Disclosure Initiative – Summary of IASB discussion

Introduction

1 At the September 2014 IASB meeting the IASB discussed the following topics:

(a) Amendments to IAS 1 *Presentation of Financial Statements*

(b) Materiality, including accounting policy disclosures;

2 The following paragraphs outline the details of the IASB discussion at the September 2014 IASB meeting.

(a) Paragraphs 3-25 detail a summary of the feedback received by the IASB in response to the IASB Exposure Draft ED/2014/1 and is based on AASB staff review of IASB September 2014 Agenda Paper 11C;

(b) Paragraphs 26-27 provide details of the feedback provided to IASB staff in relation to materiality; and

(c) Paragraphs 28-39 provide a summary of the IASB September Agenda Paper 11A(c) concerning Materiality – accounting policy disclosures.

<u>Amendments to IAS 1 – Summary of Feedback re: ED/2014/1 *Disclosure Initiative: Proposed amendments to IAS 1*</u>

General comments

Support

3 Many respondents supported the proposals due to the emphasis on materiality and the exercise of judgement both that are seen as important aspects of improving the relevance of disclosures. However, it was also noted that a few respondents noted that these amendments were clarifying what was already implicit in IAS 1.

4 Drafting changes were suggested.

Concerns

5 Concerns expressed by constituents included:

(a) Proposals reflect a piecemeal approach to addressing the disclosure problem.

(b) Some or all of the issues addressed would be more appropriately considered within the context of the Disclosure Initiative longer-term projects, e.g. the Principles of Disclosure and Materiality projects.

(c) Requests to clarify some of the terminology used such as ‘present’ and ‘disclose’.

AASB staff comment

The AASB submission to ED/2014/1 supported many of the proposals in the ED. In addition, the AASB submission expressed concern regarding the proposed terminology in the ED.

6 Provided below is an extract from IASB Exposure Draft ED/2014/1 outlining the questions asked concerning Disclosure Initiative amendments:

Question 1 - Disclosure Initiative amendments

The amendments to IAS 1 arising from the Disclosure Initiative aim to make narrow-focus amendments that will clarify some of its presentation and disclosure requirements to ensure entities are able to use judgment when applying that Standard. The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgement.

The proposed amendments relate to:

(a) materiality and aggregation (see paragraphs 29‑31 and BC1‑8 of this Exposure Draft);

(b) statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 54, 55A, 82, 85A and 85B and BC9‑BC15 of this Exposure Draft);

(c) notes structure (see paragraphs 113‑117 and BC16‑BC19 of this Exposure Draft); and

(d) disclosure of accounting policies (see paragraphs 120 and BC20‑BC22 of this Exposure Draft).

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

Question 1(a) Materiality & Aggregation

Support

7 Most respondents broadly supported the proposals. Reasons given included that the proposals:

(a) help to reduce excessive disclosures by reinforcing the importance of judgement in assessing materiality and the overarching nature of materiality in relation to specific disclosure requirements in individual Standards;

(b) in the case of the proposed guidance on aggregation and disaggregation, discourage entities from obscuring useful information amid an overload of immaterial information;

(c) remind entities to focus on communication rather than merely on compliance; and

(d) encourage entities to provide additional information when it is relevant to an understanding of the financial statements.

8 In addition, some respondents welcomed the IASB's intention to undertake a separate project on materiality as part of the Disclosure Initiative. In addition, the respondents

stated that without further guidance, the way the concept is currently applied in practice is unlikely to change.

Concerns

9 Concerns expressed by constituents included:

(a) The proposal in paragraph 31 of the ED to disclose information on matters covered by IFRS, but not specifically required, is too broad and may not be operational. The concern was raised that it would lead to difficulty in obtaining agreement between preparers, auditors and regulators about what information should be disclosed. In addition, a few respondents noted that these proposals are already required by paragraph 17(c) of IAS 1[1].

(b) The proposed guidance on materiality in IAS 1 should specifically mention that applying the concept of materiality requires the use judgement.

(c) The amendments need a better, more consistent use of terminology or that there should be a better explanation of what some terminology means. Terminology questioned included:

(i) difference between 'material', 'useful information' and 'relevant';

(ii) difference between 'financial statements' and 'financial statements, including the notes';

(iii) what 'needs of users' means.

