STAFF PAPER

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Accounting Standards Advisory Forum

Project	Disclosure Initiative—Materiality		
Paper topic	Objective and scope of the project		
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Purpose of this paper

1. In this paper we consider the objective and scope of a proposed project on materiality that forms part of the Disclosure Initiative. We intend to discuss the scope of this project with the IASB at its March meeting and consequently would like to obtain ASAF's views on the potential scope as set out in this paper.

Background

2. In its May 2013 Feedback Statement: *Discussion Forum—Financial Reporting Disclosure*[1] (the 'Feedback Statement') the IASB stated that it "…plans to start a project on materiality with a view to creating either general application guidance or education material. Such a project will look at how materiality is applied in practice and whether we need to add more guidance to IAS 1 *Presentation of Financial Statements*."

3. In its recent Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the 'Conceptual Framework Discussion Paper'), the IASB indicated that it believes that the concept of materiality is clearly described in the existing *Conceptual Framework for Financial Reporting* (the 'Conceptual Framework') and did not propose to amend, or add to, that description. However,

[1] See page 16.

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the IASB acknowledged that how the concept of materiality is applied in practice is seen by many as a major cause of the 'disclosure problem'. That problem is often identified as a failure to use professional judgement when considering materiality. It is thought by some to have resulted in both the disclosure of too much irrelevant (ie immaterial) information and not enough relevant (ie material) information. The IASB also indicated in the Conceptual Framework Discussion Paper that it would consider providing additional guidance or other material on the application of materiality.[2]

4. Question 17 of the Conceptual Framework Discussion Paper asked whether constituents agreed with the approach that the IASB should not amend, or add to, the guidance on materiality in the Conceptual Framework (because it is clearly described) , but that it should instead consider developing additional guidance or education material on materiality outside the Conceptual Framework project. The comment period for the Conceptual Framework Discussion Paper ended on 14 January 2014. An initial review of responses to Question 17 on materiality indicates that many respondents support the IASB undertaking additional work on materiality outside of the Conceptual Framework project.

Should the IASB undertake a project on materiality?

5. The question of whether the IASB should undertake a project on materiality is made up of two considerations:

   (a) Is additional work needed to address problems arising from applying the concept of materiality?

   (b) If so, is the IASB the appropriate body to undertake that work?

6. We think the views expressed by others (see Appendix A) and the messages we heard at the Discussion Forum on Financial Reporting Disclosure and related survey (and summarised in the Feedback Statement) strongly suggest that the way the concept of materiality is being applied is causing problems in financial reporting.

[2] See paragraphs 7.43-46 of the Discussion Paper. See also Appendix B.

7. However, we hear mixed views on whether the IASB is the appropriate body to produce additional material or guidance on materiality. Some are of the view that a change in behaviour by preparers, auditors and regulators is required and that their behaviour is mainly driven by operational and/or legal constraints that are outside the influence of the IASB. Because of this, they think that the IASB is not the appropriate body to undertake further work on materiality.

8. However, others think that if further guidance on materiality is necessary, then the IASB is the appropriate body to undertake that work. For example, this was the view of the vast majority of respondents to the European Securities and Markets Authority (ESMA) consultation on materiality.[3]

9. We think that although applying the concept of materiality has strong behavioural influences, there are aspects of that behaviour that can be influenced or changed positively by actions taken by the IASB. Consequently, we recommend that the IASB should undertake a project on materiality as part of the Disclosure Initiative.

Question 1—Materiality project
Do you agree that the IASB should undertake a project on materiality?

Objective of the materiality project

10. If the IASB agrees to undertake a project on materiality, the objective of that project must be clear. Our presumption is that the basic concept of materiality as expressed in the Conceptual Framework is already clearly stated. Accordingly, the objective of the project should be to address problems in applying the concept.[4] The work done by others on materiality (see Appendix A) provides insight into those problems.

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[3] ESMA's Summary of responses – *Considerations of materiality in financial reporting* 16 August 2012/ESMA/525 paragraph 13.

[4] This does not rule out minor amendments to the definition/description if our analysis identifies a need, but there are no plans to fundamentally revise the definition. For example, there is some debate about whether the word "could" in the current definition creates a threshold that is too low and should be replaced with a more probabilistic filter such as "would probably".

