STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative: Accounting Policies**		
Paper topic	Approach to project redeliberations		
CONTACT(S)	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937
	Rachel Knubley	rknubley@ifrs.org	+44 (0) 20 7246 6904

Objective and background

1. In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

2. The proposed amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

   (a) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and

   (b) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

3. The comment period for the Exposure Draft closed on 29 November 2019. The staff presented a summary of comment letter feedback to the Board at its February 2020 meeting (see ***February 2020 Agenda Paper 20***).

4. The objective of ***Agenda Papers 20A-D*** is to present staff analysis and recommendations to the Board about next steps on the Disclosure Initiative: Accounting Policies project. In light of strong support for the project from

respondents, we think that the Board can move forward with finalising amendments to IAS 1 and IFRS Practice Statement 2.

Overview

5. This paper is structured as follows:

   (a) Approach to project redeliberations (paragraphs 6-11);

   (b) Requiring entities to disclose their ‘material’ accounting policies instead of their ‘significant’ accounting policies (paragraphs 12-15);

   (c) Alignment with other active projects (paragraphs 16-19);

   (d) Appendix A—Other comments;

   (e) Appendix B—Extract from the Exposure Draft: proposed consequential amendments to IFRS 7 *Financial Instruments: Disclosures*.

Approach to project redeliberations

6. Almost all respondents supported the proposal to require entities to disclose their ‘material’ accounting policies instead of their ‘significant’ accounting policies. Consequently, we will not be asking the Board to make changes to this proposal (see paragraphs 12-15).

7. Most respondents supported the proposed statement that ‘*not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity’s financial statements*’. However, respondents also expressed concerns about some of the specific terminology used in the proposal and suggested amendments for the Board to consider (see ***Agenda Paper 20B***).

8. Most respondents supported the proposal to include in the Standard examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. However, some respondents also expressed concerns about some of the proposed paragraphs—particularly paragraph 117B(e) of IAS 1 which describes a situation in which an entity applies the requirements of an

IFRS Standard in a way that reflects the entity's specific circumstances (see ***Agenda Paper 20C***).

9. Most respondents supported the proposal to add examples to IFRS Practice Statement 2 that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. However, respondents expressed concerns about the conclusions reached in the examples and how they align to the proposed guidance in IAS 1. In particular, many of these respondents did not support the conclusion reached in proposed Example T. This example described a scenario in which an entity eliminates immaterial accounting policy information that only duplicates the requirements of IFRS Standards and for which the material accounting policy information is already disclosed elsewhere in the financial statements (see ***Agenda Paper 20D***).

10. Many respondents expressed concern that the Board is assuming that primary users have a greater knowledge of the requirements of IFRS Standards than is the case. Some of these respondents also sympathised with the Alternative View to the Exposure Draft (see ***Agenda Paper 20B***).

11. Appendix A to this paper describes other comments made by only a few respondents to the Exposure Draft and our proposed approach to those comments.

Requiring entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies

12. Almost all respondents supported the proposed amendments to paragraph 117 of IAS 1 that would replace the requirement for an entity to disclose its significant accounting policies with a requirement to disclose its material accounting policies:

    (a) most thought the proposal was consistent with the overall objective of the Board's Disclosure Initiative, including the amended definition of material. Some of these respondents thought the proposal would help entities remove immaterial disclosures from financial statements and focus on information that is material;

    (b) many thought the proposal would result in a consistent approach to disclosing accounting policies. These respondents said that, as 'material' is a defined concept and is supported by guidance, it is better understood by preparers and easier to apply than 'significant'; and

(c) a few thought that the concept of materiality is pervasive to the financial statements and is therefore applicable to accounting policy disclosure.

13. A few respondents, including a user representative group, disagreed with the proposal. Reasons for their disagreement included:

(a) the objective of the project could also be achieved by defining the term 'significant'. A few of these respondents thought that 'materiality' has a higher threshold than 'significant' and were concerned that the proposal would result in entities omitting useful information from the financial statements;

(b) the proposal may be difficult to implement, requiring entities to determine for the first time whether each accounting policy is material; and

(c) all accounting policies should be disclosed regardless of whether or not they are material.

14. Feedback indicated that, because 'significant' is not defined, respondents had differing views about whether 'material' was a higher thresholder, a lower threshold, or the same threshold, as 'significant' (see ***February 2020 Agenda Paper 20***).

15. Staff think replacing the requirement for an entity to disclose its 'significant' accounting policies with a requirement to disclose its 'material' accounting policies is still appropriate and is not asking the Board to make changes to this proposal. This is because, in line with those respondents that supported the proposal, we think the proposal will result in a more consistent approach to accounting policy disclosures because 'material' is a defined concept that is better understood by stakeholders.

Alignment with other active projects

16. Some respondents to the Exposure Draft thought the Board should consider combining this project with either the Primary Financial Statements project or the Accounting Policies and Accounting Estimates project as they deal with similar issues.