(d) The terminology in existing Standards may need to be amended to be consistent with the proposals with some respondents suggesting that the requirements stated as 'at a minimum' in other Standards should be removed.

(e) The ED did not propose to prohibit the disclosure of immaterial information, because the IASB considered such a prohibition to not be operational (paragraph BC6 of the ED). There were mixed views about prohibiting the disclosure of immaterial information. A few respondents suggested that immaterial information should be prohibited from being disclosed, while others agreed that such a prohibition would not be operational.

(f) The problem of 'disclosure overload' is not attributable only to a lack of application of materiality.

(g) There needs to be more focus on increasing useful, or relevant, information as opposed to removing irrelevant information with a few investor respondents noted that the problem with disclosures is not overload, but a lack of relevant or useful information in the financial statements.

---

1 Paragraph 17(c) provides that a fair presentation requires an entity (amongst other things) 'to provide additional disclosure when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

(h) The discussion that the concept of materiality includes the notions of collective and individual assessments (included in paragraph BC5 of the ED), which should be made more clear or should be included in the Standard.

(i) Requiring an entity to not aggregate or disaggregate information in a manner that obscures material information (paragraph 30A of the ED) may cause some practical difficulties.

(j) Entities should disclose their materiality assessments or assumptions.

AASB staff comment
The AASB submission to ED/2014/1 supported many of the proposals addressed in question 1(a) in the ED. As noted above, the main concern expressed regarded the proposed terminology in the ED.

Question 1(b) Disaggregation of line items

Support

10 Many respondents supported the amendments clarifying that listing of line items in paragraph 54 of IAS 1 does not prevent entities from disaggregating those listed line items.

11 There was also support for the amendment to remove the text ‘at a minimum’ from paragraph 54 of IAS 1, which specifies line items to be presented on the statement of financial position. Furthermore, supporters of the amendments indicated that this deletion removed the misconception that there is a prescriptive list of items and instead encourage more emphasis on line items which provide relevant information.

Concerns

12 Concerns expressed by constituents included:

(a) The wording ‘… an entity shall include line items …’, which is also in paragraph 54 of IAS 1, still suggested a prescribed list of line items. In addition, those with this concern made the following suggestions:

(i) adding a cross-reference to paragraph 29 of IAS 1 to clarify that entities should apply materiality in deciding which line items should be presented separately;

(ii) adding the words ‘when material’ to paragraphs 54 and 82 to reinforce that materiality must be considered when determining what line items to present on these financial statements; and

(iii) including additional guidance on aggregation to encourage entities to aggregate specified line items in the financial statements when they are not material.

(b) Questioning whether the proposed additional text in paragraphs 54 and 82 of IAS 1 provided any additional guidance to that already provided in paragraphs 55 and 85 of IAS 1.

(c) Some respondents found the example on disaggregation on the items 'property, plant and equipment' into separate lines not to be helpful, because the disaggregation would not enhance the ability of users to understand an entity's financial position. In addition, the example did not provide any criteria for how to disaggregate. For example, the Deloitte comment letter stated:

> "It would be more helpful to provide guidance on whether, for example, it would be appropriate to disaggregate a particular class of property, plant and equipment (for example, bearer plants classified as property, plant and equipment following the upcoming amendment to IAS 41 Agriculture) or to disaggregate a line item by measurement basis (for example, property, plant and equipment carried at depreciated cost disaggregated from property, plant and equipment measured at a revalued amount) and on the criteria that would be considered when disaggregating items (for example, whether the significance of an item compared to others in the same line item or other qualitative factors are relevant)." *Deloitte*

(d) A few respondents requested guidance as to the interaction between subtotals and line items. For example, a few respondents requested clarification on whether the proposed disaggregation guidance requires the disaggregated line items to be accompanied by the resulting subtotal, i.e. the line items currently specified in paragraphs 54 and 82 of IAS 1.

(e) A few respondents suggested that the ED should discuss whether the inclusion of additional columns would be a permissible disaggregation under the proposals.

