

STAFF PAPER

April 2019

IASB® Meeting

Project	Disclosure Initiative: Accounting Policies		
Paper topic	Proposed amendments to IAS 1 and IFRS Practice Statement 2: due process steps and permission to begin the balloting process		
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Objective

1. The purpose of this paper is to:
 - (a) set out the due process steps that the Board has taken in developing the proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statements 2 *Making Materiality Judgements* (IFRS Practice Statement 2); and
 - (b) ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements.

Overview

2. This paper is structured as follows:
 - (a) Background (paragraphs 3-7);
 - (b) Effective date (paragraphs 8-12);
 - (c) Comment period (paragraph 13);
 - (d) Intention to dissent (paragraph 14);
 - (e) Proposed timeline for balloting process and publication (paragraph 15);

- (f) Confirmation of the due process steps (paragraph 16);
- (g) Questions for the Board;
- (h) Appendix A—Due process requirements.

Background

3. In response to the 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper (Discussion Paper), respondents supported the Board in developing guidance about which accounting policies to disclose. Most respondents thought that any guidance developed by the Board should be based on the relevance, usefulness and/or materiality of accounting policies (see *February 2018 Agenda Paper 11J*).
4. Consequently, in its July 2018 meeting, the Board tentatively decided to develop additional guidance and examples for the Materiality Practice Statement. These would explain and demonstrate the application of the four-step materiality process to accounting policy disclosure (see *July 2018 Agenda Paper 11E*).
5. In its October 2018 meeting, the Board discussed guidance and examples for the Materiality Practice Statement (see *October 2018 Agenda Paper 11A*). At that meeting, the Board tentatively decided to:
 - (a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material to the financial statements; and
 - (b) continue developing guidance and examples to help entities better exercise judgement about whether the accounting policies they apply to material transactions, other events or conditions are themselves material.
6. In its December 2018 meeting, the Board tentatively decided to amend paragraphs 117-124 of IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies (see *December 2018 Agenda Paper 11A*).
7. In its March 2019 meeting, the Board tentatively decided to use two examples to demonstrate the practical application of guidance to help entities apply the four-step

materiality process in IFRS Practice Statement 2 to accounting policy disclosure. The two examples will highlight the need to focus on information that is useful to users of financial statements and demonstrate how application of the four-step materiality process can be used to address the issues of (see *March 2019 Agenda Paper 11A*):

- (a) boilerplate or generic information being disclosed in accounting policies that are material to the financial statements; and
- (b) instances in which accounting policy disclosures contain only information that repeats the requirements of IFRS Standards.

Effective date

8. Consistent with other Exposure Drafts, we do not intend to include an effective date in the proposed amendments. However, staff think it is helpful for the Board to include proposals about early application and transition for respondents to comment on.

Early application

9. The proposed amendments to IAS 1 and IFRS Practice Statement 2 are intended to help entities:
- (a) identify and disclose all accounting policies that provide material information to the primary users of financial statements; and
 - (b) identify immaterial accounting policies and eliminate them from their financial statements.
10. We think application of the amendments will lead to changes in disclosure that will be helpful to entities, users and other stakeholders. Consequently, we recommend that if an entity would like to early apply the proposed amendments it should be permitted to do so.
11. Furthermore, we recommend that if an entity chooses to early apply the proposed amendments it should be required to disclose that fact. We think providing this disclosure will help users of financial statements understand:
- (a) why accounting policy disclosures have changed; and

- (b) that amended accounting policy disclosures focus on material information.

Transition

12. The amendments affect only accounting policy disclosures. Consequently, we do not think that retrospective application of the proposed amendments would be possible. Instead, we recommend that the Board requires the amendments to be applied prospectively.

Comment period

13. Paragraph 6.7 of the IFRS Foundation Due Process Handbook (*Due Process Handbook*) states that the Board normally allows a minimum period of 120 days for comment on an exposure draft. Given the limited scope of the proposed amendments, we see no reason to suggest a longer comment period. Consequently, the staff recommend a comment period of 120 days for the Exposure Draft of proposed amendments to IAS 1 and IFRS Practice Statement 2.

Intention to dissent

14. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the Exposure Draft.

Proposed timeline for the balloting process and publication

15. We plan to begin the balloting process in April 2019 and expect to issue the Exposure Draft in the second half of 2019.

Confirmation of the due process steps

16. Appendix A summarises the due process steps taken in developing the Exposure Draft. We note that the applicable due process steps to date for issuing the Exposure Draft have been completed.

Questions for the Board

1. Effective date: does the Board agree with the staff recommendation:
 - (a) to permit early application of the proposed amendments; and
 - (b) that the proposed amendments should be applied prospectively?
2. Comment period: does the Board agree with the staff recommendation to allow 120 days for comment on the Exposure Draft?
3. Dissents: do any members of the Board plan to dissent from issuing the Exposure Draft?
4. Permission to begin the balloting process: is the Board satisfied that it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the Exposure Draft?

Appendix A—Due process requirements

A1. This appendix explains how the Board has complied with the due process requirements as set out in the *Due Process Handbook*.

<i>Step</i>	<i>Actions</i>
The Board meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	<p>The proposed amendments are to IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2 <i>Making Materiality Judgements</i>.</p> <p>The Board decided to make these amendments in light of feedback received on the 2017 <i>Disclosure Initiative—Principles of Disclosure</i> Discussion Paper.</p> <p>The Board discussed the matter at its meetings in February 2018 (see Agenda Paper 11J), March 2018 (see Agenda Papers 11A and 11B), July 2018 (see Agenda Paper 11E), October 2018 (see Agenda Paper 11A), December 2018 (see Agenda Paper 11A) and March 2019 (see Agenda Paper 11A).</p> <p>The project has also been discussed with the consultative groups Capital Markets Advisory Committee (see March 2018 Agenda Paper AP3), Global Preparers Form (see March 2018 Agenda Paper AP2) and the Accounting Standards Advisory Forum (see April 2018 Agenda Paper AP2A).</p> <p>The project webpage has up-to-date information.</p>
Consultation with the Trustees and the Advisory Council	<p>The Advisory Council was informed about the proposed amendments to IAS 1 and IFRS Practice Statement 2 at its March 2019 meeting (see March 2019 Agenda Paper 2A).</p> <p>The Trustees will be informed about the proposed amendments to IAS 1 and IFRS Practice Statement 2 as part of our regular reporting to them.</p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	<p>The proposed amendments support the application of materiality to accounting policy disclosures and help entities to:</p> <ul style="list-style-type: none"> • identify and disclose all accounting policies that provide material information to the primary users of financial statements; and • identify immaterial accounting policies and eliminate them from the financial statements. <p>The proposed amendments are narrow in scope. Consequently, we do not see a need to have a separate effects analysis.</p>
Finalisation	
Due process steps are reviewed by the Board.	This step will be met by this Agenda Paper.
The Exposure Draft has an appropriate comment period	The comment period is being considered by the Board at this meeting—see paragraph 13 of this paper.

<i>Step</i>	<i>Actions</i>
Drafting	
Drafting quality assurance steps are adequate.	The translations, taxonomy and editorial teams will review drafts during the balloting process.
Publication	
Press release to announce publication of the Exposure Draft.	A press release will be published with the Exposure Draft.
Publication of the Exposure Draft	The Exposure Draft will be made available on our website when issued.