STAFF PAPER

February 2020

IASB Meeting

Project	**Disclosure Initiative: Accounting Policies**
Paper topic	Comment letter feedback—Exposure Draft: Disclosure of Accounting Policies

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Objective

1. This paper provides an analysis of the feedback received from comment letters on the *Disclosure of Accounting Policies—Proposed amendments to IAS 1 and IFRS Practice Statement 2* Exposure Draft (Exposure Draft). We received 88 comment letters. Appendix A provides a summary by type of respondent and geographical region. Most responses were consistent across types of respondents and geographical regions, however, where a trend has been identified this has been highlighted.

2. Agenda Paper 20 uses the following terms to describe the extent to which particular feedback was provided by respondents:

Term	*Extent of response among respondents*
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

3. During the comment letter period staff also consulted on the Exposure Draft with the Accounting Standards Advisory Forum (see ***October 2019 Agenda Paper AP4***) and Global Preparers Forum (see ***October 2019 Agenda Paper AP4***). Feedback received from these meetings was consistent with the feedback received from comment letters (see Appendix B).

4. We will not ask the Board to make any decisions at this meeting. However, to help us develop our papers for future Board meetings, we will ask the Board for its initial thoughts on the feedback received.

Overview

5. This paper is structured as follows:

   (a) Background (paragraphs 6-8);

   (b) Key messages (paragraphs 9-13);

   (c) Requiring entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies (paragraphs 14-18);

   (d) Not all accounting policies relating to material transactions, other events or conditions are themselves material (paragraphs 19-22);

   (e) Examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements (paragraphs 23-34);

   (f) Proposed Examples S and T for IFRS Practice Statement 2 *Making Materiality Judgements* (paragraphs 35-46);

   (g) Characteristics of primary users of financial statements (paragraphs 47-50);

   (h) Other comments on the proposed amendments (paragraphs 51-63);

   (i) Question for the Board;

   (j) Appendix A—Demographic information;

   (k) Appendix B—Feedback from the Accounting Standards Advisory Forum and Global Preparers Forum;

(l) Appendix C—Proposed amendments to IAS 1 *Presentation of Financial Statements*;

(m) Appendix D— Proposed Example T for IFRS Practice Statement 2 *Making Materiality Judgements*;

(n) Appendix E— Alternative View of Mr Martin Edelmann on the Exposure Draft *Disclosure of Accounting Policies*;

(o) Appendix F—Extracts from the Basis for Conclusions on the Exposure Draft *Disclosure of Accounting Policies*.

Background

6. The Exposure Draft proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. 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.

7. The proposed amendments to IAS 1 are included in Appendix C.

8. The proposed amendments build on *Definition of Material*, issued in October 2018, that amended IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of material.

Key messages

9. Almost all respondents supported the proposal to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies (paragraphs 14-18).

10. 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 (paragraphs 19-22).

11. 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 (see Appendix C). Most of these respondents had concerns that the proposed paragraph 117B(e) of IAS 1 related to what disclosure should be made about material accounting policies and not to whether an accounting policy is material (paragraph 23-34).

12. 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 the proposed new Example T (see Appendix D). This example described a scenario in which an entity eliminates an accounting policy that only duplicates requirements in IFRS Standards and for which the material accounting policy information is already disclosed elsewhere in the financial statements (see paragraphs 35-46).

13. 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 Appendix E and paragraphs 47-50).

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

14. Almost all respondents supported the proposed amendments to paragraph 117 of IAS 1 (see Appendix C), 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 also thought that the concept of materiality is pervasive to the financial statements and is therefore applicable to accounting policy disclosure.

15. Nevertheless, respondents also expressed concerns about some of the specific terminology used in the proposal and suggested some amendments for the Board to consider:

    (a) some Standard-setting bodies thought that the Board should consider deleting the sentence that duplicates the definition of material. This is because the language used in the proposal does not match the definition exactly. These respondents thought that any differences between the definition of material and the proposal may result in different interpretations of the concept of materiality. They thought the Board should instead include a cross-refence to the definition of material in paragraph 7 of IAS 1; and

(b) a few other stakeholders had concerns about the language 'material accounting policies' and suggested that entities should instead be required to disclose information about their accounting policies that is material. These respondents thought that the Board should only focus on whether the information provided by an accounting policy is material, not the accounting policy itself.