(f) A few respondents requested further clarification on the basis, degree and positioning of disaggregated items, for example in the notes or on the face of the financial statements. For example one respondent stated:

> "we are concerned that the wording might imply that a disaggregation made because it "is relevant to an understanding of the entity's financial position" can only be provided in the statement of financial position and not in the notes" Accounting Standards Board of Canada

AASB staff comment

The AASB submission to ED/2014/1 supported the proposed deletion of the words 'as a minimum' from paragraph 54 and encouraged the removal of this phrase from the disclosure requirements in all IFRSs.

In addition, a key concern noted in the AASB submission was to recommend that the 'prominence' constraint on the display of additional subtotals proposed in paragraph 85A(d) of the ED is narrowed only to paragraphs 81A and 81B of IAS 1.

Furthermore, the AASB also expressed concern that the proposed additions to paragraphs 54 and 82 in IAS 1 are presented as separate requirements and guidance from that in paragraphs 55 and 85, respectively, of IAS 1 but seem to largely repeat (and elaborate on) paragraphs 55 and 85.

Question 1(c) Subtotals

Support

13 Much support for this proposal. Reasons given included that the paragraph will:

(a) provide discipline that may help to prevent undue prominence in presentation;

(b) discourage the presentation of 'non-GAAP' measures, including those that might give a more favourable view compared to the information required by IFRS; and

(c) discourage unnecessary changes in presentation that may be motivated by a desire to present an optimistic view of financial performance.

Concerns/Suggestions

14 Concerns expressed by constituents included:

(a) Some respondents suggested that the guidance on subtotals should be extended to cover the statement of cash flows whilst others requested that such guidance be extended more generally, for example to subtotals disclosed in the notes.

(b) Some respondents questioned the difference in the proposed guidance applicable to the statement of financial position (paragraph 55A of the ED) and the statement(s) of profit or loss and Other Comprehensive Income (paragraphs 85A-85B of the ED). The proposed guidance relating to the statement of financial position did not include criteria relating to the relative prominence of, or reconciliation to, other subtotals and totals specified in IAS 1.

IASB staff have noted that the IASB did not propose these amendments for subtotals on the statement of financial position because IAS 1 does not specify totals or subtotals for that statement (see paragraph BC 14(c) of the ED). However a few respondents highlighted that some other Standards do require subtotals in the statement of financial position, for example IFRS 14 *Regulatory Deferral Accounts*.

(c) A concern was raised about the proposal in paragraph 85B of the ED to reconcile additional subtotals with the subtotals already specified by IAS 1. A few respondents thought that this reconciliation should be allowed to be made in the notes, and not only on the face of the financial statements. It was noted that if a reconciliation was prohibited from being disclosed in the notes, that would be inconsistent with paragraphs 99 and 100 of IAS 1, which require an entity to present an analysis of expenses by their nature or function. Entities are encouraged (not required) to present this analysis in the statement(s) presenting profit or loss and Other Comprehensive Income.

(d) Clarification was requested about the criteria proposed in paragraphs 55A and 85A of the ED that describe the nature of additional subtotals presented in the statement of financial position (in accordance with paragraph 55 of IAS 1) and the statement(s) presenting profit or loss and Other Comprehensive Income (in accordance with paragraph 85 of IAS 1) respectively. For example:

(i) a few respondents requested clarification about what was meant by the criteria in 55A(a) and 85A(a) of the ED that a subtotal must be 'made up of items recognised and measured in accordance with IFRS', because all items presented in the statement of financial position and profit or loss statement would comprise of items already recognised and measured in accordance with IFRS;

(ii) a few respondents requested clarification about how the criteria for subtotals to be consistent from period to period (paragraphs 55A(c) and 85A(c) of the ED) related to paragraphs 45 and 46 of IAS 1, which deal with consistency of presentation and classification of items; and

(iii) also referring to paragraphs 55A(c) and 85A(c) on consistency between periods, a few respondents suggested including explicit guidance on the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in these paragraphs.

(e) In response to paragraph BC15 of the ED noting that the IASB's intention in proposing guidance on subtotals was not to encourage the proliferation of 'non-GAAP' measures, this statement prompted mixed responses. Some respondents were confused about the relationship between the guidance on subtotals and 'non-GAAP' measures. A few respondents interpreted it as allowing for greater flexibility with regard to non-GAAP measures, for example stating that EBITDA and other types of subtotals do comply with paragraph 85 of IAS 1, as long as they are relevant to an understanding of the entity's financial performance. The mix in responses suggests a need for further clarification on this issue.

