Professor Barth and Messrs Cope, Garnett and Leisenring dissented. Their dissenting opinions are set out after the Basis for Conclusions.

Sir David Tweedie

Chairman

Thomas E Jones

Vice-Chairman

Mary E Barth

Hans-Georg Bruns

Anthony T Cope

Philippe Danjou

Jan Engstrom

Robert P Garnett

Gilbert Gélard

James J Leisenring

Warren J McGregor

Patricia L O'Malley

John T Smith

Tatsumi Yamada

## **Approval by the Board of *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1) issued in February 2008**

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*Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*) was approved for issue by eleven of the thirteen members of the International Accounting Standards Board. Professor Barth and Mr Garnett dissented. Their dissenting opinions are set out after the Basis for Conclusions on IAS 32.

Sir David Tweedie

Chairman

Thomas E Jones

Vice-Chairman

Mary E Barth

Stephen Cooper

Philippe Danjou

Jan Engstrom

Robert P Garnett

Gilbert Gélard

James J Leisenring

Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

## **Approval by the Board of *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) issued in June 2011**

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*Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) was approved for issue by fourteen of the fifteen members of the International Accounting Standards Board. Mr Pacter dissented from the issue of the amendments. His dissenting opinion is set out after the Basis for Conclusions.

Sir David Tweedie

Chairman

Stephen Cooper

Philippe Danjou

Jan Engstrom

Patrick Finnegan

Amaro Luiz de Oliveira Gomes

Prabhakar Kalavacherla

Elke König

Patricia McConnell

Warren J McGregor

Paul Pacter

Darrel Scott

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

## **Approval by the Board of the *Disclosure Initiative* (Amendments to IAS 1) issued in December 2014**

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*Disclosure Initiative* (Amendments to IAS 1) was approved for publication by fourteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Amaro Luiz De Oliveira Gomes	
Martin Edelmann	
Patrick Finnegan	
Gary Kabureck	
Suzanne Lloyd	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

## **Approval by the Board of *Definition of Material* (Amendments to IAS 1 and IAS 8) issued in October 2018**

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*Definition of Material* (Amendments to IAS 1 and IAS 8) was approved for issue by the fourteen members of the International Accounting Standards Board.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Nick Anderson

Martin Edelmann

Françoise Flores

Amaro Luiz De Oliveira Gomes

Gary Kabureck

Jianqiao Lu

Takatsugu Ochi

Darrel Scott

Thomas Scott

Chungwoo Suh

Ann Tarca

Mary Tokar

## **Approval by the Board of *Classification of Liabilities as Current or Non-current* issued in January 2020**

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*Classification of Liabilities as Current or Non-current*, which amended IAS 1, was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Martin Edelmann	
Françoise Flores	
Gary Kabureck	
Jianqiao Lu	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

**Approval by the Board of *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* issued in July 2020**

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*Classification of Liabilities as Current or Non-current—Deferral of Effective Date*, which amended IAS 1, was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Martin Edelmann	
Françoise Flores	
Gary Kabureck	
Jianqiao Lu	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Rika Suzuki	
Ann Tarca	
Mary Tokar	



## **Approval by the Board of *Disclosure of Accounting Policies* issued in February 2021**

*Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, was approved for issue by 10 of 13 members of the International Accounting Standards Board (Board). Ms Flores dissented. Her dissent is set out after the Basis for Conclusions. Messrs Gast and Mackenzie abstained in view of their recent appointment to the Board.

Hans Hoogervorst

Chairman

Suzanne Lloyd

Vice-Chair

Nick Anderson

Tadeu Cendon

Martin Edelmann

Françoise Flores

Zach Gast

Jianqiao Lu

Bruce Mackenzie

Thomas Scott

Rika Suzuki

Ann Tarca

Mary Tokar

## **Approval by the IASB of *Non-current Liabilities with Covenants* issued in October 2022**

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*Non-current Liabilities with Covenants*, which amended IAS 1, was approved for issue by nine of the 11 members of the International Accounting Standards Board. Ms Mezon-Hutter and Mr Uhl abstained from voting in view of their recent appointment to the IASB.

Andreas Barckow

Chair

Nick Anderson

Tadeu Cendon

Zach Gast

Jianqiao Lu

Bruce Mackenzie

Linda Mezon-Hutter

Bertrand Perrin

Rika Suzuki

Ann Tarca

Robert Uhl

## **Approval by the IASB of *Disclosures about Uncertainties in the Financial Statements* issued in November 2025**

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*Disclosures about Uncertainties in the Financial Statements* was approved for issue by all 12 members of the International Accounting Standards Board.

Andreas Barckow     Chair

Linda Mezon-Hutter   Vice-Chair

Nick Anderson

Patrina Buchanan

Tadeu Cendon

Florian Esterer

Zach Gast

Hagit Keren

Bruce Mackenzie

Bertrand Perrin

Rika Suzuki

Robert Uhl

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# Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

*This Basis for Conclusions accompanies, but is not part of, IAS 1.*

*The International Accounting Standards Board revised IAS 1 *Presentation of Financial Statements* in 2007 as part of its project on financial statement presentation. It was not the Board's intention to reconsider as part of that project all the requirements in IAS 1.*

*For convenience, the Board has incorporated into this Basis for Conclusions relevant material from the Basis for Conclusions on the revision of IAS 1 in 2003 and its amendment in 2005. Paragraphs have been renumbered and reorganised as necessary to reflect the new structure of the Standard.*

## Introduction

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BC1 The International Accounting Standards Committee (IASC) issued the first version of IAS 1 *Disclosure of Accounting Policies* in 1975. It was reformatted in 1994 and superseded in 1997 by IAS 1 *Presentation of Financial Statements*.<sup>1</sup> In 2003 the International Accounting Standards Board revised IAS 1 as part of the Improvements project and in 2005 the Board amended it as a consequence of issuing IFRS 7 *Financial Instruments: Disclosures*. In 2007 the Board revised IAS 1 again as part of its project on financial statement presentation. This Basis for Conclusions summarises the Board's considerations in reaching its conclusions on revising IAS 1 in 2003, on amending it in 2005 and revising it in 2007. It includes reasons for accepting some approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

## The Improvements project—revision of IAS 1 (2003)

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of standards, including IAS 1. The project was undertaken in the light of queries and criticisms raised in relation to the standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within standards, to deal with some convergence issues and to make other improvements. The Board's intention was not to reconsider the fundamental approach to the presentation of financial statements established by IAS 1 in 1997.

BC3 In May 2002 the Board published an exposure draft of proposed *Improvements to International Accounting Standards*, which contained proposals to revise IAS 1. The Board received more than 160 comment letters. After considering the responses the Board issued in 2003 a revised version of IAS 1. In its revision the Board's main objectives were:

- (a) to provide a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation;
- (b) to base the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date;
- (c) to prohibit the presentation of items of income and expense as 'extraordinary items';
- (d) to specify disclosures about the judgements that management has made in the process of applying the entity's accounting policies, apart from those involving estimations, and that have the most significant effect on the amounts recognised in the financial statements; and
- (e) to specify disclosures about sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

BC4 The following sections summarise the Board's considerations in reaching its conclusions as part of its Improvements project in 2003:

- (a) departures from IFRSs (paragraphs BC23–BC30)
- (b) criterion for exemption from requirements (paragraphs BC34–BC36)

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<sup>1</sup> IASC did not publish a Basis for Conclusions.

- (c) effect of events after the reporting period on the classification of liabilities (paragraphs BC39–BC48)
- (d) results of operating activities (paragraphs BC55 and BC56)
- (e) minority interest<sup>2</sup> (paragraph BC59)
- (f) extraordinary items (paragraphs BC60–BC64)
- (g) disclosure of the judgements management has made in the process of applying the entity's accounting policies (paragraphs BC77 and BC78)
- (h) disclosure of major sources of estimation uncertainty (paragraphs BC79–BC84).

## **Amendment to IAS 1—*Capital Disclosures* (2005)**

- BC5 In August 2005 the Board issued an Amendment to IAS 1—*Capital Disclosures*. The amendment added to IAS 1 requirements for disclosure of:
- (a) the entity's objectives, policies and processes for managing capital.
  - (b) quantitative data about what the entity regards as capital.
  - (c) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.
- BC6 The following sections summarise the Board's considerations in reaching its conclusions as part of its amendment to IAS 1 in 2005:
- (a) disclosures about capital (paragraphs BC85–BC89)
  - (b) objectives, policies and processes for managing capital (paragraphs BC90 and BC91)
  - (c) externally imposed capital requirements (paragraphs BC92–BC97)
  - (d) internal capital targets (paragraphs BC98–BC100).

## **Amendments to IAS 32 and IAS 1—*Puttable Financial Instruments and Obligations Arising on Liquidation* (2008)**

- BC6A In July 2006 the Board published an exposure draft of proposed amendments to IAS 32 and IAS 1 relating to the classification of puttable instruments and instruments with obligations arising only on liquidation. The Board subsequently confirmed the proposals and in February 2008 issued an amendment that now forms part of IAS 1.

## ***Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)**

- BC6B In May 2010 the Board published an exposure draft of proposed amendments to IAS 1 relating to the presentation of items of other comprehensive income (OCI). The Board subsequently modified and confirmed the proposals and in June 2011 issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1). The amendments were developed in a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB), with the aim of aligning the presentation of OCI so that information in financial statements prepared by entities using IFRSs and entities using US generally accepted accounting principles (GAAP) can be more easily compared.

## **Financial statement presentation—Joint project**

- BC7 In September 2001 the Board added to its agenda the performance reporting project (in March 2006 renamed the 'financial statement presentation project'). The objective of the project was to enhance the usefulness of information presented in the income statement. The Board developed a possible new model for reporting income and expenses and conducted preliminary testing. Similarly, in the United States, the Financial Accounting Standards Board (FASB) added a project on performance reporting to its agenda in October 2001,

<sup>2</sup> In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended 'minority interests' to non-controlling interests'. The consolidation requirements in IAS 27 were superseded by IFRS 10 *Consolidated Financial Statements* issued in May 2011. The term 'non-controlling interests' and the requirements for non-controlling interests were not changed.

developed its model and conducted preliminary testing. Constituents raised concerns about both models and about the fact that they were different.

- BC8 In April 2004 the Board and the FASB decided to work on financial statement presentation as a joint project. They agreed that the project should address presentation and display not only in the income statement, but also in the other statements that, together with the income statement, would constitute a complete set of financial statements—the balance sheet, the statement of changes in equity, and the cash flow statement. The Board decided to approach the project in two phases. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. Phase B would be undertaken jointly with the FASB and would address more fundamental issues relating to presentation and display of information in the financial statements, including:
- (a) consistent principles for aggregating information in each financial statement.
  - (b) the totals and subtotals that should be reported in each financial statement.
  - (c) whether components of other comprehensive income should be reclassified to profit or loss and, if so, the characteristics of the transactions and events that should be reclassified and when reclassification should be made.
  - (d) whether the direct or the indirect method of presenting operating cash flows provides more useful information.
- BC9 In March 2006, as a result of its work in phase A, the Board published an exposure draft of proposed amendments to IAS 1—*A Revised Presentation*. The Board received more than 130 comment letters. The exposure draft proposed amendments that affected the presentation of owner changes in equity and the presentation of comprehensive income, but did not propose to change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. It also proposed to bring IAS 1 largely into line with the US standard—SFAS 130 *Reporting Comprehensive Income*. After considering the responses to the exposure draft the Board issued a revised version of IAS 1. The FASB decided to consider phases A and B issues together, and therefore did not publish an exposure draft on phase A.
- BC10 The following sections summarise the Board’s considerations in reaching its conclusions as part of its revision in 2007:
- (a) general purpose financial statements (paragraphs BC11–BC13)
  - (b) titles of financial statements (paragraphs BC14–BC21)
  - (c) equal prominence (paragraph BC22)
  - (d) a statement of financial position as at the beginning of the earliest comparative period (paragraphs BC31 and BC32)
  - (e) IAS 34 *Interim Financial Reporting* (paragraph BC33)
  - (f) reporting owner and non-owner changes in equity (paragraphs BC37 and BC38)
  - (g) reporting comprehensive income (paragraphs BC49–BC54)
  - (h) subtotal for profit or loss (paragraphs BC57 and BC58)
  - (i) other comprehensive income-related tax effects (paragraphs BC65–BC68)
  - (j) reclassification adjustments (paragraphs BC69–BC73)
  - (k) effects of retrospective application or retrospective restatement (paragraph BC74)
  - (l) presentation of dividends (paragraph BC75)
  - (m) IAS 7 *Cash Flow Statements* (paragraph BC76)
  - (n) presentation of measures per share (paragraphs BC101–BC104)
  - (o) effective date and transition (paragraph BC105)
  - (p) differences from SFAS 130 (paragraph BC106).



## Definitions

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### General purpose financial statements (paragraph 7)

- BC11 The exposure draft of 2006 proposed a change to the explanatory paragraph of what ‘general purpose financial statements’ include, in order to produce a more generic definition of a set of financial statements. Paragraph 7 of the exposure draft stated:

General purpose financial statements include those that are presented separately or within other *public* documents such as a *regulatory filing* or report to shareholders. [emphasis added]

- BC12 Respondents expressed concern about the proposed change. They argued that it could be understood as defining as general purpose financial statements any financial statement or set of financial statements filed with a regulator and could capture documents other than annual reports and prospectuses. They saw this change as expanding the scope of IAS 1 to documents that previously would not have contained all of the disclosures required by IAS 1. Respondents pointed out that the change would particularly affect some entities (such as small private companies and subsidiaries of public companies with no external users of financial reports) that are required by law to place their financial statements on a public file.
- BC13 The Board acknowledged that in some countries the law requires entities, whether public or private, to report to regulatory authorities and include information in those reports that could be beyond the scope of IAS 1. Because the Board did not intend to extend the definition of general purpose financial statements, it decided to eliminate the explanatory paragraph of what ‘general purpose financial statements’ include, while retaining the definition of ‘general purpose financial statements’.

### Definition of Material (paragraph 7)

#### Background

- BC13A The Board was informed at the *Discussion Forum on Financial Reporting Disclosure* it hosted in January 2013,<sup>3</sup> through feedback on the amendments to IAS 1 in the 2014 Exposure Draft *Disclosure Initiative*, the 2017 Discussion Paper *Disclosure Initiative—Principles of Disclosure*, and from other sources, that entities experience difficulties in making materiality judgements when preparing financial statements.
- BC13B The feedback indicated that difficulties in making materiality judgements are generally behavioural rather than related to the definition of material. That feedback indicated that some entities apply the disclosure requirements in IFRS Standards mechanically, using them as a checklist for disclosures in their financial statements, rather than applying their judgement to determine what information is material. Some entities have said that it is easier to use a checklist approach than to apply judgement because of management resource constraints, and because following a mechanical approach means that their judgement is less likely to be challenged by auditors, regulators or users of their financial statements. Similarly, some entities say that they prefer to be cautious when deciding whether to omit disclosures to avoid the risk of being challenged by these parties.
- BC13C The Board concluded that these behavioural difficulties could best be addressed by providing guidance to help entities make materiality judgements, rather than by making substantive changes to the definition of material. Consequently, in September 2017 the Board issued IFRS Practice Statement 2 *Making Materiality Judgements* (Materiality Practice Statement).
- BC13D Although many stakeholders agreed that substantive changes to the definition of material were unnecessary, the Board received some feedback that the definition of material might encourage entities to disclose immaterial information in their financial statements. Feedback suggested that the Board should address the following points:
- (a) the phrase ‘could influence decisions of users’, to describe the threshold for deciding whether information is material, may be understood as requiring too much information to be provided, because almost anything ‘could’ influence the decisions of some users of the financial statements, even if such a possibility were remote;

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<sup>3</sup> A Feedback Statement summarising the feedback from that forum and from the Board’s related survey on financial reporting disclosure is available on the IFRS Foundation website at <http://www.ifrs.org/-/media/project/disclosure-initiative/feedback-statement-discussion-forum-financial-reporting-disclosure-may-2013.pdf>.

- (b) the phrase ‘information is material if omitting it or misstating it’ focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information; and
  - (c) the definition refers to ‘users’ but does not specify their characteristics, which is interpreted by some as implying that an entity is required to consider all possible users of its financial statements when deciding what information to disclose.
- BC13E The Board also observed that the wording of the definition of material in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* differed from the wording used in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board believes that the substance of the definitions is the same because these definitions all cover the omission or misstatement of information that could influence the decisions of users of financial statements. Nevertheless, the existence of more than one definition of material could be confusing and could imply that the Board intended these definitions to have different meanings and be applied differently in practice.
- BC13F Consequently, the Board decided to propose refinements to the definition of material and to align the definition across IFRS Standards and other publications. The Board observed that these refinements were intended to make the definition easier to understand and were not intended to alter the concept of materiality in IFRS Standards.

## Refinements to the definition of material

- BC13G In September 2017 the Board published the Exposure Draft *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) which proposed a revised definition.
- BC13H The Board developed this definition by:
- (a) replacing the description of the threshold ‘could influence’ with ‘could reasonably be expected to influence’ to incorporate the existing clarification in paragraph 7 of IAS 1 which states: ‘Therefore, the assessment needs to take into account how users with such attributes *could reasonably be expected to be influenced* in making economic decisions’ [emphasis added]. This wording helps to address concerns raised by some parties that the threshold ‘could influence’ in the existing definition of material is too low and might be applied too broadly (see paragraph BC13D(a)).
  - (b) using the wording of the definition of material in the *Conceptual Framework*.<sup>4</sup> The Board concluded that this wording was clearer than the definition in IAS 1 and IAS 8. However, the Board decided to refer to ‘financial statements’ rather than ‘financial reports’ in the amendments to IAS 1 to be consistent with the scope of that Standard.<sup>5</sup> The *Conceptual Framework* definition also clarifies that the users to whom the definition refers are the primary users of an entity’s financial reports or statements. Referring to the primary users in the definition of material in IAS 1 helps to respond to concerns that the term ‘users’ may be interpreted too widely (see paragraph BC13D(c)).
  - (c) including ‘obscuring’ in the definition of material to incorporate the existing concept in paragraph 30A of IAS 1 which states: ‘An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating items that have different natures or functions.’ Referring to ‘obscuring’ in the definition of material is intended to respond to concerns that the effect of including immaterial information should also be considered in addition to ‘misstating’ and ‘omitting’ (see paragraphs BC13D(a) and (b)).
  - (d) relocating wording that explains rather than defines material from the definition itself to its explanatory paragraphs. This reorganisation clarifies which requirements are part of the definition and which paragraphs explain the definition.
- BC13I Some parties said that the Board should raise the threshold at which information becomes material by replacing ‘could’ with ‘would’ in the definition. However, the Board did not do this because it concluded that using ‘would’ would be a substantive change that might have unintended consequences. For example, ‘would influence decisions’ might be interpreted as a presumption that information is not material unless it can be proved otherwise, ie for information to be seen as material it would be necessary to prove that the information would influence the decisions of users of the financial statements.