11. The problems in applying materiality can be summarised as a reluctance, difficulty or inability to use an appropriate level of judgement when applying the concept of materiality to financial statements. We have heard that this is particularly a problem with regard to the notes to the financial statements and often leads to entities disclosing everything specified by IFRS, regardless of materiality or understandability. Such a response is presumably to avoid debates between preparers, auditors, users, regulators and others.

12. The use of checklists, overuse of boilerplate language and lack of entity-specific information are often seen as indicative of the reluctance, difficulty or inability to use judgement when applying the concept of materiality. Possible reasons for this include:

(a) a lack of understanding of what is meant by the concept ‘materiality’;

(b) time and/or cost constraints make it easier to follow a checklist or roll-forward disclosures from previous periods;

(c) the potential for litigation or reputational damage from not disclosing information makes compliance more important than communication with users;

(d) a lack of understanding of how the information in financial statements is used means materiality judgements may result in the inclusion or exclusion of information that does not meet users’ needs;

(e) a lack of guidance on the application of materiality to disclosures in the notes to the financial statements;

(f) unclear language used to describe disclosure objectives and other disclosure guidance in IFRS. This may imply that some items must be disclosed in all circumstances. In other circumstances we hear of concerns from some analysts that they are missing information that would be useful to them in making economic decisions, because it is not specified in Standards (even though our Standards make it clear that entities need to disclose additional information if it is necessary to meet the objectives of financial reporting).; and

(g) the use of language in some standards implies that judgement is not required; eg “at a minimum disclose …”.

13. A project on materiality needs to consider what is causing the inability, difficulty or reluctance to use judgement and to enable a better dialogue about materiality between those in the financial reporting process. Consequently, it is proposed that the objective of a project on materiality should be to help preparers, auditors and regulators use judgement when applying the concept of materiality with the result of making financial reports more meaningful. It is hoped that the project will encourage more effective dialogue about materiality judgements between these parties (preparers, auditors and regulators), thereby contributing to a positive change in behaviour in the preparation, audit and review of financial statements.

14. We accept that this is not merely about making the concept easier to apply. The right incentives need to be in place for preparers, auditors and regulators to be willing, and motivated, to exercise that judgement. The feedback we received through the Discussion Forum was that, at least currently, the incentives are asymmetric: the potential costs of failing to disclose information outweighs the costs of disclosing more.

Question 2—Objective
Do you agree that with the objective of the materiality project as described in paragraph 13 above?

Scope of the Materiality project

Overall scope

15. We think the starting point of a project on materiality should be the concept of materiality as described in paragraph QC11 of the Conceptual Framework, specifically:

> Information is material if omitting or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In

> other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

16. We note that because the Conceptual Framework applies to financial reporting, the concept of materiality quoted in paragraph 15 above applies across the whole financial report. However, we see little practical benefit in extending our research on materiality beyond the scope of IFRS because it is in this context that most concerns about the application of materiality have been heard by us.

17. From what we have heard, much of the problem associated with applying the concept of materiality involves its application to the disclosures in the notes to the financial statements. However, because of the close relationship between the information presented in the primary financial statements and the information disclosed in the notes, we think it is difficult to consider the application of materiality solely to its application in the notes to the financial statements.

18. Consequently, we think that a materiality project should address the application of materiality across the whole of the financial statements, but with a particular focus on the notes.

Question 3—Scope
Do you agree with the scope and focus of the project as detailed in paragraph 17 above?

Potential topics to be covered and possible outcomes

19. We think that the materiality project should consider what is causing the inability, difficulty or reluctance to use judgement to determine what should be done to address the problems associated with materiality. Not all the causes of the materiality problem can, or should, be addressed by the IASB. Of the possible

causes listed in paragraph 12 above, in our view, only three should be directly addressed by the IASB, namely:

(a) a lack of understanding of what is meant by the concept 'materiality' (see paragraphs 21-25);

(b) a lack of clarity in applying the concept of materiality, in particular to disclosures in the notes to the financial statements (see paragraphs 26-28); and

(c) how disclosure requirements are written, ie the use of unclear language used to describe disclosure objectives and other disclosure guidance in IFRS (see paragraphs 29-32).

