

STAFF PAPER

May 2020

IASB Meeting

Project	Disclosure Initiative: Accounting Policies		
Paper topic	Examples of circumstances in which an entity is likely to consider information about an accounting policy material		
CONTACT(S)	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937
	Rachel Knubley	rknubley@ifrs.org	+44 (0) 20 7246 6904

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Objective

1. Proposed paragraph 117B of the Exposure Draft *Disclosure of Accounting Policies* included a list of examples of circumstances in which an entity is likely to consider information about an accounting policy to be material to its financial statements (see Appendix A). Most respondents to the Exposure Draft supported the proposal to include such a list in IAS 1 *Presentation of Financial Statements*. However, some respondents expressed concerns about some of the proposed circumstances (see [February 2020 Agenda Paper 20](#)).
2. The objective of this paper is to present staff analysis and recommendations about how to address those concerns.

Overview

3. This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 4);
 - (b) Summary of feedback (paragraphs 5-7);
 - (c) Approach to staff analysis (paragraphs 8-11);

- (d) Interaction of proposed paragraph 117B of IAS 1 with the existing requirements in IAS 8 (paragraphs 12-22);
- (e) Proposed paragraph 117B(e) of IAS 1 (paragraphs 23-30);
- (f) Materiality depends on the nature or magnitude of information, or both (paragraphs 31-34);
- (g) Appendix A—Extract of the Exposure Draft: Proposed paragraphs 117B and 117C of IAS 1 *Presentation of Financial Statements*;
- (h) Appendix B—Extracts from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (i) Appendix C—Other comments.

Summary of staff recommendations

- 4. Staff recommend that the Board:
 - (a) does not add those circumstances described in paragraphs 28 to 31 of IAS 8 to proposed paragraph 117B of IAS 1 (see paragraphs 12-22).
 - (b) combines the guidance about entity-specific accounting policy information in proposed paragraph 117B(e) with proposed paragraph 117C of IAS 1 (see paragraphs 23-30).
 - (c) amends proposed paragraph 117B of IAS 1 to include a reference to information being material by size, nature, or a combination of both (see paragraphs 31-34).

Summary of feedback (see [February 2020 Agenda Paper 20](#))

- 5. Most respondents to the Exposure Draft agreed that providing examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements such as those listed in proposed paragraph 117B of IAS 1 (see Appendix A) would be helpful. However, many respondents were

concerned about some of the specific circumstances listed in the proposal—in particular, some respondents:

- (a) noted that requirements for changes in accounting policies (proposed paragraph 117B(a) of IAS 1) are already set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) had concerns that proposed paragraph 117B(e) of IAS 1 relates to what disclosure should be made about material accounting policies and not to whether an accounting policy is material.
6. Some respondents disagreed with proposed paragraph 117B of IAS 1 because the list:
- (a) is not exhaustive and therefore there is a risk that entities will continue to include immaterial accounting policy disclosures; or
 - (b) may result in an entity choosing to omit material information about an accounting policy simply because the accounting policy does not fit into one of the circumstances listed.
7. Some respondents suggested additional examples of circumstances that could be included in proposed paragraph 117B of IAS 1. In particular:
- (a) a few thought the Board should explicitly include in the list those circumstances referred to in paragraphs 28 to 31 of IAS 8 (see Appendix B); and
 - (b) a few thought the Board could revise the wording used in existing paragraph 121 of IAS 1, which describes a circumstance which is material by nature only, and include it as a circumstance instead of deleting it (see Appendix A).

Approach to staff analysis

8. As explained in paragraph BC10(b) of the Basis for Conclusions on the Exposure Draft, the Board proposed the list of circumstances in paragraph 117B to help entities identify when accounting policy information would likely be material. Although some respondents disagreed with including the proposed list in IAS 1, most respondents

found the list helpful in determining whether accounting policy information is material to the financial statements (see paragraphs 5-6).

9. We note that the list of circumstances proposed in paragraph 117B of IAS 1 is not intended to be exhaustive. Furthermore, we do not think it would be possible to develop an exhaustive list because the materiality of accounting policy information will depend on an entity's particular facts and circumstances. Consequently, entities should not omit material accounting policy information simply because it does not fit into one of the circumstances listed (see paragraph 6). Conversely, the requirements are intended to encourage entities to apply judgement in deciding when information about an accounting policy is not be material and could be omitted.