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4 The wording in paragraph 2.11 of the *Conceptual Framework* is: ‘Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity’.

5 Financial statements are a type of financial report.

## Obscuring information

- BC13J Responses to the Exposure Draft *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) indicated strong support for the definition of material to be aligned across the *Conceptual Framework* and IFRS Standards. However, many respondents had some concerns—in particular about including the existing concept of ‘obscuring’ (as set out in paragraph 30A of IAS 1) in the definition of material in the way proposed in the Exposure Draft. Many respondents thought that if the Board were to include this concept in the definition, then ‘obscuring information’ would need to be more precisely defined or explained than it was in the Exposure Draft.
- BC13K The Board agreed with respondents that the concept of ‘obscuring information’ is inherently more judgemental than ‘omitting’ or ‘misstating’ information and considered removing the concept from the definition of material and its explanatory paragraphs altogether. However, the Board decided that the benefit of including ‘obscuring’ in the definition of material outweighed these concerns. Including this concept emphasises that obscuring information can affect the decisions of primary users just as omitting or misstating that information can. In particular, including ‘obscuring’ in the definition of material addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information.
- BC13L The Board did not intend to be prescriptive by including the word ‘obscuring’ in the definition of material and by further clarifying it—the Board is not prohibiting entities from disclosing immaterial information or introducing a required quality of explanations and information included in the financial statements. For example, the Board did not intend the addition of the word ‘obscure’ to prevent entities from providing information required by local regulators or prescribe how an entity organises and communicates information in the financial statements. Rather, the Board’s intention is to:
- (a) support the existing requirements in paragraph 30A of IAS 1 which state that ‘An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions’; and
  - (b) help entities and other stakeholders avoid instances in which material information may be obscured by immaterial information to the extent that it has a similar effect on the primary users of financial statements to omitting or misstating that information.

## Other amendments

- BC13M While the revised definition of material in IAS 1 has been based on the definition of material in the *Conceptual Framework*, some adjustments were made to the *Conceptual Framework* definition to improve clarity and consistency between the *Conceptual Framework* and the IFRS Standards. The definition in the *Conceptual Framework*, however, continues to refer to ‘financial reports’ rather than ‘financial statements’.
- BC13N The Board also made amendments to the Materiality Practice Statement to align it with the revised definition of material. The Materiality Practice Statement continues to refer to both ‘immaterial’ and ‘not material’ as the Board concluded that these terms have the same meaning.
- BC13O As explained in paragraph BC13H, the amendments incorporate existing guidance from the *Conceptual Framework* and IAS 1 and are not substantive changes to the existing requirements in IFRS Standards. For this reason, the Board concluded that the guidance in the Materiality Practice Statement and the *Conceptual Framework* would not be affected by these amendments.
- BC13P Because the amendments are based on existing guidance, they are not considered to be substantive changes. The Board consequently concluded that amendments to other requirements in IFRS Standards are unnecessary, other than to update the definition of material where it is quoted or referred to directly.
- BC13Q The Board also decided that it was unnecessary to change all instances of ‘economic decisions’ to ‘decisions’, and all instances of ‘users’ to ‘the primary users of financial statements’ in IFRS Standards. In its *Conceptual Framework* project, the Board clarified that:
- (a) the terms ‘primary users’ and ‘users’ are intended to be interpreted the same way and both refer to existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need (see the footnote to paragraph 1.5 of the *Conceptual Framework*); and
  - (b) the terms ‘decisions’ and ‘economic decisions’ are intended to be interpreted the same way.

## Likely effects of the amendments to IFRS Standards

- BC13R In the Board's view, the amendments will improve understanding of the definition of material by:
- (a) aligning the wording of the definition in IFRS Standards and the *Conceptual Framework* to avoid the potential for confusion arising from different definitions;
  - (b) incorporating supporting requirements in IAS 1 into the definition to give them more prominence and clarify their applicability; and
  - (c) providing existing guidance on the definition of material in one place, together with the definition.
- BC13S The Board concluded that the amendments do not change existing requirements substantively because:
- (a) the refinements to the definition of material:
    - (i) are based on wording in the *Conceptual Framework* that is similar to but clearer than the existing definition in IAS 1 and IAS 8 (see paragraphs BC13E and BC13H(b)); and
    - (ii) incorporate wording that already exists in IAS 1 (see paragraphs BC13H(a), (c) and (d)).
  - (b) the clarification that 'users' are the primary users and the description of their characteristics have been taken from the *Conceptual Framework*.
  - (c) the inclusion of 'obscuring information' reflects the existing requirement, as set out in paragraph 30A of IAS 1, that an entity shall not reduce the understandability of its financial statements by obscuring material information. This amendment is not expected to substantively change an entity's decisions about whether information is material—in no circumstances would obscuring information influence the decisions of users, if omitting or misstating the same information would have no influence on those decisions.

Consequently, the Board expects that the effect of the revised definition will be to help entities to make better materiality judgements.

## Effective date of the amendments

- BC13T Because the amendments do not substantively change existing requirements, the Board decided that:
- (a) prospective application is appropriate;
  - (b) a long implementation period is unnecessary; and
  - (c) early adoption of the amendments should be permitted.

## Financial statements

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### Complete set of financial statements

#### Titles of financial statements (paragraph 10)

- BC14 The exposure draft of 2006 proposed changes to the titles of some of the financial statements—from 'balance sheet' to 'statement of financial position', from 'income statement' to 'statement of profit or loss' and from 'cash flow statement' to 'statement of cash flows'. In addition, the exposure draft proposed a 'statement of recognised income and expense' and that all owner changes in equity should be included in a 'statement of changes in equity'. The Board did not propose to make any of these changes of nomenclature mandatory.
- BC15 Many respondents opposed the proposed changes, pointing out that the existing titles had a long tradition and were well understood. However, the Board reaffirmed its view that the proposed new titles better reflect the function of each financial statement, and pointed out that an entity could choose to use other titles in its financial report.
- BC16 The Board reaffirmed its conclusion that the title 'statement of financial position' not only better reflects the function of the statement but is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which contains several references to 'financial position'. Paragraph 12 of the *Framework*<sup>6</sup> states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity; paragraph 19 of the *Framework* states

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<sup>6</sup> References to the *Framework* in this Basis for Conclusions are to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was revised and amended.

that information about financial position is primarily provided in a balance sheet. In the Board's view, the title 'balance sheet' simply reflects that double entry bookkeeping requires debits to equal credits. It does not identify the content or purpose of the statement. The Board also noted that 'financial position' is a well-known and accepted term, as it has been used in auditors' opinions internationally for more than 20 years to describe what the 'balance sheet' presents. The Board decided that aligning the statement's title with its content and the opinion rendered by the auditor would help the users of financial statements.

- BC17 As to the other statements, respondents suggested that renaming the balance sheet the 'statement of financial position' implied that the 'cash flow statement' and the 'statement of recognised income and expense' do not also reflect an entity's financial position. The Board observed that although the latter statements reflect changes in an entity's financial position, neither can be called a 'statement of changes in financial position', as this would not depict their true function and objective (ie to present cash flows and performance, respectively). The Board acknowledged that the titles 'income statement' and 'statement of profit or loss' are similar in meaning and could be used interchangeably, and decided to retain the title 'income statement' as this is more commonly used.
- BC18 The title of the proposed new statement, the 'statement of recognised income and expense', reflects a broader content than the former 'income statement'. The statement encompasses both income and expenses recognised in profit or loss and income and expenses recognised outside profit or loss.
- BC19 Many respondents opposed the title 'statement of recognised income and expense', objecting particularly to the use of the term 'recognised'. The Board acknowledged that the term 'recognised' could also be used to describe the content of other primary statements as 'recognition', explained in paragraph 82 of the *Framework*, is 'the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 83.' Many respondents suggested the term 'statement of comprehensive income' instead.
- BC20 In response to respondents' concerns and to converge with SFAS 130, the Board decided to rename the new statement a 'statement of comprehensive income'. The term 'comprehensive income' is not defined in the *Framework* but is used in IAS 1 to describe the change in equity of an entity during a period from transactions, events and circumstances other than those resulting from transactions with owners in their capacity as owners. Although the term 'comprehensive income' is used to describe the aggregate of all components of comprehensive income, including profit or loss, the term 'other comprehensive income' refers to income and expenses that under IFRSs are included in comprehensive income but excluded from profit or loss.
- BC20A In May 2010 the Board published the exposure draft *Presentation of Items of Other Comprehensive Income* (proposed amendments to IAS 1) relating to the presentation of items of other comprehensive income (OCI). One of the proposals in the exposure draft related to the title of the statement containing profit or loss and other comprehensive income. The Board proposed this change so that it would be clear that the statement had two components: profit or loss and other comprehensive income. A majority of the respondents to the exposure draft supported the change and therefore the Board confirmed the proposal in June 2011. IAS 1 allows preparers to use other titles for the statement that reflect the nature of their activities.
- BC20B Several other IFRSs refer to the 'statement of comprehensive income'. The Board considered whether it should change all such references to 'statement of profit or loss and other comprehensive income'. The Board noted that the terminology used in IAS 1 is not mandatory and that 'statement of comprehensive income' is one of the examples used in the standard. The Board decided that there was little benefit in replacing the title 'statement of comprehensive income' in other IFRSs or 'income statement' with the 'statement of profit or loss'. However, the Board did change the terminology when an IFRS made reference to the two-statement option.
- BC21 In finalising its revision, the Board confirmed that the titles of financial statements used in this Standard would not be mandatory. The titles will be used in future IFRSs but are not required to be used by entities in their financial statements. Some respondents to the exposure draft expressed concern that non-mandatory titles will result in confusion. However, the Board believes that making use of the titles non-mandatory will allow time for entities to implement changes gradually as the new titles become more familiar.

### **Equal prominence (paragraphs 11 and 12)**

- BC22 The Board noted that the financial performance of an entity is not assessed by reference to a single financial statement or a single measure within a financial statement. The Board believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are taken into account and understood in their entirety. Accordingly, the Board decided that in order to help users of the financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.

## Departures from IFRSs (paragraphs 19–24)

- BC23 IAS 1 (as issued in 1997) permitted an entity to depart from a requirement in a Standard ‘in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation’ (paragraph 17, now paragraph 19). When such a departure occurred, paragraph 18 (now paragraph 20) required extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.
- BC24 The Board decided to clarify in paragraph 15 of the Standard that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.
- BC25 The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.
- BC26 These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.
- BC27 The Board considered whether IAS 1 should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board’s capability to specify the criteria under which departures from IFRSs should occur.
- BC28 Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. The revised IAS 1 takes into account the existence of different regulatory requirements. It requires that when an entity’s circumstances satisfy the criterion described in paragraph BC25 for departure from a requirement in an IFRS, the entity should proceed as follows:
- (a) When the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 20.
  - (b) When the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 23.
- This amendment enables entities to comply with the requirements of IAS 1 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.
- BC29 After considering the comments received on the exposure draft of 2002, the Board added to IAS 1 a requirement in paragraph 21 to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period’s financial statements. Without this disclosure, users of the entity’s financial statements could be unaware of the continuing effects of prior period departures.
- BC30 In view of the strict criteria for departure from a requirement in an IFRS, IAS 1 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity’s compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

## Materiality and aggregation (paragraphs 29–31)

- BC30A The Board was informed at the Discussion Forum *Financial Reporting Disclosure* in January 2013, in its related survey and by other sources, that there are difficulties applying the concept of materiality in practice. Some are of the view that these difficulties contribute to a disclosure problem, namely, that there is both too much irrelevant information and not enough relevant information in financial statements. A number of factors have been identified for why materiality may not be applied well in practice. One of these is that the guidance on materiality in IFRS is not clear.
- BC30B Some think that the statement in IAS 1 that an entity need not provide a specific disclosure if the information is not material means that an entity does not need to present an item in the statement(s) of profit or loss and

other comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity, but must instead disclose it in the notes. However, the Board noted that the concept of materiality is applicable to financial statements, which include the notes, and not only to those statements.

- BC30C Some are of the view that when IFRS states that a specific disclosure is required, the concept of materiality does not apply to those disclosure requirements, ie disclosures specifically identified in IFRS are required irrespective of whether they result in material information. In addition, some people think that when a line item is presented, or a material item is otherwise recognised, in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, all the disclosures in IFRS specified for that item must be disclosed. The Board observed that paragraph 31 of IAS 1 is clear that the concept of materiality applies to specific disclosures required by an IFRS and therefore an entity does not have to disclose information required by an IFRS if that information would not be material.
- BC30D The Board understands that these misconceptions may have arisen because of the wording that is used when specifying presentation or disclosure requirements in IFRS; for example, the use of the words ‘as a minimum’. For this reason, the Board removed the phrase ‘as a minimum’ in paragraph 54 of IAS 1, which lists line items for presentation in the statement of financial position. This also makes the requirement broadly consistent with the corresponding requirement in paragraph 82 of IAS 1 for the profit or loss section of the statement of comprehensive income or the statement of profit or loss.
- BC30E On the basis of its observations and conclusions set out in paragraphs BC30A–BC30D, the Board added a new paragraph, paragraph 30A, and amended paragraph 31 of IAS 1.
- BC30F Paragraph 30A was added to IAS 1 to highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. Paragraph 30A emphasises that an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements makes the material information less visible and therefore makes the financial statements less understandable. The amendments do not actually prohibit entities from disclosing immaterial information, because the Board thinks that such a requirement would not be operational; however, the amendments emphasise that disclosure should not result in material information being obscured.
- BC30G The Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1) (the ‘March 2014 Exposure Draft’), which was published in March 2014, also proposed that an entity should not ‘disaggregate’ information in a manner that obscures useful information. Disaggregation is often used to describe the process of expanding totals, subtotals and line items into further items that themselves may reflect the aggregated results of transactions or other events. Because the process of expanding totals, subtotals and line items is more likely to increase the transparency of information rather than obscuring it, the Board decided not to include the term disaggregation in paragraph 30A of IAS 1. In addition, the Board was of the view that items resulting from the process of disaggregation that themselves reflect the aggregated results of transactions would be covered by paragraphs 29–31 of IAS 1.
- BC30H The Board amended paragraph 31 of IAS 1 to highlight that materiality also applies to disclosures specifically required by IFRS. In addition, to highlight that materiality not only involves decisions about excluding information from the financial statements, the Board amended paragraph 31 to reiterate the notion already stated in paragraph 17(c) of IAS 1 that materiality also involves decisions about whether to include additional information in the financial statements. Consequently, an entity should make additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.
- BC30I The Board noted that the definition of ‘material’ in paragraph 7 of IAS 1 discusses omissions or misstatements of items being material if they could individually or collectively influence economic decisions. The Board considered making amendments to paragraph 31 of IAS 1 to say that an entity need not provide a specific disclosure if the information provided by that disclosure is not material, either individually or collectively. However, the Board decided not to make that change since the definition of material already incorporates the notions of individual and collective assessment and, therefore, reference to the term material in paragraph 31 is sufficient to incorporate this concept.
- BC30J In the March 2014 Exposure Draft the Board proposed to use the term ‘present’ to refer to line items, subtotals and totals on the statement(s) of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity, and the term ‘disclose’ to mean information in the notes. However, respondents to the March 2014 Exposure Draft did not support the distinction between present and disclose because they considered that the terminology has not been used consistently throughout IAS 1 and that any changes in how these terms are used should be done as part of a comprehensive review of IAS 1. Because of this, and because making such comprehensive changes to IAS 1

would be outside the scope of these amendments, the Board did not finalise the proposed changes regarding use of the terms present and disclose.

## Comparative information

### A statement of financial position as at the beginning of the earliest comparative period (paragraph 39)

- BC31 The exposure draft of 2006 proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.
- BC32 By adding a statement of financial position as at the beginning of the earliest comparative period, the exposure draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the Board decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when a reclassification has been made. In those circumstances three statements of financial position are required.

### Clarification of requirements for comparative information

- BC32A In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the requirements for providing comparative information for:
- (a) the comparative requirements for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  - (b) the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements.

### Opening statement of financial position

- BC32B In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the appropriate date for the opening statement of financial position. The Board decided to amend the current requirements in IAS 1 that relate to the presentation of a statement of financial position for the beginning of the earliest comparative period presented in cases of changes in accounting policies, retrospective restatements or reclassifications to clarify that the appropriate date for the opening statement of financial position is the beginning of the preceding period.
- BC32C The Board also decided to change the previous requirements so that related notes to this opening statement of financial position are no longer required to be presented. The Board's decision to give this relief was based on the fact that circumstances in which an entity changes an accounting policy, or makes a retrospective restatement or a reclassification in accordance with IAS 8, are considered narrow, specific and limited. However, the circumstances in which an entity chooses to provide additional financial statements (ie on a voluntary basis) can be viewed as more generic and may arise for different reasons. Accordingly, this relief is not available when additional financial statements are provided on a voluntary basis.
- BC32D The Board added the guidance in paragraph 40A(a) to clarify when an opening statement of financial position provides useful information and, should therefore be required. Paragraph 40A(b) is a reminder that the concept of materiality should be considered in applying the guidance in paragraph 40A(a). The Board noted that the entity would still be required to disclose the information required by IAS 8 for changes in accounting policies and retrospective restatements.

### Comparative information beyond minimum requirements

- BC32E In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the requirements for providing comparative information. Specifically, the Board was asked to consider whether an entity should be required to present a complete set of financial statements when it provides financial statements beyond the minimum comparative information requirements (ie additional comparative information). In response to this request, the Board decided to clarify that additional financial statement



information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements. The Board also noted that additional comparative information might include:

- (a) information that is presented voluntarily, beyond the information that is included within a complete set of financial statements; or
- (b) comparative information that is required by law or other regulations but that is not required by IFRSs.

