IFRS

STAFF PAPER

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IASB® meeting

Project	**Disclosure Initiative—Accounting Policies**		
Paper topic	Significance and materiality		
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Objective

1. The objective of this paper is to present staff analysis and a recommendation about replacing the concept of significance with materiality in paragraphs 117-124 of IAS 1 *Presentation of Financial Statements*. This paper also addresses specific concerns on this topic raised by some Board members at the October 2018 Board meeting.

Overview

2. This paper is structured as follows:

    (a) Staff recommendation (paragraphs 3-4);

    (b) Background (paragraphs 5-8);

    (c) Approach to staff analysis (paragraphs 9-10);

    (d) Applying the concept of materiality to accounting policy disclosure (paragraphs 11-27);

        (i) Can the concept of materiality be applied to accounting policy disclosure? (paragraphs 14-18);

   (ii) Could application of the concept of materiality to accounting policy disclosure result in a loss of useful information? (paragraphs 19-21);

   (iii) Is it onerous to require entities to disclose their material accounting policies? (paragraphs 22-23);

   (iv) Regulatory concerns (paragraphs 24-27);

(e) Defining the concept of significance (paragraphs 28-30);

(f) Replacing the concept of significance with the concept of materiality in IAS 1 (paragraphs 31-38);

   (i) Proposed amendments to IAS 1 (paragraphs 35-36);

   (ii) Staff recommendation and question for the Board (paragraphs 37-38);

(g) Appendix A—Paragraphs 117-124 of IAS 1 *Presentation of Financial Statements*;

(h) Appendix B—Extracts from the *Disclosure Initiative—Principles of Disclosure* Discussion Paper;

(i) Appendix C—Summary of feedback on the *Disclosure Initiative—Principles of Disclosure* Discussion Paper;

(j) Appendix D—Amended definition of material;

(k) Appendix E—Extracts from *IFRS Practice Statement 2: Making Materiality Judgements*.

Staff recommendation

3. Staff recommend that the Board amend paragraphs 117-124 of IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies (as described in paragraph 35 of this paper). This amendment would be issued together with the guidance and examples being developed for inclusion in *IFRS Practice Statement 2: Making Materiality Judgements* (Materiality Practice Statement).

4. If the Board agrees with the staff recommendation, our next step will be to bring further staff analysis on the guidance and examples for inclusion in the Materiality Practice Statement that the Board discussed in its October 2018 meeting.

Background

5. Paragraphs 117-124 of IAS 1 require an entity to disclose its significant accounting policies (see Appendix A). The Board has heard concerns that stakeholders' views differ about (see ***February 2018 Agenda Paper 11J***):
   (a) which accounting policies are significant and should be disclosed; and
   (b) what information about significant accounting policies should be disclosed.

6. In its July 2018 meeting, the Board tentatively decided to develop additional guidance and examples for the Materiality Practice Statement. These would explain and demonstrate the application of the four-step materiality process to accounting policy disclosure. The Board also tentatively decided to consider at a future meeting whether it would like to make any related amendments to the authoritative requirements of IFRS Standards—for example, by amending paragraphs 117-124 of IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies (see ***July 2018 Agenda Paper 11E***).

7. In its October 2018 meeting, the Board discussed guidance and examples for the Materiality Practice Statement (see ***October 2018 Agenda Paper 11A***). At that meeting, the Board tentatively decided to:
   (a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material to the financial statements; and
   (b) continue developing guidance and examples to help entities better exercise judgement about whether the accounting policies they apply to material transactions, other events or conditions are themselves material.

8. However, a few Board members expressed concerns about the relationship between the concept of materiality and accounting policy disclosure. Specifically, these Board members were concerned about:

(a) whether it is possible to apply the concept of materiality to an accounting policy. These Board members questioned whether an accounting policy could be considered as material separately from the item in the financial statements to which it relates (see paragraphs 14-18);

(b) whether the application of materiality would lead to the disclosure of fewer accounting policies than users of financial statements would want to see (see paragraphs 19-21);

(c) whether it would be onerous for entities to assess whether each and every accounting policy is material, or to assess whether inclusion of particular accounting policies might obscure material information (see paragraphs 22-23); and

(d) compliance and regulatory consequences of linking accounting policy disclosure directly to the concept of materiality. In particular, a few Board members were concerned this might lead to restatements of financial statements for material errors relating only to the disclosure of accounting policies. These Board members thought such restatements would not be helpful to stakeholders (see paragraphs 24-27).