16. Some respondents thought the Board should clarify whether the proposal is intended to change the threshold for disclosing accounting policies or if it is a simple change in terminology (for example, by specifying whether the proposal would result in more or less accounting policy disclosures).

17. A few respondents disagreed with the proposal because, in their view:

(a) the objective of the project could also be achieved by defining the term 'significant';

(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.

18. Of those respondents that disagreed with the proposal, a few thought the Board should instead:

(a) provide guidance on the effective communication of accounting policies; or

(b) focus on encouraging entities to reduce the length of disclosure relating to accounting policies that have little optionality or judgement in their application.

Not all accounting polices relating to material transactions, other events or conditions are themselves material

19. Most respondents supported the statement in proposed paragraph 117A of IAS 1, that '*not all accounting policies relating to material transactions, other events or conditions are themselves material*' (see Appendix C):

(a) a few thought the proposal would help entities limit their accounting policy disclosures to those that are material and therefore meet the needs of users;

(b) a few thought the proposal would clarify that entities should consider both quantitative and qualitative factors when assessing whether an accounting policy should be disclosed; and

(c) a few stated that the proposal is consistent with paragraph 31 of IAS 1 which states that '*an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material*'.

20. However, some respondents also expressed concerns about the proposal. Of these respondents:

(a) many thought that information about accounting policies relating to transactions, other events or conditions that are material by nature may be omitted. These respondents thought the Board should state explicitly that the materiality of accounting policies depends on the size or nature of information, or a combination of both. This would ensure that material accounting policies which relate to transactions, other events or conditions that are material by nature are not omitted from the financial statements;

(b) a few thought the proposal could only be understood when read together with the proposed Example T in IFRS Practice Statement 2 and the explanations in paragraphs BC9 and BC10 of the Basis for Conclusions (see Appendices D and F). They suggested that these explanations be added to IAS 1; and

(c) a few thought the proposal was unclear about how an entity would decide whether accounting policies relating to material transactions, other events or conditions are immaterial. These respondents suggested that the Board develop additional examples to illustrate this decision.

21. Some respondents thought the language used in the proposal should be more prescriptive and that entities should be prohibited from disclosing immaterial accounting policies. However, a few other respondents, mainly accountancy bodies

and accounting firms, were concerned that the language used could suggest that immaterial accounting policies must not be disclosed.

22. A few respondents disagreed with the proposal and suggested it be deleted from proposed paragraph 117A of IAS 1. Of these respondents:

    (a) some accounting firms thought accounting policies relating to material transactions, other events or conditions are inherently material themselves and therefore disclosure of these accounting policies provides useful information to primary users; and

    (b) some other stakeholders thought the proposal would affect the comparability of financial statements due to differing assessments of which accounting policies would be assessed as material.

Examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements

23. Most respondents agreed that providing examples of circumstances such as those listed in proposed paragraph 117B of IAS 1 (see Appendix C) would be helpful. A few of these respondents also supported the proposal because they thought it is more concise and practical than the existing guidance in paragraphs 118 and 119 of IAS 1.

24. However, many respondents were concerned about some of the specific circumstances listed in the proposal. Specific feedback on each of the circumstances listed in proposed paragraph 117B of IAS 1 is summarised in paragraphs 27-33.

25. Some respondents disagreed with proposed paragraph 117B of IAS 1 because:

    (a) some thought that, because the list of circumstances is not exhaustive, there is a risk that entities will continue to include immaterial accounting policy disclosures. These respondents suggested that the Board list all circumstances in which an entity must disclose an accounting policy or prohibit disclosure of immaterial accounting policies;

    (b) some thought the list may result in an entity choosing to omit a material accounting policy simply because the accounting policy does not fit into one of the circumstances listed; and

(c) a preparer and a Standard-setting body thought that the circumstances described in proposed paragraphs 117B(a), (d) and (e) should be deleted because, in their view, they go beyond the scope of what is currently required by IAS 1.