BC32F The Board also decided to amend paragraphs 38–41 of IAS 1 to clarify that, when additional comparative information (that is not required by IFRSs) is provided by an entity, this information should be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information. The Board determined that requiring full notes for additional information in accordance with paragraph 38C is necessary to ensure that the additional information that the entity provides is balanced and results in financial statements that achieve a fair presentation.

BC32G In the light of the concerns raised by interested parties, the Board decided that the amendments should be introduced through the Annual Improvements process instead of through the Financial Statement Presentation project, so that the changes could be made more quickly.

### **IAS 34 *Interim Financial Reporting***

BC33 The Board decided not to reflect in paragraph 8 of IAS 34 (ie the minimum components of an interim financial report) its decision to require the inclusion of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements. IAS 34 has a year-to-date approach to interim reporting and does not replicate the requirements of IAS 1 in terms of comparative information.

### **Criterion for exemption from requirements (paragraphs 41–44)**

BC34 IAS 1 as issued in 1997 specified that when the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless it is impracticable to do so. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

BC35 The exposure draft of 2002 proposed a different criterion for exemption from particular requirements. For the reclassification of comparative amounts, and its proposed new requirement to disclose key assumptions and other sources of estimation uncertainty at the end of the reporting period (discussed in paragraphs BC79–BC84), the exposure draft proposed that the criterion for exemption should be that applying the requirements would require undue cost or effort.

BC36 In the light of respondents' comments on the exposure draft, the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. This affects the exemptions now set out in paragraphs 41–43 and 131 of IAS 1. Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material.<sup>7</sup>

### **Reporting owner and non-owner changes in equity**

BC37 The exposure draft of 2006 proposed to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners (ie all owner changes in equity) from other changes in equity (ie non-owner changes in equity). All owner changes in equity would be presented in the statement of changes in equity, separately from non-owner changes in equity.

BC38 Most respondents welcomed this proposal and saw this change as an improvement of financial reporting, by increasing the transparency of those items recognised in equity that are not reported as part of profit or loss. However, some respondents pointed out that the terms 'owner' and 'non-owner' were not defined in the exposure draft, the *Framework* or elsewhere in IFRSs, although they are extensively used in national accounting standards. They also noted that the terms 'owner' and 'equity holder' were used interchangeably in the exposure draft. The Board decided to adopt the term 'owner' and use it throughout IAS 1 to converge with SFAS 130, which uses the term in the definition of 'comprehensive income'.

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<sup>7</sup> In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

## Statement of financial position

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### Information to be presented in the statement of financial position (paragraphs 54–55A)

- BC38A Paragraph 54 of IAS 1 lists line items that are required to be presented in the statement of financial position. The Board has been informed that some have interpreted that list as prescriptive and that those line items cannot be disaggregated. There is also a perception by some that IFRS prevents them from presenting subtotals in addition to those specifically required by IFRS.
- BC38B Paragraph 55 of IAS 1 requires an entity to present additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position. This highlights that the line items listed for presentation in paragraph 54 of IAS 1 should be disaggregated and that subtotals should be presented, when relevant. Paragraphs 78 and 98 of IAS 1 give examples of potential disaggregations of line items in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.
- BC38C Consequently, the Board:
- (a) removed the wording 'as a minimum' from paragraph 54 of IAS 1 (see paragraph BC30D) to address the possible misconception that this wording prevents entities from aggregating the line items specified in paragraph 54 if those specified line items are immaterial; and
  - (b) clarified that the presentation requirements in paragraphs 54–55 may be fulfilled by disaggregating a specified line item.
- BC38D The Board noted that there are similar presentation requirements in paragraph 85 of IAS 1 for the statement(s) of profit or loss and other comprehensive income. The Board therefore amended those requirements to make them consistent.
- BC38E Some respondents to the proposals suggested that the Board should make clear that the line items listed in paragraph 54 of IAS 1 are required 'when material'. The Board decided not to state that the line items are only required when material, because materiality is generally not referenced specifically in disclosure requirements in IFRS and so including a specific reference in this case could make it less clear that materiality applies to other disclosure requirements.
- BC38F The Board understands that some are concerned about the presentation of subtotals, in addition to those specified in IFRS, in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. Those with this concern think that some subtotals can be misleading, for example, because they are given undue prominence. The Board noted that paragraphs 55 and 85 of IAS 1 require the presentation of subtotals when such presentation is relevant to an understanding of the entity's financial position or financial performance.
- BC38G The Board therefore included additional requirements in IAS 1 to help entities apply paragraphs 55 and 85. These additional requirements supplement the existing guidance on fair presentation in paragraphs 15 and 17 of IAS 1. They are designed to clarify the factors that should be considered when fairly presenting subtotals in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. Specifically, the subtotal should:
- (a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS.
  - (b) be understandable. It should be clear what line items are included in the subtotal by the way that the subtotal is presented and labelled. For example, if an entity presents a commonly reported subtotal, but excludes items that would normally be considered as part of that subtotal, the label should reflect what has been excluded.
  - (c) be consistent from period to period. The subtotal should be consistently presented and calculated from period to period (in accordance with paragraph 45 of IAS 1), subject to possible changes in accounting policy or estimates assessed in accordance with IAS 8.
  - (d) not be displayed with more prominence than those subtotals and totals required in IFRS for either the statement(s) of profit or loss and other comprehensive income or the statement of financial position.

### Current assets and current liabilities (paragraphs 68 and 71)

- BC38H As part of its improvements project in 2007, the Board identified inconsistent guidance regarding the current/non-current classification of derivatives. Some might read the guidance included in paragraph 71 as

implying that financial liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*<sup>8</sup> are always required to be presented as current.

- BC38I The Board expects the criteria set out in paragraph 69 to be used to assess whether a financial liability should be presented as current or non-current. The 'held for trading' category in paragraph 9 of IAS 39<sup>9</sup> is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.
- BC38J The Board reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is not held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non-current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities.
- BC38K Therefore, the Board decided to remove the identified inconsistency by amending the examples of current liabilities in paragraph 71. The Board also amended paragraph 68 in respect of current assets to remove a similar inconsistency.
- BC38L– [Deleted]
- BC38P

## **Current liabilities (paragraphs 69–76B)**

### **Effect of events after the reporting period (paragraphs 69–76)**

- BC39 Paragraph 63 of IAS 1 (as issued in 1997) included the following:
- An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:
- (a) the original term was for a period of more than twelve months;
  - (b) the enterprise intends to refinance the obligation on a long-term basis; and
  - (c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.
- BC40 Paragraph 65 stated:
- Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non-current only when:
- (a) the lender has agreed, prior to the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach; and
  - (b) it is not probable that further breaches will occur within twelve months of the balance sheet date.
- BC41 The Board considered these requirements and concluded that refinancing, or the receipt of a waiver of the lender's right to demand payment, that occurs after the reporting period should not be taken into account in the classification of a liability.
- BC42 Therefore, the exposure draft of 2002 proposed:
- (a) to amend paragraph 63 to specify that a long-term financial liability due to be settled within twelve months of the balance sheet date should not be classified as a non-current liability because an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. This amendment would not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.

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<sup>8</sup> IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 1 was issued.

<sup>9</sup> IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 1 was issued.

- (b) to amend paragraph 65 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. However, if the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during which the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:
    - (i) the entity rectifies the breach within the period of grace; or
    - (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.
- BC43 Some respondents disagreed with these proposals. They advocated classifying a liability as current or non-current according to whether it is expected to use current assets of the entity, rather than strictly on the basis of its date of maturity and whether it is callable at the end of the reporting period. In their view, this would provide more relevant information about the liability's future effect on the timing of the entity's resource flows.
- BC44 However, the Board decided that the following arguments for changing paragraphs 63 and 65 were more persuasive:
  - (a) refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency *at the balance sheet date*, the reporting of which should reflect contractual arrangements in force on that date. Therefore, it is a non-adjusting event in accordance with IAS 10 *Events after the Balance Sheet Date* and should not affect the presentation of the entity's balance sheet.
  - (b) it is illogical to adopt a criterion that 'non-current' classification of short-term obligations expected to be rolled over for at least twelve months after the balance sheet date depends on whether the roll-over is at the discretion of the entity, and then to provide an exception based on refinancing occurring after the balance sheet date.
  - (c) in the circumstances set out in paragraph 65, unless the lender has waived its right to demand immediate repayment or granted a period of grace within which the entity may rectify the breach of the loan agreement, the financial condition of the entity at the balance sheet date was that the entity did not hold an absolute right to defer repayment, based on the terms of the loan agreement. The granting of a waiver or a period of grace changes the terms of the loan agreement. Therefore, an entity's receipt from the lender, after the balance sheet date, of a waiver or a period of grace of at least twelve months does not change the nature of the liability to non-current until it occurs.
- BC45 IAS 1 now includes the amendments proposed in 2002, with one change. The change relates to the classification of a long-term loan when, at the end of the reporting period, the lender has provided a period of grace within which a breach of the loan agreement can be rectified, and during which period the lender cannot demand immediate repayment of the loan.
- BC46 The exposure draft proposed that such a loan should be classified as non-current if it is due for settlement, without the breach, at least twelve months after the balance sheet date and:
  - (a) the entity rectifies the breach within the period of grace; or
  - (b) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.
- BC47 After considering respondents' comments, the Board decided that the occurrence or probability of a rectification of a breach after the reporting period is irrelevant to the conditions existing at the end of the reporting period. The revised IAS 1 requires that, for the loan to be classified as non-current, the period of grace must end at least twelve months after the reporting period (see paragraph 75). Therefore, the conditions (a) and (b) in paragraph BC46 are redundant.
- BC48 The Board considered arguments that if a period of grace to remedy a breach of a long-term loan agreement is provided before the end of the reporting period, the loan should be classified as non-current regardless of the length of the period of grace. These arguments are based on the view that, at the end of the reporting period, the lender does not have an unconditional legal right to demand repayment before the original maturity date (ie if the entity remedies the breach during the period of grace, it is entitled to repay the loan on the original maturity date). However, the Board concluded that an entity should classify a loan as non-current only if it has an unconditional right to defer settlement of the loan for at least twelve months after the reporting period. This criterion focuses on the legal rights of the entity, rather than those of the lender.

## **Right to defer settlement for at least twelve months (paragraphs 69(d) and 72A–76)—2020 amendments**

- BC48A Paragraph 69(d) specifies that, to classify a liability as non-current, an entity must have the right to defer settlement of the liability for at least twelve months after the reporting period. In January 2020, the Board amended aspects of this classification principle and related application requirements in paragraphs 73–76. The Board made the amendments in response to a request to reconcile apparent contradictions between paragraph 69(d)—which required an ‘unconditional right’ to defer settlement—and paragraph 73—which referred to an entity that ‘expects, and has the discretion, to’ refinance or roll over an obligation.
- BC48B The Board added to the classification principle in paragraph 69(d) and the example in paragraph 73 clarification that an entity’s right to defer settlement must exist ‘at the end of the reporting period’. The need for the right to exist at the end of the reporting period was already illustrated in the examples in paragraphs 74 and 75 but was not stated explicitly in the classification principle.
- BC48C The Board also observed that the classification principle requires an assessment of whether an entity has the right to defer settlement of a liability and not whether the entity will exercise that right. Accordingly:
- (a) the Board amended paragraph 73, which discusses liabilities an entity has a right to roll over for at least twelve months after the reporting period. The Board deleted from paragraph 73 a suggestion that to classify such a liability as non-current, an entity must not only have the right to roll over the liability but also expect to exercise that right. The Board also aligned the terminology by replacing ‘discretion’ with ‘right’ in paragraph 73.
  - (b) the Board added paragraph 75A, which explicitly clarifies that classification is unaffected by management intentions or expectations, or by settlement of the liability within twelve months after the reporting period.
- BC48D The Board considered whether an entity’s right to defer settlement needs to be unconditional. The Board noted that rights to defer settlement of a loan are rarely unconditional—they are often conditional on compliance with covenants. The Board decided that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Accordingly, the Board:
- (a) deleted the word ‘unconditional’ from the classification principle in paragraph 69(d); and
  - (b) added paragraph 72A to clarify that if an entity’s right to defer settlement is subject to compliance with specified conditions:
    - (i) the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period; and
    - (ii) the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.
- BC48E The Board considered whether to specify how management assesses an entity’s compliance with a condition relating to the entity’s cumulative financial performance (for example, profit) for a period extending beyond the reporting period. The Board concluded that comparing the entity’s actual performance up to the end of the reporting period with the performance required over a longer period would not provide useful information—one of these measures would have to be adjusted to make the two comparable. However, the Board decided not to specify a method of adjustment because any single method could be inappropriate in some situations.

## **Right to defer settlement for at least twelve months (paragraphs 69(d) and 72A–76ZA)—2022 amendments**

- BC48EA In October 2022, the IASB issued *Non-current Liabilities with Covenants*. The IASB made the amendments to:
- (a) improve the information an entity provides about liabilities arising from loan arrangements for which an entity’s right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement (liabilities with covenants); and
  - (b) respond to stakeholders’ concerns about the outcomes of applying the amendments in *Classification of Liabilities as Current or Non-current* issued in 2020. In particular, stakeholders said the 2020 amendments:

- (i) could result in an entity classifying a liability as current even if, at the end of the reporting period (reporting date), the entity has no contractual obligation to settle the liability at that date or within twelve months;
- (ii) took no account of the design of covenants negotiated to reflect an entity's required financial position or performance at specified dates, such as when a loan arrangement specifies different covenants at different dates to reflect the expected effects of seasonality or the entity's future performance; and
- (iii) were unclear about how an entity would assess, at the reporting date, whether it would have complied with covenants that are not based on an entity's financial position or performance (non-financial covenants) and covenants based on cumulative financial performance or cash flows for a period extending beyond the reporting period (financial performance covenants).

### *Classification and disclosure of non-current liabilities with covenants*

BC48EB The IASB considered stakeholders' concerns, which included new information it had not considered when developing the 2020 amendments. In particular, the IASB considered the usefulness of the information that would result from applying the 2020 amendments in some circumstances. The IASB observed that an entity may be unable to avoid having to repay a liability within twelve months if the entity's right to defer settlement of the liability is subject to compliance with covenants during that period. The entity may be unable to avoid such repayment even if, at the reporting date, the entity has no contractual obligation to settle the liability within that period. Therefore, in such situations, the related liability could be repayable either within or after twelve months, depending on whether the entity complies with those covenants after the reporting date. The 2020 amendments specified one way of reflecting this conditionality within the constraints of a model that classifies liabilities as either current or non-current. However, the IASB concluded that the information provided by such a binary classification model, alone, cannot meet user information needs in such situations. For example, the classification of a liability as current or non-current does not in itself provide information about the potential effects of such conditionality on when the liability is repayable.

BC48EC Having considered the new information, the IASB decided to amend the requirements in IAS 1 on:

- (a) *the classification of liabilities with covenants as current or non-current*—the IASB decided that only covenants with which an entity is required to comply on or before the reporting date should affect the classification of a liability as current or non-current. The IASB concluded that amending the requirements in this way would:
  - (i) avoid classification outcomes that might not provide useful information to users of financial statements (for example, for some entities whose business is highly seasonal);
  - (ii) make it unnecessary for the IASB to specify how the 2020 amendments apply to non-financial and financial performance covenants, thereby avoiding adding complexity to the requirements; and
  - (iii) resolve many of the other concerns stakeholders raised.
- (b) *the disclosure of information about non-current liabilities with covenants*—the IASB decided to require an entity to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The IASB concluded that this information would be useful to users of financial statements because it would allow them to understand the nature of the covenants and the risk that a liability classified as non-current could nonetheless be repayable within twelve months.

BC48ED The amendments to the requirements on the classification of liabilities with covenants as current or non-current are linked to the requirements on disclosure about such liabilities. The IASB concluded that the classification requirements would provide useful information when considered together with the requirements to disclose information about non-current liabilities with covenants in the notes. For this reason, the disclosure requirements in paragraph 76ZA apply only to an entity that presents current and non-current liabilities as separate classifications in its statement of financial position. However, the IASB observed that an entity that presents liabilities in order of liquidity might nonetheless disclose similar information about liabilities with covenants when applying the requirements in IFRS 7 on its exposure to liquidity risk.

BC48EE Some respondents to the draft amendments noted that, because non-current liabilities are often subject to covenants, the disclosure requirements could result in entities providing a large volume of detailed information. In these respondents' view, the amendments could result in excessive disclosure, which might obscure material information about covenants. In response to these comments, the IASB observed that:

- (a) in applying the requirements in paragraphs 30A and 31 of IAS 1, an entity would assess what information about covenants is material and determine how to aggregate such information.

Accordingly, the entity would not disclose immaterial information about covenants that would reduce the understandability of its financial statements by obscuring material information.

- (b) an entity in need of further guidance when making materiality judgements could refer to the guidance on assessing the materiality of information about covenants in paragraphs 81–83 of IFRS Practice Statement 2 *Making Materiality Judgements*. That guidance explains that:
  - (i) an entity considers both the consequences and the likelihood of a breach occurring when assessing whether information about a covenant is material; and
  - (ii) information about a covenant for which there is only a remote likelihood of a breach occurring is immaterial irrespective of the consequences of that breach.

### **Other considerations**

BC48EF When developing the amendments, the IASB also considered:

- (a) *the presentation of non-current liabilities with covenants*—when it exposed draft amendments for comment, the IASB proposed to require an entity to present non-current liabilities with covenants separately in the statement of financial position. The main reason for this proposal was to avoid users of financial statements being misled by a non-current classification without any indication that the liability could become repayable within twelve months. However, feedback on the draft amendments suggested that users of financial statements would not be misled if the conditionality of non-current liabilities were explained in the notes instead of through separate presentation of these liabilities in the statement of financial position. Therefore, the IASB decided not to finalise the proposal. Instead, in providing information about non-current liabilities with covenants in the notes, an entity is required to disclose the carrying amount of related liabilities.
- (b) *disclosure about expected compliance with covenants*—when it exposed draft amendments for comment, the IASB proposed to require an entity to disclose whether and, if so, how it expected to comply with covenants after the reporting date. Feedback on the draft amendments suggested that the costs of providing this information might outweigh the benefits of providing it. Consequently, the IASB decided instead to require an entity to disclose any facts and circumstances that indicate the entity may have difficulty complying with covenants. The IASB concluded that this information would not be costly to prepare and would be useful to users of financial statements by helping them to understand the risk that non-current liabilities with covenants could become repayable within twelve months.
- (c) *other conditional settlement terms*—when it exposed draft amendments for comment, the IASB proposed to clarify some situations in which an entity would not have a right to defer settlement of a liability. The IASB intended the clarification to avoid the classification requirements in paragraph 72B being applied to liabilities outside the scope of the amendments. However, feedback on the draft amendments suggested that the proposed clarification would fail to achieve that objective. Therefore, the IASB decided instead to specify that the requirements in paragraph 72B apply only to liabilities arising from loan arrangements.