Approach to staff analysis

9. The concerns identified in paragraph 8 were raised by a small number of Board members. The majority of the Board voted in favour of the tentative decisions described in paragraph 7. Nevertheless, staff think that it is helpful to address the concerns identified in the October 2018 Board meeting. This is because the concerns:

(a) are fundamental to the approach being developed; and

(b) relate directly to the question of whether to make any amendments to the IAS 1 requirements about accounting policy disclosures (the subject of this paper).

10. Consequently, in this paper we have:

(a) considered how materiality can be applied to accounting policy disclosure (paragraphs 11-27). This section provides analysis relating to the Board member concerns described in paragraph 8; and

(b) analysed the following two options for further developing the guidance and examples discussed in the October 2018 Board meeting:

(i) defining the concept of significance in paragraphs 117-124 of IAS 1. Applying this approach, guidance and examples on accounting policy disclosure would be used to define 'significant' in IAS 1; and

(ii) replacing the concept of significance in paragraphs 117-124 of IAS 1 with the concept of materiality. Applying this approach, the Board would develop an amendment to paragraphs 117-124 of IAS 1 and, in line with the Board's tentative decisions in July and October 2018 (see paragraphs 6 and 7), include guidance and examples on accounting policy disclosure in the Materiality Practice Statement.

Applying the concept of materiality to accounting policy disclosure

11. In its 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper (Discussion Paper), the Board acknowledged 'that ineffective disclosure of information about significant accounting policies appears to be primarily due to difficulties in applying the concept of materiality' (see Appendix B).

12. Feedback received on the Discussion Paper supported this view. In particular, stakeholders thought it would be useful if the Board developed more guidance on how to determine if an accounting policy is material (see Appendix C).

13. In response to Board member concerns described in paragraph 8, the paragraphs below summarise our analysis of how the concept of materiality can be effectively applied to accounting policy disclosure.

Can the concept of materiality be applied to accounting policy disclosure?

14. The amended definition of material, issued by the Board in October 2018 (see Appendix D), states that: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

15. Some of the concerns expressed about how this definition might apply to accounting policies related to whether an accounting policy would ever, in isolation, be material (see paragraph 8(a)). However, in line with the definition of material, we think that an accounting policy does not need to be individually material for it to be considered material in the context of the financial statements. This is consistent with the definition of material, which includes the following explanatory paragraph: 'Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole' (see Appendix D).

16. In line with stakeholder views, we believe that materiality can be applied to accounting policies when they are considered in combination with other information in a complete set of financial statements. This is because understanding the characteristics of an entity's transactions, other events or conditions (including their context) can influence the decisions of primary users and can therefore be material (see Appendix E). For example, this might be the case if an accounting policy provides information that enables a user to understand a material item in the financial statements.

17. Furthermore, we think that applying the definition of material to an accounting policy is similar in principle to applying it to an individual item of disclosure that relates to a material item in the financial statements. In both cases, the assessment of materiality is made relative to the financial statements taken as a whole. It is

not made considering an accounting policy, or an individual item of disclosure, in isolation.

Materiality Practice Statement

18. Staff think that existing guidance in the Materiality Practice Statement (see Appendix E) also supports our view that materiality can be effectively applied to accounting policy disclosure. In particular, we note the following:

    (a) the Materiality Practice Statement reiterates and highlights that materiality should be considered in the context of the financial statements as a whole. Paragraph 8 also makes clear that the concept of materiality is equally applicable to considerations about presentation and disclosure as it is to considerations about recognition and measurement;

    (b) paragraph 60 of the Materiality Practice Statement states that 'Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.' This is consistent with the analysis in paragraphs 14-17;

    (c) the Materiality Practice Statement addresses both financial and non-financial information. It makes clear that materiality considerations apply much more broadly than whether or not a particular financial statement item is material in size; and

    (d) Example A of the Materiality Practice Statement includes consideration of whether an accounting policy choice has a material effect on the financial statements. While this example is provided in the context of recognition and measurement (ie if the application of the accounting policy has a material effect as opposed to its disclosure), we nevertheless think it implies that accounting policies can have a material effect. Therefore, information about the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements can be material.

Could application of the concept of materiality to accounting policy disclosure result in a loss of useful information?

19. A few Board members also expressed concerns that applying the definition of material to accounting policy disclosure might lead to less disclosure than users would want to see. We think this concern is linked to the view that individual accounting policies when considered in isolation are unlikely to be viewed as material. However, as discussed in paragraphs 14-18, in assessing the materiality of accounting policies, entities would be required to consider whether they are material in combination with other information. We think that if the materiality of accounting policies is assessed in this way, entities will disclose enough information about their accounting policies to enable users to make decisions.