20. Possible ways to address each of these causes are described below.

Understanding what is meant by the concept of materiality

21. Despite the IASB's preliminary view that the concept of materiality is clearly described in the Conceptual Framework, we think that the term 'materiality' is being used to mean different things in different circumstances (or for different purposes). For example, a reference to materiality is sometimes used to refer solely to an entity's quantitative assessment of an error or omission, eg its size relative to other amounts in the financial statements in order to assess the individual and cumulative effect of errors in an audit.

22. If different parties in the financial reporting chain (preparers, auditors and regulators) mean different things when they use the term materiality, we think that a better understanding of these different perspectives would make it easier to come to a common understanding about a materiality judgement.

23. We think that a first step in helping entities assess and apply the concept of materiality in financial statements would be to undertake research on how different perspectives held by different stakeholders influence practice. Ideally, this research would look across jurisdictions and disciplines, eg accounting and auditing guidance, case law, academic literature and regulatory guidance.

24. To support this research, we propose requesting information from national standard-setters. This request would seek information about how materiality is

used/defined/applied in accounting standards, by regulators, by auditors and in case law in each jurisdiction surveyed.

25. We think the potential outcomes of this research include:

(a) An assessment of how materiality has been viewed by the courts in different jurisdictions, on the basis that, ultimately, compliance with financial reporting standards is enforced by regulators, who in turn are backed up by the courts. This could be published as a research paper.

(b) An assessment of whether we need to amend our Standards to include the general, ie common, principles in case law etc;

(c) consideration of using terms other than materiality to refer to types of entity-specific decisions about relevance. For example, the FASB in its recent Discussion Paper *Disclosure Framework*, refers to an entity's decisions about 'disclosure relevance'; and

(d) inform the IASB about the topics on which additional guidance, educational material or other responses on materiality would be helpful. See paragraphs 26-28 for further discussion about potential topics.

Applying the concept of materiality

26. We think the focus of this part of a project on materiality would be for the IASB to consider whether it should develop additional guidance or education material on materiality. Although the focus will be on disclosures in the notes to the financial statements, we think work in this area will necessarily consider the concept of materiality as it is applied in the primary financial statements.[5]

27. On the basis of the views of others (See Appendix A) and the messages summarised in the Feedback Statement, potential topics include:

(a) Is there a difference in applying the concept of materiality to determine what line items should be presented in the primary financial statements versus applying the concept to determine what information is disclosed in the notes?

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[5] Primary financial statements are: the statement of financial position; the statement of profit or loss and other comprehensive income (or the statement of profit or loss and the statement of comprehensive income); the statement of changes in equity; and the statement of cash flows.

(b) How does assessing the materiality of an individual fact relate to assessing materiality within the context of the financial statements as a whole?

(c) How does the application of materiality differ in making the following decisions (if at all):

(i) to make a new disclosure; or

(ii) to remove an existing disclosure?

(d) How does the concept of materiality apply to comparative information?

(e) How does the concept of materiality apply to other types of reporting, eg interim financial statements or segment reporting?

(f) How do you apply the concept of a collective assessment of materiality across disclosures, periods etc?

28. As indicated in paragraph 25(d) above, we think this part of a project will be influenced by the research that we plan to undertake. Consequently, we recommend that the topics to be addressed in this part of the materiality project (if any) should be reconsidered by the IASB when the research described in paragraphs 21-25 above has been completed.

Clear language to describe IFRS disclosure requirements

29. The research we undertake on materiality may point to additional steps the IASB could take to amend IFRS disclosure requirements. These include:

(a) Drafting clearer/more specific disclosure objectives in IFRS.

(b) Providing clearer explanations in Standards to help entities assess what information is likely to be relevant in meeting a particular financial reporting objective. Our initial assessment is that some preparers think that some Standards do not have clear enough objectives or explain why particular information helps meet user needs. This is a first, and necessary, step to before assessing whether relevant information is important enough to understanding an entity should be disclosed (ie it is material).

(c) Refraining from use of variant terms in IFRS such as ‘significant’, ‘essential’, ‘important’ etc when a reference to material is sufficient.