26. A few respondents thought that the proposed paragraph 117B of IAS 1 does not align with the proposed amendments to paragraph 117 of IAS 1 as one refers to *information* about an accounting policy being material, while the other refers to an *accounting policy* being material. These respondents suggested that the Board align the language to avoid confusion.

Proposed paragraph 117B(a) of IAS 1

27. Some respondents noted that the proposed paragraph 117B(a) of IAS 1 referred to '*a material change to the amounts included in the financial statements*' (see Appendix C). These respondents thought that this wording does not align with the definition of material as it focuses only on a material change to amounts, and suggested that the Board amend the drafting to include changes that are material by nature.

28. Some respondents noted that the requirements for changes in accounting policies are already set out in IAS 8 and suggested the Board:

(a) align the circumstance described in proposed paragraph 117B(a) of IAS 1 with paragraphs 28 and 29 of IAS 8;

(b) refer to paragraphs 28 and 29 of IAS 8; or

(c) remove the circumstance from proposed paragraph 117B of IAS 1 and instead include it as a separate paragraph.

Proposed paragraph 117B(c) of IAS 1

29. A few respondents suggested that the Board replace the circumstance in proposed paragraph 117B(c) of IAS 1 (see Appendix C) with a reference to the requirements of paragraph 29 of IAS 8 that relate to accounting policy disclosures when there is a voluntary change in accounting policies.

Proposed paragraph 117B(d) of IAS 1

30. A few respondents suggested the Board consider:

    (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 (see Appendix C) 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

    (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.

Proposed paragraph 117B(e) of IAS 1

31. Some respondents said that, in their view, the circumstance in proposed paragraph 117B(e) of IAS 1 (see Appendix C) addresses what disclosures should be made about material accounting policies and as such is not helpful in determining whether an accounting policy is material or not. Of these respondents, some thought that proposed paragraphs 117B(e) and 117C of IAS 1 (see Appendix C) broadly address the same thing and should be combined in a separate paragraph. A few of these respondents also thought the Board should further emphasise the importance of making entity-specific accounting policy disclosures.

32. Some respondents also thought that the circumstance is not specific enough to be able to identify when it would apply.

33. A few respondents that thought that accounting policy disclosures should always be entity-specific expressed concern that, in their view, the proposed circumstance implies that an entity would not always have to apply and disclose accounting policies in a way that reflects its circumstances.

Additional circumstances

34. 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, in particular:

        (i) when an entity applies a new IFRS Standard for the first time;

        (ii) an accounting policy that might be affected by a new IFRS Standard that has been issued but is not yet effective; and

        (iii) changes that might have an effect on future reporting periods;

    (b) a few thought an accounting policy should be assessed as material if the entity believes that the disclosure of that accounting policy, or a part of that accounting policy, would provide users with a better understanding of the financial statements. For example, they think an accounting policy that relates to a material transaction, other event or condition that is subject to complex requirements in IFRS Standard(s) should be disclosed; and

    (c) a few thought that the Board could revise the wording used in existing paragraph 121 of IAS 1 (see Appendix C) and include it as a circumstance instead of deleting it.

Proposed Examples S and T for IFRS Practice Statement 2 *Making Materiality Judgements*

35. Most respondents supported the Board's proposal to include examples in IFRS Practice Statement 2 that demonstrate the application of the concept of materiality to accounting policy disclosures. However, they also expressed concerns about the specific examples proposed. In particular:

    (a) many thought that, in addition to entity-specific information, it could still be helpful to disclose standardised descriptions in an accounting policy because, in their experience, primary users do not always know the requirements of IFRS Standards;

(b) a few thought the proposed examples should go further and demonstrate how an entity determines what information about an accounting policy is material and must be disclosed; and

(c) a few thought the proposed examples should better demonstrate how they link to the four-step materiality process.

