

## STAFF PAPER

July 2020

## IASB Meeting

Project	Disclosure Initiative: Accounting Policies		
Paper topic	Due process steps and permission to begin the balloting process		
CONTACTS	Siobhan Hammond	<a href="mailto:shammond@ifrs.org">shammond@ifrs.org</a>	+44 (0) 20 7246 6937
	Rachel Knubley	<a href="mailto:rknubley@ifrs.org">rknubley@ifrs.org</a>	+44 (0) 20 7246 6904

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Objective and structure of this paper**

1. The purpose of this paper is for the Board to review the due process steps taken in the Disclosure Initiative—Accounting Policies project and decide whether the staff can begin the balloting process for the final amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.
2. This paper is structured as follows:
  - (a) Previous due process decisions (paragraphs 3-6);
  - (b) Summary of due process steps (paragraphs 7-11);
  - (c) Effects analysis (paragraphs 12-17);
  - (d) Re-exposure (paragraphs 18-20);
  - (e) Intention to dissent (paragraph 21);
  - (f) Confirmation of the due process steps and permission to ballot (paragraphs 22-23);
  - (g) Proposed timetable (paragraph 24);
  - (h) Questions for the Board;
  - (i) Appendix A—Due process steps taken in developing the final amendments for the Accounting Policies project;

- (j) Appendix B—Public meetings of the Board and consultative groups that discussed the Accounting Policies project;
- (k) Appendix C—Summary of changes to the amendments to IAS 1 and IFRS Practice Statement 2.

### Previous due process decisions

3. In March 2017, the Board published the *Disclosure Initiative—Principles of Disclosure* Discussion Paper to help it identify and address issues related to the disclosure of information in financial statements prepared applying IFRS Standards. One issue related to the disclosure of accounting policies.
4. The Discussion Paper noted that:
  - (a) users of financial statements often express concerns about how accounting policies are disclosed in the financial statements;
  - (b) paragraph 117 of IAS 1 requires entities to disclose their significant accounting policies; and
  - (c) stakeholders' views differ about what constitutes a significant accounting policy.
5. Many respondents to the Discussion Paper supported the Board developing guidance or requirements about which accounting policies to disclose. In particular, feedback suggested that ineffective disclosure of significant accounting policies is primarily due to difficulties in applying the concept of materiality. This feedback came from stakeholders, including users of financial statements, many of whom agreed that materiality should be the basis of any requirements about disclosure of accounting policies developed by the Board (see [March 2018 Agenda Paper 11A](#)).
6. In response to this feedback, at its July 2018 meeting the Board added the Accounting Policies project to its work plan. The objective of this project is to help entities provide accounting policy disclosures that are more useful to primary users of financial statements (see [July 2018 Agenda Paper 11E](#)). Specifically, the Board decided to develop:

- (a) an amendment to paragraphs 117 to 124 of IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies; and
- (b) additional guidance and examples for IFRS Practice Statement 2 that would explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

### Summary of due process steps

- 7. The following paragraphs summarise the due process steps undertaken in the project. Appendix A provides a more detailed account of these steps.
- 8. In August 2019, the Board published an Exposure Draft of proposed amendments to IAS 1 and IFRS Practice Statement 2. The Exposure Draft had a 120-day comment period, which ended on 29 November 2019. Eighty-eight comment letters were received. At the February 2020 Board meeting, the staff presented a summary of the feedback on the Exposure Draft (see [February 2020 Agenda Paper 20](#)).
- 9. In October 2019, the Accounting Standards Advisory Forum (ASAF) and the Global Preparers Forum (GPF) discussed the project proposals.
- 10. Appendix B includes a full list of Board meetings and meetings with consultative groups since the start of the project in July 2018.
- 11. The Due Process Oversight Committee and the IFRS Advisory Council were informed of the progress of the project through regular technical updates.

### Effects analysis

- 12. The amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:
  - (a) replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policy information; and

- (b) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy information.
- 13. We think the amendments will help entities to identify and disclose information about accounting policies that is material and reduce information about accounting policies that is immaterial. The focus on disclosing only material accounting policy information should improve the relevance of the financial statements, and reduce the cost of preparing financial statements, by reducing the disclosure of large volumes of immaterial accounting policy information. The amendments may also support entities in removing immaterial accounting policy information that may obscure material accounting policy information.
- 14. We think the amendments are unlikely to be complex or costly to implement because they:
  - (a) do not affect recognition and measurement; and
  - (b) will not require significant systems changes to implement.
- 15. A few respondents agreed with the Board’s assessment of likely effects described in paragraphs BC18-BC19 of the Basis for Conclusions on the Exposure Draft and summarised in paragraph 13 of this paper.
- 16. While feedback to the Exposure Draft did not highlight a significant cost or reporting burden as a result of these proposals, we think 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; and
  - (b) ongoing costs to preparers as the amendments ask entities to apply judgement to determine what accounting policy information is material and should be disclosed in the financial statements.
- 17. Overall, staff think the benefits of the amendments to users of financial statements of more useful accounting policy disclosures would outweigh the cost to preparers.