(d) Changing language in IFRS that creates very low thresholds, or terms that are perceived as being prescriptive, such as specifying “at a minimum” disclosure lists.

30. We recommend that the topics above should be reconsidered by the IASB when the research described in paragraphs 21-25 above has been completed.

31. In addition, we think that during this research phase, we should also undertake some further work on what characterises a significant accounting policy. Feedback we have heard (see Appendix C) suggests that the significant accounting policy disclosures are often identified as a home for boilerplate, ie immaterial information. We therefore think this topic would be a good working example for how some of the considerations in paragraph 29 could apply in practice. We also think that developing guidance or other material in this area would respond to messages we heard about the perceived problems with the disclosure of accounting policies. For example, we have heard various suggestions for determining whether an accounting policy is significant—the size or importance of the number(s) that are the subject of the policy, whether there is a policy choice, the amount of estimation ‘uncertainty’ and the extent to which the accounting policy causes differences between cash flows and accruals. Explaining what we think is relevant to assessing a significant (or material) policy would, we think, help preparers and ultimately result in more understandable financial statements.

32. Therefore as a short-term step, we recommend undertaking work to consider whether additional guidance or material could be developed that assists entities determine what a significant accounting policy is.

Question 4—Topics
(a) Do you agree that of the possible problems associated with materiality listed in paragraph 12, the IASB should only address the three identified in 19(a)-19(c) as described in paragraphs 21-32 above? If no, which topics should the IASB include or exclude? (b) Are there any other topics not listed above that you think should be considered as part of this project? (c) Do you agree with the recommendation (in paragraphs 31-32) to start work on guidance or other material on significant accounting policies disclosures?

Approach

Overall Approach

33. The proposed overall approach to the materiality project is summarised below:

Phase 1—Research	Phase 2—Review research	Phase 3—Additional work
Undertake research on what is meant by the term ‘materiality’ (see paragraphs paragraphs 21-25 above)	Publish research paper (see paragraph 25(a)) Clear language: are amendments to IFRS necessary? (see paragraphs 29-30 above) Applying the concept: is additional material necessary? (see paragraphs 26-28 above)	Clear language: Dependent on decisions in Phase 2 Applying the concept: dependent on decisions in Phase 2
Work on significant accounting policies (see paragraphs 31-32 above)	Possible outcome is an ED on Amendments to IAS 1 and/or other material	N/A

Next steps

34. Below is a summary of the timing of some past steps and potential timing of next steps:

August 2013	Initial conference call between IASB staff and representatives of IOSCO and IAASB
December 2013	Second conference call between IASB staff, and representatives of IOSCO and IAASB discussing scoping document for materiality project
January 2014	Third conference call between IASB staff and representatives of IOSCO and IAASB discussing scoping document for materiality project
February 2014	Capital Markets Advisory Committee (CMAC)
March 2014	Discuss materiality project scoping document at March 2014 Accounting Standards Advisory Forum meeting
March 2014	Discuss materiality project scoping document at March 2014 IASB meeting

Question 5—Approach
Do you agree with the approach and next steps described above? If not, how would you approach the materiality project differently?

Appendix A - Description of the 'materiality problem'—Some examples of the views expressed by others

Standard-setter view

EFRAG, ANC and the FRC

A1. The EFRAG, ANC and the FRC's joint Discussion Paper *Towards a Disclosure Framework for the Notes* [6] highlighted that the following contributed to 'disclosure overload':

(a) information is provided without sufficient consideration of its relevance, including disclosure of items that are often immaterial; and

(b) a "lack of clarity on the application of materiality to disclosures, especially qualitative ones. This typically leads to 'black letter' compliance by preparers (i.e. to full compliance with all disclosure requirements regardless of materiality or understandability) to avoid debates with auditors, users, regulators and others".

