

XX July 2006

IAS 1 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

DRAFT COMMENT LETTER

Comments should be sent to Commentletter@efrag.org by 30 June 2006

Dear Sir/Madam

Re: ED of Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft of Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*. This letter is submitted in EFRAG's capacity of contributing to the IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRS on the issues.

Although we broadly accept the proposed amendments to IAS 1 as set out in the exposure draft, we believe the real issues, such as the issue on the single performance statement, the recycling issue and the titles of the statements, will be discussed thoroughly in Segment B.

Our detailed comments are set out in the appendix to this letter. However we wish to highlight our main concerns here:

- We do not agree with the proposal that the income tax relating to each component of other recognised income and expense should be disclosed. We question the usefulness of such information, bearing in mind that the figures would often be calculated using an effective tax rate which leads to an arbitrary allocation.
- Finally we regret that in this phase of the project there is no explicit signal from the FASB to subscribe to the proposals of this ED despite it is clearly an important convergence project.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact either Paul Ebling or me.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

- (a) statement of financial position (previously ‘balance sheet’);**
- (b) statement of recognised income and expense;**
- (c) statement of changes in equity; and**
- (d) statement of cash flows (previously ‘cash flow statement’).**

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

We understand that the main rationale for the changes to the titles of the financial statements is to achieve consistency of terms with the functions of the statements and the Framework.

We would like to note that we see no benefit of these name changes at this stage and would prefer to wait until Segment B to consider the need for any such change. However, we accept it and agree that the use of these titles should not be mandatory. We would like to draw the Board’s attention to the consequential problems and potential confusion such name changes will cause when these terms are translated into other languages.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6–BC9 of the Basis for Conclusions).

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

We believe that presenting a statement of financial position at the beginning of the earliest presented period will necessarily result in additional cost for the preparer. We furthermore question the usefulness of this requirement in most cases and consider the current disclosures of any changes to the prior period statement of financial position to be sufficient. Furthermore, we believe that to a certain extent presentation of this excessive information will be detrimental to the overall quality of the financial statements. This is especially true when a company needs to present two years of comparative information; this would result in the presentation of four statements of financial position which will not enhance the understandability or help for any analysis of the financial statements.

We, however, understand that it might be convenient for the users to have an entire statement of financial position (ie three statement of financial position) where a restatement of a former period was necessary for example when a retrospective application of amendments to accounting standards is done.

Considering these arguments and the significant concerns as outlined above we strongly urge the Board to request the presentation of the opening statement of financial position only in case of changes to the balances presented in previous set of financial statements.

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie ‘owner changes in equity’) separately from other changes in equity (ie ‘non-owner changes in equity’ or ‘recognised income and expense’). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).

Question 3 – Do you agree that non-owner changes in equity should be referred to as ‘recognised income and expense’ (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of ‘recognised income and expense’?

The proposed term appears to describe all components of changes in equity other than those from transactions with owners in their capacity as owners, therefore we support the introduction of this term.

However, we would like to draw the Board’s attention to the fact that there is an inconsistency between the definition of the total recognised income and expense (page 17 of the ED) and the example of statement of changes in equity (page 96 of the ED).

Total recognised income and expense is defined as “the change in equity of an entity during a period from transaction and other events, other than those resulting from contributions by and distributions to equity holders in their capacity as equity holders”. That implies that results of changes in accounting policy should be part of the total recognised income and expense (as it is not “a contributions by and distributions to equity holders in their capacity as equity holders”). However, cumulative impact of changes in accounting policy is shown as a restatement of opening equity in the example of statement of changes in equity.

In summary, the current definition of total recognised income and expense in IAS 1 could be construed as encompassing restatement due to changes in accounting policies. We recommend that the Board should consider carefully and provide a basis for their conclusion as to whether in this regard it is appropriate to simply show restatements as adjustment to equity or in fact include them in the statement of total recognised income and expense.

Question to commentators:

Currently, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (para 22) states that “when a change in accounting policy is applied retrospectively the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented...” The definition of the total recognised income and expense suggests that items of this nature (i.e. non owner changes) should form part of the total recognised income and expense.

Views of TEG members are divided on whether such restatements should be included as recognised income and expense for the period. EFRAG therefore invites constituents to express their view on this issue.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We agree with this proposal and concur that it is important to segregate changes in net assets that arise from transactions with owners in their capacity as owners from other changes in equity.

We note however that the term ‘owners’ is not currently defined and in particular the proposed disclosure of transactions between parent company equity holders and minority interests proposed in the recent Business Combination ED was criticised by most commentators. We therefore believe that this aspect is worthy of further consideration.

Please also note our comments in relation to the presentation of changes in accounting policies as described in the answer to the previous question.

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

We believe that the issue of whether components of recognised income and expense should be presented in one or two statements warrants an extensive debate. It is closely linked to the matters of grouping, segregating, ordering and subtotalling the components of recognised income and expense all of which will more properly be considered as part of Segment B. We therefore agree with allowing the options until the conclusions of the Segment B work are finalised.

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

We agree with the Board’s view that separate presentation of reclassification adjustments is essential to inform users clearly of those amounts that are included as income and expenses in two different periods – as income or expenses in other recognised income and expense in previous periods and as income or expenses in profit and loss in the current period. We, therefore support the requirement to disclose reclassification adjustments relating to each component of other recognised income and expense.

It is our understanding that the issue of reclassification adjustments (commonly referred to as “recycling”) should be addressed as part of Segment B.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

We do not support this proposal.

We do not agree with the Board’s assessment that the information to provide disclosure of income tax relating to each component of other recognised income and expense is readily available and believe it will be subject to arbitrary allocation only and therefore, we believe that often preparers might simply apply an effective tax rate to these items to satisfy this requirement. We do not believe that users will benefit from such an arbitrary allocation.

Furthermore, we do not believe that there is a rationale to treat tax effects on other recognised income and expense differently from the tax effects of profit and loss which are not presented for each individual component. Additionally, the presentation and segregation of such items and their tax effect when presenting one statement of total recognised income and expense is arbitrary and particularly difficult in practice.

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

We agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense and therefore no changes to IAS 33 should be made as part of this project.