**Re-exposure**

18. As noted in paragraph 6.26 of the *Due Process Handbook*, it is inevitable that final amendments to a Standard will include changes from those originally proposed, and that the fact there are changes does not in itself compel the Board to re-expose the proposals.
19. Staff believe that the changes made during redeliberations do not fundamentally change the Exposure Draft proposals. Instead, these changes further clarify the proposals and directly respond to the feedback received. Consequently, we believe that there are no substantive changes being made on which respondents have not had the opportunity to comment. Appendix C summarises the changes made to the proposals in the Exposure Draft.
20. Having considered the criteria for re-exposure in paragraphs 6.25–6.29 of the *Due Process Handbook*, staff recommend that the Board does not re-expose the amendments to IAS 1 and IFRS Practice Statement 2.

**Intention to dissent**

21. One Board member expressed an Alternative View to the Exposure Draft. In accordance with paragraph 6.23 of the *Due Process Handbook*, any Board members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

**Confirmation of due process steps and permission to ballot**

22. The required due process steps for the amendments to IAS 1 and IFRS Practice Statement 2 are summarised in Appendix A to this paper. This appendix demonstrates that the required due process steps to date have been completed. The remaining due process steps will be completed before the amendments are issued.
23. If the Board is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation and due process, to support issuing the amendments, the staff request permission to start the balloting process.

## Proposed timetable

24. We plan to issue the final amendments in the fourth quarter of 2020.

## Questions for the Board

### Questions for the Board

1. Re-exposure: does the Board agree with the staff recommendation not to re-expose the amendments?
2. Dissents: do any members of the Board plan to dissent from issuing the amendments?
3. Is the Board satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to start the balloting process for the amendments?
4. Do the Board members give permission to start the balloting process for the amendments?

## Appendix A—Due process steps taken in developing the final amendments for the Accounting Policies project

A1. The following table sets out the required due process steps taken by the Board.

Step	Required / Optional	Actions
<b>Consideration of information gathered during consultation</b>		
<b>The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.</b>	Required	The Board received 88 comment letters on the Exposure Draft. All comment letters received have been posted on the <a href="#">project page</a> of the IFRS Foundation website.  A <a href="#">feedback summary</a> was presented to the Board at its February 2020 meeting and is available on the project page of the IFRS Foundation website (see Appendix B).
<b>The Board meetings are held in public, with papers being available for observers. All decisions are made in public sessions.</b>	Required	The Board discussed all the proposals in the Exposure Draft and the feedback to those proposals in public meetings. All papers including staff analysis and recommendations are posted, meetings recorded and the decisions documented in the relevant section of the project page on the IFRS Foundation website (see Appendix B).
<b>Consultation with the Trustees and IFRS Advisory Council.</b>	Required	The Trustees and DPOC were informed about the amendments to IAS 1 and IFRS Practice Statement 2 as part of the update on the Board's technical activities in <a href="#">January 2019</a> , <a href="#">June 2019</a> , <a href="#">October 2019</a> , <a href="#">February 2020</a> and <a href="#">June 2020</a> .  The IFRS Advisory Council was informed about the amendments to IAS 1 and IFRS Practice Statement 2 as part of the regular reporting to them about the activities of the Board in <a href="#">March 2019</a> , <a href="#">September 2019</a> , and <a href="#">May 2020</a> .
<b>Consultation groups used, if formed.</b>	Optional	The project was discussed with the Global Preparers Forum ( <a href="#">October 2019</a> ) and the Accounting Standards Advisory Forum ( <a href="#">October 2019</a> ) during the project (see Appendix B).  A separate consultation group for this project was deemed unnecessary because of the narrow scope of these amendments.
<b>Outreach meetings with a broad range of stakeholders, with special effort to consult investors.</b>	Optional	No further outreach meetings were deemed necessary because of the narrow scope of these amendments.
<b>Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.</b>	Optional	Board members and staff have recorded podcasts covering Board meetings about the amendments to IAS 1 and IFRS Practice Statement 2. Those podcasts are available on the IFRS Foundation website and YouTube channel

Step	Required / Optional	Actions
<b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.</b>	Required	An analysis of likely effects is included in paragraphs 12-17 of this paper, and relevant points will be included in the Basis for Conclusions to the amendments.
<b>Finalisation</b>		
<b>Due process steps reviewed by the Board.</b>	Required	This paper asks the Board to review the due process steps and whether the Board is satisfied that it has complied with the applicable due process steps.
<b>Need for re-exposure of a Standard is considered.</b>	Required	The analysis of the need to re-expose the amendments to IAS 1 and IFRS Practice Statement 2 is included in paragraphs 18-20 of this paper.
<b>The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b>	Required	At this meeting, the Board is asked to decide on the effective date of the amendments to IAS 1 and IFRS Practice Statement 2 (see <i>Agenda Paper 20A</i> ).
<b>Drafting</b>		
<b>Drafting quality assurance steps are adequate.</b>	Required	The translations, taxonomy and editorial teams will review drafts during the balloting process.  The staff intend to send a draft of the amendments to external parties for review before finalisation. This review allows external parties to report back to the staff on the clarity and understandability of the draft.
<b>Publication</b>		
<b>Standard is published.</b>	Required	The amendments will be made available on the IFRS Foundation website when published.
<b>A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.</b>	Optional	According to paragraph 6.38 of the <i>Due Process Handbook</i> , a Feedback Statement is required for all new IFRS Standards and major amendments. A Feedback Statement was deemed unnecessary because of the narrow scope of these amendments.
<b>Press release to announce publication of the final Standard.</b>	Required	A press release will be published with the amendments.