AASB staff comment

The AASB submission to ED/2014/1 recommended either omitting proposed paragraphs 55A(c) and 85A(c) or amending those proposed paragraphs to simply remind readers of the implications of paragraphs 45 and 46 of IAS 1 for the inter-period consistency of presentation of subtotals.

In addition, the AASB recommended that the proposed reconciliation requirements in paragraph 85B be reconsidered noting that if the requirement to reconcile is maintained, the AASB recommends providing a choice to display the reconciliation in the notes and clarifying the intended requirements of the reconciliations.

Question 1(d) Note Structure

Support

15 Many respondents supported the proposals in the ED to clarify that entities have some flexibility in the way they order their notes indicating that such flexibility enables entities to emphasise important aspects of their financial position or financial performance and permitting such flexibility helps entities to 'tell their story'.

16 A few respondents echoed what was stated in BC19 of the ED, that increased use of electronic versions of financial statements means that it is increasingly easy to search for, locate and compare information within the financial statements and between entities.

17 Many respondents welcomed the amendment that allowed entities to group accounting policies together with the related notes to the financial statements. These respondents indicated that placing accounting policies together with disclosures in other notes will help:

(a) reduce the duplication of information in the financial statements;

(b) users in understanding the relationships between the policy and the related disclosure; and

(c) provide a complete picture on a specific disclosure topic with related explanations on application and relevant balances disclosed together.

Concerns

18 Concerns expressed by constituents included:

(a) A few respondents did not agree with removing the word 'normal' from paragraph 114 of IAS 1, because it would remove what they perceived to be a default order of the notes. In particular, feedback received from investors was mixed, with some investors indicating a preference for a default or more standardised order of the notes. These respondents noted that they were accustomed to the current order of notes and found the consistency in ordering helpful in:

(i) searching and finding information in financial statements; and

(ii) comparing the financial statements of different entities.

(b) Some respondents asked the IASB to provide greater clarity on the trade-off between understandability and comparability. For example, allowing more flexibility in the overall ordering of the notes could increase understandability of the financial statements but reduce comparability between entities. The clarification should indicate whether understandability takes precedence over comparability in the event of a conflict or vice versa.

(c) A few respondents thought that permitting an entity to give prominence to disclosures that it views as being more relevant to an understanding conflicts with the concept of neutrality, which is a part of the fundamental qualitative characteristic of faithful representation.

(d) A few respondents doubted whether the argument stated in BC19 on electronic versions of financial statements being increasingly used holds true in the practical world. They also had doubts about the precision of the existing search tools.

(e) A few respondents who supported the disclosure of accounting policies in a single note pointed out the importance of making cross-references between the accounting policies and the other related notes. They argued that this could have the same effect as splitting the accounting policies note and grouping disclosure about those policies between related notes.

(f) A few respondents emphasised that the way in which an entity orders its notes should remain consistent and only change to reflect a change in the nature or significance of its operations. A few respondents suggested adding guidance about the criteria to be considered when an entity is deciding whether it should change the order of its notes.

(g) A few respondents were concerned that the word ‘alternatively’ within paragraph 114 of the ED, which describes one way in which an entity may determine an order for its notes, implies that it and the other example described in the preceding paragraph are the only two methods by which an entity can order its notes.

(h) One respondent requested clarification on whether a systematic order for the notes would preclude presentation of certain notes prior to the primary financial statements. For example, could an entity present disclosures about its operating segments before the statement of profit or loss and Other Comprehensive Income?

(i) Another respondent suggested that IFRS should require the presentation of a table of contents or an index immediately before the notes, to give an overview and means of quick access to notes considered most important.

(j) In response to the ED not proposing additional guidance on cross-referencing of information but instead proposing to move existing guidance (currently in paragraph 113 of IAS 1) to a proposed new paragraph 115 prompted a few respondents to suggest replacing the requirement to cross-reference from the primary financial statements to any *related* information in the notes to any *relevant* information in the notes. In their view, the reference to related information was too broad and may lead to excessive or circular cross-referencing because it may be interpreted to mean items that are beyond the scope financial reporting. There were also requests for further guidance on cross-referencing to information that is provided outside of the financial statements.

