AASB Exposure Draft

ED 296
August 2019

Disclosure of Accounting Policies

Proposed amendments to AASB 101 and AASB Practice Statement 2

Comments to the AASB by 28 October 2019

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 28 October 2019. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 29 November 2019.

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

August 2019

IFRS® Standards
Exposure Draft ED/2019/6

Disclosure of Accounting Policies

Proposed amendments to IAS 1 and IFRS Practice Statement 2

Comments to be received by 29 November 2019

IASB®

IFRS®

Exposure Draft

Disclosure of Accounting Policies

Proposed amendments to IAS 1 and IFRS Practice Statement 2

Comments to be received by 29 November 2019

Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 29 November 2019 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

ISBN: 978-1-911629-36-8

Copies of Board publications may be obtained from the Foundation's Publications Department. Please address publication and copyright matters to publications@ifrs.org or visit our webshop at http://shop.ifrs.org.

IFRS®

CONTENTS

Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes 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.

IAS 1 requires entities to disclose their 'significant' accounting policies. The Board proposes to replace that requirement with a requirement to disclose 'material' accounting policies. In addition, the Board is proposing amendments to IAS 1 and IFRS Practice Statement 2 to help entities apply the concept of materiality in making decisions about accounting policy disclosures. The proposed amendments are intended to help entities:

- identify and disclose all accounting policies that provide material information to primary users of financial statements; and
- identify immaterial accounting policies and eliminate them from their financial statements.

The proposed amendments build on *Definition of Material*, issued in October 2018, which made amendments to IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph or paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative(s) the Board could consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1
The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies. Do you agree with this proposed amendment? If not, what changes do you suggest and why?

Question 2
The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements. Do you agree with this proposed statement? If not, what changes do you suggest and why?

Question 3
The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

Question 4
The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

Question 5
Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Question 6
Do you have any other comments about the proposals in this Exposure Draft?

Deadline

The Board will consider all comments received in writing by 29 November 2019.

How to comment

We prefer to receive comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment' page at: https://www.ifrs.org/projects/open-for-comment
By email	Send email comments to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117D and 139U are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

Definitions

7 **The following terms are used in this Standard with the meanings specified:**

Accounting policies **is defined in paragraph 5 of IAS 8** ***Accounting Policies, Changes in Accounting Estimates and Errors*** **and is used in this Standard with the same meaning.**

...

Complete set of financial statements

10 **A complete set of financial statements comprises:**

...

(e) **notes, comprising ~~significant~~ material accounting policies and other explanatory information;**

...

Notes

Structure

...

114 Examples of systematic ordering or grouping of the notes include:

...

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

(ii) ~~significant~~ material accounting policies applied (see paragraph 117);

...

Disclosure of accounting policies

117 **An entity shall disclose its ~~significant~~ material accounting policies ~~comprising:~~. 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.

~~**(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.~~

...

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.

...

Transition and effective date

...

139U [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117D and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. The amendments shall be applied prospectively.

[Draft] Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

Paragraphs 88A–88D and their heading, and Examples S and T are added. Paragraphs 117, 117A and 117D of IAS 1 are added to the Appendix. New text is underlined.

Specific topics

...

