ED: Proposed Amendments to IAS 1

This Comment Letter was sent by BDO Global Coordination B.V. on behalf of BDO International, to International Accounting Standards Board on 17 July, 2006:

Dear Sirs,

Exposure draft:
Proposed amendments to IAS 1 – Presentation of financial statements: a revised presentation

We appreciate the opportunity to comment on the proposal of the International Accounting Standards Board to amend IAS 1 'Presentation of Financial Statements' (hereinafter the ED). This letter expresses the views of BDO International.

We are supportive of the efforts being made by the IASB and world national standard setters to converge accounting standards. However, we are disappointed that the Board has chosen to issue this exposure draft. One of the key considerations that the Board has on its agenda is the convergence of IFRS with US GAAP. As noted in the ED, the IASB is proposing to make certain changes to IAS 1 as segment A, and then address segment B later. In contrast, the FASB has decided to address segments A and B together. Given the desire, which the IASB itself has referred to on a number of occasions, to minimise the disruption caused by changes to financial reporting, in particular the potential for entities to be faced with changes from existing requirements, only to find that they are modified again within a short period, it is not clear why the Board has chosen to issue the ED at this point.

We have also considered the changes proposed in the ED. In our view, these appear in general to be quite minor in nature, and we are surprised that the IASB has chosen to devote scarce time and resources to the development of the ED when these might have been applied to more urgent issues elsewhere. We consider that it would be appropriate for the IASB to wait for the FASB to start its project covering the revisions of FAS 130, with the two Boards then working together on a joint project.

In consequence, in our view the ED should be withdrawn.

Notwithstanding our view that the IASB should not continue with the proposals, we have considered the specific questions that the Board has asked. Our detailed responses are set out in the attached Appendix. However, as an overall point, we consider that it is not appropriate to permit free choice in presentation. In order that financial statements can be made as comparable as possible on an international basis, we consider that a clear standard format should be followed, with divergence only in rare circumstances. In consequence, we would ask that, if the Board decides to persist with the revision of IAS 1, choices are eliminated rather than created, which would be consistent with other projects the Board has undertaken in its improvements of existing Standards. This is particularly the case if, as would appear to be the case, the Board does not intend to permit choices when it undertakes segment B of the project.

We would be pleased to discuss our comments and observations with you further if this would be helpful. Please contact Helen Thomson at +32 2 778 01 30.

Yours faithfully,
BDO Global Coordination B.V.

Frans Samyn
Chief Executive Officer

Appendix

IAS 1 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 do not agree that the titles of the financial statements should be changed as suggested. Although the titles are to be made optional, we anticipate that many entities would modify their reporting to conform with the revised accounting standard.

In certain jurisdictions the proposals would be likely to cause entities to change their reporting shortly after having modified their financial statements to comply with IFRS in 2005. For example, in

Australia, prior to the adoption of IFRS the balance sheet was termed ‘Statement of Financial Position’. Entities in Australia then modified the terminology to ‘Balance Sheet’ on the adoption of IFRS. If the IASB’s proposals are taken forward, then those entities are very likely then to change back to their original reporting (despite the choice afforded by the proposed revised IAS 1).

In any event, we do not see what will be achieved by the changes proposed. The titles that are included within the existing IAS 1 are globally recognised titles that are well understood by the international financial reporting community and, in our view, are not in need of change. At a time when the complexity of financial reporting is increasing, it is important that changes are made only where these are necessary and that clearly understood terminology is retained where this is already in place.

While we understand the need for the IASB to introduce and maintain robust and technically sound accounting standards, it is also important that they are written for the financial community as a whole, and do not include language which, while technically pure, needs to be translated into plain English by the large accounting firms in their newsletters and other publications. We also note that the proposed revised terminology may be difficult to translate into certain languages; for example, it would seem that ‘Statement of Financial Position’ cannot be translated directly into German.

IAS 1 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 are not convinced of the need for an opening Statement of Financial Position. The information contained within this statement would be two years old and of limited value to users of financial statements. In any case, unless modified through a change in accounting policy or the correction of an error, the information would be available in the previous year’s annual financial statements.

We find the IASB’s statement that no additional cost would be incurred by preparers through the inclusion of this additional primary statement unconvincing. While the raw data would, of course, be available, the addition of further information in a set of annual financial statements would inevitably result in an increase in the time spent in their preparation, and hence cost.

We are also concerned that the introduction of this additional Statement of Financial Position in segment A of the IASB’s project might lead to some considering that a logical extension would be a modification to the Statement of Recognised Income and Expense in segment B of the project, changing this to a Statement of Changes in Financial Position. If it is the IASB’s intention to do this, it should be made clear rather than being introduced in small stages.

IAS 1 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’?