36. Many respondents thought that it would be useful if the Board could develop more examples to address the following circumstances:

(a) an accounting policy that is assessed as material when the related transaction, other event or condition is material in nature rather than amount;

(b) an accounting policy that is assessed as material because the accounting required by the IFRS Standard is complex;

(c) an accounting policy that is assessed as immaterial in the current reporting period but is expected to be material in future reporting periods; and

(d) an accounting policy that is assessed as immaterial when the related transaction, other event or condition is assessed as material.

37. Many respondents disagreed with the proposed examples. These respondents thought that examples should instead:

(a) demonstrate how accounting policies that contain standardised descriptions or duplicate the requirements of an IFRS Standard could be re-drafted to be entity-specific applying the proposed guidance in paragraphs 117 to 117D of IAS 1;

(b) illustrate the difference in accounting policy disclosures between applying the existing requirements in paragraphs 117 to 122 of IAS 1 and the proposed guidance in paragraphs 117 to 117D of IAS 1; or

(c) illustrate what information about its material accounting policies an entity should disclose.

38. A few thought the proposed examples should be included in IAS 1 rather than IFRS Practice Statement 2 to ensure that they are more accessible to preparers.

39. Specific feedback on each of the proposed examples is summarised in paragraphs 40-46.

Proposed Example S

40. Proposed Example S addressed a circumstance in which an entity disclosed information about its policy for the timing of revenue recognition. Respondents provided fewer comments about proposed Example S than proposed Example T.

41. Some respondents that provided comments supported proposed Example S. However, of these respondents:

    (a) many thought the example should also illustrate the nature of entity-specific information to be disclosed as part of the entity's revenue recognition accounting policies;

    (b) a few thought more weight should be given to the significant judgements and assumptions made in allocating the transaction price in the background description;

    (c) a few thought it would be helpful if the conclusion clearly stated that information about the allocation of revenue to performance obligations could also be assessed as material; and

    (d) a few thought the example should not refer to proposed paragraph 117B(d) of IAS 1 as, in their view, timing of revenue recognition would not, in this case, be a significant judgement.

42. A few respondents did not agree with the conclusion reached in proposed Example S because, in their view, primary users would not, in this particular circumstance, find information about the timing of revenue recognition useful.

Proposed Example T

43. Most respondents expressed concern that proposed Example T (see Appendix D) implies that an accounting policy that only contains standardised descriptions or duplicates the requirements of IFRS Standards would not be assessed as material and

should not be disclosed. Specifically, respondents were concerned because they think either:

(a) the information provided by accounting policies that contain standardised descriptions or duplicate the requirements of IFRS Standards can be useful when it helps users understand the related transaction, other event or condition and should therefore be disclosed; or

(b) in some circumstances accounting policies that contain standardised descriptions or duplicate the requirements of IFRS Standards are disclosed even when there is material entity-specific information that should be disclosed. Respondents are concerned that Example T might prompt an entity to delete an accounting policy without first considering whether there is any material entity-specific information to disclose.

44. Many respondents also disagreed with the conclusion reached in proposed Example T because they thought the example illustrates an accounting policy that would be assessed as material when applying the guidance proposed in paragraph 117B(d) of IAS 1. They thought the conclusion that a separate accounting policy is not required in the proposed example contradicts the proposed guidance in paragraph 117B(d) of IAS 1. This is because impairment is an area in which an entity is required to make significant assumptions and judgements. These respondents suggested that the example be revised to align with the proposed guidance.

45. A few other respondents disagreed with the conclusions reached because they thought primary users would find the information described in Example T useful in understanding the financial statements (see also paragraphs 47-50).

46. Some respondents thought the Board could improve proposed Example T by:

(a) clarifying further that the entity has disclosed the significant judgements and assumptions made in applying IAS 36 *Impairment of Assets* elsewhere in the financial statements. For example, these respondents suggested clarifying that these had instead been disclosed as part of the accounting policy relating to significant judgements and assumptions;

(b) clarifying further how the entity has used the proposed guidance in paragraphs 117 to 117D of IAS 1; and

(c) illustrating what the accounting policy should look like if it had been assessed as material. For example, demonstrating what information an entity could disclose that would be neither a standardised description nor a reproduction of the requirements of the related IFRS Standard.

