**International Financial Reporting Standard**

# Disclosure of Accounting Policies

**February 2021**

**BASES FOR CONCLUSIONS – AMENDMENTS**

**[IAS 1, IFRS 7 and IFRS Practice Statement 2]**

**[Related to AASB 2021-2]**

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## Amendments to the Basis for Conclusions on IAS 1

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

* <u>*Disclosure of Accounting Policies*, issued in February 2021, amended paragraphs 117–122 of IAS 1, which now refer to 'material accounting policy information'.</u>

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| The heading above paragraph BC76F is amended. Paragraphs BC76H–BC76AB and their related headings are added. For ease of reading, new text is not underlined. |

## Notes

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### Disclosure of accounting <u>policy information</u> ~~policies~~ (paragraphs 117–<u>117E</u>~~121~~)

BC76F …

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#### Disclosure of accounting policies (issued February 2021)

*Background*

BC76H In March 2017 the Board published 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 by an entity applying IFRS Standards. One issue related to the disclosure of information about accounting policies.

BC76I The Discussion Paper noted that paragraph 117 of IAS 1 required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differ in their views about what constitutes a significant accounting policy.

BC76J Feedback on the Discussion Paper suggested that the Board develop requirements and guidance to help entities make more effective accounting policy disclosures. Feedback from stakeholders suggested that materiality be the basis of such requirements or guidance.

BC76K In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed to amend IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements.*

*Replacing 'significant' with 'material'*

BC76L The Board found that, because 'significant' is not defined in IFRS Standards, entities can have difficulty assessing whether an accounting policy is 'significant'. The Board also noted that entities can have difficulty understanding the difference, if any, between 'significant' and 'material'


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accounting policies. The Board considered developing a definition of 'significant', but concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BC76M Because 'material' is defined in IFRS Standards and is well understood by stakeholders, the Board decided to require entities to disclose their material accounting policy information instead of their significant accounting policies.

BC76N The Board observed that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other information in a complete set of financial statements. In the Board's view, accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements.

*Applying the definition of material to accounting policy disclosures*

BC76O The Board received comments that:

(a) accounting policy disclosures are useful to users of financial statements 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 find entity-specific information more useful than accounting policy disclosures that:

  (i) contain standardised information, sometimes called boilerplate information; and

  (ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

BC76P To assist an entity in determining whether accounting policy information is material to its financial statements and to respond to the feedback described in paragraphs BC76J and BC76O, the Board added paragraphs to IAS 1 to:

(a) clarify that not all accounting policy information relating to material transactions, other events or conditions is material (see paragraph 117A). The Board concluded that this amendment would help an entity reduce immaterial accounting policy disclosures in its financial statements.

(b) provide examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see paragraph 117B). The examples listed in paragraph 117B are not exhaustive but the Board concluded that they would help an entity determine whether accounting policy information is material.

(c) explain that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards (see paragraph 117C). The Board concluded that this amendment would help an entity focus on disclosing accounting policy information that users have identified as the most useful.

BC76Q The definition of material (see paragraph 7) states that 'materiality depends on the nature or magnitude of information, or both'. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events or conditions to which the accounting policy information relates, but also the nature of those transactions, other events or conditions. To clarify this point, the Board included in the amendments an explanation that accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial (see paragraph 117A).

BC76R Some respondents to the Exposure Draft said that sometimes accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards can provide users of financial statements with material information. In the Board's view, accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards is generally less useful to users than entity-specific accounting policy information. However, the Board agreed that such accounting policy information is expected to be material if it is needed to understand other material information in the financial statements. The Board concluded that when such information is material, it is required to be disclosed.

BC76S Such information could be material, for example, when an entity judges the accounting required for a material transaction, other event or condition to be so complex that a primary user would be unable to understand the related material transaction, other event or condition in the absence of that information (see paragraph 117B(e)). The Board acknowledged that because the complexity of accounting required for particular transactions, other events or conditions is ultimately a subjective question, an entity will need to judge whether the relevant accounting is complex. However, the Board concluded that the guidance in the amendments would be sufficient for an entity, auditors, regulators and others to make appropriate judgements about the materiality of such information.

BC76T An entity is permitted to disclose accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards, even when that information is assessed as immaterial. However, if an entity discloses such information, it shall not obscure material accounting policy information (see paragraph 117D).


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BC76U The Board deleted the discussion of 'measurement basis (or bases)' in paragraphs 117 and 118. The Board did so to better enable preparers to apply judgement and thereby disclose only material accounting policy information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some cases, the measurement basis (or bases) used for a particular asset or liability would not be material and, therefore, would not need to be disclosed. For example, information about a measurement basis might be immaterial if:

(a) an IFRS Standard required an entity to use a measurement basis—in which case an entity would not apply choice or judgement in complying with the Standard; and

(b) information about the measurement basis would not be needed for users to understand the related material transactions, other events or conditions.

BC76V The Board decided to emphasise that the amendments do not relieve an entity from meeting other disclosure requirements within IFRS Standards (see paragraph 117E). For example, if an entity applying the amendments decides that accounting policy information about intangible assets is immaterial to its financial statements, the entity would still need to disclose the information required by IAS 38 *Intangible Assets* that the entity had determined to be material.

### *References to accounting policies in other IFRS Standards and publications*

BC76W 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. The Board considered whether any of these requirements should be changed because of the amendments to IAS 1. However, the Board noted that paragraph 31 states that disclosure requirements in IFRS Standards are subject to materiality judgements—a disclosure required by an IFRS Standard is required to be provided only if the information resulting from that disclosure is material. Consequently, the Board concluded that amendments to requirements relating to accounting policy disclosures in other IFRS Standards are unnecessary.