10. We agree with those respondents that thought the list of circumstances in which accounting policy information is likely to be considered material is useful, therefore we recommend retaining the list of circumstances. However, respondents raised the following specific concerns about the list of circumstances:
 - (a) interaction of proposed paragraph 117B of IAS 1 with the existing requirements in IAS 8 (see paragraphs 12-22);
 - (b) proposed paragraph 117B(e) of IAS 1 (see paragraphs 23-30); and
 - (c) adding a circumstance to proposed paragraph 117B of IAS 1 which relates to accounting policy information that would be material by nature only (see paragraphs 31-34).

11. Appendix C to this paper describes other comments made by only a few respondents about proposed paragraph 117B of IAS 1 and our proposed approach to those comments.

Interaction of proposed paragraph 117B of IAS 1 with the existing requirements in IAS 8

12. Proposed paragraph 117B(a) of IAS 1 describes a change in accounting policy as a circumstance that is likely to lead an entity to conclude that the related accounting policy information is material. Some respondents to the Exposure Draft noted that

paragraphs 28 and 29 of IAS 8 address the disclosure requirements for similar circumstances (see Appendix B) and suggested the Board:

- (a) replace the description of the circumstances proposed paragraph 117B(a) of IAS 1 with those described in paragraphs 28 and 29 of IAS 8; or
 - (b) include in paragraph 117B(a) of IAS 1 a cross reference to paragraphs 28 and 29 of IAS 8 where the disclosure requirements for such circumstances are located if that circumstance is considered to be material.
13. A few respondents also thought the Board should explicitly include in the examples in paragraph 117B of IAS 1 those circumstances referred to in paragraphs 28 to 31 of IAS 8, in particular:
- (a) when an entity applies a new IFRS Standard for the first time;
 - (b) an accounting policy that might be affected by a new IFRS Standard that has been issued but is not yet effective; and
 - (c) accounting policy changes that might have an effect on future reporting periods.
14. To address concerns raised by respondents to the Exposure Draft, staff have considered adding those circumstances described in paragraph 28 to 31 of IAS 8 to those listed in proposed paragraph 117B of IAS 1 (see paragraphs 16-21).
15. We also considered removing proposed paragraph 117B(a) of IAS 1 to avoid potential overlap with those circumstances for which the disclosure requirements are addressed by paragraphs 28 and 29 of IAS 8. However, we think that these are useful examples of circumstances in which accounting policy information is likely to be material so we recommend retaining proposed paragraph 117B(a) of IAS 1.

Adding those circumstances described in paragraphs 28 to 31 of IAS 8

16. Staff considered adding those circumstances described in paragraph 28 to 31 of IAS 8 (see Appendix B) to proposed paragraph 117B of IAS 1.
17. We think such an approach would comprise:

- (a) amending proposed paragraph 117B(a) of IAS 1 so that the description of the circumstance aligns with the wording used in paragraphs 28 and 29 of IAS 8 and including a reference to those paragraphs in paragraph 117B(a); and
 - (b) adding the following examples of circumstances in which an entity is likely to consider information about an accounting policy to be material to its financial statements:
 - (i) when an accounting policy might be affected by a new IFRS Standard that has been issued but is not yet effective; and
 - (ii) accounting policy changes that might have an effect on future reporting periods.
18. The proposed guidance in paragraph 117B of IAS 1 was not developed to overlap with the requirements of IAS 8. This is because the requirements in paragraphs 28 to 31 of IAS 8 (see Appendix B) provide guidance about *what* accounting policy information may be material in the context of three specific circumstances, being:
- (a) the initial application of an IFRS Standard (paragraph 28 of IAS 8);
 - (b) a voluntary change in accounting policy (paragraph 29 of IAS 8); and
 - (c) a new IFRS Standard has been issued but is not yet effective (paragraphs 30-31 of IAS 8).
19. The proposed requirements in paragraphs 117 to 117D of IAS 1 only provide guidance on *when* accounting policy information might be material to an entity's financial statements.
20. Staff also think there is a clear difference between the guidance proposed in paragraph 117B of IAS 1 and the requirements in paragraph 30 of IAS 8. In particular, we think that paragraph 30 of IAS 8 refers to a future change in policy rather than information about an accounting policy that was used in the preparation of the current period financial statements.
21. Therefore, staff think that adding the circumstances described in paragraphs 28 to 31 of IAS 8 (see Appendix B) to the list of circumstances proposed in paragraph 117B of IAS 1 could result in unintended consequences. For example, considering accounting

