

4 July 2006

ICAEW REP 40/06

Mr Stig Enevoldsen
Chairman
EFRAG
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Dear Stig

PROPOSED AMENDMENTS TO IAS 1

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to submit comments to EFRAG on its draft letter on the IASB exposure draft of proposed amendments to IAS 1 '*Presentation of financial statements: A revised presentation*'. The Institute is the largest professional accountancy body in Europe, with more than 128,000 members. The Institute operates under a Royal Charter, working in the public interest.

We have reviewed EFRAG's draft letter to the IASB and are in broad agreement with the views expressed on many of the key issues. We have explained in brief below whether we agree or disagree with EFRAG's key points and highlight a number of issues raised in the Institute's own response which are not reflected in the draft letter. We would be happy to provide any further information or clarification.

Overall Response to the IASB's Proposals

On balance we believe that the IASB should not have issued an exposure draft with such a limited range of proposals at this stage in the project. Most of the key issues arising from this project have been deferred until Phase B, including issues relating to recognition and measurement, which need to be resolved before issues of presentation can be addressed. However, we recognise that the changes promoted in the overall project represent a major step for some countries. In the UK, the issues surrounding this project have been debated over many years and are generally well understood; we acknowledge that this is not the case in many other jurisdictions, in the light of which it may be easier to take smaller, incremental steps.

Question 1 - Proposed titles of the financial statements

We agree with EFRAG that there is no benefit in these changes, but we do not agree that the changes are acceptable. Allowing different terms to be used in financial statements is unhelpful and will lead to less consistent usage in practice. We very



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much agree with the ‘alternative view’ set out in paragraphs AV8-AV11, which supports retaining the current terms, and points out that ‘statement of financial position’ is generally taken to mean something other than a traditional balance sheet. We also question why this standard has been singled out for alignment with the terminology in the *Framework*.

Question 2 - Three statements of financial position

We agree with EFRAG that disclosure of the opening balance sheet will be of little value to users of the accounts except where there have been restatements, and that the proposal does not meet acceptable cost-benefit criteria. We suggest that it would be preferable to meet the need for an opening balance sheet where there have been restatements by extending as appropriate the requirements in IAS 8 *Accounting policies, changes in accounting estimates and errors*.

Question 3 - Non-owner changes in equity - terminology

We agree with EFRAG that is acceptable for non-owner changes in equity to be referred to as ‘recognised income and expense’. However, this is in the context of our opposition to the approach to terminology adopted in the exposure draft.

In relation to the additional question raised by EFRAG on restatements, we agree with EFRAG that it is not clear whether the Board’s intention is that non-owner changes should form part of total recognised income and expense. However, we have not yet formed a view as to what we believe is the correct treatment.

Question 4 - Non-owner changes in equity - presentation

Notwithstanding our suggestion that the whole of Phase A should have been deferred and included in a complete package, we strongly support the proposal to present changes in equity arising from transactions with owners in their capacity as owners separately from other changes in equity. If any changes are to be made at this stage, this should be one of them.

Question 5 - Single statement or two statements

We agree with EFRAG that, at least for now, entities should be permitted to present components of recognised income and expense either in a single statement or in two statements, pending extensive debate. However, we are concerned that the Board intends to move in due course to a single income statement (as evidenced, for example, by paragraph BC13). In our view it is not possible to answer the question as to the number of statements until the basis on which gains and losses are presented is finalised in Phase B.

Question 6 - Disclosure of reclassification adjustments

We agree with the proposal, and therefore with EFRAG.

Question 7 - Disclosure of income tax

We support EFRAG's opposition to the proposal. Mixing pre- and post-tax items in one statement is potentially confusing; the issue of tax will need to be properly addressed in Phase B.

Question 8 - Earnings per share

We disagree with EFRAG on this issue. Although the IASB maintains that it is not proposing to change IAS 33 *Earnings per share*, we believe that the proposed amendments to IAS 1 are more restrictive than IAS 33 and thus constitute a *de facto* change. Given the IASB's view that users should not focus on one performance metric, but should look instead at a complete set of information given, we find that the IASB's strong focus on a single EPS figure gives a rather different message. It would be better to allow different per-share figures to suit the entity concerned (for example, where net asset value per share is more relevant) and merely require proper disclosure of the basis of preparation.

Yours sincerely



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