A2. Respondents to the EFRAG/ANC/FRC Discussion Paper thought that applying materiality was a key issue in addressing the disclosure problem, but were split on whether additional guidance would be helpful. Respondents agreed that a change in behaviours was necessary. [7]

FASB

A3. In 2012 the FASB issued a Discussion Paper: *Disclosure Framework* (the FASB Discussion Paper). [8] The FASB undertook the project to enhance the information provided in notes to financial statements ie to improve disclosure effectiveness. The project considered both information content of the notes and the understandability and ease of accessing that information. The project was added

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[6] Joint EFRAG, ANC, FRC Discussion Paper *Towards a Disclosure Framework for the Notes* July 2012 paragraph 6

[7] Feedback Statement on Joint EFRAG, ANC and FRC Discussion Paper *Towards a Disclosure Framework for the Notes* April 2013 pg 16 (paragraphs 56-59)

[8] FASB Discussion Paper: *Disclosure Framework*, Issued July 12, 2012

in response to requests from several stakeholders who raised concerns about redundant, excessive or ineffective disclosures. [9]

A4. Chapter 4 of the FASB Discussion Paper discusses how reporting entities could identify which of a full list of disclosures they should include in their notes. That is, how reporting entities and auditors could "consider disclosure relevance in a manner similar to the way they apply materiality to items on the face of the financial statements."[10] The Discussion Paper does not define or explain the application of *materiality* because the U.S. Supreme Court has interpreted the term.

ICAS and NZICA

A5. In their report *Losing the Excess Baggage*[11] ICAS and NZICA reviewed the disclosure requirements in IFRS and recommend changes to those requirements. One of the conclusions in the report was that more emphasis should be given to the correct application of the materiality concept. The report proposed that this could be achieved by:

(a) including more references in IFRS to materiality; and

(b) separating the consideration of the materiality of financial statement line items from the consideration of the materiality of each piece of information disclosed relating to those financial statement line items.

European regulator view

A6. In the summary of feedback to its consultation on materiality, ESMA reported that although the majority of respondents considered that the concept of materiality is generally well understood, many expressed the view that there is diversity in application. This diversity in application was attributed to the exercise of management judgement, the separate perspectives of different stakeholder groups as well as challenges to properly applying the concept of

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[9] See Appendix A of the FASB Discussion Paper

[10] See paragraph 1.27 of the FASB Discussion Paper

[11] ICAS/NZICA Report: *Losing the excess baggage – reducing disclosures in financial statements to what's important*, 2011

materiality. A failure to properly apply the concept of materiality to note disclosures (eg a reluctance to exercise judgement to exclude information from the financial report) was a common theme that arose from the responses. Like EFRAG, views were split as to whether more clarification is needed. [12]

A7. Further, the vast majority of respondents to the ESMA consultation on materiality considered that if further guidance on the concept of materiality is deemed to be required, the IASB is the appropriate body to develop and issue it.[13]

User view

A8. At the Discussion Forum we heard the belief from a user (Paul Lee) that the inappropriate application of the concept of materiality is a key contributor to the excessive disclosures in financial statements. He stated that currently there is a lack of professional judgement being applied by preparers, auditors and users and that there is a lack of professional judgement being applied when deciding what information to disclose. (See Feedback Statement pg 7)

A9. The CFA Institute recently conducted a survey of investors[14] – those investors surveyed did not find an obvious overabundance of immaterial information. Issues relating to boilerplate information or lack of entity-specific information were of greater concern to investors: "Accounting policies provide the best example of how financial reporting is not written to be entity specific".[15]

A10. The CFA recommended firstly aligning the definitions of materiality found in various pieces of the accounting, audit, and regulatory literature in such a way that the investor perspective is central to the definition. Secondly, that materiality judgments exercised by preparers and auditors be disclosed. This

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[12] ESMA's Summary of responses – *Considerations of materiality in financial reporting* 16 August 2012/ESMA/525 paragraph 7-10.

[13] Ibid., paragraph 13

[14] CFA Institute Report: Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust and Volume pg 81

[15] CFA Report – pg 86

would enable users to more easily assess the materiality of information in the financial statements.