AASB staff comment

The AASB submission to ED/2014/1generally supported the proposed amendments to paragraphs 113 – 116. However, the AASB did recommend that either paragraph 113 or 113A should refer to the principle in paragraph 45(a).

In addition, the AASB questioned the appropriateness of retaining paragraph 114 of IAS 1 (albeit with the proposed amendments) because it implies describing an alternative order of notes to a particular order already described in paragraphs 113 - 113A. Given that a key point in paragraphs 113 – 113A is that there is no particular order of the notes that an entity would need to follow, the AASB is concerned that paragraph 114 seems likely to reinforce existing practice.

Question 1(e) Disclosure of Accounting Policies

Support

19 Most respondents who commented agreed with the proposal to delete paragraph 120 of IAS 1. There was agreement that the paragraph did not include helpful guidance and therefore did not contribute to an understanding of when disclosure of a significant accounting policy would be required.

20 Many respondents supported the IASB undertaking a project to clarify what a significant accounting policy is. On this point, some respondents provided suggestions on what characterised a significant accounting policy; for example that it:

(a) is entity-specific;

(b) is important to the business;

(c) relates to transactions or balances that are not covered by IFRS and therefore management has used its judgement to develop and apply the accounting policy;

(d) relates to situations in which IFRS contains more than one appropriate method (i.e. an option); or

(e) has changed from prior periods.

Concerns

21 Concerns expressed by constituents included:

(a) One respondent noted that in their jurisdiction, disclosure of the income taxes accounting policy is important.

(b) A few respondents preferred to retain the first sentence of paragraph 120, because it contains useful guidance as to the users' expectations in terms of accounting policy disclosure

(c) Deletion of paragraph 120 may result in more boilerplate disclosures and that guidance needs to be added to paragraph 119 to encourage entity-specific accounting policy disclosures and discourage 'boilerplate' disclosures.

(d) Some respondents highlighted that the ED proposed to delete the word 'significant' from paragraph 117 of IAS 1. A few suggested that 'significant' should be retained. Some other respondents suggested that there are other paragraphs in IAS 1 that should be amended to be consistent with the removal of the word 'significant', e.g. paragraph 10 of IAS 1.

AASB staff comment
The AASB submission to ED/2014/1supported the proposed amendments to IAS 1 regarding disclosure of accounting policies.

Other Issues Raised by Respondents

Terminology

22 The ED proposed to clarify the following terminology in IAS 1 as follows:

(a) 'present'— denotes disclosure as a line item on the statement(s) of profit or loss and Other Comprehensive Income, statement of financial position, statement of cash flows and statement of changes in equity; and

(b) 'disclose'—to denote disclosure in the notes to the financial statements.

23 Some respondents noted that these clarified terms had not been applied consistently throughout IAS 1 and suggested a review of whether these terms are being applied consistently, and, if they are not, measures should be taken to make them consistent in future.

24 A few respondents believed that these changes are fundamental and hence should not be in the Basis for Conclusions but instead should be in the Standard itself.

AASB staff comment
As noted above, the AASB submission to ED/2014/1 expressed concerns regarding the terminology used in the ED concerning the terms 'present' and 'disclose'.

Materiality

25 As noted in Agenda Paper 9.1, paragraph 10(a), in order to assist in the IASB Materiality research project, IASB staff wrote to national standard-setters requesting information on materiality in order to gain an understanding of the application of materiality in their jurisdictions. As outlined in the table in paragraph 26 below, the information IASB sought related to:

(a) instances in which the concept of materiality has been considered/used in case and securities law;

(b) guidance issued by a regulator (securities, prudential, enforcer, other);

(c) academic research;

(d) local auditing guidance;

(e) any other papers and publication of interest; and

(f) asked for information about the use of other concepts that are similar to (but differ from) materiality.

26 Provided below are details of the information sent to IASB staff in response to the request for information on materiality outlined above in relation to Australia.