Step	Required / Optional	Actions
<b>Project summary to explain the rationale and basic concepts included in the final Standard.</b>	Optional	A Project Summary was deemed unnecessary because of the narrow scope of these amendments.

## Appendix B—Public meetings of the Board and consultative groups that discussed the Accounting Policies project

### *IASB meetings*

Date	Topic
<a href="#">July 2018</a>	<ul style="list-style-type: none"> <li>• Disclosure Initiative—Project next steps</li> </ul>
<a href="#">October 2018</a>	<ul style="list-style-type: none"> <li>• Guidance</li> </ul>
<a href="#">December 2018</a>	<ul style="list-style-type: none"> <li>• Significance and materiality</li> </ul>
<a href="#">March 2019</a>	<ul style="list-style-type: none"> <li>• Examples</li> </ul>
<a href="#">April 2019</a>	<ul style="list-style-type: none"> <li>• Proposed amendments to IAS 1 and IFRS Practice Statement 2: due process steps and permission to begin the balloting process</li> </ul>
<a href="#">February 2020</a>	<ul style="list-style-type: none"> <li>• Comment letter feedback—Exposure Draft <i>Disclosure of Accounting Policies</i></li> </ul>
<a href="#">May 2020</a>	<ul style="list-style-type: none"> <li>• Approach to project redeliberations</li> <li>• Characteristics of primary users</li> <li>• Examples of circumstances in which an entity is likely to consider information about an accounting policy material</li> <li>• Examples for IFRS Practice Statement 2</li> </ul>
<a href="#">June 2020</a>	<ul style="list-style-type: none"> <li>• Standardised information and information that duplicates the requirements of IFRS Standards</li> </ul>
July 2020	<ul style="list-style-type: none"> <li>• Transition and effective date</li> <li>• Due process including permission to start the balloting process</li> </ul>

### *Standing consultative group meetings*

Date	Group	Topic
<a href="#">October 2019</a>	ASAF	<ul style="list-style-type: none"> <li>• Feedback on the Board’s proposals in the Exposure Draft</li> </ul>
<a href="#">October 2019</a>	GPF	<ul style="list-style-type: none"> <li>• Feedback on the Board’s proposals in the Exposure Draft</li> </ul>

## Appendix C—Summary of changes to the amendments to IAS 1 and IFRS Practice Statement 2

- C1. At its May and June 2020 meetings, the Board tentatively decided on the following amendments to the proposals in the Exposure Draft:
- (a) combine the guidance about entity-specific accounting policy information in proposed paragraph 117B(e) with proposed paragraph 117C of IAS 1 (see [May 2020 Agenda Paper 20C](#));
  - (b) to amend proposed paragraph 117B of IAS 1 to include a reference to information being material by size, nature, or a combination of both (see [May 2020 Agenda Paper 20C](#));
  - (c) to add to proposed paragraph 117B of IAS 1 an example of a circumstance which would clarify that, when the accounting required for a material transaction, other event or condition is complex and would otherwise not be understood by users of financial statements, material accounting policy information could include standardised information or information that duplicates or summarises the requirements of IFRS Standards (see [June 2020 Agenda Paper 20](#));
  - (d) to add an explanatory paragraph to the proposed amendments to IAS 1 which would (see [June 2020 Agenda Paper 20](#)):
    - (i) clarify that entities are permitted to provide immaterial accounting policy information as long as it does not obscure material accounting policy information; and
    - (ii) prompt entities to consider whether they are obscuring material accounting policy information with immaterial accounting policy information;
  - (e) to develop additional guidance for IFRS Practice Statement 2 to support those changes describes in (c) and (d) (see [June 2020 Agenda Paper 20](#));
  - (f) to amend proposed Example S of IFRS Practice Statement 2 by (see [May 2020 Agenda Paper 20D](#)):
    - (i) aligning the content of the example to those changes described in (a)-(d);
    - (ii) clarifying in the example that the timing of revenue recognition is considered to be a significant judgement; and
    - (iii) concluding that information about how the transaction price has been allocated to performance obligations could also be material accounting policy information;
  - (g) to clarify proposed Example T for IFRS Practice Statement 2 to better support the example's conclusion by linking explicitly the proposed example to (see [May 2020 Agenda Paper 20D](#)):
    - (i) the proposed amendments to IAS 1 (including those changes described in (a)-(d)); and

- (ii) guidance in the *Conceptual Framework of Financial Reporting*, the definition of material (paragraph 7 of IAS 1), and guidance in IFRS Practice Statement 2 about an entity's primary users and how to identify their common information needs.