

## International Financial Reporting Standards



# Accounting policy disclosures

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

# Agenda

- Background and motivation
- IAS 1 requirements
- What we have heard
- Analysis
  - What is the objective of disclosing accounting policies?
  - Is the disclosure of accounting policies for all material transactions, events and circumstances necessary?
  - Conclusions
- Next steps
- Questions for ASAF

# Background and motivation

- Accounting policies are invariably mentioned when poor disclosure is discussed
- We think the criticisms of how accounting policies are disclosed are symptomatic of problems with applying materiality:
  - What makes an accounting policy relevant?
  - What can we assume about the intended audience?
- We think this is a good area to demonstrate how important it is to set clear objectives in a Standard, and potentially foster improved disclosure

# Requirements in IAS 1

## *Presentation of Financial Statements*

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# IAS 1 requirements

- A complete set of financial statements includes a summary of significant accounting policies
- An entity is required to disclose:

The measurement basis (or bases) used in preparing the financial statements; and

The other accounting policies used that are relevant to an understanding of the financial statements

*IAS 1.117*

- Includes additional guidance for accounting policy disclosures
  - *Amendments to IAS 1* Exposure Draft proposed to delete some potentially unhelpful examples

# What we have heard

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# What we have heard

- Many have told us that accounting policy disclosures should be improved:
  - Repetition of accounting literature
    - Not entity-specific
    - Boilerplate
  - Accounting policy disclosures are “cluttered” making it difficult to identify what policy information is important
  - It is not clear what makes an accounting policy “significant”
- Message heard in many places, including at the Disclosure Forum, in feedback to IAS 1 amendments and reports by others

# What makes an accounting policy significant?

- Some suggest that accounting policies are significant if they have a high level of management input:
  - A choice of accounting policy (eg investment property at fair value or cost)
  - A change in accounting policy
  - The policy requires a considerable use of judgement, eg if there is a high accrual component
    - eg control, estimated life, residual value



# What makes an accounting policy significant?

- Some think that accounting policies are significant if they relate to the items that are more important, or unique, to the entity's business—regardless of whether management has any discretion
  - eg, revenue, foreign exchange

# What makes an accounting policy significant?

- Some would like information about **all** the accounting policies for an entity:
  - Not all users are familiar with accounting literature
  - Financial statements should be a stand-alone document

The FRC Lab report\* on accounting policy disclosures identified this view as being held by retail investors and the other views by institutional investors. The report noted that institutional investors were supportive of additional policy information being available on the company's website.

\* <https://frc.org.uk/Our-Work/Codes-Standards/Our-Work-Codes-Standards-Financial-Reporting-Lab/Published-project-reports.aspx>

# A suggested framework



# Analysis

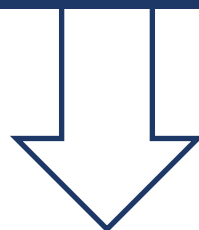
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- What is the objective of accounting policy disclosures?
- Is the disclosure of accounting policies for all material transactions, events and circumstances necessary?
  - Faithful representation
  - The user of accounting policy disclosures
  - Accounting knowledge of users

- Accounting policies disclosures should be:
  - entity-specific (tailored to entity)
  - only provided for material transactions, events and circumstances
  - eg, no agricultural business, no IAS 41 *Agriculture* disclosures
- Accounting policy disclosures enhance the understandability of the related information
  - eg, an investor would probably use accounting policy information when making decisions to provide context to the relevant information

## Faithful representation (QC32):

A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations



Without information about all accounting policies for material transaction, events and circumstances, users of financial statements may not be able to understand the reported information. The financial statements may not be complete and therefore not a faithful representation.

# The user of accounting policy disclosures

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Necessary to an understanding of the entity and the related information. This information applies only to that entity and cannot be found elsewhere.