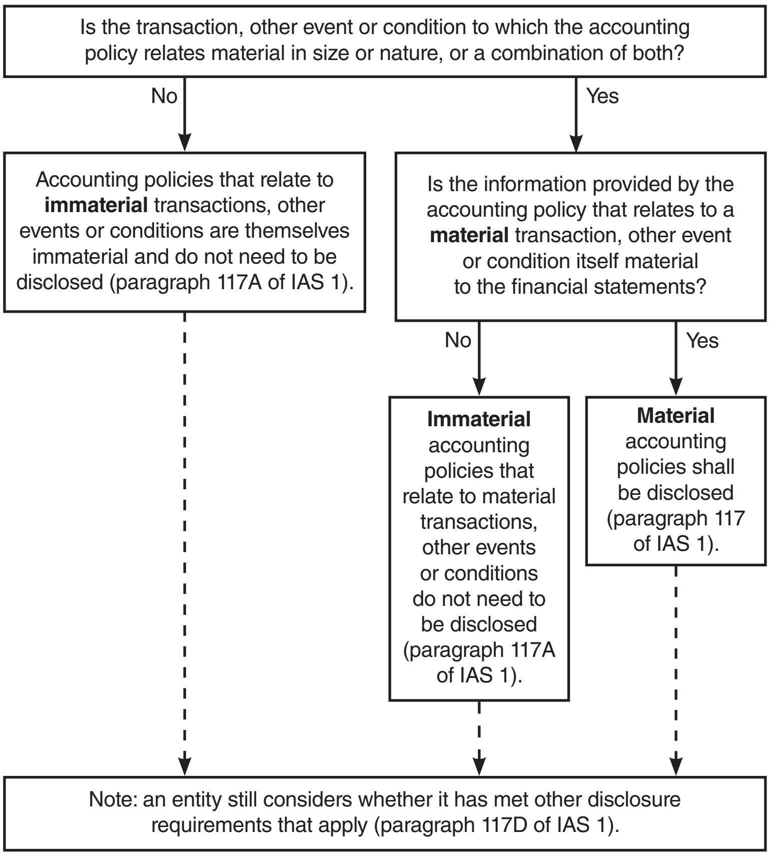
Information about accounting policies

88A Paragraph 117 of IAS 1 requires an entity to disclose its material accounting policies.

88B Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Accounting policies relating to material transactions, other events or conditions are disclosed if information provided by the accounting policies is material to the financial statements.

88C An entity assesses whether information about its accounting policies is material to its financial statements by considering whether that information, together with other information in the financial statements, could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. This assessment is made in the same way as for other information—by considering qualitative and quantitative factors as described in paragraphs 44–55. The diagram below illustrates how an entity assesses whether an accounting policy is material and therefore should be disclosed.

Diagram—determining whether an accounting policy is material



88D Paragraph 117B of IAS 1 includes examples of circumstances in which an entity is likely to consider an accounting policy to be material:

> …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.

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised ('boilerplate') accounting policy disclosures

Background

An entity operates within the telecommunications industry. It has entered into a number of contracts with retail customers to deliver both a mobile phone handset and data services. A typical contract is one in which the entity will provide a customer with a handset and data services over a three-year period. The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when, or as, it satisfies its performance obligations in line with the terms of the contract.

The entity has identified the following performance obligations and related considerations:

(a) handset—the customer makes monthly payments for the handset over three years; and

(b) data—the customer pays a fixed monthly charge to use a specified amount of data each month for a period of three years.

For the handset, the entity recognises revenue when it has satisfied the performance obligation (ie when it provides the handset to the customer). For the provision of data, the entity recognises revenue as it satisfies the performance obligation (ie as the entity provides data services to the customer over the three-year life of the contract).

The entity has concluded that revenue generated from these contracts is material to the reporting period.

continued...

...continued

Application

The entity notes that for this type of contract there are two separate accounting policies for two distinct sources of revenue:

(a) revenue for the sale of handsets; and

(b) revenue for the provision of data services.

Having identified that revenue from contracts of this type is material to the financial statements, the entity assesses whether its accounting policies for revenue from these contracts are, in fact, material.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; and

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

However, the entity's revenue recognition accounting policies relate to an area for which the entity:

(a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and

(b) has had to consider how the requirements of the Standard apply to its own circumstances.

Consequently, the entity concluded that disclosing the accounting policies for revenue recognition is likely to be necessary for the primary users of its financial statements to understand information in the financial statements and could reasonably be expected to influence those users' decisions. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue. The entity therefore assessed information about the accounting policies for revenue recognition, including information about the timing of revenue recognition, as material.

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.

continued...

...continued

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
References to the *Conceptual Framework for Financial Reporting* and IFRS Standards

...

Extracts from IAS 1 *Presentation of Financial Statements*

...

Paragraph 117

Referred to in paragraphs 88A and 88C of the Practice Statement

An entity shall disclose its 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.

Paragraph 117A

Referred to in paragraph 88C of the Practice Statement

> 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.

Paragraph 117D

Referred to in paragraph 88C of the Practice Statement

> 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.

...

Approval by the Board of Exposure Draft *Disclosure of Accounting Policies* published in August 2019

The Exposure Draft *Disclosure of Accounting Policies* was approved for publication by 13 of 14 members of the International Accounting Standards Board. Mr Edelmann voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on the proposed amendments to IAS 1 and IFRS Practice Statement 2

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

BC1 In March 2017 the Board issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared applying IFRS Standards. One issue related to the disclosure of accounting policies.