policy changes that might have an effect on future reporting periods is currently not required by paragraphs 117 to 124 of IAS 1 and including such circumstances in proposed paragraph 117B of IAS 1 could represent a significant increase in the scope of the disclosures required by IAS 1.

Staff recommendation and question for the Board

22. For those reasons discussed in paragraphs 16-21, staff recommend that the Board does not add those circumstances described in paragraphs 28 to 31 of IAS 8 to proposed paragraph 117B of IAS 1.

Question 1

Does the Board agree with the staff recommendation in paragraph 22?

Proposed paragraph 117B(e) of IAS 1

23. Proposed paragraph 117B(e) of IAS 1 describes a circumstance in which an entity applies the requirements of an IFRS Standard in a way that reflects the entity’s specific circumstances as an example of a circumstance in which an entity might consider information about the accounting policy to be material (see Appendix A). Some respondents said that, in their view, this circumstance addresses what disclosures should be made about material accounting policies and as such is not helpful in determining when information about an accounting policy is material. Of these respondents, some also thought that proposed paragraphs 117B(e) and 117C of IAS 1 broadly address the same issue and should be combined.
24. Some respondents also thought that the circumstance described in proposed paragraph 117B(e) of IAS 1 is not specific enough to be able to identify when it would apply.
25. A few respondents thought that accounting policy disclosures should always be entity-specific and that the proposed circumstance implies that an entity would not always have to apply and disclose accounting policies in a way that reflects its own circumstances.

26. Paragraph BC9(b) of the Basis for Conclusions on the Exposure Draft explained that the Board had received feedback that users of financial statements do not find accounting policy disclosures useful when they:
- (a) contain standardised information, sometimes referred to as ‘boilerplate’; and
 - (b) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.
27. As a result, proposed paragraph 117C of IAS 1 was developed to provide guidance to entities about what information about its material accounting policies users of financial statements find useful (see Appendix A).
28. Staff agree with those respondents that thought proposed paragraphs 117B(e) and 117C of IAS 1 broadly address the same issue. In particular, we think proposed paragraph 117B(e) of IAS 1 addresses what information should be disclosed rather than when information is likely to be material.
29. Consequently, we agree with the suggestion to combine the guidance proposed in paragraph 117B(e) with that proposed paragraph 117C of IAS 1. For example, proposed paragraph 117C of IAS 1 could be amended to read:

117C	Information about accounting policies that describes how an entity has applied the requirements of IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards. <u>For example, accounting policy information explaining how an entity has applied the requirements of a Standard to a specific class of transactions, is likely to be more useful than a policy that simply duplicates the requirements of the Standard.</u>
------	--

Staff recommendation and question for the Board

30. For the reasons discussed in paragraphs 23-29, staff recommend that the Board remove proposed paragraph 117B(e) of IAS 1 from the list of circumstances and instead combine it with proposed paragraph 117C of IAS 1.

Question 2

Does the Board agree with the staff recommendation in paragraph 30?

Materiality depends on the nature or magnitude of information, or both

31. Some respondents thought that, because proposed paragraph 117B of IAS 1 does not explicitly state that information can be material by nature, size or a combination of both, there is a risk that information about accounting policies relating to transactions, other events or conditions that are material by nature only could be omitted (see [February 2020 Agenda Paper 20](#)). A few of these respondents thought the Board could partially address this by adding an example to proposed paragraph 117B of IAS 1 which describes a circumstance that would be material by nature only, such as that currently described in paragraph 121 of IAS 1 (see Appendix A).
32. Paragraph BC12 of the Basis for Conclusions on the Exposure Draft, explained that a statement that ‘materiality depends on the nature or magnitude of information, or both’ was not included in the proposals to avoid repeating the guidance in the definition of material in paragraph 7 of IAS 1. However, given the concerns raised by some respondents, staff think this conclusion should be revisited.
33. Staff considered adding a circumstance to the list proposed paragraph 117B of IAS 1 which describes a circumstance when accounting policy information is material by nature only. However, we think the concerns raised (see paragraph 31) could be better addressed by explicitly including in the requirements a reference to both quantitative and qualitative aspects of materiality. For example, proposed paragraph 117B of IAS 1 could be amended to include a statement that, in line with the definition of material in paragraph 7 of IAS 1, materiality depends on the nature or magnitude of information, or both.

