European Financial Reporting Advisory Group

ED/2019/6 Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2

Feedback to respondents – EFRAG Final Comment Letter

January 2020

Summary of contents

Objective of this feedback statement

On 27 September 2019, EFRAG published a draft comment letter on the Exposure Draft ED/2019/6 *Disclosure of Accounting Policies (Proposed amendments to IAS 1 and IFRS Practice Statement 2)* ('the ED'). This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

Background to the ED

The ED 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.

To support this amendment the IASB also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2 *Making Materiality Judgements* to accounting policy disclosure and 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.

Further details are available on the IASB website.

EFRAG's draft comment letter

In its draft comment letter, EFRAG supported the proposal to replace the undefined reference to 'significance' with the defined concept of 'materiality'. This, with other Disclosure Initiative projects, may help entities to identify and disclose accounting policies that provide material information to users and the connection to the application of materiality to other information.

EFRAG considered that information about accounting policies is most useful when it both 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. However, EFRAG noted the possible inconsistencies of the proposed guidance with the existing disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding accounting policies choices and changes.

EFRAG also welcomed the provision of guidance and examples in IAS 1 and in IFRS Practice Statement 2 to help entities determine when an accounting policy is material. However, EFRAG suggested that the IASB could consider providing additional examples.

Finally, EFRAG regretted that the IASB has not further considered the effect of the use of technology on the presentation of financial statements.

Comments received from respondents

EFRAG received twelve comment letters in response to its draft comment letter; including national standard-setters (seven), regulator (one) and other accounting organisations (four). The comment letters received are available on EFRAG's Website and a list of respondents is provided in Appendix 1. In addition, two National Standard Setters provided input by email (without submit a formal letter).

Overall, the vast majority of respondents supported EFRAG's initial views on all the six questions raised in the ED.

However, some respondents (five), while supporting the overall objectives of the proposals, expressed concerns that the ED may discourage entities from disclosing information that could be useful for the understandability of the financial statements taken as a whole particularly the case when some accounting requirements in IFRS Standards which may be particularly complex as not all primary users of financial statements are accounting experts. A few respondents also outlined that in the languages in their jurisdictions, the words 'significant' and 'material' are translated the same or very similarly, and this terminology change in itself was not expected to be enough to change behaviours.

Lastly some respondents also suggested some other minor drafting improvements.

EFRAG's final comment letter

EFRAG published its final comment letter on 12 December 2019. Considering the feedback received, EFRAG retained the main views expressed in its draft comment latter. To address the above comments received by some respondents, the comment letter also emphasises that in applying the principle of materiality, an entity also needs to consider the accounting policies that are relevant to an understanding of its financial statements taken as a whole. In particular, in some cases, information reproducing the requirements in IFRS Standards may be helpful, especially when some accounting requirements may be particularly complex. Examples illustrating such situations have been included.

Other additional minor changes have been considered in the revised response (see detailed analysis, hereafter).

Detailed analysis of issues, comments received, and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Requirement to disclose their 'material' accounting policies

Proposals in the ED

IAS 1 requires entities to disclose their 'significant' accounting policies. The ED proposes to replace that requirement with a requirement to disclose 'material' accounting policies. The ED also aims at providing guidance to help entities apply the concept of materiality in making decision and help entities identify and disclose all accounting policies that provide material information to primary users of financial statements.

EFRAG's tentative position

EFRAG supported the proposal to replace the reference to 'significance' (which is not defined in IFRS Standards) with the concept of 'materiality'. This, with other Disclosure Initiative projects, may help entities to identify and disclose accounting policies that provide material information to users and the connection to the application of materiality to other information.

Respondents' comments

Twelve of the fourteen respondents did explicitly address question 1. A majority of these respondents supported or did not object the IASB's proposal to replace the reference to 'significance' with the defined concept of 'materiality'. Two respondents, while agreeing with the objective to reduce immaterial disclosures, considered that only changing the terms would not achieve the desired objective.

EFRAG's response to respondents' comments

EFRAG's final position

The vast majority of respondents supported, like EFRAG's draft comment letter, replacing the notion of 'significance' with 'materiality'. Therefore, no changes were made to the position expressed in the draft comment letter.

Concerns expressed by some about translation of the words 'significant" and material' have been addressed in the response to Question 5 regarding the terminology used I the ED.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Not all accounting policies relating to material transactions are themselves material

Proposals in the ED

Proposed paragraph 117A states that 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.

EFRAG's tentative position

EFRAG agreed that not all accounting policies relating to material transactions, other events or conditions are necessarily themselves material to an entity's financial statements.

Respondents' comments

Twelve of the fourteen respondents provided input on this proposal. The vast majority of respondents supported the proposals and EFRAG's assessment.

Five respondents noted that, although the proposed amendments are clear that disclosure of immaterial accounting policies are not required but are not prohibited either, it should be made clearer that it is up to the reporting entity to assess what additional information, apart from material accounting policies, need to be disclosed in order for the users to read and understand the financial statements; if relevant to an entity's circumstances. These respondents raised concerns about the possible effects of the amendments on the understandability of the financial statements, in particular for the most complex standards.