We agree. Further, the terminology in the Standard is important as we anticipate that many entities would modify their reporting to conform with the revised accounting standards, not withstanding any option to use other terminology. As noted above, we consider that it is not appropriate to permit free choice in presentation.

IAS 1 Question 4

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

We agree.

IAS 1 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?

The distinction between earned income and expense derived from operations, and other gains and losses, is important to users of financial statements. The two statements currently included in financial statements are clear in their disclosure.

While we would support a single approach to disclosure, rather than permitting options in reporting, we do not consider that it is critical whether the information is disclosed in a single statement or two separate statements, provided that this clarity is maintained. It would appear that the proposed single statement would be constructed by adding the second statement to the foot of the first statement which would achieve this objective.

IAS 1 Question 6

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).Do you agree with this proposal? If not, why?

We agree.

IAS 1 Question 7

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). Do you agree with this proposal? If not, why?

We do not agree with the proposals.

We understand the IASB's underlying intention with this requirement and the proposal that the other items of recognised income and expense be stated net of tax or gross of tax with a single tax line item, being:

- to facilitate a reconciliation between the Statement of Other Recognised Income and Expense and the Statement of Equity
- to facilitate the reconciliation of reclassified amounts between the Statement of Other Recognised Income and Expense and the Statement of Profit and Loss parts of the Statement of Recognised Income and Expense
- to enable users to identify tax amounts relating to other recognised income and expense that are different for the profit and loss rate

However, it is likely to be confusing for users if the presentation of items gross or net of tax is inconsistent between the Statement of Other Recognised Income and Expense, and the Statement of Profit and Loss parts of the Statement of Recognised Income and Expense. We believe this is particularly important where a single Statement of Recognised Income and Expense is presented.

In consequence, we consider that it would be appropriate to require a gross of tax presentation in the Statement of Other Recognised Income and Expense with a single tax line below 'Other recognised income/expense before tax'. This would assist in satisfying the Board's stated intention not to allow choices in presentation and achieve consistency between the two parts of the Statement of Recognised Income and Expense, if included as a single statement, and consistency between the Statement of Profit or Loss and the Statement of Other recognised Income and Expense where two statements are given.

Further to the above, we would ask the Board to consider making such a mandatory single tax line item in the Statement of Other Recognised Income and Expense subject to the disclosure requirements of IAS 12 for the tax line item in the Statement of Profit and Loss. The resulting analysis of the tax charge would help users reconcile to the other tax amounts in the financial statements and the reconciliation to the corporate tax rate would overcome the Board's concern over users need for rate information and achieve consistency for the disclosures of tax amounts in the Statement of Recognised Income and Expense.

We do not agree that it is necessary to disclose the income tax relating to each component of the Statement of Other Recognised Income and Expense, just as we do not believe it is necessary to disclose the income tax relating to each component of the Statement of Profit and Loss, especially if the above suggested IAS 12 disclosures were given for a single tax line within the Statement of Other Recognised Income and Expense. It should be possible to reconcile amounts between statements if all amounts in all statements were given gross with a single line tax item. The tax note requirements would lead to a breakdown of any significant or unusual tax amounts relating to the tax line item in the Statement of Other Recognised Income and Expense.

IAS 1 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). 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 EPS is the only share measure that should be required on the face of the statement of recognised income and expense.

However, we consider that dividends per share and other per share measures such as net asset value per share should also be permitted on the face of a primary statement. These measures may add to a users understanding of an entity's financial performance and position, and are well understood and indeed customary in certain sectors.

In relation to dividends and dividends per share, although these are a distribution of equity, this information is frequently included on the face of the current income statement as an indication of the extent to which income generated from operations has been distributed to shareholders. We believe that the ability to include this information on the face of the income statement (or the statement of recognised income and expense, if introduced) should be retained.

IAS 1 – Drafting and other recommendations

Paragraph 7: The sentence prior to the list of components of other recognised income and expense in paragraph 7 should be modified to read 'The components of other recognised income and expense include' rather than 'are' as there may be other items not mentioned specifically.

Paragraph 8: Although we have no objection to this type of guidance being included in an accounting standard, it is not necessary. Entities reporting in accordance with IFRS have already included additional line items and modified descriptions, as this is not prohibited by the current IAS 1. However, if paragraph 8 is to be retained, the Board should include a requirement that any other terms used to describe totals should be consistent with other IFRS definitions and terminology.

Paragraph 31: The last section should either be deleted or amended to require that any other titles used for the financial statements should be consistent with other IFRS definitions and terminology.

Paragraph A7: The proposed amendment of the heading above paragraph 58 has been duplicated.

Paragraph A7: The proposed IAS 12.62A refers to amounts arising on initial recognition of the equity component of a compound financial instrument. This should also be included in the list of items at paragraph 106 of the proposed IAS 1.