### *Effect analysis*

BC76X The Board acknowledged that the amendments may have:

(a) an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to accounting policy information; and

(b) ongoing costs to preparers, because the amendments require an entity to apply its own judgement to determine what accounting policy information is material and should, therefore, be disclosed in the financial statements.

BC76Y However, in the Board's view, the amendments will improve the relevance of the financial statements by helping an entity to:

(a) identify and disclose accounting policy information that is material to users of financial statements; and

(b) remove immaterial accounting policy information that may obscure material accounting policy information.

BC76Z The Board also expects that the amendments:

(a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and

(b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.

BC76AA Consequently, the Board expects that the benefits of the amendments will outweigh the costs.

*Transition and comparative information*

BC76AB The amendments affect the disclosure of narrative and descriptive information. Paragraph 38 specifies that comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In the Board's view, providing comparative accounting policy information would be unnecessary in most circumstances because if the accounting policy:

(a) is unchanged from the comparative periods, the disclosure of the current period's accounting policy is likely to provide users with all the accounting policy information that is relevant to an understanding of the current period's financial statements; or

(b) has changed from the comparative periods, the disclosures required by paragraphs 28–29 of IAS 8 are likely to provide any information about the comparative period's accounting policies that is relevant to an understanding of the current period's financial statements.


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## Amendments to the Basis for Conclusions on IFRS Practice Statement 2

Paragraphs BC41A–BC41F and their related heading are added. For ease of reading new text is not underlined.

## Specific topics

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### Materiality judgements for accounting policy information (see paragraphs BC76H–BC76AB of IAS 1)

BC41A In February 2021 the Board amended IAS 1 to require an entity to disclose its material accounting policy information rather than its significant accounting policies.

BC41B To help entities to apply the amendments to IAS 1, the Board also amended IFRS Practice Statement 2 to illustrate how an entity can judge whether accounting policy information is material to its financial statements.

BC41C The Board added guidance and examples to IFRS Practice Statement 2 to help an entity apply the four-step materiality process to accounting policy information. The guidance and examples help an entity apply the amendments to IAS 1 by:

(a) confirming that in assessing whether accounting policy information is material, an entity considers both qualitative and quantitative factors (see paragraph 88C);

(b) linking materiality judgements to accounting policy disclosures using the four-step materiality process described in paragraph 33 (see paragraph 88C).

(c) emphasising the need to focus on useful information for users of financial statements (see paragraphs 88C–88E); and

(d) demonstrating how an entity can apply the four-step materiality process to address:

  (i) standardised (boilerplate) information disclosed as part of material accounting policy information (see Example S); and

  (ii) accounting policy information that only duplicates or summarises the requirements of IFRS Standards (see Example T).

BC41D Examples S and T are intended only to illustrate the application of the amendments to IAS 1 and the four-step materiality process to accounting policy information. They do not illustrate the application of the definition of material to all disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* and IAS 36 *Impairment of Assets*. An entity is also required to comply with the other disclosure requirements of those IFRS Standards.

BC41E The Board concluded that accounting policy information that includes standardised information, or that duplicates or summarises some of the requirements of IFRS Standards, could sometimes be material. The Board added guidance about when such accounting policy information might be material to an entity's financial statements (see paragraph 88F).

BC41F The Board concluded that, as the amendments provide non-mandatory guidance on the application of the definition of material to accounting policy information, transition requirements and an effective date for these amendments are unnecessary.

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## Dissenting opinion

## Dissent of Ms Françoise Flores from *Disclosure of Accounting Policies*

DO1 Ms Flores voted against the publication of *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2. The reasons for her dissent are set out below.

DO2 Ms Flores agrees with those amendments to IAS 1 and IFRS Practice Statement 2 which aim to provide primary users of financial statements with all and only relevant accounting policy information. She also supports the Board's past and current efforts to clarify how the concept of materiality should be applied more generally. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2.

DO3 In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.

DO4 A minority of respondents were concerned that the Board's proposals could be read as prohibiting the publication of any accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.

DO5 Furthermore, Ms Flores notes that paragraph 2.36 of the *Conceptual Framework of Financial Reporting*, paragraph 7 of IAS 1 and the guidance included in paragraphs 13–23 of IFRS Practice Statement 2 state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity. In her view, investors are responsible for ensuring that their economic decisions are derived from a proper and knowledgeable understanding of an entity's financial statements, which includes understanding the requirements of IFRS Standards. IFRS Standards should be regarded as public knowledge in a financial reporting environment. No mere recitation of the words from the IFRS Standards can meet the definition of material without stretching that definition endlessly. In Ms Flores' view, improving users' understanding of the requirements in IFRS Standards should be achieved through education by the IFRS Foundation. Such an objective should not be achieved by amending the requirements of IFRS Standards.

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## Amendments to the Basis for Conclusions on IFRS 7

Paragraphs BC35ZA and BC35ZB and their related headings are added. New text is underlined.

## Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

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**Other Disclosures—Accounting Policies**

*Amendments to IAS 1 (see paragraphs BC76H–BC76AB of IAS 1)*

BC35ZA In February 2021 the Board amended IAS 1 to require an entity to disclose its material accounting policy information rather than its significant accounting policies.

BC35ZB As part of the amendments to IAS 1, the Board deleted from paragraph 117 of that Standard the description of what an accounting policy comprises, including the reference to 'measurement basis (or bases)'. The Board expects that, for financial instruments, information about the measurement basis (or bases) used for the recognition and measurement of financial instruments is likely to be material to an entity's financial statements. Consequently, the Board decided to retain the reference in paragraph 21 to 'measurement basis (or bases)' in describing what accounting policy information relating to financial instruments could be assessed as material to an entity's financial statements.