Characteristics of primary users of financial statements

47. Many respondents expressed concern about the proposals in the Exposure Draft because, in their view, the proposals rely on primary users understanding the requirements of IFRS Standards. Some of these respondents stated that, in their experience, primary users are not accounting experts and sympathised with the Alternative View in the Exposure Draft (see Appendix E). In particular, they believe that the understandability of financial statements could be affected by the proposals.

48. Some respondents thought the Board should further consider the importance of the enhancing qualitative characteristic of 'understandability'. These respondents thought that standardised descriptions of accounting policies can be useful when IFRS Standards are particularly complex, or can assist less knowledgeable users, in understanding how material transactions, other events or conditions are reflected in financial statements and suggested the Board consider:

(a) including a disclosure objective indicating that information about accounting policies should enable users to get a general understanding of how an entity has applied the requirements in IFRS Standards to its own circumstances; or

(b) stating that an entity should make accounting policy disclosures when they believe that such disclosure would provide useful information to their primary users. For example, in jurisdictions that have a local GAAP, disclosing standardised descriptions or duplicating the requirements of IFRS Standards might help primary users to understand how the IFRS Standards differ from their local GAAP.

49. Some respondents also thought accounting policies that contain standardised descriptions or duplicate requirements of IFRS Standards provide context and give even knowledgeable primary users a better understanding of assumptions applied by an entity in the financial statements.

50. A few respondents thought it would be useful if the Board clarified what the assumed knowledge of primary users is with respect to IFRS Standards.

Other comments on the proposed amendments

51. Some respondents thought that, taken as a whole, the proposals imply that accounting policies that only contain standardised descriptions or duplicate the requirements of IFRS Standards should be assessed as immaterial and need not be disclosed. Of these respondents:

    (a) many expressed concern that this could result in material information being omitted from the financial statements;

    (b) some supported the view that accounting policies that only contain standardised descriptions or duplicate the requirements of IFRS Standards should be assessed as immaterial and should not be disclosed; and

    (c) a few disagreed with the proposals in the Exposure Draft because they thought that the materiality of an accounting policy should not be dependent on whether that accounting policy contains standardised descriptions or duplicates the requirements of IFRS Standards.

52. Some respondents that supported the proposals in the Exposure Draft also questioned whether the proposals would be sufficient to change the behaviour of preparers and improve the disclosure of accounting policies.

53. Some respondents 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.

Additional guidance on comparative information

54. A few respondents noted the guidance being deleted in paragraph 121 of IAS 1 includes reference to comparative period information. These respondents thought the Board should provide guidance about how the materiality of an accounting policy should be assessed in the context of comparative period information.

Consequential amendments

IFRS 7 Financial Instruments: Disclosures

55. A few respondents noted that the consequential amendments to IFRS 7 *Financial Instruments: Disclosures* 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*'. However, the proposed amendments to IAS 1 would remove the reference to measurement bases from paragraph 117 for the reasons stated in BC11 of the Basis for Conclusions (see Appendix F). 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.

'Significant' in other IFRS Standards

56. 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'.

57. A few other respondents thought the Board should consider updating the requirements of all other IFRS Standards to remove requirements to disclose accounting policies.

Technology

58. 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.

59. Specifically, a few respondents thought the Board could clarify that requirements of IFRS Standards can be included on an external website with cross-references included in the financial statements.

Transition

60. A few respondents 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).

Effects

61. A few respondents thought the proposals would reduce the cost of preparing financial statements by eliminating accounting policy disclosures that were immaterial to the financial statements.

62. However, one preparer thought that the proposals would add cost to preparers because:

    (a) it is relatively cheap to copy directly from the IFRS Standards, especially when translated versions of financial statements need to be prepared; and

    (b) the proposals will establish an annual process whereby preparers will have to assess the materiality of their accounting policy disclosures that will need to audited.

