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ED/2019/6 Disclosure of Accounting Policies (Proposed Amendments to IAS 1 and IFRS Practice Statement 2)

Cover Note

Objective

- 1 The objective of the session is to collect members initial views and comment on the IASB's Exposure Draft ED/2019/6 *Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2*.
- 2 At its 17 September meeting, EFRAG TEG started discussing the first draft of the comment letter. Discussions will be continued at the joint EFRAG TEG and CFSS meetings based on the revised document contained in agenda paper 08-01a.
- 3 The input collected will be used in preparing for the October 2019 ASAF meeting and in finalising the draft comment letter.

Background

- 4 Comments on the IASB's *Principles of Disclosure Discussion Paper* suggested that further guidance was needed to assist entities in determining which accounting policies to disclose. Many respondents (including EFRAG) noted in particular that the application of materiality was key to this decision and some suggested that the IASB develop further guidance on how to determine whether an accounting policy is material.
- 5 The ED, issued in August 2019, proposes to amend paragraphs 117–122 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policies rather than their significant accounting policies.
- 6 The ED proposes that 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 users make on the basis of those financial statements.
- 7 The proposed amendments also build on the revised definition of 'material' contained in *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendments to IAS 1 and IAS 8) issued in October 2018.
- 8 Moreover, the ED clarifies that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements. The ED also provides examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements.
- 9 To support the revised definition, the IASB has developed guidance and application examples to help entities:

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

10 Comments on the ED are requested by 29 November 2019.

EFRAG 's draft comment letter

- 11 A first draft of EFRAG's comment letter will be discussed at the EFRAG TEG meeting on 17 September 2019 and the draft comment letter for discussion (accessible [here](#)) reflects the EFRAG Secretariat's views. An update will be provided to EFRAG CFSS members at the meeting.
- 12 In the draft comment letter, the EFRAG Secretariat is suggesting that EFRAG should:
- (a) support the proposal to replace the reference to the concept of 'significance' (which is not defined in IFRS Standards) with the defined concept of 'materiality' as this has the potential to better relate the assessment about information on accounting policies with the application of materiality to the other information and thus help entities apply judgement in order to identify and disclose accounting policies that provide material information to users;
 - (b) confirm that information about accounting policies is most useful when it relates to material transactions, other events or conditions and also provides insight into how an entity has exercised judgement in selecting and applying accounting policies in its specific circumstances;
 - (c) note a possible inconsistency between the proposals in the ED and the existing requirements in IAS 8 regarding accounting policy election and changes; and
 - (d) reiterate the concerns expressed in its comment letter in response to the IASB's Discussion Paper *Principles of Disclosure* that the IASB the effect of the use of technology on the presentation of financial statements, in particular for standing information such as disclosures about accounting policies, should be further considered by the IASB.

Questions for EFRAG TEG and EFRAG CFSS

- 13 What are members' preliminary views on the ED? Do you have any early feedback from others in your jurisdiction on the ED?
- 14 Are the two examples added to IFRS Practice Statement 2 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?
- 15 Would any wording or terminology introduced on the ED be difficult to understand or to translate?

Agenda Papers

- 16 In addition to this cover note, Agenda papers for the session are:
- (a) 08-01a – EFRAG draft comment letter;
 - (b) 08-02 – *ASAF paper 04 - DI Accounting Policy Disclosure -ED Overview- EFRAG TEG-CFSS 19-09-25.*