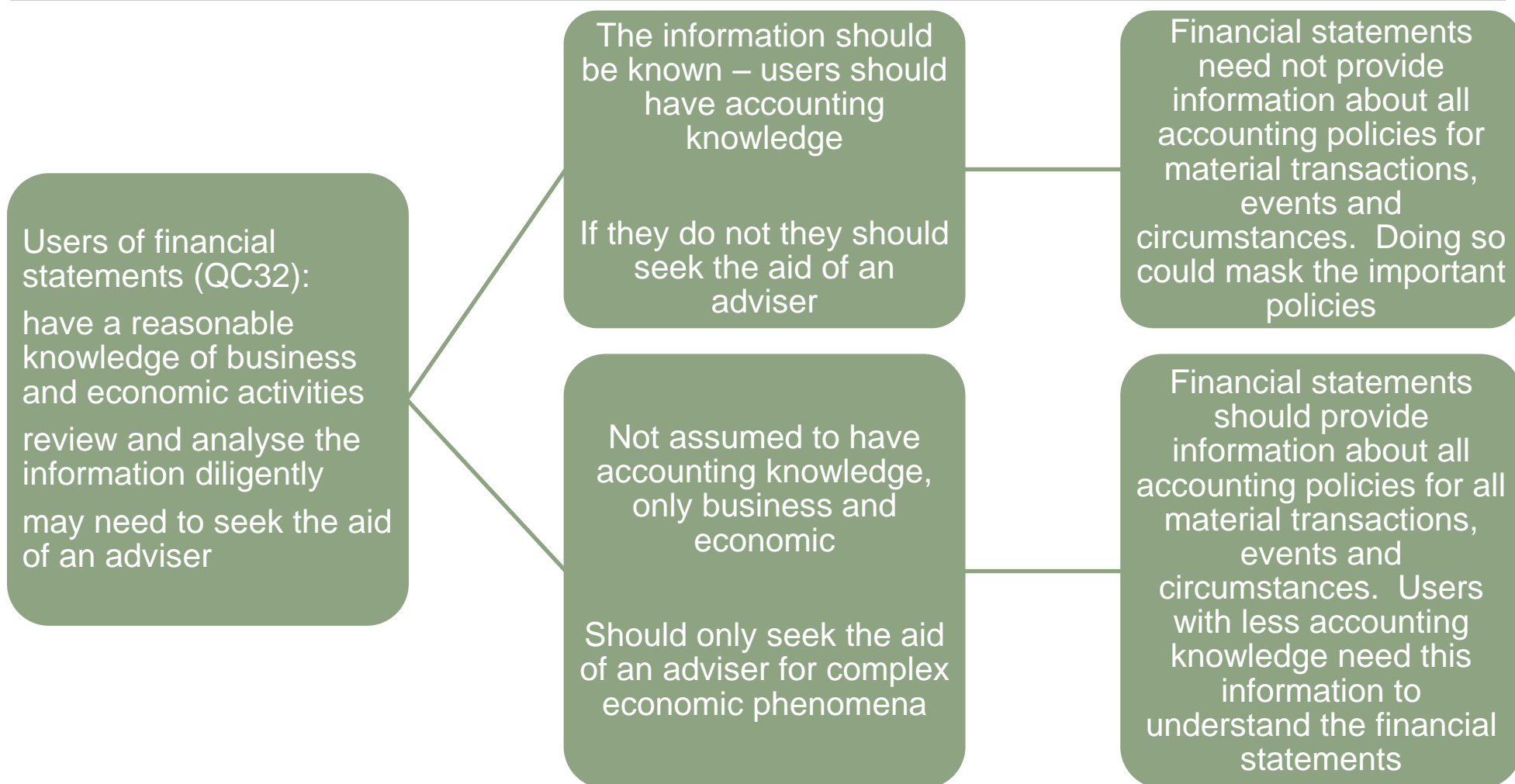
Less necessary to an understanding of the entity and the related information *as the accounting knowledge of the user increases*.

This information *could* be assumed to be known by a knowledgeable user of financial statements.



# Knowledge of users

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- The objective of accounting policy disclosures is to help the user understand the classification, recognition and measurement criteria applied by the entity
- Although IAS 1 provides some guidance on the factors that could make an accounting policy potentially significant, practice suggests that the guidance is not clear to all
- Those factors should be on the basis of management input/judgement into classification, recognition and measurement decisions.
  - Ie, choice, change, estimates (eg, useful life, value, timing, etc).

# Staff conclusions

- Judgement is needed to determine what policies are necessary to an understanding and should be included in the financial statements
- Entities will need to consider the needs of their users
  - This could change over time
- Guidance should be provided to promote prominence of the “more significant” accounting policies in the financial statements
- The IASB could consider requiring (more) disclosure about judgements required by a Standard and how the Standard was applied

- We should not prevent an entity from disclosing accounting policies for **all** material transactions, events and circumstances—but they should be entity-specific.
- Regardless, the “more significant” accounting policies should be prominent in the financial statements, and distinguishable from the “less significant” accounting policies.

# Examples of prominence

Include a summary of “more significant” accounting policies in one note

Include a summary in the front of the notes section indicating which notes in the financial statements contain the “more significant” accounting policies

or

Disclose the “less significant” accounting policy information, for example, in an appendix towards the back of the financial report

# Next steps

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# Next steps

- IASB could:
  - start a narrow focus amendments project to amend accounting policy disclosure requirements – view to publish an Exposure Draft; or
  - include this discussion as part of the Principles of Disclosure Discussion Paper
- Staff recommendation—include in the Discussion Paper
  - There are strong links with the analysis of accounting policy disclosures and areas in the Principles of Disclosure project – objective of the notes, grouping of information, etc.
  - Practice is evolving without our intervention

# Questions for ASAF

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# Questions for ASAF

- What factors do you consider make an accounting policy significant?
- Do you agree with, or have any comments on, the staff analysis and conclusions for accounting policy disclosures?
- Do you agree that changing the accounting policy disclosure requirements would be better considered in the Principles of Disclosure project?

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