### **Settlement (paragraphs 76A–76B)**

BC48F While developing the amendments discussed in paragraphs BC48A–BC48E, the Board considered whether a liability is ‘settled’ when it is rolled over under an existing loan facility. The Board concluded that rolling over a liability does not constitute settlement because it is the extension of an existing liability, which does not involve any transfer of economic resources. The Board also observed that a liability is defined as an obligation ‘to transfer an economic resource’ and that some types of liabilities are settled by transferring economic resources other than cash. For example, performance obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* are settled by transferring promised goods or services. The Board decided it would be helpful to clarify those aspects of the meaning of the term ‘settlement’ and so added paragraph 76A.

BC48G While considering the meaning of the term settlement, the Board also considered liabilities an entity will or may settle by issuing its own equity instruments or, in other words, by converting the liability to equity. In *Improvements to IFRSs* issued in 2009, the Board had added to paragraph 69(d) a statement that ‘terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification’. The effect of this statement is that a bond that the holder may convert to equity before maturity is classified as current or non-current according to the terms of the bond, without considering the possibility of earlier settlement by conversion to equity.

- BC48H The Board concluded that, when it had added the statement about counterparty conversion options in 2009, it had intended the statement to apply only to liabilities that include a counterparty conversion option that meets the definition of an equity instrument and, applying IAS 32 *Financial Instruments: Presentation*, is recognised separately from the host liability as the equity component of a compound financial instrument. The Board further concluded that, in other cases—that is, if an obligation to transfer equity instruments is classified applying IAS 32 as a liability or part of a liability—the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. To reflect those conclusions, the Board moved the statement about counterparty conversion options from paragraph 69(d) to new paragraph 76B and clarified its scope.

## Statement of comprehensive income

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### Reporting comprehensive income (paragraph 81)

- BC49 The exposure draft of 2006 proposed that all non-owner changes in equity should be presented in a single statement or in two statements. In a single-statement presentation, all items of income and expense are presented together. In a two-statement presentation, the first statement ('income statement') presents income and expenses recognised in profit or loss and the second statement ('statement of comprehensive income') begins with profit or loss and presents, in addition, items of income and expense that IFRSs require or permit to be recognised outside profit or loss. Such items include, for example, translation differences related to foreign operations and gains or losses on available-for-sale financial assets.<sup>10</sup> The statement of comprehensive income does not include transactions with owners in their capacity as owners. Such transactions are presented in the statement of changes in equity.
- BC50 Respondents to the exposure draft had mixed views about whether the Board should permit a choice of displaying non-owner changes in equity in one statement or two statements. Many respondents agreed with the Board's proposal to maintain the two-statement approach and the single-statement approach as alternatives and a few urged the Board to mandate one of them. However, most respondents preferred the two-statement approach because it distinguishes profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income.
- BC51 The exposure draft of 2006 expressed the Board's preference for a single statement of all non-owner changes in equity. The Board provided several reasons for this preference. All items of non-owner changes in equity meet the definitions of income and expenses in the *Framework*. The *Framework* does not define profit or loss, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss. Therefore, the Board decided that it was conceptually correct for an entity to present all non-owner changes in equity (ie all income and expenses recognised in a period) in a single statement because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.
- BC52 However, in the Board's discussions with interested parties, it was clear that many were strongly opposed to the concept of a single statement. They argued that there would be undue focus on the bottom line of the single statement. In addition, many argued that it was premature for the Board to conclude that presentation of income and expense in a single statement was an improvement in financial reporting without also addressing the other aspects of presentation and display, namely deciding what categories and line items should be presented in a statement of recognised income and expense.
- BC53 In the light of these views, although it preferred a single statement, the Board decided that an entity should have the choice of presenting all income and expenses recognised in a period in one statement or in two statements. An entity is prohibited from presenting components of income and expense (ie non-owner changes in equity) in the statement of changes in equity.
- BC54 Many respondents disagreed with the Board's preference and thought that a decision at this stage would be premature. In their view the decision about a single-statement or two-statement approach should be subject to further consideration. They urged the Board to address other aspects of presentation and display, namely deciding which categories and line items should be presented in a 'statement of comprehensive income'. The Board reaffirmed its reasons for preferring a single-statement approach and agreed to address other aspects of display and presentation in the next stage of the project.

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<sup>10</sup> IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets. This paragraph refers to matters relevant when IAS 1 was issued.



- BC54A In *Presentation of Items of Other Comprehensive Income* published in May 2010 the Board proposed to eliminate the option to present all items of income and expense recognised in a period in two statements, thereby requiring presentation in a continuous statement displaying two sections: *profit or loss* and *other comprehensive income*. The Board also proposed to require items of OCI to be classified into items that might be reclassified (recycled) to profit or loss in subsequent periods and items that would not be reclassified subsequently.
- BC54B In its deliberations on financial instruments and pensions the Board discussed the increasing importance of consistent presentation of items of OCI. Both projects will increase the number of items presented in OCI, particularly items that will not be reclassified subsequently to profit or loss. Therefore the Board thought it important that all income and expenses that are components of the total non-owner changes in equity should be presented transparently.
- BC54C The Board has no plans to eliminate profit or loss as a measure of performance. Profit or loss will be presented separately and will remain the required starting point for the calculation of earnings per share.
- BC54D The Board had previously received responses to similar proposals for a single statement of comprehensive income. In October 2008 the Board and the FASB jointly published a discussion paper, *Preliminary Views on Financial Statement Presentation*. In that paper, the boards proposed eliminating the alternative presentation formats for comprehensive income and to require an entity to present comprehensive income and its components in a single statement. The boards asked for views on that proposal. The responses were split on whether an entity should present comprehensive income and its components in a single statement or in two separate statements. In general, respondents supporting a single statement of comprehensive income said that it would lead to greater transparency, consistency and comparability. Furthermore, the process of calculating financial ratios would be made easier.
- BC54E Respondents disagreeing with the proposal for a single statement of comprehensive income urged the boards to defer any changes to the guidance on the statement of comprehensive income until the boards had completed a project to revise the guidance on what items should be presented in OCI. Those respondents also said that a single statement would undermine the importance of profit or loss by making it a subtotal and that presenting total comprehensive income as the last number in the statement would confuse users. They also feared that requiring all items of income and expense to be presented in a single statement was the first step by the boards towards eliminating the notion of profit or loss. In addition, they argued that the items that are presented in OCI are different from items presented in profit or loss. Therefore they preferred either to keep the presentation of profit or loss separate from the presentation of OCI or to allow management to choose to present them either in a single statement or in two statements.
- BC54F In the responses to the exposure draft of May 2010 many of the respondents objected to the proposals to remove the option to present all items of income and expense in two statements. The arguments used by those objecting were much the same as those received on the discussion paper. However, many respondents, regardless of their views on the proposed amendments, said that the Board should establish a conceptual basis for what should be presented in OCI. Those opposed to a continuous statement cited OCI's lack of a conceptual definition and therefore believed that OCI should not be presented in close proximity to profit or loss because this would confuse users. However, users generally said that the lack of a conceptual framework made it difficult to distinguish the underlying economics of items reported in profit or loss (net income) from items reported in other comprehensive income. Although users also asked for a conceptual framework for OCI, most supported the notion of a single statement of comprehensive income.
- BC54G Another issue on which many respondents commented was the reclassification (recycling) of OCI items. Those respondents said that in addition to addressing the conceptual basis for the split between profit or loss and OCI the Board should set principles for which OCI items should be reclassified (recycled) to profit or loss and when they should be reclassified. The Board acknowledges that it has not set out a conceptual basis for how it determines whether an item should be presented in OCI or in profit or loss. It also agrees that it has not set out principles to determine whether items should be reclassified to profit or loss. Those matters were not within the scope of this project, which focused on presentation, and therefore the Board has not addressed them at this time. However, the Board is consulting on its future agenda, which could lead to those matters becoming part of the work programme.
- BC54H In the light of the response the Board confirmed in June 2011 the requirement for items of OCI to be classified into items that will not be reclassified (recycled) to profit or loss in subsequent periods and items that might be reclassified.
- BC54I The Board also decided not to mandate the presentation of profit or loss in a continuous statement of profit or loss and other comprehensive income but to maintain an option to present two statements. The Board did this in the light of the negative response to its proposal for a continuous statement and the resistance to this change signified by a majority of respondents.

- BC54J The FASB also proposed in its exposure draft to mandate a continuous statement of comprehensive income but decided in the light of the responses not to go as far as mandating a single statement and instead to allow the two-statement option. Nevertheless, the changes made by the FASB are a significant improvement for US GAAP, which previously allowed an option to present OCI items in stockholders' equity or in the notes to the financial statements.
- BC54K In 2013 the IFRS Interpretations Committee reported to the Board that there was uncertainty about the requirements in paragraph 82A of IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. The Board agreed that paragraph 82A allowed for diverse interpretations, and therefore decided to amend IAS 1 as follows:
- (a) to clarify that paragraph 82A requires entities to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that:
    - (i) will not be reclassified subsequently to profit or loss; and
    - (ii) will be reclassified subsequently to profit or loss when specific conditions are met.
  - (b) to amend the Guidance on Implementing IAS 1 to reflect the clarification of paragraph 82A.
- The Board noted that whether an amount is reclassified to profit or loss is determined by the nature of the underlying item. It also noted that the timing of reclassification is usually determined by the actions of the investee. It may however also be triggered by the investor, which would be the case on the disposal of the investee by the investor.
- BC54L The feedback received on the March 2014 Exposure Draft included requests for the Board to clarify whether the investor's share of the other comprehensive income of its associate or joint venture should be presented net or gross of tax and the applicability of the guidance in paragraphs 90–91 of IAS 1 in this regard. The Board noted that an investor's share of other comprehensive income of associates or joint ventures is after tax and non-controlling interests of the associate or joint venture, as illustrated in the Guidance on Implementing IAS 1. It also noted that the disclosure requirements in paragraphs 90–91 do not apply to the tax of the associate or joint venture that is already reflected in the investor's share of other comprehensive income of the associate or joint venture. However, the Board noted that if the investor itself is liable for tax in respect of its share of other comprehensive income of the associate or joint venture, then paragraphs 90–91 would apply to this tax. Therefore, the Board decided not to add additional guidance to IAS 1 on this topic.

## Results of operating activities

- BC55 IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line item in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item.
- BC56 The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

## Subtotal for profit or loss (paragraph 82)

- BC57 As revised, IAS 1 requires a subtotal for profit or loss in the statement of comprehensive income. If an entity chooses to present comprehensive income by using two statements, it should begin the second statement with profit or loss—the bottom line of the first statement (the 'income statement')—and display the components of other comprehensive income immediately after that. The Board concluded that this is the best way to achieve the objective of equal prominence (see paragraph BC22) for the presentation of income and expenses. An entity that chooses to display comprehensive income in one statement should include profit or loss as a subtotal within that statement.
- BC58 The Board acknowledged that the items included in profit or loss do not possess any unique characteristics that allow them to be distinguished from items that are included in other comprehensive income. However, the Board and its predecessor have required some items to be recognised outside profit or loss. The Board

will deliberate in the next stage of the project how items of income and expense should be presented in the statement of comprehensive income.

## **Information to be presented in the profit or loss section or the statement of profit or loss (paragraphs 85–85B)**

- BC58A In December 2014 the Board issued *Disclosure Initiative* (Amendments to IAS 1). Those amendments included amendments to paragraph 85 of IAS 1 and the addition of paragraph 85A. These amendments are consistent with similar amendments to the requirements for the statement of financial position and therefore the Basis for Conclusions for these amendments has been included in the section dealing with that statement (see paragraphs BC38A–BC38G).
- BC58B In addition to those amendments, the Board decided to require entities to present line items in the statement(s) of profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraphs 85–85A of IAS 1 with those that are required in IFRS for the statement(s) of profit or loss and other comprehensive income. Consequently, it added paragraph 85B to IAS 1. The purpose of this requirement is to help users of financial statements understand the relationship between the subtotals presented in accordance with paragraph 85 and the specific totals and subtotals required in IFRS to address concerns that that relationship would not be clear. The Board noted that such a requirement is already implicit in existing IFRS requirements. IFRS requires entities to present aggregated information as line items when such presentation provides material information. Consequently, because all recognised items of income and expense must be included in the statement(s) of profit or loss and other comprehensive income totals, any intervening line items and subtotals necessarily reconcile. However, the Board decided to make the requirement more explicit for the statement(s) of profit or loss and other comprehensive income to help users of financial statements understand the relationship between subtotals and totals presented in the statement(s) of profit or loss and other comprehensive income.

## **Minority interest (paragraph 83)<sup>11</sup>**

- BC59 IAS 1 requires the ‘profit or loss attributable to minority interest’ and ‘profit or loss attributable to owners of the parent’ each to be presented in the income statement in accordance with paragraph 83. These amounts are to be presented as allocations of profit or loss, not as items of income or expense. A similar requirement has been added for the statement of changes in equity, in paragraph 106(a). These changes are consistent with IAS 27 *Consolidated and Separate Financial Statements*, which requires that in a consolidated balance sheet (now called ‘statement of financial position’), minority interest is presented within equity because it does not meet the definition of a liability in the *Framework*.

## **Extraordinary items (paragraph 87)**

- BC60 IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (issued in 1993) required extraordinary items to be disclosed in the income statement separately from the profit or loss from ordinary activities. That standard defined ‘extraordinary items’ as ‘income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly’.
- BC61 In 2002, the Board decided to eliminate the concept of extraordinary items from IAS 8 and to prohibit the presentation of items of income and expense as ‘extraordinary items’ in the income statement and the notes. Therefore, in accordance with IAS 1, no items of income and expense are to be presented as arising from outside the entity’s ordinary activities.
- BC62 Some respondents to the exposure draft of 2002 argued that extraordinary items should be presented in a separate component of the income statement because they are clearly distinct from all of the other items of income and expense, and because such presentation highlights to users of financial statements the items of income and expense to which the least attention should be given when predicting an entity’s future performance.
- BC63 The Board decided that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income

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<sup>11</sup> In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended ‘minority interests’ to non-controlling interests’. The consolidation requirements in IAS 27 were superseded by IFRS 10 *Consolidated Financial Statements* issued in May 2011. The term ‘non-controlling interests’ and the requirements for non-controlling interests were not changed.

statement. Items currently classified as ‘extraordinary’ are only a subset of the items of income and expense that may warrant disclosure to assist users in predicting an entity’s future performance.

- BC64 Eliminating the category of extraordinary items eliminates the need for arbitrary segregation of the effects of related external events—some recurring and others not—on the profit or loss of an entity for a period. For example, arbitrary allocations would have been necessary to estimate the financial effect of an earthquake on an entity’s profit or loss if it occurs during a major cyclical downturn in economic activity. In addition, paragraph 97 of IAS 1 requires disclosure of the nature and amount of material items of income and expense.

## **Other comprehensive income—related tax effects (paragraphs 90 and 91)**

- BC65 The exposure draft of 2006 proposed to allow components of ‘other recognised income and expense’ (now ‘other comprehensive income’) to be presented before tax effects (‘gross presentation’) or after their related tax effects (‘net presentation’). The ‘gross presentation’ facilitated the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax. The ‘net presentation’ facilitated the identification of other comprehensive income items in the equity section of the statement of financial position. A majority of respondents supported allowing both approaches. The Board reaffirmed its conclusion that components of other comprehensive income could be displayed either (a) net of related tax effects or (b) before related tax effects.
- BC66 Regardless of whether a pre-tax or post-tax display was used, the exposure draft proposed to require disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income, in line with SFAS 130. Many respondents agreed in principle with this disclosure, because they agreed that it helped to improve the clarity and transparency of such information, particularly when components of other comprehensive income are taxed at rates different from those applied to profit or loss.
- BC67 However, most respondents expressed concern about having to trace the tax effect for each one of the components of other comprehensive income. Several observed that the tax allocation process is arbitrary (eg it may involve the application of subjectively determined tax rates) and some pointed out that this information is not readily available for some industries (eg the insurance sector), where components of other comprehensive income are multiple and tax allocation involves a high degree of subjectivity. Others commented that they did not understand why tax should be attributed to components of comprehensive income line by line, when this is not a requirement for items in profit or loss.
- BC68 The Board decided to maintain the disclosure of income tax expense or benefit allocated to each component of other comprehensive income. Users of financial statements often requested further information on tax amounts relating to components of other comprehensive income, because tax rates often differed from those applied to profit or loss. The Board also observed that an entity should have such tax information available and that a disclosure requirement would therefore not involve additional cost for preparers of financial statements.
- BC68A In its exposure draft *Presentation of Items of Other Comprehensive Income* published in May 2010 the Board proposed requiring that income tax on items presented in OCI should be allocated between items that will not be subsequently reclassified to profit or loss and those that might be reclassified, if the items in OCI are presented before tax. Most respondents agreed with this proposal as this would be in line with the existing options in IAS 1 regarding presentation of income tax on OCI items. Therefore the Board confirmed the proposal in June 2011.

## **Reclassification adjustments (paragraphs 92–96)**

- BC69 In the exposure draft of 2006, the Board proposed that an entity should separately present reclassification adjustments. These adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. The Board decided that adjustments necessary to avoid double-counting items in total comprehensive income when those items are reclassified to profit or loss in accordance with IFRSs. The Board’s view was that separate presentation of reclassification adjustments is essential to inform users of those amounts that are included as income and expenses in different periods—as income or expenses in other comprehensive income in previous periods and as income or expenses in profit or loss in the current period. Without such information, users may find it difficult to assess the effect of reclassifications on profit or loss and to calculate the overall gain or loss

associated with available-for-sale financial assets,<sup>12</sup> cash flow hedges and on translation or disposal of foreign operations.

