

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## **Disclosure of Accounting Policies (Proposed Amendments to IAS 1 and IFRS Practice Statement 2)**

### **Cover Note**

#### **Objective**

- 1 The objective of this session is to discuss and to approve a final comment letter (FCL) on the ED.

#### **Background**

- 2 The IASB published *Disclosure of Accounting Policies (Proposed Amendments to IAS 1 and IFRS Practice Statement)* (the ED) in August 2019.
- 3 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.
- 4 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:
  - (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.

#### **EFRAG’s Draft Comment Letter (DCL) and feedback received**

- 5 EFRAG issued its DCL in response to the ED on 4 October 2019. In the letter, EFRAG supported the proposal to replace the undefined reference to ‘significance’ with the defined concept of ‘materiality’ as this may help entities identify and disclose accounting policies that provide material information to users and the connection to the application of materiality to other information.
- 6 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.
- 7 EFRAG also welcomed the proposed guidance and examples to help entities determine when an accounting policy is material and suggested some improvements.

*Feedback received*

- 8 EFRAG received twelve comment letters in response to its DCL; including national standard-setters (seven), regulator (one) and other accounting organisations (four). The comment letters received are available in [EFRAG Website](#).
- 9 In addition, two National Standard Setters provided input by email (without submitted a formal letter).
- 10 Overall the vast majority of respondents supported EFRAG's initial views on all the 6 questions raised in the ED.
- 11 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 may be particularly complex as not all primary users of financial statements are accounting experts. Entities need to should still ensure that users are provided with the basis to get an understanding of how IFRSs are applied.
- 12 A few respondents also outlined that in their jurisdictions, the words 'significant' and 'material' are translated the same or very similarly, and this terminology change itself was not expected to be enough to change behaviours.
- 13 Lastly some respondents also suggested some other minor drafting improvement regarding the illustrative examples and recommend the IASB to reconsider whether its proposal, contained in the Principles of Disclosure Discussion Paper to allow disclosure on immaterial accounting policies to be incorporated by way of cross reference, could be a possible way forward.

**EFRAG TEG recommendation.**

- 14 EFRAG TEG considered the feedback received at its meeting on 5 December 2019 and recommended the FCL contained in agenda paper 01-02 - *Proposed final comment letter* to be approval by EFRAG Board.
- 15 Considering the support for the main views expressed, EFRAG TEG recommended only limited changes to the drafting of the letter. The main changes were:
  - (a) To include an additional paragraph (paragraph 13) to explain that that in applying the principle of materiality, an entity needs also consider the accounting policies that are relevant to an understanding of its financial statements taken as a whole being this consistent with Step 4 of the Materiality assessment process developed by the IASB.
  - (b) To emphasise that the assessment of materiality when applied to accounting policies inherently involves a more qualitative assessment considering in particular features such as the level of judgement implied by the accounting policy or the existence of accounting options.
  - (c) To include an additional paragraph (paragraph 14) 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.
  - (d) To report the concerns expressed by some respondents about the translation of the words 'significant' and 'material' (see above).

**Questions for the EFRAG Board**

- 16 Does the EFRAG Board approve the proposed final comment letter as drafted in agenda paper 01-03?

**Agenda Papers**

- 17 In addition to this cover note the following agenda papers have been provided for this session:
- (a) 01-02 Proposed final comment letter (*marked-up version*); and
  - (b) 01-03 Proposed final comment letter (*clean version*).