63. That respondent also stated that the cost of these proposals will impact smaller entities and entities in emerging markets that are less familiar with IFRS Standards because they are less likely to have access to well-resourced accounting functions.

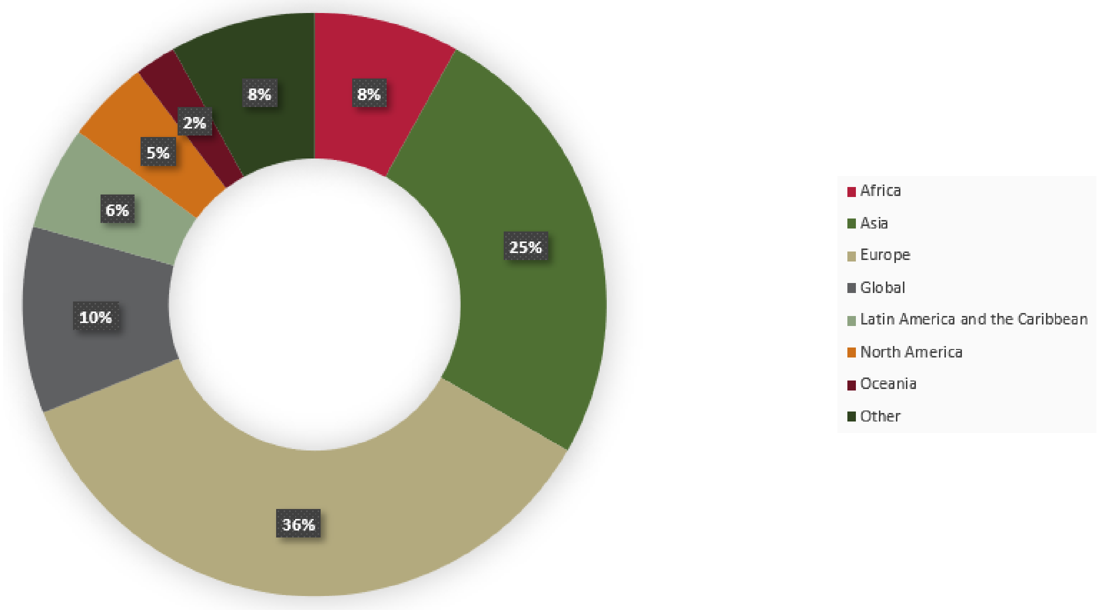
Question for the Board

Question 1
To help us develop our papers for future Board meetings, what are the Board's thoughts on the feedback received from respondents?