Materiality paragraph	**AASB staff response**
10(a)	We are not aware of any Australian case law or Australian securities law that specifically considers the concept of materiality.
10(b)	We are not aware of any guidance issued by a regulator in Australia on the concept of materiality. However, the AASB recently withdrew its additional guidance on materiality and, in this context. In addition, the following documents were attached for IASB staff information: • The most recently published version of AASB 1031 Materiality; and • The December 2013 document withdrawing AASB 1031, which explains the reasons for withdrawal.
10(c)	We have checked with a number of Australian academics who have been involved in collaborations on the subject, but most of the work does not relate specifically to Australia and generally has an audit focus. In addition, the following documents were attached for IASB staff information: • A Review and Integration of Empirical Research on Materiality: Two Decades Later published in Auditing: A Journal of Practice & Theory, 2005; and • Materiality in the context of audit: the real expectations gap published in Managerial Auditing Journal, 2011.
10(d)	Australian auditing standards are essentially the same as those issued by the IAASB.
10(e)	In response to this question AASB staff attached: • a letter from the AASB dated 3 April 2012 to the ESMA commenting on the ESMA's Consultation Paper Considerations of Materiality in Financial Reporting; and • An AASB Staff Paper (February 2014) To Disclose or Not to Disclosure: Materiality is the Question.
11	In response to this question AASB staff have noted in a financial reporting context, we attach: • an extract from the Australian Corporations Act 2001 Regulations relating to individual key management personnel disclosures that make use of the notion of an exclusion for transactions that are 'trivial or domestic in nature'; and • an Australian Actuarial Standard relating to defined benefit calculations that might impact on reporting under IAS 19 Employee Benefits, which has a notion of materiality that differs from the accounting concept.

27 Provided below is an extract from the feedback provided to IASB staff regarding ASAF Agenda Item 7 Disclosure Initiative.

<u>Background</u>

This paper sets out some of the recent local activities in Australia concerning presentation and disclosure and materiality. Those activities include the following:

(a) the activities of the Financial Reporting Council (FRC) Managing Complexity Task Force;

(b) the issuance of the *Disclosure Initiative* Exposure Draft;

(c) publication of a AASB Staff paper on disclosures and materiality;

(d) publication of AASB Essay *Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework;*

(e) withdrawal of AASB 1031 *Materiality*; and

(f) Large firm publication of a Streamlined Annual Financial Report

It is noted that in the Australian environment there is a widespread mood for change around presentation and disclosure in financial reporting.

At its meeting on 28 November 2013, the FRC[1] observed that a mood for change was increasingly shared by standard-setters, regulators and other stakeholders.

Furthermore, the FRC agreed that preparers, auditors and directors need to address this issue in light of clarifications from the standard setters and the Australian Securities and Investments Commission (ASIC), recognising that too much irrelevant information is a distraction to understanding the financial report.

The FRC also discussed follow-up by the AASB, the Auditing and Assurance Standards Board (AuASB) and ASIC regarding their earlier commitments to encourage a focus in financial reports on material disclosures and eliminating unnecessary disclosures. Indeed ASIC has made comments in its Media Releases that its surveillance is focussed on 'material disclosures of information useful to investors and other users of financial reports'. It also confirmed that it 'does not pursue immaterial disclosures that may add unnecessary clutter to financial reports'.

<u>Materiality – accounting policy disclosures</u>

28 At the September IASB meeting the IASB discussed the following issues related to materiality. No decisions were made.

Motivation

29 IASB staff provided an overview of the key motivation for taking this topic to the IASB. The IASB staff noted:

(a) accounting policy (AP) disclosures often identified as examples of poor disclosure practice primarily due to the AP include recitation of accounting literature and results in difficulty relating to the AP to the entity and its activities and assessing which AP disclosures are most important;

(b) guidance about AP in IAS 1 is not helpful primarily because unclear what makes an AP significant and therefore it is difficult to assess which AP should be disclosed;

(c) a project on AP is needed in order to improve disclosures

(d) IASB staff think poos AP disclosures is symptomatic of problems in applying materiality. They have further noted that entities have difficulty in answering the questions:

(i) what makes a disclosure about AP useful?

(ii) what can be assumed about the users of the AP disclosures?

IAS 1 requirements

30 IASB staff note that steps have been taken in ED/2014/1 to address 2 problems – proposed deletion of paragraph 120 and proposed amendments to clarify that AP need not be disclosed in one note, but could be disclosed as part of other notes alongside disclosures to which that AP relates.