EFRAG's response to respondents' comments

EFRAG's final position

As the input received from constituents largely supported the views expressed in the draft comment letter, EFRAG retained the preliminary assessments contained in its draft comment letter. However, to address comments made by some respondents regarding the possible effects of the ED on the understandability of the financial statements, the comment letter was revised to include the following additional paragraphs:

(a) Paragraphs 13 to 15: to explain that in applying the principle of materiality, an entity needs to consider the accounting policies that are relevant to an understanding of its financial statements taken as a whole. In some cases, information reproducing the requirements in IFRS Standards may be helpful, particularly the case when some accounting requirements may be particularly complex as not all primary users of financial statements are accounting experts. Examples illustrating such situations have also been included.

(b) Paragraph 16: to refer to the other initiatives of the IASB regarding accounting policies and more particularly the Target-Standard-level review which aims at developing objectives-based disclosure requirements that could be helpful in applying materiality judgements on accounting policies.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Examples of circumstances in considering an accounting policy to be material

Proposals in the ED

Paragraph 117B states that an accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. The ED further provides examples of circumstances in considering an accounting policy to be material.

EFRAG's tentative position

EFRAG considered that providing guidance to help entities determine when an accounting policy is material is useful. However, EFRAG had some comments on the list of circumstances, identified in the ED, in which information about accounting policies is likely to be material.

In particular, EFRAG proposed that criteria (d) and (e) are combined. In addition, EFRAG noted the possible inconsistencies of the proposed guidance with the existing disclosure requirements in IAS 8 regarding accounting policies elections and changes.

Respondents' comments

Ten respondents addressed this question. The vast majority of respondents who addressed the question agreed with EFRAG's assessment.

EFRAG's response to respondents' comments

EFRAG's final position

Based on the feedback received, supporting its initial assessment, EFRAG reiterated the views expressed in its draft comment letter with no further changes.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Proposed examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures

Proposals in the ED

The ED proposes amending IFRS Practice Statement 2, adding guidance and examples to help entities applying judgement to determine if an accounting policy is material to its financial statements and how the four-step materiality process can be applied to accounting policy disclosures.

EFRAG's tentative position

EFRAG welcomed this proposal. However, EFRAG observed that some of the proposed guidance is duplicated in similar terms in IAS 1 and in the IFRS Practice Statement 2. The IASB could reconsider whether this is the most useful and practical way to provide the guidance. Regarding Example S, EFRAG agreed with the conclusion that the accounting policy described is material. However, in reaching the conclusion, more emphasis should be put on the different revenue recognition patterns rather than the level of judgements involved. EFRAG also suggested that the IASB could consider providing additional illustrative examples.

Respondents' comments

Eleven of the fourteen respondents addressed this question. The vast majority of respondents who addressed this question overall agreed with EFRAG's assessment. Some respondents suggested to better align the language used in the Flowchart Diagram presented in Paragraph 88C of the ED with the language used in Paragraph 41 of IFRS Practice Statement 2 describing Step 2 of the materiality assessment process.

EFRAG's response to respondents' comments

EFRAG's final position

Based on the feedback received, supporting its initial assessment, EFRAG reiterated the views expressed in its draft comment letter with no further changes other than the suggested language alignment of the description of the Flowchart Diagram presented in Paragraph 88C of the ED.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
Wording or terminology in the ED difficult to understand or to translate and other comments.	
EFRAG's tentative position EFRAG had not identified wording or terminology difficulties in the proposed amendments. EFRAG regretted that the impact of technology on the presentation of financial statements, and in particular for standing information such as disclosure about accounting policies, has not been considered as part of the Disclosure Initiative project so far. Some of the issues addressed by this ED may become less important in a digital reporting era (for example use of cross-references). *Respondents' comments* Nine respondents addressed the question; five respondents did not specifically comment. The vast majority of respondents who addressed the question agreed with EFRAG's draft comment letter not having identified wording or terminology difficulties in the proposed amendments. Two respondents, however, reported that the notions of 'material' and 'significant' were translated similarly in their languages (e.g. German or Danish) and therefore the change in terminology, alone, was not expected to trigger behavioural changes. Regarding other comments on the ED, two respondents agreed with EFRAG's comment that the IASB has not further considered the effect of the use of technology on the presentation of financial statements.	*EFRAG's final position* Based the feedback received, EFRAG maintained its position with no further changes other than: (a) to report the input received that significant' and 'material' are translated the same or very similarly, and this terminology change itself was not expected to be enough to change behaviours; and (b) to clarify the recommendation made to the IASB to consider the effects of technology by referring to the developments on taxonomy and digitalisation of information.

Appendix 1: List of respondents

Table 1: List of respondents

Name of respondent[1]	***Country***	***Type / Category***
UK Financial Reporting Council (FRC)	United Kingdom	National Standard Setter
Swedish Enterprise Accounting Group (SEAG)	Sweden	Accounting Organisation
Comissão de Normalização Contabilística (CNC)	Portugal	National Standard Setter
Dutch Accounting Standard Board (DASB)	Netherlands	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
Organismo Italiano Contabilità (OIC)	Italy	National Standard Setter
Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Accounting Organisation
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	National Standard Setter
The Association for Financial Markets in Europe (AFME)	United Kingdom	Accounting Organisation
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Business Europe	Belgium	Accounting Organisation

[1] Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.