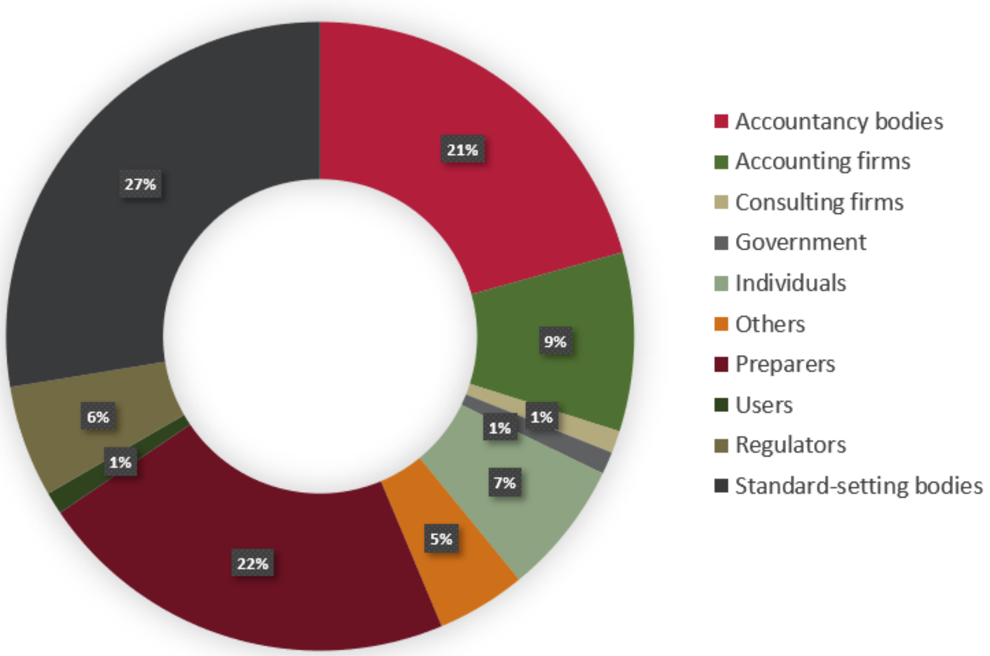
Appendix A—Demographic information

A1. The following is a summary of the 88 comment letters received.

A2. This pie chart illustrates the breakdown of comment letters by geographical region:



A3. This pie chart illustrates the breakdown of comment letters by respondent type:



Appendix B—Feedback from the Accounting Standards Advisory Forum and Global Preparers Forum

Extract of the meeting notes from the October 2019 Accounting Standards Advisory Forum (see full meeting notes at October 2019 ASAF meeting notes)

23. The objective of this session was to seek ASAF members' preliminary views on the Exposure Draft *Disclosure of Accounting Policies* (Exposure Draft).

24. Most ASAF members (FRC, KASB, OIC AcSB, EFRAG, FASB, PAFA and ARD) said that they generally agree with the proposed amendment to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies.

25. The FRC and OIC members thought that the proposed amendment to IAS 1 *Presentation of Financial Statements* improves the link to the existing guidance in IFRS Practice Statement 2 *Making Materiality Judgements* and would assist preparers in eliminating immaterial disclosures. The KASB member concurred with this view as they thought the proposed amendments would enhance the visibility of critical information in the financial statements.

26. However, the ASBJ and EFRAG members were not sure that the proposed amendments would dramatically change current accounting practice or behaviour.

27. The AOSSG, OIC and EFRAG members added that some other languages do not distinguish between 'material' and 'significant' on translation.

28. The AOSSG, ASBJ, KASB, FRC and AcSB members also expressed concerns over the proposed new paragraph 117B of IAS 1. In particular, the FRC, AcSB and ASBJ members noted that the proposed new paragraph 117B(e) needed further clarification – they thought that accounting policy disclosures should already be entity-specific. Consequently, they were unsure of what the Board meant by 'entity-specific' in this particular circumstance.

29. The AOSSG, PAFA and FRC members also had sympathy for Mr Martin Edelmann's Alternative View to the Exposure Draft and said that:

    (a) users will always be interested in certain accounting policies even if they are not material to the financial statements; and

    (b) duplicating some of the recognition and measurement requirements of more complex IFRS Standards would be useful to less sophisticated users of financial statements.

30. The ASBJ, EFRAG and KASB members noted that the Board has an active project on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which seeks to make amendments to the definition of an accounting policy. These members thought it would be beneficial if the Board combined these projects to make their scope clearer and reduce the number of amendments to the Standard that are related to accounting policies.

Extract of the meeting notes from the October 2019 Global Preparers Forum (see full meeting notes at October 2019 GPF meeting notes)

9. GPF members provided feedback on the Board's proposals in Exposure Draft *Disclosure of Accounting Policies*.

10. Some of the GPF members who commented expressed agreement with the proposal to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies because the proposal would help preparers focus only on disclosing that information which is material to the financial statements. However, some members added that so-called 'boilerplate' disclosure can be useful to users of financial statements that are not familiar with the IFRS Standards, especially in emerging markets or where IFRS Standards are not the dominant set of accounting standards.

11. A few members suggested that the proposed new paragraph 117B of IAS 1 *Presentation of Financial Statements* should be clarified to help entities consider accounting policy disclosure of transactions, other events and conditions that may be material only by nature and not by size.

12. A few other members suggested that the Board clarify what is meant by the proposed new paragraph 117B(e) of IAS 1 as all accounting policy disclosures should already reflect how an entity has applied the IFRS Standards to that entity's specific circumstances.