- BC70 Most respondents agreed with the Board's decision and believe that the disclosure of reclassification adjustments is important to understanding how components recognised in profit or loss are related to other items recognised in equity in two different periods. However, some respondents suggested that the Board should use the term 'recycling', rather than 'reclassification' as the former term is more common. The Board concluded that both terms are similar in meaning, but decided to use the term 'reclassification adjustment' to converge with the terminology used in SFAS 130.
- BC71 The exposure draft proposed to allow the presentation of reclassification adjustments in the statement of recognised income and expense (now 'statement of comprehensive income') or in the notes. Most respondents supported this approach.
- BC72 Some respondents noted some inconsistencies in the definition of 'reclassification adjustments' in the exposure draft (now paragraphs 7 and 93 of IAS 1). Respondents suggested that the Board should expand the definition in paragraph 7 to include gains and losses recognised in current periods in addition to those recognised in earlier periods, to make the definition consistent with paragraph 93. They commented that, without clarification, there could be differences between interim and annual reporting, for reclassifications of items that arise in one interim period and reverse out in a different interim period within the same annual period.
- BC73 The Board decided to align the definition of reclassification adjustments with SFAS 130 and include an additional reference to 'current periods' in paragraph 7.

## **Statement of changes in equity**

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### **Effects of retrospective application or retrospective restatement (paragraph 106(b))**

- BC74 Some respondents to the exposure draft of 2006 asked the Board to clarify whether the effects of retrospective application or retrospective restatement, as defined in IAS 8, should be regarded as non-owner changes in equity. The Board noted that IAS 1 specifies that these effects are included in the statement of changes in equity. However, the Board decided to clarify that the effects of retrospective application or retrospective restatement are not changes in equity in the period, but provide a reconciliation between the previous period's closing balance and the opening balance in the statement of changes in equity.

### **Reconciliation for each component of other comprehensive income (paragraphs 106(d)(ii) and 106A)**

- BC74A Paragraph 106(d) requires an entity to provide a reconciliation of changes in each component of equity. In *Improvements to IFRSs* issued in May 2010, the Board clarified that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

### **Presentation of dividends (paragraph 107)**

- BC75 The Board reaffirmed its conclusion to require the presentation of dividends in the statement of changes in equity or in the notes, because dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity. The Board concluded that an entity should not present dividends in the statement of comprehensive income because that statement presents non-owner changes in equity.

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<sup>12</sup> IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

## Statement of cash flows

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### IAS 7 Cash Flow Statements (paragraph 111)

- BC76 The Board considered whether the operating section of an indirect method statement of cash flows should begin with total comprehensive income instead of profit or loss as is required by IAS 7 *Cash Flow Statements*. When components of other comprehensive income are non-cash items, they would become reconciling items in arriving at cash flows from operating activities and would add items to the statement of cash flows without adding information content. The Board concluded that an amendment to IAS 7 is not required; however, as mentioned in paragraph BC14 the Board decided to relabel this financial statement as ‘statement of cash flows’.

## Notes

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### Structure (paragraphs 112–116)

- BC76A The Board is aware that some had interpreted paragraph 114 of IAS 1 as requiring a specific order for the notes. Paragraph 114 stated that ‘an entity normally presents notes in the [following] order’ and then listed a particular order for the notes. Some think that the use of ‘normally’ makes it difficult for an entity to vary the order of the notes from the one that is listed in paragraph 114; for example, by disclosing the notes in order of importance or disclosing related information together in sections.
- BC76B Investors’ feedback indicates that some investors prefer an entity to vary the order of the notes from the one that is listed in paragraph 114 of IAS 1. Other investors would prefer entities to use that order because they think it will increase comparability between periods and across entities.
- BC76C The Board considered the use of the word normally in paragraph 114 of IAS 1 and concluded that it was not intended that entities be required to disclose their notes in that order. Instead, it thinks that the order listed was intended to provide an example of how an entity could order the notes and that the term normal was not meant to imply that alternative ordering of the notes is ‘abnormal’. The Board therefore amended IAS 1 to clarify that the order listed in paragraph 114 is an example of how an entity could order or group its notes in a systematic manner. The Board also made amendments to clarify that significant accounting policies<sup>13</sup> do not need to be disclosed in one note, but instead can be included with related information in other notes.
- BC76D The Board also noted the requirement in paragraph 113 of IAS 1 for entities to, as far as practicable, present the notes in a systematic manner. In the Board’s view, this means that there must be a system or reason behind the ordering and grouping of the notes. For example, notes could be ordered by importance to the entity, in the order line items are presented in the financial statements or a combination of both. The Board amended paragraph 113 to clarify that an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes. The Board acknowledged that there is a trade-off between understandability and comparability; for example, ordering notes to increase understandability could mean that comparability, including consistency, between entities and periods is reduced. In particular, the Board acknowledged that consistency in the order of the notes for a specific entity from period to period is important. The Board noted that it would generally be helpful for users of financial statements if the ordering of notes by an entity is consistent and noted that it does not expect the order of an entity’s notes to change frequently. A change in the order of the notes previously determined to be an optimal mix of understandability and comparability should generally result from a specific event or transaction, such as a change in business. The Board also noted that the existing requirements in paragraph 45 of IAS 1 for consistency of presentation still apply.
- BC76E The Board also observed that electronic versions of financial statements can make it easier to search for, locate and compare information within the financial statements, between periods and between entities.

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<sup>13</sup> *Disclosure of Accounting Policies*, issued in February 2021, amended paragraphs 117–122 of IAS 1, which now refer to ‘material accounting policy information’.

## Disclosure of accounting policy information (paragraphs 117–117E)

- BC76F Paragraph 117 of IAS 1 requires significant accounting policies<sup>14</sup> to be disclosed and gives guidance, along with paragraphs 118–124 of IAS 1, about what a significant accounting policy could be. That guidance includes, as examples of significant accounting policies, the income taxes accounting policy and the foreign currency accounting policy.
- BC76G Some suggested that it is not helpful to provide the income taxes accounting policy as an example of a policy that users of financial statements would expect to be disclosed. Being liable to income taxes is typical for many entities and it was not clear, from the example, what aspect of the entity's operations would make a user of financial statements expect an accounting policy on income taxes to be disclosed. Consequently, the example does not illustrate why an accounting policy on income taxes is significant. The Board also thought that the foreign currency accounting policy example in paragraph 120 of IAS 1 was unhelpful for the same reasons and therefore deleted the income taxes and foreign currency examples.

## Disclosure of accounting policies (issued February 2021)

### *Background*

- BC76H In March 2017 the Board published the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared by an entity applying IFRS Standards. One issue related to the disclosure of information about accounting policies.
- BC76I The Discussion Paper noted that paragraph 117 of IAS 1 required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differ in their views about what constitutes a significant accounting policy.
- BC76J Feedback on the Discussion Paper suggested that the Board develop requirements and guidance to help entities make more effective accounting policy disclosures. Feedback from stakeholders suggested that materiality be the basis of such requirements or guidance.
- BC76K In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed to amend IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*.

### *Replacing 'significant' with 'material'*

- BC76L The Board found that, because 'significant' is not defined in IFRS Standards, entities can have difficulty assessing whether an accounting policy is 'significant'. The Board also noted that entities can have difficulty understanding the difference, if any, between 'significant' and 'material' accounting policies. The Board considered developing a definition of 'significant', but concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.
- BC76M Because 'material' is defined in IFRS Standards and is well understood by stakeholders, the Board decided to require entities to disclose their material accounting policy information instead of their significant accounting policies.
- BC76N The Board observed that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other information in a complete set of financial statements. In the Board's view, accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements.

### *Applying the definition of material to accounting policy disclosures*

- BC76O The Board received comments that:
- (a) accounting policy disclosures are useful to users of financial statements when they:

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<sup>14</sup> *Disclosure of Accounting Policies*, issued in February 2021, amended paragraphs 117–122 of IAS 1, which now refer to 'material accounting policy information'.

- (i) relate to material transactions, other events or conditions; and
    - (ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and
  - (b) users of financial statements find entity-specific information more useful than accounting policy disclosures that:
    - (i) contain standardised information, sometimes called boilerplate information; and
    - (ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.
- BC76P To assist an entity in determining whether accounting policy information is material to its financial statements and to respond to the feedback described in paragraphs BC76J and BC76O, the Board added paragraphs to IAS 1 to:
- (a) clarify that not all accounting policy information relating to material transactions, other events or conditions is material (see paragraph 117A). The Board concluded that this amendment would help an entity reduce immaterial accounting policy disclosures in its financial statements.
  - (b) provide examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see paragraph 117B). The examples listed in paragraph 117B are not exhaustive but the Board concluded that they would help an entity determine whether accounting policy information is material.
  - (c) explain that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards (see paragraph 117C). The Board concluded that this amendment would help an entity focus on disclosing accounting policy information that users have identified as the most useful.
- BC76Q The definition of material (see paragraph 7) states that ‘materiality depends on the nature or magnitude of information, or both’. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events or conditions to which the accounting policy information relates, but also the nature of those transactions, other events or conditions. To clarify this point, the Board included in the amendments an explanation that accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial (see paragraph 117A).
- BC76R Some respondents to the Exposure Draft said that sometimes accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards can provide users of financial statements with material information. In the Board’s view, accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards is generally less useful to users than entity-specific accounting policy information. However, the Board agreed that such accounting policy information is expected to be material if it is needed to understand other material information in the financial statements. The Board concluded that when such information is material, it is required to be disclosed.
- BC76S Such information could be material, for example, when an entity judges the accounting required for a material transaction, other event or condition to be so complex that a primary user would be unable to understand the related material transaction, other event or condition in the absence of that information (see paragraph 117B(e)). The Board acknowledged that because the complexity of accounting required for particular transactions, other events or conditions is ultimately a subjective question, an entity will need to judge whether the relevant accounting is complex. However, the Board concluded that the guidance in the amendments would be sufficient for an entity, auditors, regulators and others to make appropriate judgements about the materiality of such information.
- BC76T An entity is permitted to disclose accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards, even when that information is assessed as immaterial. However, if an entity discloses such information, it shall not obscure material accounting policy information (see paragraph 117D).
- BC76U The Board deleted the discussion of ‘measurement basis (or bases)’ in paragraphs 117 and 118. The Board did so to better enable preparers to apply judgement and thereby disclose only material accounting policy information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some cases, the measurement basis (or bases) used for a particular asset or liability would not be material and, therefore, would not need to be disclosed. For example, information about a measurement basis might be immaterial if:



- (a) an IFRS Standard required an entity to use a measurement basis—in which case an entity would not apply choice or judgement in complying with the Standard; and
- (b) information about the measurement basis would not be needed for users to understand the related material transactions, other events or conditions.

BC76V The Board decided to emphasise that the amendments do not relieve an entity from meeting other disclosure requirements within IFRS Standards (see paragraph 117E). For example, if an entity applying the amendments decides that accounting policy information about intangible assets is immaterial to its financial statements, the entity would still need to disclose the information required by IAS 38 *Intangible Assets* that the entity had determined to be material.

### ***References to accounting policies in other IFRS Standards and publications***

BC76W Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. The Board considered whether any of these requirements should be changed because of the amendments to IAS 1. However, the Board noted that paragraph 31 states that disclosure requirements in IFRS Standards are subject to materiality judgements—a disclosure required by an IFRS Standard is required to be provided only if the information resulting from that disclosure is material. Consequently, the Board concluded that amendments to requirements relating to accounting policy disclosures in other IFRS Standards are unnecessary.

### ***Effect analysis***

BC76X The Board acknowledged that the amendments may have:

- (a) an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to accounting policy information; and
- (b) ongoing costs to preparers, because the amendments require an entity to apply its own judgement to determine what accounting policy information is material and should, therefore, be disclosed in the financial statements.

BC76Y However, in the Board's view, the amendments will improve the relevance of the financial statements by helping an entity to:

- (a) identify and disclose accounting policy information that is material to users of financial statements; and
- (b) remove immaterial accounting policy information that may obscure material accounting policy information.

BC76Z The Board also expects that the amendments:

- (a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and
- (b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.

BC76AA Consequently, the Board expects that the benefits of the amendments will outweigh the costs.

### ***Transition and comparative information***

BC76AB The amendments affect the disclosure of narrative and descriptive information. Paragraph 38 specifies that comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In the Board's view, providing comparative accounting policy information would be unnecessary in most circumstances because if the accounting policy:

- (a) is unchanged from the comparative periods, the disclosure of the current period's accounting policy is likely to provide users with all the accounting policy information that is relevant to an understanding of the current period's financial statements; or
- (b) has changed from the comparative periods, the disclosures required by paragraphs 28–29 of IAS 8 are likely to provide any information about the comparative period's accounting policies that is relevant to an understanding of the current period's financial statements.

## **Disclosure of the judgements that management has made in the process of applying the entity's accounting policies (paragraphs 122–124)**

- BC77 The revised IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 122). An example of these judgements is how management determines whether financial assets are held-to-maturity investments.<sup>15</sup> The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.
- BC78 Comments received on the exposure draft of 2002 indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 125) and added another four examples of the types of judgements disclosed (see paragraphs 123 and 124).

## **Disclosure of major sources of estimation uncertainty (paragraphs 125–133)**

- BC79 IAS 1 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:
- (a) their nature; and
  - (b) their carrying amount as at the end of the reporting period (see paragraph 125).
- BC80 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.
- BC81 The *Framework* states that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 125 of the revised IAS 1 would be made in respect of relatively few assets or liabilities (or classes of them).
- BC82 The exposure draft of 2002 proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:
- (a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period'; and
  - (b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 128 of IAS 1).
- BC83 When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need

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<sup>15</sup> IFRS 9 *Financial Instruments* eliminated the category of held-to-maturity financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value.<sup>16</sup>

- BC84 IAS 1 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 1 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

## **Disclosures about capital (paragraphs 134 and 135)**

- BC85 In July 2004 the Board published an exposure draft—ED 7 *Financial Instruments: Disclosures*. As part of that project, the Board considered whether it should require disclosures about capital.
- BC86 The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. The level of capital might also affect the entity's ability to pay dividends. Consequently, ED 7 proposed disclosures about capital.
- BC87 In ED 7 the Board decided that it should not limit the requirements for disclosures about capital to entities that are subject to external capital requirements (eg regulatory capital requirements established by legislation or other regulation). The Board believes that information about capital is useful for all entities, as is evidenced by the fact that some entities set internal capital requirements and norms have been established for some industries. The Board noted that the capital disclosures are not intended to replace disclosures required by regulators. The Board also noted that the financial statements should not be regarded as a substitute for disclosures to regulators (which may not be available to all users) because the function of disclosures made to regulators may differ from the function of those to other users. Therefore, the Board decided that information about capital should be required of all entities because it is useful to users of general purpose financial statements. Accordingly, the Board did not distinguish between the requirements for regulated and non-regulated entities.
- BC88 Some respondents to ED 7 questioned the relevance of the capital disclosures in an IFRS dealing with disclosures relating to financial instruments. The Board noted that an entity's capital does not relate solely to financial instruments and, thus, capital disclosures have more general relevance. Accordingly, the Board included these disclosures in IAS 1, rather than IFRS 7 *Financial Instruments: Disclosures*, the IFRS resulting from ED 7.
- BC89 The Board also decided that an entity's decision to adopt the amendments to IAS 1 should be independent of the entity's decision to adopt IFRS 7. The Board noted that issuing a separate amendment facilitates separate adoption decisions.

## **Objectives, policies and processes for managing capital (paragraph 136)**

- BC90 The Board decided that disclosure about capital should be placed in the context of a discussion of the entity's objectives, policies and processes for managing capital. This is because the Board believes that such a discussion both communicates important information about the entity's capital strategy and provides the context for other disclosures.
- BC91 The Board considered whether an entity can have a view of capital that differs from what IFRSs define as equity. The Board noted that, although for the purposes of this disclosure capital would often equate with equity as defined in IFRSs, it might also include or exclude some components. The Board also noted that this disclosure is intended to give entities the opportunity to describe how they view the components of capital they manage, if this is different from what IFRSs define as equity.

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<sup>16</sup> IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

## Externally imposed capital requirements (paragraph 136)

- BC92 The Board considered whether it should require disclosure of any externally imposed capital requirements. Such a capital requirement could be:
- (a) an industry-wide requirement with which all entities in the industry must comply; or
  - (b) an entity-specific requirement imposed on a particular entity by its prudential supervisor or other regulator.
- BC93 The Board noted that some industries and countries have industry-wide capital requirements, and others do not. Thus, the Board concluded that it should not require disclosure of industry-wide requirements, or compliance with such requirements, because such disclosure would not lead to comparability between different entities or between similar entities in different countries.
- BC94 The Board concluded that disclosure of the existence and level of entity-specific capital requirements is important information for users, because it informs them about the risk assessment of the regulator. Such disclosure improves transparency and market discipline.
- BC95 However, the Board noted the following arguments against requiring disclosure of externally imposed entity-specific capital requirements.
- (a) Users of financial statements might rely primarily on the regulator's assessment of solvency risk without making their own risk assessment.
  - (b) The focus of a regulator's risk assessment is for those whose interests the regulations are intended to protect (eg depositors or policyholders). This emphasis is different from that of a shareholder. Thus, it could be misleading to suggest that the regulator's risk assessment could, or should, be a substitute for independent analysis by investors.
  - (c) The disclosure of entity-specific capital requirements imposed by a regulator might undermine that regulator's ability to impose such requirements. For example, the information could cause depositors to withdraw funds, a prospect that might discourage regulators from imposing requirements. Furthermore, an entity's regulatory dialogue would become public, which might not be appropriate in all circumstances.
  - (d) Because different regulators have different tools available, for example formal requirements and moral suasion, a requirement to disclose entity-specific capital requirements could not be framed in a way that would lead to the provision of information that is comparable across entities.
  - (e) Disclosure of capital requirements (and hence, regulatory judgements) could hamper clear communication to the entity of the regulator's assessment by creating incentives to use moral suasion and other informal mechanisms.
  - (f) Disclosure requirements should not focus on entity-specific capital requirements in isolation, but should focus on how entity-specific capital requirements affect how an entity manages and determines the adequacy of its capital resources.
  - (g) A requirement to disclose entity-specific capital requirements imposed by a regulator is not part of Pillar 3 of the Basel II Framework developed by the Basel Committee on Banking Supervision.
- BC96 Taking into account all of the above arguments, the Board decided not to require quantitative disclosure of externally imposed capital requirements. Rather, it decided to require disclosures about whether the entity complied with any externally imposed capital requirements during the period and, if not, the consequences of non-compliance. This retains confidentiality between regulators and the entity, but alerts users to breaches of capital requirements and their consequences.
- BC97 Some respondents to ED 7 did not agree that breaches of externally imposed capital requirements should be disclosed. They argued that disclosure about breaches of externally imposed capital requirements and the associated regulatory measures subsequently imposed could be disproportionately damaging to entities. The Board was not persuaded by these arguments because it believes that such concerns indicate that information about breaches of externally imposed capital requirements may often be material by its nature. The *Framework* states that 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.' Similarly, the Board decided not to provide an exemption for temporary non-compliance with regulatory requirements during the year. Information that an entity is sufficiently close to its limits to breach them, even on a temporary basis, is useful for users.

