



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

January 10, 2014

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach Request - IAS 1 - Presentation of Financial Statements

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Outreach Request - IAS 1 - Presentation of Financial Statements.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Summary of the issue

The submitter pointed out that the absence of definitions of some concepts in IAS 1 and the lack of implementation guidance gives a lot of flexibility to entities to present their financial statements in ways that may impair the comparability and understandability of the financial statements. The submitter provides some examples to illustrate this concern, as follows:

- Example A. Presentation of expenses by function
- Example B. Presentation of additional lines, headings and subtotals
- Example C. Presentation of additional statements or columns in the primary statements
- Example D. Application of the materiality and aggregation requirements.

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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Example A – Presentation of expenses by function

The submitter observes that the classification of expenses in the income statement by function in accordance with paragraph 103 of IAS 1 may require arbitrary allocations and involve considerable judgment. For example, the submitter observes that there are different views on the presentation of amortization and impairment expenses on capitalized development costs in the income statement. In this respect such costs are presented either:

- (a) on a separate line below 'Gross profit'; or
- (b) as part of 'Cost of sales'.

Example B – Presentation of additional lines, headings and subtotals

The submitter observes that paragraph 85 of IAS 1 includes a requirement to present additional lines, headings and subtotals when such information is relevant for understanding an entity's financial performance. This requirement allows preparers to adapt the presentation of the income statement to their own requirements. In respect of this requirement the submitter notes that:

- (a) Some concepts such as 'results of operating activities' have not been defined and would tend to increase diversity on how the requirement in paragraph 85 of IAS 1 would be applied.
- (b) There is diversity in how entities allocate items between the operating and financial results in the income statement.
- (c) Some entities isolate the effects of non-recurring transactions, which may be interpreted as a way to present 'extraordinary items' despite the fact that the presentation of extraordinary items is not allowed by paragraph 87 of IAS 1.
- (d) There is a lack of guidance about the presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method.
- (e) Some aspects concerning the content of interim condensed financial statements are not defined in IAS 34 Interim Financial Statements.



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Example C – Presentation of additional statements or columns in the primary financial statements

The submitter observed that some preparers provide additional information together with the set of financial statements as described in paragraph 10 of IAS 1. For example, some preparers present pro forma information, additional statements or reconciliations. The submitter observes that the presentation of additional information together with the (primary) set of financial statements may lead to lack of clarity on the relevance of such information.

Example D – Application of the materiality and aggregation requirements

The submitter claims that the requirements in IAS 1 (paragraphs 29-30 and 97-98 of IAS 1) may allow a different level of disclosures depending on whether preparers consider income and expenses to be "classes of items" or "items". The application of those requirements may lead some preparers to disclose material items, but not material classes of similar items.

Questions

Q1. Are you aware of any difficulties or challenges in your jurisdiction in applying, auditing or enforcing the presentation requirements in IAS 1 regarding the:

- (a) presentation of expenses by function;
- (b) presentation of additional lines, headings and subtotals;
- (c) presentation of additional statements or columns in the primary statements;
- (d) application of the materiality and aggregation requirements?

We are not aware of any difficulties in applying, auditing or enforcing such requirements in Brazil. It is true that presenting expenses by function involves certain level of allocation and judgment but we do not see it as a problem. In relation to the example of about presenting amortization and impairment expenses on capitalized development costs, we believe it depends on which assets those capitalized development costs relate to, usually such items should be shown below gross profit.

Additionally, in Brazil, Non-GAAP information is not allowed neither in the body of the financial statements nor in the notes.



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Q2. If you answered 'Yes' to Q1, what are the particular issues encountered in your jurisdiction in applying the requirements in IAS 1 mentioned above?

N/A

Q3. If you answered 'Yes' to Q1, what is the prevalent approach/basis followed in your jurisdiction in applying the presentation requirements in IAS 1 regarding the four issues mentioned above? If you see diversity in practice in respect of this, please explain how.

N/A

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior'.

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)