Appendix C—Proposed amendments to IAS 1 *Presentation of Financial Statements*

Disclosure of accounting policies

117 **An entity shall disclose its ~~significant~~ material accounting policies. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements. ~~comprising:~~**

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

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

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.

117D If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

118 [Deleted]~~It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more~~

~~than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~

119 [Deleted]~~In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~

120 [Deleted]

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.~~

122 An entity shall disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), 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.

…

Appendix D—Proposed Example T for IFRS Practice Statement 2 *Making Materiality Judgements*

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards

Background

Intangible assets and property, plant and equipment are material to an entity's financial statements. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets:

> The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.
>
> An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.
>
> The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.
>
> Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.
>
> An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Application

Having identified that assets that are subject to impairment testing are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

However, the entity noted that it also makes disclosures about its impairment assessments and its significant judgements and assumptions (for example, the discount rate used to measure value in use) in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1. The entity therefore concluded that there is no material information to include in a description of its impairment accounting policy that is not disclosed elsewhere in the financial statements.

The entity concluded that disclosing a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of the entity's financial statements based on those financial statements. This is because the accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards. However, the entity is still required to comply with the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1, and provide information about how it has applied IAS 36 and those paragraphs of IAS 1 during the period, if that information is material.

Appendix E—Alternative View of Mr Martin Edelmann on the Exposure Draft *Disclosure of Accounting Policies*

AV1 Mr Edelmann voted against the publication of the Exposure Draft *Disclosure of Accounting Policies* which proposes to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

AV2 In Mr Edelmann's view, accounting policies should be disclosed if management believes the disclosure would assist users of financial statements in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Not all primary users of financial statements are accounting experts (see paragraph 2.36 of the *Conceptual Framework of Financial Reporting*). Hence, the disclosure of accounting policies could help them to better understand an entity's reported financial performance and financial position even if such accounting policies are not important enough to be assessed as material because they would not be expected to influence the investment decisions of users.

AV3 Mr Edelmann suggests that, in some cases, accounting policies available from sources, such as IFRS Standards, should be disclosed because they may help users to better understand financial performance and position. Such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.

Appendix F—Extracts from the Basis for Conclusions on the Exposure Draft *Disclosure of Accounting Policies*

…

BC9 The Board has received feedback that:

(a) accounting policy disclosures are useful to users of financial statements only when they:

(i) relate to material transactions, other events or conditions; and

(ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies;

(b) users of financial statements do not find accounting policy disclosures useful when they:

(i) contain standardised information, sometimes referred to as ‘boilerplate’; and

(ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

BC10 To assist an entity in determining whether information about an accounting policy is material to its financial statements and to address the feedback from stakeholders described in paragraphs BC5 and BC9, the Board proposes adding explanatory paragraphs to accompany the proposed amendment described in paragraph BC8. The proposed explanatory paragraphs:

(a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material (see proposed paragraph 117A of IAS 1). For example, feedback from users of financial statements suggests that accounting policies that only duplicate the requirements of an IFRS Standard, and those that describe situations which do not require the exercise of judgement, are unlikely to influence the decisions that primary users of financial statements make on the basis of those financial statements (see paragraph BC9(b)). The Board is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements.

(b) identify circumstances in which an entity normally would conclude that information about an accounting policy is material to its financial statements (see proposed paragraphs 117A–117D of IAS 1). The Board is proposing this amendment to help entities determine whether information about an accounting policy is material.

BC11 The Board also proposes deleting the description of what an accounting policy comprises from paragraph 117 of IAS 1. This deletion is to better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements. For example, paragraph 117(a) of IAS 1 refers to the measurement basis (or bases) used in preparing the financial statements and might be interpreted to mean that an entity should always disclose this information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some circumstances the measurement basis (or bases) used for a particular asset or liability would not be material to the financial statements and therefore would not need to be disclosed. For example, a measurement basis might not be material if an IFRS Standard required entities to use it. Therefore entities would not apply choice or judgement in complying with the Standard.

…