A11. The CFA Institute also noted that "Preparers and auditors have little training in investment analysis and decision making or interaction with investors. Thus, they may find evaluating materiality with reference to how investors might perceive materiality to be challenging." The report asserts that to address these gaps in expectations and knowledge, education is needed on how investors use financial statements and how investors are affected by materiality judgements made by auditors and preparers.[16]

Auditor view

A12. Concerning materiality, responses across all stakeholder groups to the IAASB 2012 consultation on disclosure and its audit implications raised concerns about the length of disclosures reaching the point where they obscure readers' understanding of the entity's financial position and performance. There was widespread agreement that issues relating to materiality cannot be addressed by the IAASB on its own. The Feedback Statement[17] suggests that a comprehensive disclosure framework (for financial reporting) would assist preparers, auditors, regulators and others to better define what is considered "material" information in relation to disclosures, and would promote a consistent understanding about the application of materiality to disclosures in practice.

Preparer view

A13. In the survey that was conducted in conjunction with the IASB's Discussion Forum on Disclosure in Financial Reporting, a significant majority of preparers thought that there is too much irrelevant information being disclosed in annual reports. Applying materiality was cited as a major cause. Examples given included:

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[16] CFA Report – pg 77-78

[17] IAASB Feedback Statement: *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications* pg7

(c) The Standards invite a checklist approach ie are not clear or inconsistent about the concept of materiality and use language which seems contrary to applying materiality (ie “an entity shall disclose”, “at a minimum” etc)

(d) A time pressured financial reporting cycle means it is easier to use a checklist rather than applying judgement

(e) A better safe than sorry’ approach is adopted when disclosing information ie materiality is not applied for fear of litigation

(f) Auditors and regulators encourage a checklist approach. That is auditors require extensive documentation to prove that a disclosure is immaterial and regulators do not accept that the disclosure is immaterial.

A14. At the November 2013 meeting of the IASB’s Global Preparer’s Forum, there was agreement that the application of materiality was part of the disclosure problem, but there were split views as to whether the IASB was the best party to address the issue. Like the conclusions reached in the EFRAG/ANC/FRC paper, there was a view that the problem with applying materiality was behavioural.

Appendix B—materiality requirements in IAS 1 and the Conceptual Framework

1. The following paragraphs are extracts from IAS 1 which relate to the materiality requirements.

7 …

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

…

15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in

the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

31 An entity need not provide a specific disclosure required by an IFRS if the information is not material.

2. Chapter 3 of the Conceptual Framework states that:

QC11 Information is material if omitting or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

QC32 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Appendix C – Significant Accounting Policies – Views from others

ASAF – September 2013 [ASAF Update]	… Discussed 'significant accounting policies' and recommended that the IASB should investigate ways that would help make accounting policies more entity-specific and discussed whether accounting policies should be presented together with the detailed notes they support.
CMAC/GPF – June 2013	Regarding significant accounting policies, members did not like boilerplate information, ie non-entity-specific information. An accounting policy should tell a user what accounting regime the entity is using and also that immaterial information need not be disclosed.
Survey on disclosure	A number of people raised this – some quotes: Regulator - "Following are a few examples of disclosure requirements that we find as unnecessary… 2 .the requirement to include a summary of significant accounting policies (IAS 1.117) that many times turns the beginning of the notes into an accounting handbook…." Their solution "We believe that the disclosure of accounting policies should only address significant matters that don`t have only one straightforward correct treatment" Preparer – "By disclosing information about all accounting policies that are significant to the entity's operations, whether or not they require a choice or permit alternative accounting treatments, the readers are overloaded with useless information and miss the information that would be useful to them in comparing financial statements in order to make their investment decisions." Preparer – "Some examples (not an exhaustive list) would be: …… Significant accounting policies section. This often runs to several pages in length, most of which is static explanatory information which could potentially be kept in a separate online document. ……" Their solution "….Clarify how to apply the concept of materiality to disclosures particularly note disclosures, standardising language used in the standards to remove confusion surrounding terms such as material, critical, significant, essential and key, and how that affects the level of disclosure required." Auditor – "…1. boilerplate accounting policy statements - should be driven by materiality not lawyers…" Standard-setter – "…Change the accounting policy note requirement to only require those policies where there are degrees of variability…. " User – "accounting policy notes that just repeat words from the standards without explaining how they're applied" User – "…Irrelevant information includes boilerplate disclosures – i.e. disclosures that are generic and lack a company-specific dimension. This is particularly egregious in accounting policy disclosures." User – "…Significant accounting policies tend to include a lot of not-company specific information,…"