20. Furthermore, we think that guidance similar to that discussed by the Board in October 2018 (see ***October 2018 Agenda Paper 11A***) would help preparers to identify those accounting policies about which users need information. This is because that guidance prompts an entity to consider disclosing any accounting policy that:

    (a) has changed during the reporting period;

    (b) was chosen from alternatives allowed in IFRS Standards;

    (c) was developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies;

    (d) relates to an area of significant judgement and assumption; and

    (e) reflects unique entity-specific application of an IFRS Standard.

21. We think this outcome is consistent with and responsive to the feedback received on this topic in the Discussion Paper—particularly from users of financial statements who have told us that the existing requirements of IAS 1 do not result in useful information being disclosed. These respondents thought that a greater focus on disclosing 'material' accounting policies may improve the information being disclosed (see Appendix C).

Is it onerous to require entities to disclose their material accounting policies?

22. A few Board members were concerned that basing accounting policy disclosure on the concept of materiality might be unduly onerous for preparers of financial statements. They thought that, in practical terms, this approach might mean:

    (a) preparers have to decide whether each and every accounting policy is material or immaterial. The pragmatic option of disclosing all accounting policies that are in the 'grey area' between being clearly material and clearly immaterial would be removed because of concerns about obscuring material accounting policies with immaterial accounting policies; and

    (b) preparers would be required to disclose more accounting policies than they currently do because 'significant' is perceived by some as a higher threshold than 'material'.

23. Staff acknowledge these concerns; however, we note that:

    (a) IAS 1 already requires preparers to assess whether each accounting policy is significant. Assessing whether an accounting policy is material is unlikely to be more onerous. Further, as 'significant' is not defined in IFRS Standards, applying the existing requirements is likely to require more judgement, and hence may be more onerous, than considering whether an accounting policy is material. We think moving to a defined and well understood concept (materiality) will help entities make more effective judgements about what to disclose (see paragraph 22(a));

    (b) materiality is a pervasive concept across all IFRS Standards (see paragraph 31 of IAS 1 and paragraph 8 of the Materiality Practice Statement). We think clarifying that materiality applies to accounting policy disclosure, as it does to all other areas of the financial statements, will be helpful in promoting consistent application across the Standards (see paragraph 22(a));

    (c) the explanatory paragraphs to the amended definition of material makes clear that information would only be obscured if that information 'is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information.' Staff think that the pragmatic inclusion of some 'grey area' accounting policies would not represent a failure to comply with this element of the amended definition of material. An entity would only fail to comply if the immaterial information it provided obscured material information to such an extent that the entity's material accounting policies could not be understood (see paragraph 22(a)); and

(d) the Board has tentatively decided to clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material (see ***October 2018 Agenda Paper 11A***). We think this clarification will help entities have more confidence in judging accounting policies to be immaterial. Consequently, we think it is unlikely that the change will result in an increase in the number of accounting policies disclosed (see paragraph 22(b)).

Regulatory concerns

24. The final concern raised in the October 2018 Board meeting related to potential regulatory consequences of linking accounting policy disclosure to materiality. A few Board members suggested that this approach could lead to restatements of material errors that related only to accounting policy disclosures. These Board members did not think that such restatements would be helpful for stakeholders.

25. Staff acknowledge these concerns. However, consistent with the analysis in paragraph 23, we note that IAS 1 already requires:

(a) an entity to disclose its significant accounting policies; and

(b) the pervasive application of materiality.

26. We think that application of these IAS 1 requirements means that entities should already be held to account for material errors in their accounting policy disclosures. In particular, this relates to either:

(a) the absence of significant accounting policies—which would represent a failure to comply with paragraph 117 of IAS 1; or

(b) the inclusion of immaterial accounting policies to the extent that they obscure material accounting policies—which would represent a failure to comply with paragraph 30A of IAS 1 which states that 'An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.

27. Consequently, we do not think that linking accounting policy disclosure to materiality would result in additional regulatory risk for entities compared to today.

Defining the concept of significance

28. Staff have considered responding to the feedback in paragraph 5 by defining the concept of significance in paragraphs 117-124 of IAS 1. Applying this approach, the Board would not develop guidance and examples for inclusion in the Materiality Practice Statement. Instead, we would develop a definition and explanatory paragraphs to help entities apply the concept of significance in IAS 1. The definition and explanatory paragraphs could be based on the guidance that the staff developed for inclusion in the Materiality Practice Statement—modified to discuss 'significant' rather than 'material' accounting policies (see ***October 2018 Agenda Paper 11A***). We think this approach could help entities by explaining:

(a) what makes an accounting policy significant; and

(b) how significance differs from materiality in the context of accounting policy disclosure.

29. Furthermore, retaining the reference to 'significant' accounting policies could be viewed as avoiding many of the concerns raised during the October 2018 Board meeting and described in paragraph 8. This is because such an approach would avoid introducing a direct link between accounting policy disclosure and the concept of materiality.