BC2 The Discussion Paper noted that:

(a) users of financial statements often express concerns about how accounting policies are disclosed in the financial statements;

(b) paragraph 117 of IAS 1 requires entities to disclose their significant accounting policies; and

(c) stakeholders' views differ about what constitutes a significant accounting policy.

BC3 The Discussion Paper explored an approach to address the concerns described in paragraph BC2 that would have introduced the following categories of accounting policy:

Category 1—accounting policies, disclosure of which are always necessary to understand information in an entity's financial statements, that relate to material transactions, other events or conditions;

Category 2—accounting policies that are not included in Category 1, but also relate to transactions, other events or conditions that are material to an entity's financial statements, either because of the amounts involved or because of their nature; and

Category 3—any other accounting policies used by an entity in preparing the financial statements (ie accounting policies not included in Categories 1 or 2).

The Board's preliminary view, described in the Discussion Paper, was that both Category 1 and Category 2 accounting policies should be disclosed.

BC4 Many respondents supported the Board's efforts to develop guidance for entities about which accounting policies they should disclose. However, they rejected the Board's categorisation of accounting policies as confusing and too prescriptive.

BC5 Feedback suggested that the ineffective disclosure of significant accounting policies is primarily due to difficulties in applying the concept of materiality. This feedback came from stakeholders, including users of financial statements, many of whom agreed that materiality should be the basis of any requirements about disclosure of accounting policies developed by the Board. Respondents thought it would be useful if the Board developed guidance on how to determine whether an accounting policy is material.

Proposed amendments

Replacing 'significant' with 'material'

BC6 The Board observed that one of the difficulties entities face is understanding the difference, if any, between 'significant' accounting policies and 'material' accounting policies. The Board considered developing a definition of 'significant' in the context of accounting policy disclosure. However, the Board concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BC7 Consequently, the Board considered whether an entity should instead apply the concept of materiality to accounting policy disclosures. The Board observed that an accounting policy considered in isolation would rarely be assessed as material to the financial statements. This is because information about an accounting policy considered in isolation would be unlikely to affect the decisions of users of financial statements. However, an accounting policy may be considered material when information about it is considered in combination with other information in a complete set of financial statements. In the Board's view, an accounting policy would be material if its disclosure is needed for a user to understand information provided about a material transaction, other event or condition in the financial statements. This view is consistent with the application of materiality to other information. A single disclosure considered in isolation is unlikely to be judged material. However, when taken together with other information in the financial statements, that single disclosure may be assessed as material information. Thus, the Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies.

BC8 The Board therefore proposes to amend paragraph 117 of IAS 1. As amended, paragraph 117 of the Standard would require an entity to disclose its 'material' accounting policies rather than those that are 'significant'.

Supporting paragraphs

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; and

(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.

BC12 In developing the proposed amendments to IAS 1, the Board noted that the definition of material states that 'materiality depends on the nature or magnitude of information, or both'. Consequently, the Board concluded it would be unnecessary to repeat such an explanation in the proposed amendments.

BC13 The Board proposes to replace the concept of significance with the concept of materiality for determining whether an accounting policy should be disclosed. The Board does not propose to relieve an entity from meeting other disclosure requirements within IFRS Standards. For example, when applying the proposed amendments, if an entity decides that information about an accounting policy about intangible assets is not material to its financial statements, that entity would still need to consider all the disclosure requirements in IAS 38 *Intangible Assets* and determine whether the resulting information is material.

Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

BC14 To support the proposed amendments to IAS 1, the Board also proposes amending IFRS Practice Statement 2 *Making Materiality Judgements* to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements.

BC15 In particular, the Board proposes adding guidance and examples to IFRS Practice Statement 2 to help entities apply its four-step materiality process to accounting policy disclosures. The guidance and examples support the proposed amendments to IAS 1 by:

(a) clarifying that an accounting policy may be material by nature, even if related amounts in the financial statements are not material by size (see proposed paragraph 88C of IFRS Practice Statement 2).

(b) linking the application of materiality to accounting policy disclosures with the four-step materiality process described in paragraph 33 of IFRS Practice Statement 2 (see proposed paragraph 88C of IFRS Practice Statement 2).

