BUSINESSEUROPE

International Accounting Standards Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf,
London E14 4HD,
United Kingdom

28 November 2019

Dear Board Member,

Re: Exposure Draft ED/2019/6 - Disclosure of Accounting Policies - Proposed amendments to IAS 1 and IFRS Practice Statement 2

BusinessEurope welcomes the opportunity to respond to the IASB's Exposure Draft ED/2019/6. We fully support the IASB's efforts to clarify and enhance the relevance of preparer's disclosure of accounting policies and reduce the information overload. We believe that the application of materiality instead of the concept of significance provides more clarity and is underpinned by a good understanding of preparers and users and a good range of supporting materials.

However, we do have some concerns regarding the statement that the ED is supposed to help entities to *eliminate* immaterial accounting policies from their financial statements. Although that terminology only used in the introduction to the proposed amendments, we think such wording must be used with care as it may have unintended consequences and lead to misunderstandings. Further, we like to stress that financial statements are an important means of communication with an entity's investors and entities strive to make their financial statements as readable and understandable as possible in order to ensure the relevance of these statements to their investors. We therefor do support the Board's proposal, that immaterial accounting policies *need not* to be disclosed but entities may decide to do so anyway when they see a benefit for their investors.

Please find our detailed comments attached. If you require any further information on this matter, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser
Legal Affairs Department

APPENDIX

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?

BUSINESSEUROPE agrees with changing the wording from 'significant' to 'material' since we consider it helps reduce boilerplate information and therefore information overload. We think that the concept of materiality enjoys a wide understanding and there is enough supporting material to clarify its application.

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?

BUSINESSEUROPE agrees with the Board's statement, that not all accounting policies relating to material transactions are material themselves. Among users of financial statements, there is a broad understanding of the application of IFRS Standards and hence, commonly applied IFRS standards do not need to be disclosed. It may be worth adding that this will be the case when a preparer has a business model that is very clear from an accounting perspective and there are no alternative accounting methods that may be used. However, we also want to mention that it may be beneficial for users of financial statements if additional information about the accounting policies is disclosed in order to make the financial statements more readable. Preparers must use judgement in order to provide the most relevant and understandable/readable information to their investors.

In addition, we would like to ask the Board to clarify within ED.1.117A that the term "transaction" is not meant to refer to each single transaction but to groups of similar transactions. That is because entity may have many transactions, such as the sale of goods or services, that are immaterial when looking at the single transaction but the total volume of these transactions is well material.

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?

BUSINESSEUROPE agrees with the examples (a)-(d) of the proposed ED1.117B. However, we are rather concerned about the wording of ED.117B(e) that refers to the application of IFRSs to an "entity's specific circumstances". We believe that any application of IFRSs by an entity should always be an application that takes into account the specific circumstances of an entity. Hence, ED.117B(e) could be read as the requirement for the disclosure of all accounting policies. We believe that the Board's intention with this example was to require the disclosure of an accounting policy if an entity has applied an IFRS to transactions in a way that are not self-explanatory because of the transactions' inherent complexity.

If our understanding is correct, then BUSINESSEUROPE would ask the Board to reconsider the wording of the aforementioned paragraph.

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?

BUSINESSEUROPE overall agrees with the proposed examples but wants to make one remark. Within example S, it is not clear whether the customer leases or buys the handset from the entity. As the example is actually based on the sale-scenario, this should be stated more clearly in the Practice Statement.

In addition, we think it would be worth clarifying that it may not be a single transaction that needs to be assessed whether it is immaterial but the corresponding group of identical or similar transactions. Although we assume this to be widely understood, a clarification may avoid diversity in practice and enhance comparability.

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

BUSINESSEUROPE would point not the wording introduced but the one retained in IAS 1.122, which seems confusing. While the disclosure of accounting policies shall be subject to the materiality framework, the requirement for the disclosure of judgements still refers to 'significant' effects on the amounts recognized in the financial statements. We wonder whether this should also be subject to the materiality framework instead of significance.

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

We want to note that ED.BC15 states that an accounting policy can be material by nature, even if the related amounts in the financial statements are immaterial. In our view, there is thus a conflict with the drafted IAS 1.117A, where it is stated, that accounting policies relating to immaterial transactions are immaterial themselves. According to proposed paragraph 117A, an entity would first identify whether transactions are material by size or nature before it would assess whether an accounting policy is material.

In addition, we are concerned over the statement given within the introduction of the ED, where it is stated that the ED shall help users to “eliminate” immaterial policies from their financial statements (see ED.p.4). Although this terminology is only used in the introduction to the proposed amendments of the ED, BUSINESSEUROPE thinks that a careful use of the wording is necessary. BUSINESSEUROPE is of the view that an entity’s financial statement is an important means of communication with investors. As such entities are often willing to make their statements as easy to read as possible, providing additional explanations and descriptions even if they are not absolutely necessary since an investor could gain the same understanding from studying the IFRS standards.

Having said this, we do support the terminology used in the ED stating that an entity does “not need” to disclose immaterial accounting policies. We think that this leaves preparers with enough room to disclose information that ensures the relevance of the preparer’s financial statements to its specific investors.

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