## Internal capital targets

- BC98 The Board proposed in ED 7 that the requirement to disclose information about breaches of capital requirements should apply equally to breaches of internally imposed requirements, because it believed the information is also useful to a user of the financial statements.
- BC99 However, this proposal was criticised by respondents to ED 7 for the following reasons:
- (a) The information is subjective and, thus, not comparable between entities. In particular, different entities will set internal targets for different reasons, so a breach of a requirement might signify different things for different entities. In contrast, a breach of an external requirement has similar implications for all entities required to comply with similar requirements.
  - (b) Capital targets are not more important than other internally set financial targets, and to require disclosure only of capital targets would provide users with incomplete, and perhaps misleading, information.
  - (c) Internal targets are estimates that are subject to change by the entity. It is not appropriate to require the entity's performance against this benchmark to be disclosed.
  - (d) An internally set capital target can be manipulated by management. The disclosure requirement could cause management to set the target so that it would always be achieved, providing little useful information to users and potentially reducing the effectiveness of the entity's capital management.
- BC100 As a result, the Board decided not to require disclosure of the capital targets set by management, whether the entity has complied with those targets, or the consequences of any non-compliance. However, the Board confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful. The Board also concluded that these disclosures, together with disclosure of the components of equity and their changes during the year (required by paragraphs 106–110), would give sufficient information about entities that are not regulated or subject to externally imposed capital requirements.

## Puttable financial instruments and obligations arising on liquidation

- BC100A The Board decided to require disclosure of information about puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation that are reclassified in accordance with paragraphs 16E and 16F of IAS 32. This is because the Board concluded that this disclosure allows users of financial statements to understand the effects of any reclassifications.
- BC100B The Board also concluded that entities with puttable financial instruments classified as equity should be required to disclose additional information to allow users to assess any effect on the entity's liquidity arising from the ability of the holder to put the instruments to the issuer. Financial instruments classified as equity usually do not include any obligation for the entity to deliver a financial asset to another party. Therefore, the Board concluded that additional disclosures are needed in these circumstances. In particular, the Board concluded that entities should disclose the expected cash outflow on redemption or repurchase of those financial instruments that are classified as equity and information about how that amount was determined. That information allows liquidity risk associated with the put obligation and future cash flows to be evaluated.

## Presentation of measures per share

- BC101 The exposure draft of 2006 did not propose to change the requirements of IAS 33 *Earnings per Share* on the presentation of basic and diluted earnings per share. A majority of respondents agreed with this decision. In their opinion, earnings per share should be the only measure per share permitted or required in the statement of comprehensive income and changing those requirements was beyond the scope of this stage of the financial statement presentation project.
- BC102 However, some respondents would like to see alternative measures per share whenever earnings per share is not viewed as the most relevant measure for financial analysts (ie credit rating agencies that focus on other measures). A few respondents proposed that an entity should also display an amount per share for total comprehensive income, because this was considered a useful measure. The Board did not support including alternative measures per share in the financial statements, until totals and subtotals, and principles for aggregating and disaggregating items, are addressed and discussed as part of the next stage of the financial statement presentation project.

- BC103 Some respondents also interpreted the current provisions in IAS 33 as allowing de facto a display of alternative measures in the income statement. In its deliberations, the Board was clear that paragraph 73 of IAS 33 did not leave room for confusion. However, it decided that the wording in paragraph 73 could be improved to clarify that alternative measures should be shown ‘only in the notes’. This will be done when IAS 33 is revisited or as part of the annual improvements process.
- BC104 One respondent commented that the use of the word ‘earnings’ was inappropriate in the light of changes proposed in the exposure draft and that the measure should be denominated ‘profit or loss per share’, instead. The Board considered that this particular change in terminology was beyond the scope of IAS 1.

## Transition and effective date

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- BC105 The Board is committed to maintaining a ‘stable platform’ of substantially unchanged standards for annual periods beginning between 1 January 2006 and 31 December 2008. In addition, some preparers will need time to make the system changes necessary to comply with the revisions to IAS 1. Therefore, the Board decided that the effective date of IAS 1 should be annual periods beginning on or after 1 January 2009, with earlier application permitted.
- BC105A The exposure draft *Presentation of Items of Other Comprehensive Income* published in May 2010 proposed changes to presentation of items of OCI. The Board finalised these changes in June 2011 and decided that the effective dates for these changes should be for annual periods beginning on or after 1 July 2012, with earlier application permitted. The Board did not think that a long transition period was needed as the changes to presentation are small and the presentation required by the amendments is already allowed under IAS 1.
- BC105B The Board had consulted on the effective date and transition requirements for this amendment in its *Request for Views on Effective Dates and Transition Requirements* in October 2010 and the responses to that document did not give the Board any reason to reconsider the effective date and the transition requirements.

## Disclosure Initiative (Amendments to IAS 1)

- BC105C The Board decided that *Disclosure Initiative* (Amendments to IAS 1) should be applied for annual periods beginning on or after 1 January 2016 with early application permitted.
- BC105D The Board noted that these amendments clarify existing requirements in IAS 1. They provide additional guidance to assist entities to apply judgement when meeting the presentation and disclosure requirements in IFRS. These amendments do not affect recognition and measurement. They should not result in the reassessment of the judgements about presentation and disclosure made in periods prior to the application of these amendments.
- BC105E Paragraph 38 of IAS 1 requires an entity to present comparative information for all amounts reported in the current period financial statements and for narrative or descriptive information ‘if it is relevant to understanding the current period’s financial statements’. If an entity alters the order of the notes or the information presented or disclosed compared to the previous year, it also adjusts the comparative information to align with the current period presentation and disclosure. For that reason, IAS 1 already provides relief from having to disclose comparative information that is not considered relevant in the current period and requires comparative information for new amounts presented or disclosed in the current period.
- BC105F The March 2014 Exposure Draft proposed that if an entity applies these amendments early that it should disclose that fact. However, the Board removed this requirement and stated in the transition provisions that an entity need not disclose the fact that it has applied these amendments (regardless of whether the amendments have been applied for annual periods beginning on or after 1 January 2016 or if they have been applied early). This is because the Board considers that these amendments are clarifying amendments that do not directly affect an entity’s accounting policies or accounting estimates. Similarly, an entity does not need to disclose the information required by paragraphs 28–30 of IAS 8 in relation to these amendments. The Board noted that if an entity decides to change its accounting policies as a result of applying these amendments then it would be required to follow the existing requirements in IAS 8 in relation to those accounting policy changes.

## Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

- BC105FA In January 2020 the Board issued *Classification of Liabilities as Current or Non-current* for the reasons described in paragraphs BC48A–BC48H. When issued, those amendments had an effective date of annual reporting periods beginning on or after 1 January 2022. Subsequently, the Board noted that the covid-19

pandemic has created pressures that could make it more challenging to implement any changes in classification of liabilities as current or non-current resulting from the application of these amendments. The pressures caused by the covid-19 pandemic could also delay the start and extend the duration of any renegotiation of loan covenants resulting from those changes. Consequently, the Board decided to provide entities with operational relief by deferring the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2023. Earlier application of the amendments continues to be permitted.

BC105FB The Board noted that deferring the effective date would delay the implementation of the improvements to the classification of liabilities that the amendments intend to bring about. However, the amendments clarify the requirements for presentation of liabilities instead of fundamentally changing the required accounting; recognition and measurement requirements are unaffected by the amendments. Consequently, the Board concluded that the advantages of a deferral during a time of significant disruption would outweigh the disadvantages.

BC105FC The Board considered whether to introduce disclosure requirements as part of the amendment but concluded that this was unnecessary because an entity is required to comply with paragraph 30 of IAS 8. Application of that paragraph requires disclosure of known or reasonably estimable information relevant to assessing the possible impact of the application of the amendments issued in January 2020 on an entity's financial statements.

## ***Non-current Liabilities with Covenants (Amendments to IAS 1)***

BC105FD The IASB decided to require entities to apply *Non-current Liabilities with Covenants* (2022 amendments) retrospectively in accordance with IAS 8 because:

- (a) classifying a liability as current or non-current on the same basis in current and prior periods would result in more comparable, and thus more useful, information than the information that would result from not reclassifying comparative amounts; and
- (b) applying the amendments retrospectively is not expected to be onerous for entities.

BC105FE The 2022 amendments changed some of the requirements introduced by the 2020 amendments before those requirements were in effect. Therefore, the IASB deferred the effective date of the 2020 amendments to align it with the effective date of the 2022 amendments. The IASB did so to avoid an entity potentially having to change its assessment of the classification of liabilities twice within a relatively short period.

BC105FF The IASB observed that it would be impractical to apply the 2022 amendments early without also applying the 2020 amendments. Therefore, the IASB decided to allow an entity to apply the 2022 amendments early, but only if the entity also applies the 2020 amendments from the same date.

## ***Amended references to the Conceptual Framework***

BC105G Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*), the Board issued *Amendments to References to the Conceptual Framework in IFRS Standards*. In IAS 1, that document replaced references in paragraphs 15, 19–20, 23–24, 28 and 89 to the *Framework* with references to the 2018 *Conceptual Framework*.

BC105H The Board does not expect the replacement of the references to the *Framework* to have a significant effect on the application of the Standard for the following reasons:

- (a) In paragraph 15, replacing the reference to the *Framework* should not change the assessment of whether the financial statements present fairly the financial position, financial performance and cash flows of an entity. Paragraph 15 explains that the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation. Revisions of the *Conceptual Framework* will not automatically lead to changes in IFRS Standards. Hence, entities are expected to continue applying IFRS Standards in preparing their financial statements even in cases in which the requirements of a particular Standard depart from aspects of the *Conceptual Framework*.
- (b) In paragraphs 19–20 and 23–24, replacing the reference to the *Framework* means referring to the revised description of the objective of financial statements in the 2018 *Conceptual Framework* instead of the description provided by the *Framework*. The objective did not change substantively—it is an adapted and updated version of the objective of financial statements from the *Framework* and paragraph 9 of IAS 1. Hence, applying the revised objective is not expected to lead to changes in the application of the requirements in paragraphs 19–20 and 23–24.

- (c) In paragraph 28, replacing the reference to the *Framework* in the discussion of the accrual basis of accounting is not expected to result in any changes because no changes were made to the discussion of the accrual basis of accounting in the 2018 *Conceptual Framework*.
  - (d) In paragraph 89, replacing the reference to the *Framework* means referring to the revised definitions of income and expenses in the 2018 *Conceptual Framework*. The Board concluded that this is unlikely to lead to changes in applying the requirements of IAS 1 because the definitions of income and expenses in the 2018 *Conceptual Framework* were updated only to align them with the revised definitions of an asset and a liability. Moreover, the main purpose of paragraph 89 is to indicate that particular items of income or expenses can be recognised outside profit or loss only if required by other IFRS Standards.
- BC105I IAS 1 referred to the *Framework* in paragraph 7 and quoted the description of users of financial statements from the *Framework*. To retain the requirements of this paragraph, the Board decided to embed that description in the Standard itself instead of updating the reference and the related quotation.
- BC105J In developing the 2018 *Conceptual Framework* the Board retained the term ‘faithful representation’ as a label for the qualitative characteristic previously called ‘reliability’ (see paragraphs BC2.22–BC2.31 of the Basis for Conclusions on the 2018 *Conceptual Framework*). In order to avoid possible unintended consequences, the Board decided against replacing the term ‘reliability’ with the term ‘faithful representation’ in the Standards at this time.

## Differences from SFAS 130

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- BC106 In developing IAS 1, the Board identified the following differences from SFAS 130:
- (a) **Reporting and display of comprehensive income** Paragraph 22 of SFAS 130 permits a choice of displaying comprehensive income and its components, in one or two statements of financial performance or in a statement of changes in equity. IAS 1 (as revised in 2007) does not permit display in a statement of changes in equity.
  - (b) **Reporting other comprehensive income in the equity section of a statement of financial position** Paragraph 26 of SFAS 130 specifically states that the *total of other comprehensive income* is reported separately from retained earnings and additional paid-in capital in a statement of financial position at the end of the period. A descriptive title such as *accumulated other comprehensive income* is used for that component of equity. An entity discloses accumulated balances for each classification in that separate component of equity in a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. IAS 1 (as revised in 2007) does not specifically require the display of a total of accumulated other comprehensive income in the statement of financial position.
  - (c) **Display of the share of other comprehensive income items of associates and joint ventures accounted for using the equity method** Paragraph 82 of IAS 1 (as revised in 2007) requires the display in the statement of comprehensive income of the investor’s share of the investee’s other comprehensive income. Paragraph 122 of SFAS 130 does not specify how that information should be displayed. An investor is permitted to combine its proportionate share of other comprehensive income amounts with its own other comprehensive income items and display the aggregate of those amounts in an income statement type format or in a statement of changes in equity.

## Disclosures about Uncertainties in the Financial Statements (November 2025)

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- BC107 In November 2025, the IASB issued *Disclosures about Uncertainties in the Financial Statements*, which added illustrative examples to the guidance accompanying several IFRS Accounting Standards. The objective of those examples is to illustrate how an entity applies the requirements in the Standards to report the effects of uncertainties in its financial statements.

## Background

- BC108 In March 2021, the IASB published the Request for Information *Third Agenda Consultation*. Stakeholders who responded to that consultation expressed concerns that information about the effects of climate-related risks in the financial statements was sometimes insufficient or appeared to be inconsistent with information entities provided outside the financial statements, particularly information reported in other general purpose financial reports. To respond to those concerns, the IASB added to its work plan a project to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements.



- BC109 After starting the project, the IASB decided to change the project's objective to cover uncertainties in general. The principle-based nature of IFRS Accounting Standards meant that any actions the IASB were to take as part of the project would apply not only to uncertainties arising from climate-related risks but to uncertainties in general.
- BC110 The IASB researched the nature and causes of stakeholders' concerns about reporting the effects of uncertainties in the financial statements. The research showed that IFRS Accounting Standards were generally sufficient in requiring an entity to disclose information about the effects of uncertainties in the financial statements. However, entities faced some challenges in applying the Standards.
- BC111 The IASB decided to develop examples illustrating how, and in what circumstances, applying the requirements in IFRS Accounting Standards might result in an entity disclosing information about the effects of uncertainties in the financial statements. The examples illustrate requirements in IAS 1, IFRS 7, IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

## Overall considerations in developing illustrative examples

### Which requirements to illustrate?

- BC112 The IASB noted that the effects of uncertainties are pervasive across financial statements and an entity might apply many requirements in IFRS Accounting Standards in reporting these effects. Stakeholder concerns related mostly to the application of disclosure requirements in the Standards. Therefore, the IASB concluded that the examples would be most helpful if they focused on illustrating the application of those requirements. The IASB also decided to focus on disclosure requirements that were among the most relevant for reporting the effects of uncertainties in the financial statements and that were more likely to respond to stakeholder concerns (see paragraph BC108).
- BC113 The IASB also noted that, by their nature, examples cannot illustrate:
- (a) the application of all requirements in IFRS Accounting Standards that might be applicable to a specified fact pattern;
  - (b) all facts and circumstances an entity would consider in making materiality judgements; or
  - (c) all material information an entity is required to disclose in a specified fact pattern.

### What types of uncertainties and fact patterns to illustrate?

- BC114 The IASB noted that stakeholders were mainly concerned about the reporting of the effects of climate-related uncertainties. Therefore, the IASB concluded that examples illustrating the application of IFRS Accounting Standards to climate-related uncertainties would be most helpful in responding to these concerns.
- BC115 Many respondents to the draft illustrative examples exposed for comment suggested the IASB develop more examples to illustrate other types of uncertainties. Some of these respondents were concerned that the emphasis on climate-related uncertainties could suggest a lower threshold for disclosing information about these uncertainties compared with other uncertainties. However, the IASB noted that the principles and requirements illustrated using climate-related fact patterns apply equally to other types of uncertainties. The IASB also noted that:
- (a) an entity assesses whether information about the effects of climate-related uncertainties is material in the same way it assesses information about the effects of any other uncertainty; and
  - (b) the entity provides such information only if it concludes that the information is material based on its particular facts and circumstances.
- BC116 The IASB also noted that an entity would assess whether information is material:
- (a) *in the context of the objective of the financial statements*—the objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to primary users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources. An entity is required to disclose information about the effects of uncertainties, including climate-related uncertainties, only if providing that information is necessary to meet the objective of the financial statements. Information judged to be material for financial statements will typically differ from information judged to be material for other general purpose financial reports (such as sustainability-related financial disclosures) because these reports have different objectives from financial statements and provide different types of information about a reporting entity in accordance with the applicable reporting requirements.

- (b) *in the context of the needs of primary users of financial statements*—the primary users of financial statements are existing and potential investors, lenders and other creditors. Other parties might also find financial statements useful. However, financial statements are not primarily directed to these other parties.

BC117 The IASB also noted that:

- (a) uncertainties affect many industries, in various ways and to varying extents. Accordingly, the IASB decided to set out fact patterns at a sufficiently high level to make the examples applicable to a variety of entities operating in various industries.
- (b) the examples illustrate how an entity applies the requirements in IFRS Accounting Standards in specified fact patterns. However, the application of those requirements in other fact patterns could result in an entity disclosing information similar to that illustrated in the examples.