(c) highlighting the need to focus on useful information for users of financial statements. In particular, the guidance and examples highlight the importance of information that:

  (i) could reasonably be expected to influence users' decisions (see proposed paragraph 88C of IFRS Practice Statement 2); and

  (ii) is needed to understand material information in the financial statements (see proposed paragraph 88C of IFRS Practice Statement 2).

(d) demonstrating how the four-step materiality process can address:

  (i) standardised (or 'boilerplate') information disclosed about accounting policies material to the financial statements (see proposed Example S); and

  (ii) accounting policy disclosures that contain only information that duplicates the requirements of IFRS Standards (see proposed Example T).

Amendments to other Standards and publications

BC16 Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. Paragraph 31 of IAS 1 states that disclosure requirements in IFRS Standards are subject to the application of materiality—a disclosure that would otherwise be required by a Standard need not be provided if the information resulting from that disclosure is not material. Consequently, the Board concluded that existing requirements relating to accounting policy disclosures and the application of materiality in other IFRS Standards are consistent with the proposed amendments to IAS 1. In the Board's view, amendments to other requirements in IFRS Standards are therefore not necessary.

Transition

BC17 The Board's view is that retrospective application of the proposed amendments would not be possible because the proposed amendments affect only the disclosure of accounting policies. Consequently, the Board proposes that entities apply the proposed amendments prospectively.

Likely effects

BC18 The Board notes that the proposed amendments may have an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to the disclosure of accounting policies. However, the Board believes the proposed amendments will help entities to identify and disclose all accounting policies that provide material information to users of financial statements and eliminate accounting policy disclosures that do not provide material information. The disclosure of material information and the removal of immaterial information should improve the relevance of the financial statements, and reduce the cost of preparing financial statements, by reducing the disclosure of large volumes of immaterial accounting policy information.

BC19 Furthermore, the Board suggests the proposed amendments will support entities in removing immaterial accounting policy information that may obscure material accounting policy information.

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 financial position. Such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.

[Draft] Amendments to other IFRS Standards and publications

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 21 and B5 are amended. Paragraph 44EE is added. New text is underlined and deleted text is struck through.

...

Other disclosures

Accounting policies

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

...

Effective date and transition

...

44EE [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 21. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

...

Appendix B
Application guidance

...

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of an entity's material accounting policies, including the measurement basis (or bases) used in preparing the financial statements ~~and the other accounting policies used~~ that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

...

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

Proposed amendments to IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph 34 is amended and paragraph 38 is added. New text is underlined and deleted text is struck through.

Disclosure

34 **The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:**

(a) **a statement of changes in net assets available for benefits;**

(b) **a summary of ~~significant~~ material accounting policies; and**

...

Effective Date

...

38 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 34. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

Proposed amendments to IAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

5 IAS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;

...

Effective date

...

60 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 5. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

Proposed amendment to Guidance on implementing IFRS 8 *Operating Segments*

Paragraph IG2 is amended. New text is underlined and deleted text is struck through.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the IFRS).

...

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

...

The accounting policies of the operating segments are the same as those described in the ~~significant~~ material accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

...

Proposed amendment to Guidance on implementing IAS 1 *Presentation of Financial Statements*

Paragraph IG6 is amended. New text is underlined and deleted text is struck through.

Illustrative financial statement structure

...

IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, disclosures about ~~significant~~ material accounting policies and other explanatory information.

[Draft] Amendment to the Basis for Conclusions on IAS 1

IAS 1 *Presentation of Financial Statements*

A footnote is added to the words 'significant accounting policies' in paragraphs BC76C and BC76F.

* [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 117–122 of IAS 1 which now refer to 'material accounting policies'.

IFRS®

International Financial Reporting Standards®

IFRS Foundation®

IFRS®

IAS®

IFRIC®

SIC®

IASB®

The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

Columbus Building | 7 Westferry Circus | Canary Wharf
London E14 4HD | United Kingdom
Telephone: +44 (0)20 7246 6410
Email: info@ifrs.org | Web: www.ifrs.org

Publications Department
Telephone: +44 (0)20 7332 2730
Email: publications@ifrs.org

ISBN 978-1-911629-36-8

IAS®