17. The Primary Financial Statements project issued the Exposure Draft *General Presentation and Disclosures* in December 2019. The comment period for the Exposure Draft ends 30 September 2020. Consequently, we think combining this project with the Primary Financial Statements project would unnecessarily delay the proposed amendments to IAS 1 which almost all respondents thought would be useful (see ***February 2020 Agenda Paper 20***).

18. Staff note that the project redeliberations for the Accounting Policies and Accounting Estimates project have been finalised and permission to begin the balloting process has been obtained. Consequently, we will consider whether to align the effective date of this amendment with that for the amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* nearer the publication date.

19. Staff are planning to discuss the effective date of the amendments to IAS 1 at a future meeting.

Question for the Board

Question 1
Does the Board have any comments on any of the issues covered in this paper?

Appendix A—Other comments

A1. At its February 2020 meeting, the Board discussed several comments, other than those addressed in ***Agenda Papers 20A-20D*** (see ***February 2020 Agenda Paper 20***). The following table describes our proposed approach to each of those comments.

Comment	Proposed approach
'Information about an accounting policy' versus an 'accounting policy' A few respondents thought that the proposals could cause confusion because some proposed paragraphs refer to *information* about an accounting policy being material, while others refer to an *accounting policy* being material.	We agree that this inconsistency in wording could potentially cause confusion and should be removed. We believe that the amendments should refer to 'information about an accounting policy' as this is aligned with the definition of material which refers to 'material information'.
Technology A few respondents thought the Board should have considered the effect of technology on the disclosure of accounting policies as financial statements are increasingly being made available in an electronic format. For example, IFRS Standards can be included on an external website with cross-references included in the financial statements.	At its July 2018 meeting (see ***July 2018 Agenda Paper 11F***), the Board tentatively decided not to develop requirements about IFRS information outside the financial statements. This is because the Board believed that, on balance, the benefits of developing such requirements do not outweigh the concerns—in particular, the Board was concerned that each jurisdiction has differing requirements about what information has to be included for an entity to have a complete set of financial statements.
Consequential amendments to IFRS 7 A few respondents noted that the proposed consequential amendments to IFRS 7 clarify that, in relation to financial instruments material accounting policies include the '*measurement basis (or bases) used in preparing the financial statements that are relevant to an understanding of the financial statements*' (see Appendix B). However, the proposed amendments to IAS 1 would remove the reference to measurement bases from paragraph 117 of IAS 1. These respondents thought it was unclear whether the proposed wording of IFRS 7 was intended to mean that the measurement bases for financial instruments should always be disclosed, regardless of whether that information is material.	The reference to measurement bases was removed from IAS 1 as it was considered unnecessary in the context of IFRS Standards generally given the guidance on materiality of information about accounting policies included in the amendment. However, the measurement basis (or bases) of financial instruments is often important to understand financial statements. Given this, the reference to measurement bases in IFRS 7 is intended to remind entities that information about the measurement basis (or bases) used is likely to be material if those policies relate to material transactions, other events or conditions. We will consider whether this can be clarified in drafting.

Comment	Proposed approach
Comparative accounting policy information A few respondents to the Exposure Draft noted the requirements being proposed in IAS 1 do not include requirements about comparative period accounting policy information. These respondents thought that such requirements should be added to the proposals. A few respondents also thought the Board should clarify whether 'prospective application' meant that an entity would need to disclose: (a) only material accounting policies for the current period; or (b) both material accounting policies for the current period and significant accounting policies for the comparative period(s).	Paragraph 38 of IAS 1 states: Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements. Consequently, applying existing requirements for comparative information in IAS 1, comparative information about an entity's accounting policies is required to be disclosed only to the extent that information is relevant to understanding the current period's financial statements.
Defining 'significance' A few respondents noted that the term 'significant' is used in many other IFRS Standards and can be interpreted as having a different threshold to 'material'. They expressed concern that 'significant' is only being replaced by 'material' in the context of accounting policy disclosure. These respondents suggested that, in addition to the proposals in the Exposure Draft, the Board consider defining the term 'significant' or replacing all uses of the term 'significant' with the term 'material'.	The objective of this project is to help entities provide accounting policy disclosures that are more useful to primary users of financial statements. Consequently, staff think that replacing all instances of 'significance' with 'material' is beyond the scope of this project.

Appendix B—Extract from the Exposure Draft: proposed consequential amendments to IFRS 7 *Financial Instruments: Disclosures*

…

Other disclosures

Accounting policies

21 In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses its ~~significant~~ material accounting policies ~~comprising 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~~. For the purpose of this Standard, material accounting policy information includes the measurement basis (or bases) used in preparing the financial statements that are relevant to an understanding of the financial statements.

…

Appendix B

Application guidance

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Other disclosure - accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of an entity's material accounting policies, including 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. For financial instruments, such disclosure may include:

…

Paragraph 122 of IAS 1 (as revised in 2007) also requires entities to disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.