## **What is the best format for the examples?**

BC118 The IASB considered whether to publish the examples as educational materials, issue them as illustrative examples accompanying IFRS Accounting Standards, or include them in the Standards. The IASB decided to issue the examples as illustrative examples accompanying IFRS Accounting Standards. Although illustrative examples are not an integral part of the Standards and therefore might not be translated or endorsed in some jurisdictions, the IASB concluded that illustrative examples:

- (a) are easily accessible because they are included alongside other guidance accompanying the Standards;
- (b) are used by preparers in applying the Standards and are helpful to auditors and regulators in supporting their audit and enforcement activities; and
- (c) allow for greater flexibility in their content and format than if the examples were to be included in the Standards.

## **Objectives and rationale for each example**

### **Materiality judgements and the disclosure of additional information**

BC119 The IASB developed Example IV-1 of the *Illustrative Examples on IAS 1* to respond to stakeholder concerns about apparent inconsistencies between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements. Stakeholders said they observed extensive discussion about climate-related matters outside the financial statements, but little or no information about the effects of those matters in the financial statements.

BC120 The IASB noted that this situation might arise if an entity applying IFRS Accounting Standards focuses on quantitative factors when assessing the materiality of information—instead of both quantitative and qualitative factors. Therefore, the IASB decided to illustrate how an entity considers qualitative factors in making materiality judgements. Scenario 1 illustrates a situation in which an entity makes additional disclosures in the financial statements by applying paragraph 31 of IAS 1 after using judgement and considering its specific circumstances, including matters disclosed in other general purpose financial reports. To respond to stakeholder concerns that the consideration of qualitative factors could lead to excessive disclosures, the IASB also developed Scenario 2, which illustrates a situation in which the entity determines that additional disclosures are unnecessary.

BC121 When the IASB exposed the draft illustrative examples for comment, many respondents were concerned that Scenario 1 went beyond the requirements in paragraph 31 of IAS 1. These respondents said that this scenario implied that an entity is required to identify and disclose information about a broad range of uncertainties and anticipate the information needs of a wide range of users of financial statements. These respondents said that, despite the illustrations in Scenario 2, Scenario 1 would lead to voluminous boilerplate disclosures that might obscure material information instead of providing it. They were also concerned that entities would be required to create new processes and controls, which would be burdensome for entities and their auditors.

BC122 In response to these concerns, the IASB clarified in Example IV-1 that an entity considers whether additional disclosures would provide material information in the context of the financial statements taken as a whole. The IASB also clarified that an entity focuses on the common information needs of primary users and is not expected to anticipate the information needs of individual users.

BC123 The IASB also noted that:

- (a) an entity would provide additional disclosures by applying paragraph 31 of IAS 1 only if the information is material. Those additional disclosures should be made in a way that would not obscure other material information.
- (b) an entity probably already identifies the uncertainties to which it is exposed as part of its existing risk management processes and controls. The entity would judge whether information about the effects of those uncertainties is material in the same way it makes other materiality judgements. Therefore, the IASB would not expect an entity to create new processes and controls to identify the uncertainties to which it is exposed and consider whether information about the effects of those uncertainties might be material.

## Assumptions and other sources of estimation uncertainty

BC124 The IASB decided to develop several examples to illustrate how applying the requirements in IFRS Accounting Standards would result in an entity disclosing information about assumptions it makes about the future and other sources of estimation uncertainty. Research indicated that information about assumptions is often necessary to enable users of financial statements to understand how uncertainties affected the recognition and measurement of assets and liabilities. The examples illustrate disclosure requirements in IAS 1 (see paragraphs BC125–BC126), IFRS 7, IAS 36 and IAS 37. See paragraphs BC56B–BC56D of the *Basis for Conclusions on IFRS 7 Financial Instruments: Disclosures*, paragraphs BC209R–BC209S of the *Basis for Conclusions on IAS 36 Impairment of Assets* and paragraphs BC22–BC23 of the *Basis for Conclusions on IAS 37 Provisions, Contingent Liabilities and Contingent Assets*.

See paragraphs BC56B–BC56D of the *Basis for Conclusions on IFRS 7 Financial Instruments: Disclosures*, paragraphs BC209R–BC209S of the *Basis for Conclusions on IAS 36 Impairment of Assets* and paragraphs BC22–BC23 of the *Basis for Conclusions on IAS 37 Provisions, Contingent Liabilities and Contingent Assets*.

BC125 The IASB developed Example IV-2 of the *Illustrative Examples on IAS 1* to illustrate the requirements in paragraphs 125 and 129 of IAS 1 to disclose information about assumptions an entity makes about the future and other major sources of estimation uncertainty. In particular, the example:

- (a) illustrates that paragraph 125 applies to assumptions about uncertainties that will be resolved only after the end of the next financial year. The IASB concluded that this example would help an entity to determine whether to disclose information about assumptions related to events or conditions that might occur in the medium or long term.
- (b) illustrates how an entity determines what information to disclose about those assumptions in applying paragraph 129. The IASB concluded that this example would help to explain that an entity is required to disclose information that meets the objective in that paragraph and that disclosing quantitative information might be necessary to meet that objective.

BC126 Some respondents to the draft illustrative examples exposed for comment said:

- (a) there were different views about whether paragraph 125 applied to assumptions about uncertainties that will be resolved only after the end of the next financial year (see paragraph BC125(a)). These respondents suggested amending the requirements in that paragraph to clarify their application. The IASB concluded that amending these requirements was unnecessary and that the example appropriately illustrates their application to assumptions about longer-term uncertainties. The fact that the example might provide additional insights into the application of these requirements does not mean standard-setting is necessary.
- (b) the example illustrates a situation in which the specific requirements in IAS 36 do not require an entity to disclose information about assumptions. In these respondents' view, this situation indicated a deficiency in IAS 36 that the IASB should correct through standard-setting instead of relying on the requirements in paragraph 125 of IAS 1. The IASB concluded that the fact that the requirements in paragraph 125 of IAS 1 might apply when the specific disclosure requirements in IAS 36 do not apply does not suggest the disclosure requirements in IAS 36 are deficient.

## Effects analysis

BC127 The IASB concluded that the benefits of the illustrative examples outweigh the costs because it expected:

- (a) the illustrative examples to result in improved information for users of financial statements about the effects of uncertainties.
- (b) entities to incur limited costs in understanding the implications of the examples and in making changes to the information they disclose in their financial statements. In particular, the IASB expected that entities would not need to create new processes and controls to identify which

information to disclose (see paragraph BC123(b)) and the information needed for any new disclosures was likely to be available from applying the recognition and measurement requirements in IFRS Accounting Standards.

## **Effective date and transition**

- BC128 Materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those Standards and, as such, do not have an effective date or transition requirements.
- BC129 The IASB expected that the illustrative examples might:
- (a) help entities make materiality judgements and provide information in financial statements that meets the needs of users of those financial statements. An entity applies judgement in determining which information is material and, therefore, is required to be disclosed in its financial statements. An entity reassesses these judgements at each reporting date. Information that was previously immaterial might become material, or the other way around, as an entity's circumstances or its external environment change.
  - (b) provide additional insights into how to apply the disclosure requirements in IFRS Accounting Standards. These additional insights might change an entity's understanding of the disclosure requirements in IFRS Accounting Standards. Therefore, these additional insights might constitute information that was not available to an entity before the publication of the illustrative examples. Because of these new insights, the entity might determine that it needs to change the disclosures it provides.
- BC130 The IASB expected entities to be entitled to sufficient time to implement any changes to the information disclosed in their financial statements as a result of the illustrative examples. Determining how much time is sufficient is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless, an entity would be expected to implement any change on a timely basis.

## Dissenting opinions

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### Dissent of Mary E Barth, Anthony T Cope, Robert P Garnett and James J Leisenring from IAS 1 (as revised in September 2007)

- DO1 Professor Barth and Messrs Cope, Garnett and Leisenring voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. The reasons for their dissent are set out below.
- DO2 Those Board members agree with the requirement to report all items of income and expense separately from changes in net assets that arise from transactions with owners in their capacity as owners. Making that distinction clearly is a significant improvement in financial reporting.
- DO3 However, they believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise.
- DO4 As noted in paragraph BC51, the *Framework*<sup>17</sup> does not define profit or loss, or net income. It also does not indicate what criteria should be used to distinguish between those items of recognised income and expense that should be included in profit or loss and those items that should not. In some cases, it is even possible for identical transactions to be reported inside or outside profit or loss. Indeed, in that same paragraph, the Board acknowledges these facts, and indicates that it had a preference for reporting all items of income and expense in a single statement, believing that a single statement is the conceptually correct approach. Those Board members believe that some items of income and expense that will potentially bypass the statement of profit and loss can be as significant to the assessment of an entity's performance as items that will be included. Until a conceptual distinction can be developed to determine whether any items should be reported in profit or loss or elsewhere, financial statements will lack neutrality and comparability unless all items are reported in a single statement. In such a statement, profit or loss can be shown as a subtotal, reflecting current conventions.
- DO5 In the light of those considerations, it is puzzling that most respondents to the exposure draft that proposed these amendments favoured permitting a two-statement approach, reasoning that it 'distinguishes between profit and loss and total comprehensive income' (paragraph BC50). Distinguishing between those items reported in profit or loss and those reported elsewhere is accomplished by the requirement for relevant subtotals to be included in a statement of comprehensive income. Respondents also stated that a two-statement approach gives primacy to the 'income statement'; that conflicts with the Board's requirement in paragraph 11 of IAS 1 to give equal prominence to all financial statements within a set of financial statements.
- DO6 Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRSs. The *Preface to International Financial Reporting Standards*, in paragraph 13,<sup>18</sup> states: 'the IASB intends not to permit choices in accounting treatment ... and will continue to reconsider ... those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.' The *Preface* extends this objective to both accounting and reporting. The same paragraph states: 'The IASB's objective is to require like transactions and events to be accounted for *and reported* in a like way and unlike transactions and events to be accounted for *and reported* differently' (emphasis added). By permitting a choice in this instance, the IASB has abandoned that principle.
- DO7 Finally, the four Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds.

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<sup>17</sup> The reference to the *Framework* is to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was revised.

<sup>18</sup> amended to paragraph 11 when the *Preface to IFRS Standards* was revised and renamed in December 2018.

## Dissenting opinion on amendments issued in June 2011

### Dissent of Paul Pacter from *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)

- DO1 Mr Pacter voted against issuing the amendments to IAS 1 *Presentation of Financial Statements* set out in *Presentation of Items of Other Comprehensive Income* in June 2011. Mr Pacter believes that the Board has missed a golden opportunity to align the performance statement with the Board's *Conceptual Framework*<sup>19</sup> and, thereby, improve information for users of IFRS financial statements.
- DO2 Mr Pacter believes that ideally this project should have provided guidance, to the Board and to those who use IFRSs, on which items of income and expense (if any) should be presented as items of other comprehensive income (OCI) and which of those (if any) should subsequently be recycled through profit or loss. Mr Pacter acknowledges and accepts that this project has a more short-term goal – 'to improve the consistency and clarity of the presentation of items of OCI'. He believes that this project fails to deliver on that objective, for the following reasons:
- (a) Consistency is not achieved because the standard allows choice between presenting performance in a single performance statement or two performance statements. Users of financial statements—and the Board itself—have often said that accounting options are not helpful for understandability and comparability of financial statements.
  - (b) Clarity is not achieved because allowing two performance statements is inconsistent with the *Conceptual Framework*. The *Conceptual Framework* defines two types of items that measure an entity's performance—income and expenses. Mr Pacter believes that all items of income and expense should be presented in a single performance statement with appropriate subtotals (including profit or loss, if that can be defined) and supporting disclosures. This is consistent with reporting all assets and liabilities in a single statement of financial position, rather than multiple statements. Unfortunately, neither IAS 1 nor any other IFRS addresses criteria for which items are presented in OCI. And the recent history of which items are presented in OCI suggests that the decisions are based more on expediency than conceptual merit. In Mr Pacter's judgement, that is all the more reason to have all items of income and expense reported in a single performance statement.
- DO3 Mr Pacter believes that the Board should breathe new life into its former project on performance reporting as a matter of urgency.

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<sup>19</sup> References to the *Conceptual Framework* in this Dissent are to the *Conceptual Framework for Financial Reporting*, issued in 2010 and in effect when the Standard was amended.

## Dissenting opinion on amendments issued in February 2021

### Dissent of Ms Françoise Flores from *Disclosure of Accounting Policies*

- DO1 Ms Flores voted against the publication of *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2. The reasons for her dissent are set out below.
- DO2 Ms Flores agrees with those amendments to IAS 1 and IFRS Practice Statement 2 which aim to provide primary users of financial statements with all and only relevant accounting policy information. She also supports the Board's past and current efforts to clarify how the concept of materiality should be applied more generally. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2.
- DO3 In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.
- DO4 A minority of respondents were concerned that the Board's proposals could be read as prohibiting the publication of any accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.
- DO5 Furthermore, Ms Flores notes that paragraph 2.36 of the *Conceptual Framework of Financial Reporting*, paragraph 7 of IAS 1 and the guidance included in paragraphs 13–23 of IFRS Practice Statement 2 state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity. In her view, investors are responsible for ensuring that their economic decisions are derived from a proper and knowledgeable understanding of an entity's financial statements, which includes understanding the requirements of IFRS Standards. IFRS Standards should be regarded as public knowledge in a financial reporting environment. No mere recitation of the words from the IFRS Standards can meet the definition of material without stretching that definition endlessly. In Ms Flores' view, improving users' understanding of the requirements in IFRS Standards should be achieved through education by the IFRS Foundation. Such an objective should not be achieved by amending the requirements of IFRS Standards.

# Guidance on implementing IAS 1 *Presentation of Financial Statements*

*This guidance accompanies, but is not part of, IAS 1.*

## Illustrative financial statement structure

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- IG1 IAS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, profit or loss and other comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of IAS 1 for the presentation of the statements of financial position, profit or loss and other comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.
- IG2 The guidance is in three sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. Paragraphs IG10 and IG11 provide examples of capital disclosures. Paragraphs IG12–IG39 provide examples illustrating how an entity applies particular requirements in IAS 1 to report the effects of uncertainties in its financial statements.
- IG3 The illustrative statement of financial position shows one way in which an entity may present a statement of financial position distinguishing between current and non-current items. Other formats may be equally appropriate, provided the distinction is clear.
- IG4 The illustrations use the term ‘comprehensive income’ to label the total of all items of profit or loss and other comprehensive income, including profit or loss. The illustrations use the term ‘other comprehensive income’ to label income and expenses that are included in comprehensive income but excluded from profit or loss. IAS 1 does not require an entity to use those terms in its financial statements.
- IG5 Two statements of profit or loss and other comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The statement of profit or loss and other comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the statement of profit or loss’) illustrates the classification of income and expenses within profit by nature.
- IG5A Two sets of examples of statements of profit or loss and other comprehensive income are shown. One shows the presentation while IAS 39 *Financial Instruments: Recognition and Measurement* remains effective and is applied; the other shows presentation when IFRS 9 *Financial Instruments* is applied.
- IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, disclosures about material accounting policy information and other explanatory information.



## Part I: Illustrative presentation of financial statements

### XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	142,500	156,000
	<u>901,620</u>	<u>945,460</u>
<b>Current assets</b>		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	<u>564,880</u>	<u>578,740</u>
<b>Total assets</b>	<u>1,466,500</u>	<u>1,524,200</u>
		<i>continued...</i>

...continued

**EQUITY AND LIABILITIES**

**Equity attributable to owners of the parent**

Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	<u>903,700</u>	<u>782,900</u>
<b>Non-controlling interest</b>	70,050	48,600
<b>Total equity</b>	<u>973,750</u>	<u>831,500</u>

**Non-current liabilities**

Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
<b>Total non-current liabilities</b>	<u>177,650</u>	<u>238,280</u>

**Current liabilities**

Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
<b>Total current liabilities</b>	<u>315,100</u>	<u>454,420</u>
<b>Total liabilities</b>	<u>492,750</u>	<u>692,700</u>
<b>Total equity and liabilities</b>	<u>1,466,500</u>	<u>1,524,200</u>

**Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied**

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7**

**(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)**

**(in thousands of currency units)**

	<b>20X7</b>	<b>20X6</b>
<b>Revenue</b>	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates <sup>(a)</sup>	35,100	30,100
<b>Profit before tax</b>	161,667	128,000
Income tax expense	(40,417)	(32,000)
<b>Profit for the year from continuing operations</b>	121,250	96,000
Loss for the year from discontinued operations	—	(30,500)
<b>PROFIT FOR THE YEAR</b>	121,250	65,500
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates <sup>(b)</sup>	400	(700)
Income tax relating to items that will not be reclassified <sup>(c)</sup>	(166)	(1,000)
	500	3,000
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations <sup>(d)</sup>	5,334	10,667
Investments in equity instruments	(24,000)	26,667
Cash flow hedges <sup>(d)</sup>	(667)	(4,000)
Income tax relating to items that may be reclassified <sup>(c)</sup>	4,833	(8,334)
	(14,500)	25,000
<b>Other comprehensive income for the year, net of tax</b>	(14,000)	28,000
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	107,250	93,500

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7**  
**(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)**

**(in thousands of currency units)**

	<b>20X7</b>	<b>20X6</b>
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>
Earnings per share (in currency units):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

	<b>20X7</b>	<b>20X6</b>
<b>Other comprehensive income for the year, after tax:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	600	2,700
Remeasurements of defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
	<u>500</u>	<u>3,000</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	4,000	8,000
Investments in equity instruments	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
	<u>(14,500)</u>	<u>25,000</u>
<b>Other comprehensive income for the year, net of tax<sup>(c)</sup></b>	<u>(14,000)</u>	<u>28,000</u>

- (a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (b) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
- (d) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

**XYZ Group – Statement of profit or loss for the year ended 31 December 20X7**  
**(illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature)**

**(in thousands of currency units)**

	<b>20X7</b>	<b>20X6</b>
<b>Revenue</b>	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates <sup>(a)</sup>	35,100	30,100
<b>Profit before tax</b>	161,667	128,000
Income tax expense	(40,417)	(32,000)
<b>Profit for the year from continuing operations</b>	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
<b>PROFIT FOR THE YEAR</b>	<u>121,250</u>	<u>65,500</u>
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Earnings per share (in currency units):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended  
31 December 20X7**  
(illustrating the presentation of profit or loss and other comprehensive income in two statements)  
(in thousands of currency units)