31 However, IASB staff have noted additional steps are required to ***help preparers and users of financial statements reach a shared understanding of how best to disclose AP in a meaningful way*** [emphasis added].

Three Different Views

32 The IASB staff outlined the three different views they have heard about what factors make an AP 'significant'.

View 1 – accounting policies that involve management input

33 AP information only disclosed in the following circumstances:

(a) there is a choice to the entity in application (for example, measuring investment property at fair value or cost), including selection in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when there is no IFRS that specifically applies to a transaction, other event or condition (paragraph 10 of IAS 8);

(b) the entity has changed accounting policies during the period, e.g. changing from one choice to another, or applying a new Standard; and

(c) applying the policy requires judgement.

View 2 – 'most important' accounting policies

34 AP's are significant and should be disclosed if they relate to the transactions, events and circumstances that are most important, or unique, to the entity's business, regardless of whether management has any discretion. For example, revenue (which some suggest is always significant because it is fundamental to many entity's activities).

35 The FRC Lab report *Accounting policies and integration of related financial information* identifies **Views 1 & 2** are being **held by some institutional investors.**

View 3 – all accounting policies applied

36 Some users have suggested they want information about all of the AP applied by the entity.

37 IASB staff have noted that they believe this is due to:

(a) not all users of financial statements are familiar with accounting literature; and

(b) some users of financial statements consider that the financial statements should be a stand-alone document.

38 The FRC Lab report *Accounting policies and integration of related financial information* identifies **View 3** as being **held by some retail investors.**

AASB Staff Comment
AASB staff consider that there is merit in both Views 1 and 2. In regard to view 1 AASB staff consider management input should be the key consideration in determining the AP's disclosed in the financial statements. However, AASB staff also appreciate that it may enhance understandability and completeness of an entity's financial statements if the AP information relating the key aspects of an entity's business is disclosed, even if an AP choice is not required, for example, as noted above – the revenue recognition policy.

IASB Staff Conclusion

39 The IASB staff agenda paper provides a detailed analysis of what makes a disclosure of an AP useful and what can be assumed about the accounting knowledge of users of financial statements. This is then followed by a summary of their conclusions. This is outlined below:

(a) *Objective* –

(i) provide necessary context to, and enhance the understandability of, an entity's material transactions, events and circumstances; and

(ii) be more entity-specific and explain how the accounting guidance has been applied in the context of the entity's activities.

(b) *Guidance in IAS 1* –

(i) guidance currently in IAS 1 is not clear to all; and

(ii) factors in IAS 1 for assessing whether an AP should be disclosed should be based on the level of management input, or judgement, into the classification, recognition and measurement decisions

(c) *Judgement needed by entities* – to determine:

(i) What policies are necessary to an understanding of the material transactions, events and circumstances and ***should*** therefore be disclosed in the financial statements; and

(ii) What policies enhance the understandability of the material transactions, events and circumstances and ***could*** be disclosed in the financial statements. [emphasis added].

(d) *Needs of users* – entities need to consider the needs of users of their financial statements when considering which AP to disclose.

(i) Needs may change over time.

(ii) E.G. entity has just adopted IFRS, or a Standard, vs. several years after adoption. Before IFRS became widely adopted an analyst reviewing a wide range of financial statements of an industry would have needed the entity to explain is local GAAP requirements.

(e) *All accounting policies* – an entity may consider all AP's for material transactions, events and circumstances should be disclosed

(i) Do not think this should be prohibited because they could enhance the understandability of some entities financial statements, therefore meeting the objective of AP disclosures

(f) *Prominence of accounting policies* –

(i) AP's which an entity determines are necessary for an understanding of its financial statements should be made more prominent.

(ii) Include all those AP's described in View 1

(iii) May include some or all of its 'most important' AP's – View 2 however judgement would be required

(g) *Guidance required* - Guidance should be provided in IAS 1 to promote the prominence of the necessary AP's. Examples include:

(i) including a summary of the necessary accounting policies in one note;

(ii) including a summary in the front of the notes indicating which notes in the financial statements contain the necessary accounting policies; or

(iii) disclosing the accounting policy information provided to enhance the understandability of the financial statements in one place, for example, in an appendix towards the back of the financial statements.