Staff recommendation and question for the Board

34. Staff recommend that the Board amend proposed paragraph 117B of IAS 1 to include a reference to information being material by size, nature, or a combination of both.

Question 3

Does the Board agree with the staff recommendation in paragraph 34?

Appendix A—Extract of the Exposure Draft: Proposed paragraphs 117B and 117C of IAS 1 *Presentation of Financial Statements*

- 117B An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:
- (a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
 - (b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
 - (c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;
 - (d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or
 - (e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.
- 117C Information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards.
- ...
- 121 ~~[Deleted]An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.~~

Appendix B—Extracts from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

...

Disclosure

- 28 When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the title of the IFRS;
 - (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
 - (c) the nature of the change in accounting policy;
 - (d) when applicable, a description of the transitional provisions;
 - (e) when applicable, the transitional provisions that might have an effect on future periods;
 - (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
 - (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

- 29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the nature of the change in accounting policy;
 - (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
 - (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and

- (ii) **if IAS 33 applies to the entity, for basic and diluted earnings per share;**
- (d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
- (e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

30 When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- (a) **this fact; and**
- (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.**

31 In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new IFRS;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the IFRS is required;
- (d) the date as at which it plans to apply the IFRS initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

...

Appendix C—Other comments

C1. At its February 2020 meeting, the Board discussed comments on other aspects of proposed paragraph 117B of IAS 1 (see [February 2020 Agenda Paper 20](#)). The following table details the proposed approach to those comments.

Comment	Proposed approach
<p>A preparer and a Standard-setting body thought that the circumstances described in proposed paragraphs 117B(a), (d) and (e) of IAS 1 (see Appendix A) should be removed because, in their view, they go beyond the scope of what is currently required by IAS 1.</p>	<p>Staff do not think the circumstances described in these paragraphs expand the scope of accounting policy disclosures beyond those currently required by IAS 1.</p> <p>In this paper we recommend combining proposed paragraph 117B(e) with proposed paragraph 117C.</p>
<p>A few respondents suggested that the Board replace the circumstance in proposed paragraph 117B(c) of IAS 1 (see Appendix A) with a reference to the requirements of paragraph 29 of IAS 8.</p>	<p>We think that the circumstance described in proposed paragraph 117B(c) is different from the circumstance described in paragraph 29 of IAS 8. Proposed paragraph 117B(c) of IAS 1 (see Appendix A) refers to a circumstance where an accounting policy has been developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies, whereas paragraph 29 of IAS 8 (see Appendix B) describes a circumstance in which there is a voluntary change in accounting policy.</p>
<p>For proposed paragraph 117B(d) of IAS 1 (see Appendix A), a few respondents suggested the Board consider:</p> <p>(a) clarifying that an accounting policy is likely to be material both when the judgements and assumptions referred to in proposed paragraph 117B(d) of IAS 1 lead to the recognition or disclosure of information in the financial statements, and when they do not. For example, if an entity determines that it does not control another entity, these respondents would nevertheless find the accounting policy giving rise to that determination to be useful; and</p> <p>(b) deleting the reference to paragraphs 122 and 125 of IAS 1 because, in their view, the accounting policy would be assessed as material regardless of whether the criteria in paragraph 122 and 125 of IAS 1 are met.</p>	<p>The circumstance described in (a) describes a situation in which the accounting policy information relates to a transaction, other event or condition that is material by nature only. We think this circumstance would be captured by the proposed addition to paragraph 117B of IAS 1 discussed in paragraphs 31-34 of this paper.</p> <p>Staff are planning to retain the cross-reference to paragraphs 122 and 125 of IAS 1 because these paragraphs contain useful guidance about accounting policy information that is likely to be material to an entity's financial statements.</p>