	<b>20X7</b>	<b>20X6</b>
<b>Profit for the year</b>	121,250	65,500
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates <sup>(a)</sup>	400	(700)
Income tax relating to items that will not be reclassified <sup>(b)</sup>	(166)	(1,000)
	<u>500</u>	<u>3,000</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	5,334	10,667
Investments in equity instruments	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified <sup>(b)</sup>	4,833	(8,334)
	<u>(14,500)</u>	<u>25,000</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>(14,000)</u>	<u>28,000</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>107,250</u>	<u>93,500</u>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

- (a) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

**Examples of statement of profit or loss and other comprehensive income when IFRS 9 *Financial Instruments* is applied**

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7**

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)

(in thousands of currency units)

	20X7	20X6
<b>Revenue</b>	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates <sup>(a)</sup>	35,100	30,100
<b>Profit before tax</b>	161,667	128,000
Income tax expense	(40,417)	(32,000)
<b>Profit for the year from continuing operations</b>	121,250	96,000
Loss for the year from discontinued operations	—	(30,500)
<b>PROFIT FOR THE YEAR</b>	121,250	65,500
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates <sup>(b)</sup>	400	(700)
Income tax relating to items that will not be reclassified <sup>(c)</sup>	5,834	(7,667)
	(17,500)	23,000
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations <sup>(d)</sup>	5,334	10,667
Cash flow hedges <sup>(d)</sup>	(667)	(4,000)
Income tax relating to items that may be reclassified <sup>(c)</sup>	(1,167)	(1,667)
	3,500	5,000
<b>Other comprehensive income for the year, net of tax</b>	(14,000)	28,000
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	107,250	93,500





**Examples of statement of profit or loss and other comprehensive income when IFRS 9 *Financial Instruments* is applied**

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7**  
**(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)**

(in thousands of currency units)

	20X7	20X6
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>
Earnings per share (in currency units):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

	20X7	20X6
<b>Other comprehensive income for the year, after tax:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	600	2,700
Investments in equity instruments	(18,000)	20,000
Remeasurements of defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
	<u>(17,500)</u>	<u>23,000</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	4,000	8,000
Cash flow hedges	(500)	(3,000)
	<u>3,500</u>	<u>5,000</u>
<b>Other comprehensive income for the year, net of tax<sup>(c)</sup></b>	<u><u>(14,000)</u></u>	<u><u>28,000</u></u>

- (a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (b) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
- (d) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

**XYZ Group – Statement of profit or loss for the year ended 31 December 20X7**  
**(illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature)**

**(in thousands of currency units)**

	<b>20X7</b>	<b>20X6</b>
<b>Revenue</b>	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates <sup>(a)</sup>	35,100	30,100
<b>Profit before tax</b>	161,667	128,000
Income tax expense	(40,417)	(32,000)
<b>Profit for the year from continuing operations</b>	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
<b>PROFIT FOR THE YEAR</b>	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

**XYZ Group – Statement of profit or loss and other comprehensive income for the year ended  
31 December 20X7  
(illustrating the presentation of profit or loss and other comprehensive income in two statements)**

(in thousands of currency units)

	<b>20X7</b>	<b>20X6</b>
<b>Profit for the year</b>	121,250	65,500
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates <sup>(a)</sup>	400	(700)
Income tax relating to items that will not be reclassified <sup>(b)</sup>	5,834	(7,667)
	<u>(17,500)</u>	<u>23,000</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified <sup>(b)</sup>	(1,167)	(1,667)
	<u>3,500</u>	<u>5,000</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>(14,000)</u>	<u>28,000</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>107,250</u></u>	<u><u>93,500</u></u>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	85,800	74,800
Non-controlling interests	<u>21,450</u>	<u>18,700</u>
	<u><u>107,250</u></u>	<u><u>93,500</u></u>

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

- (a) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

**XYZ Group****Disclosure of components of other comprehensive income<sup>(a)</sup>****Notes****Year ended 31 December 20X7****(in thousands of currency units)**

	<b>20X7</b>	<b>20X6</b>
<b>Other comprehensive income:</b>		
Exchange differences on translating foreign operations <sup>(b)</sup>	5,334	10,667
Investments in equity instruments:	(24,000)	26,667
Cash flow hedges:		
Gains (losses) arising during the year	(4,667)	(4,000)
Less: Reclassification adjustments for gains (losses) included in profit or loss	4,000	–
	<u>(667)</u>	<u>(4,000)</u>
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Other comprehensive income	<u>(18,667)</u>	<u>37,334</u>
Income tax relating to components of other comprehensive income <sup>(c)</sup>	4,667	(9,334)
<b>Other comprehensive income for the year</b>	<b><u>(14,000)</u></b>	<b><u>28,000</u></b>

- (a) When an entity chooses an aggregated presentation in the statement of comprehensive income, the amounts for reclassification adjustments and current year gain or loss are presented in the notes.
- (b) There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.
- (c) The income tax relating to each component of other comprehensive income is disclosed in the notes.

**XYZ Group**

**Disclosure of tax effects relating to each component of other comprehensive income**

**Notes**

**Year ended 31 December 20X7**

**(in thousands of currency units)**

	<b>20X7</b>			<b>20X6</b>		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	5,334	(1,334)	4,000	10,667	(2,667)	8,000
Investments in equity instruments	(24,000)	6,000	(18,000)	26,667	(6,667)	20,000
Cash flow hedges	(667)	167	(500)	(4,000)	1,000	(3,000)
Gains on property revaluation	933	(333)	600	3,367	(667)	2,700
Remeasurements of defined benefit pension plans	(667)	167	(500)	1,333	(333)	1,000
Share of other comprehensive income of associates	400	—	400	(700)	—	(700)
Other comprehensive income	<u>(18,667)</u>	<u>4,667</u>	<u>(14,000)</u>	<u>37,334</u>	<u>(9,334)</u>	<u>28,000</u>

**XYZ Group – Statement of changes in equity for the year ended 31 December 20X7**  
(in thousands of currency units)

	Share capital	Retained earnings	Translation of foreign operations	Investments in equity instruments	Cash flow hedges	Re-valuation surplus	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 20X6</b>	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
<b>Restated balance</b>	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
<b>Changes in equity for 20X6</b>									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year <sup>(a)</sup>	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
<b>Balance at 31 December 20X6</b>	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
<b>Changes in equity for 20X7</b>									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year <sup>(b)</sup>	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	(200)	–	–	–
<b>Balance at 31 December 20X7</b>	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

(a) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus remeasurements of defined benefit pension plans of 800 (1,333, less tax 333, less non-controlling interests 200).

The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less non-controlling interests 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

(b) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus remeasurements of defined benefit pension plans of 400 (667, less tax 167, less non-controlling interests 100).

The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less non-controlling interests 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

IG7–IG9 [Deleted]

## Part III: Illustrative examples of capital disclosures (paragraphs 134–136)

### An entity that is not a regulated financial institution

IG10 The following example illustrates the application of paragraphs 134 and 135 for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 134 and 135. In determining the form and content of the disclosure to satisfy those requirements, an entity also considers the disclosure requirements set out in paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*.

#### Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

#### Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, non-controlling interest, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31 Dec 20X4	31 Dec 20X3
	CU million	CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X4 resulted primarily from the reduction in net debt that occurred on the sale of subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X4 (from CU2.5 million for 20X3).

## An entity that has not complied with externally imposed capital requirements

- IG11 The following example illustrates the application of paragraph 135(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 134 and 135.

### Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

### Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

## Part IV: Disclosures about the effects of uncertainties

### Example IV-1—Materiality judgements applying paragraph 31 of IAS 1

- IG12 This example illustrates how an entity applies the requirement in paragraph 31 of IAS 1 and makes materiality judgements in the context of financial statements. IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.\* This example illustrates two scenarios: one scenario in which these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards and a second scenario in which they do not.

### Scenario 1—Materiality judgements leading to additional disclosures

#### Background

- IG13 Entity A is a manufacturer that operates in a capital-intensive industry. The entity is exposed to significant climate-related transition risks and operates in jurisdictions that have adopted climate-related policies that affect the entity's operations. The entity has developed a climate-related transition plan to manage its climate-related transition risks. The plan is strategically important for the entity and is expected to significantly affect its future operations.
- IG14 Entity A discloses information about its transition plan in a general purpose financial report accompanying the financial statements, including detailed information about how it plans to reduce its greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing some of its raw materials and manufacturing methods. The entity discloses no other information about its climate-related transition plan in its general purpose financial reports.

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\* IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.



## Application

### *Considering the specific requirements in IFRS Accounting Standards*

- IG15 In preparing its financial statements, Entity A assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity determines that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses for the current reporting period because, for example:
- (a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will not be replaced until the end of their current useful lives.
  - (b) the entity's existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable.
  - (c) the recoverable amounts of the affected cash-generating units (CGUs), after reflecting the effects of the transition plan where required by IAS 36 *Impairment of Assets*, exceed their carrying amounts.
  - (d) the transition plan did not affect the timing or amount of expenditure required to settle the entity's decommissioning and site-restoration obligations.
- IG16 Entity A also assesses whether specific requirements in IFRS Accounting Standards—such as those in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 36 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity determines that they do not.

### *Considering the requirement in paragraph 31 of IAS 1*

- IG17 Paragraph 31 of IAS 1 requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.
- IG18 An entity applies paragraph 31 of IAS 1, for example, when reviewing its draft financial statements to determine whether all material information has been provided in those financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. This review might involve considering whether, without additional disclosures, information in its financial statements might appear inconsistent with information in its general purpose financial reports accompanying those financial statements.
- IG19 As part of the assessment in paragraph IG18, an entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of its financial statements taken as a whole has been provided in those financial statements. The entity considers primary users' common information needs—rather than the needs of individual users.
- IG20 In applying paragraph 31 of IAS 1, Entity A applies judgement to determine whether additional disclosures to enable users of its financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, the entity considers whether omitting this information could reasonably be expected to influence the decisions that primary users of its financial statements make on the basis of those financial statements.
- IG21 In making a judgement about whether such additional disclosures would provide material information, Entity A considers both quantitative and qualitative factors. Although the transition plan had no effect on the entity's financial position and financial performance for the current reporting period, the entity considers qualitative factors including:
- (a) *entity-specific qualitative factors*—for example, Entity A considers:
    - (i) the nature and extent of its exposure to climate-related transition risks. The entity has significant exposure to climate-related transition risks and its transition plan contributes to mitigating those risks.
    - (ii) the significance of its transition plan to its operations. The entity's transition plan is strategically important for, and is expected to significantly affect, its future operations.
  - (b) *external qualitative factors*—for example, Entity A considers whether the industry and jurisdictions in which it operates—including its market, economic, regulatory and legal

environments—make the information more likely to influence the decisions that primary users of the entity’s financial statements make on the basis of those financial statements. The entity determines that they do because of the significance of climate-related transition risks to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates.

- IG22 Entity A also considers whether, without additional disclosures, information in its financial statements might appear inconsistent with information about its transition plan in its general purpose financial reports accompanying those financial statements. For example, information about the entity’s plans to change its manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.
- IG23 After considering its particular facts and circumstances, including those described in paragraphs IG21–IG22, Entity A determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance for the current reporting period would provide material information in the context of its financial statements taken as a whole. For example, the entity might explain why its transition plan had no effect on its financial position and financial performance for the current reporting period by disclosing the reasons explained in paragraph IG15.

## **Scenario 2—Materiality judgements not leading to additional disclosures**

### **Background**

- IG24 Entity B is a service provider that operates in an industry that has a low level of greenhouse gas emissions and has limited exposure to climate-related transition risks. The entity discloses in a general purpose financial report accompanying its financial statements that it has a low level of greenhouse gas emissions, explaining that, if possible, it uses renewable energy and avoids exposure to high-emission activities. The entity also explains how it plans to keep emissions low by maintaining its current greenhouse gas emissions policy.
- IG25 Entity B’s greenhouse gas emissions policy is not expected to significantly affect its future operations. The entity discloses no other information about its greenhouse gas emissions policy in its general purpose financial reports.

### **Application**

#### *Considering the specific requirements in IFRS Accounting Standards*

- IG26 In preparing its financial statements, Entity B applies the recognition and measurement requirements in IFRS Accounting Standards. Applying those requirements, the entity determines that its greenhouse gas emissions policy has no effect on the recognition and measurement of its assets and liabilities and related income and expenses for the current reporting period.
- IG27 Entity B also assesses whether specific requirements in IFRS Accounting Standards require it to disclose information about the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance. The entity determines that they do not.

#### *Considering the requirement in paragraph 31 of IAS 1*

- IG28 In applying paragraph 31 of IAS 1 (see paragraphs IG17–IG19), Entity B applies judgement to determine whether additional disclosures to enable users of its financial statements to understand the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance would provide material information. That is, the entity considers whether omitting this information could reasonably be expected to influence the decisions that primary users of its financial statements make on the basis of those financial statements.
- IG29 In making that judgement, Entity B considers both quantitative and qualitative factors. The entity determines that there are no indications that an explanation about the lack of effect of its greenhouse gas emissions policy on its financial position and financial performance for the current reporting period might be material information in the context of its financial statements taken as a whole because, for example:
- (a) its greenhouse gas emissions policy is not expected to significantly affect its future operations; and
  - (b) it operates in an industry that has a low level of greenhouse gas emissions and has limited exposure to climate-related transition risks.

- IG30 Therefore, Entity B determines that additional disclosure to explain the lack of effect of its greenhouse gas emissions policy on its financial position and financial performance for the current reporting period would not provide material information in the context of its financial statements taken as a whole. The entity therefore provides no such disclosures.

## Example IV-2—Disclosures about assumptions

- IG31 This example illustrates the requirements in paragraphs 125 and 129 of IAS 1. In particular, it illustrates how an entity:
- (a) might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;
  - (b) identifies the assumptions about which it is required to disclose information; and
  - (c) determines what information about these assumptions it is required to disclose.

### Background

- IG32 The entity operates in a capital-intensive industry. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.
- IG33 At the end of the current reporting period, there are indications that some of the entity's non-current assets might be impaired. Because the entity concludes it is not possible to estimate the recoverable amount of the individual assets, it tests the CGU to which they belong for impairment. The entity concludes that the CGU's recoverable amount is greater than its carrying amount and, therefore, recognises no impairment loss. In determining the CGU's recoverable amount, the entity makes several assumptions related to the climate-related transition risks to which it is exposed. Such assumptions include assumptions about future:
- (a) legal and regulatory developments;
  - (b) consumer demand;
  - (c) commodity prices; and
  - (d) costs of acquiring greenhouse gas emission allowances.

### Application

#### *Considering the specific requirements in IFRS Accounting Standards*

- IG34 IAS 36 does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognises no impairment loss for that CGU during the current reporting period. However, the entity considers whether paragraph 125 of IAS 1 requires it to disclose information about these assumptions.

#### *Considering the requirements in paragraph 125 of IAS 1*

- IG35 Paragraph 125 of IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. That paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.
- IG36 The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year. The entity reaches this conclusion after considering:
- (a) *the size of the CGU's carrying amount*—the CGU makes up a large portion of the entity's total assets. Therefore, a relatively small adjustment to the CGU's carrying amount might result in a material impairment loss.
  - (b) *the subjectivity or complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because they

reflect management's expectations about highly uncertain future events that will take place over the medium and long term, such as government actions to limit the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.

- (c) *the risk that new information or new developments in the next financial year might result in changes to the assumptions*—frequent new climate-related market, economic, regulatory and legal developments increase the risk that the entity might have to review its assumptions within the next financial year (including assumptions about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.
- (d) *the sensitivity of the CGU's carrying amount to changes in the assumptions*—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction in the CGU's recoverable amount and a material impairment loss.

IG37 Applying paragraph 125 of IAS 1 to the assumptions identified in paragraph IG36, the entity discloses:

- (a) information about these assumptions; and
- (b) details of the nature and carrying amount of the CGU's non-current assets at the end of the reporting period.

IG38 Paragraph 129 of IAS 1 requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information an entity provides vary according to the nature of the assumption and other circumstances.

IG39 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of IAS 1 for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.

## **Appendix**

### **Amendments to guidance on other IFRSs**

*This appendix contains amendments to guidance on other IFRSs that are necessary in order to ensure consistency with the revised IAS 1. In the amended paragraphs, new text is underlined and deleted text is struck through.*

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*The amendments contained in this appendix when IAS 1 was revised in 2007 have been incorporated into the guidance on the relevant IFRSs published in this volume.*

## Table of Concordance

This table shows how the contents of IAS 1 (revised 2003 and amended in 2005) and IAS 1 (as revised in 2007) correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded IAS 1 paragraph	IAS 1 (revised 2007) paragraph		Superseded IAS 1 paragraph	IAS 1 (revised 2007) paragraph
1	1,3		44–48	49–53
2	2		49, 50	36, 37
3	4, 7		51–67	60–76
4	None		68	54
5	5		68A	54
6	6		69–73	55–59
7	9		74–77	77–80
8	10		None	81
9, 10	13, 14		78	88
11	7		79	89
12	7		80	89
None	8		81	82
None	11, 12		82	83
13–22	15–24		None	84
23, 24	25, 26		83–85	85–87
25, 26	27, 28		None	90–96
27, 28	45, 46		86–94	97–105
29–31	None		95	107
19	7		None	108
20	B13–B16		96, 97	106, 107
21	B15		98	109
22	B18		101	None
23	B17		102	111
24	37, 38		103–107	112–116
25	8, 41, 42		108–115	117–124
26	None		116–124	125–133
27	None		124A–124C	134–136
28	11		125, 126	137, 138
29–31	29–31		127	139
32–35	32–35		127A	None
36	38		127B	None
None	39		128	140
37–41	40–44		IG1	IG1
42, 43	47, 48		None	IG2

Superseded IAS 1 paragraph	IAS 1 (revised 2007) paragraph		Superseded IAS 1 paragraph	IAS 1 (revised 2007) paragraph
IG2	IG3		None	IG8
None	IG4		None	IG9
IG3, IG4	IG5, IG6		IG5, IG6	IG10, IG11
None	IG7			