30. However, staff do not recommend this approach. This is because we think:

(a) this approach would fail to adequately address the concerns identified in the Discussion Paper about the concept of significance (see Appendix

B). We acknowledge that the Board could define and explain 'significant', however we think that questions about the practical difference between significance and materiality would remain;

(b) this approach carries a high risk of unintended consequences. In particular:

(i) the concept of significance is used extensively, and in varying contexts, throughout IFRS Standards. We think that defining the term within the context of accounting policy disclosure could have unintended consequences. In particular, any definition developed in the context of accounting policies could be applied by analogy to other—different—uses of the term 'significant' in IFRS Standards; and

(ii) we think that this approach would imply that significance and materiality are different concepts. It would also imply that the concept of materiality does *not* apply to accounting policy disclosure. Consequently, we think there is a risk that this approach could introduce doubt about the fact that materiality is a pervasive concept across all IFRS Standards.

Replacing the concept of significance with the concept of materiality in IAS 1

31. Consistent with ***July 2018 Agenda Paper 11E***, staff also considered replacing the concept of significance with the concept of materiality in paragraphs 117-124 of IAS 1. Applying this approach, the Board would develop an amendment to IAS 1 while continuing to develop guidance and examples for inclusion in the Materiality Practice Statement (see paragraphs 35-36).

32. In line with the Discussion Paper, staff believe that part of the reason why entities find it difficult to exercise judgement about which accounting policies to disclose is because of the use of the concept of significance as opposed to the concept of materiality in paragraphs 117-124 of IAS 1 (see Appendices B and C).

33. Furthermore, entities find it difficult to exercise judgement in this area as the Board has no definition for the term 'significant'—ie entities are unable to determine if 'significant' has the same meaning as 'material'. We think this confusion has also contributed to the inconsistent application of paragraphs 117-124 of IAS 1 (see Appendices B and C).

34. We believe replacing the concept of significance with the concept of materiality would help entities to exercise better judgement over which accounting policies to disclose. This is because:

    (a) it would eliminate existing confusion about the difference—if any—between the concepts of significance and materiality as applied to accounting policy disclosure;

    (b) guidance and examples in the Materiality Practice Statement would help entities exercise more effective judgement; and

    (c) as described in paragraphs 11-27, we think that materiality can be effectively applied to accounting policy disclosure.

Proposed amendments to IAS 1

35. We recommend that the Board amend paragraphs 117-124 of IAS 1 in the following ways:

    (a) amend paragraph 117 of IAS 1 to require an entity to disclose its material accounting policies instead of its significant accounting policies. This amendment would include removing the description of what significant accounting policies comprise;

    (b) cross-reference to paragraph 31 of IAS 1—which states that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and that an entity shall consider whether to provide additional disclosures—where appropriate;

    (c) support the requirement to disclose material accounting policies with an explanation that is consistent with the Board's tentative decisions during the July and October 2018 Board meetings. In particular, that an accounting policy relating to a material transaction, other event or condition should be disclosed if the accounting policy is material to the financial statements taken as a whole;

(d) amend paragraphs 118-121 of IAS 1 to explain how an entity can identify a material accounting policy. We would replace these paragraphs with guidance similar to the guidance described in paragraph 20 of this paper and suggested for inclusion in the Materiality Practice Statement during the Board's October 2018 meeting; and

(e) retain paragraphs 122-124 which require an entity to make disclosures about 'other judgements'. We recommend the Board make only minor amendments to replace references to 'significant accounting policies' with references to 'material accounting policies'.

36. Overall, we think the amendments described in paragraph 35 will:

(a) help entities make more effective judgements about which accounting policies to disclose. This is because materiality is a defined and supported concept (ie the concept of materiality is already well understood in IFRS Standards and supported by guidance included in other publications);

(b) support the assessment of whether accounting policies are material within the context of the financial statements as a whole;

(c) support materiality as a pervasive concept across the IFRS Standards, and that this includes accounting policy disclosure; and

(d) ensure consistency with all other references to materiality in IFRS Standards by cross-referencing to the definition of material instead of including detailed explanations about the application of materiality in the Standards themselves. The amendments will instead be supported by additional guidance and examples being developed for inclusion in the Materiality Practice Statement.

Staff recommendation and question for the Board

37. In light of the above analysis, staff recommend developing an amendment to paragraphs 117-124 of IAS 1 to refer to materiality rather than significance, as described in paragraph 35 above. This amendment would be issued together with the guidance and examples being developed for inclusion in the Materiality Practice Statement.

38. If the Board agrees with the staff recommendation, our next step will be to bring further staff analysis on the guidance and examples for the Materiality Practice Statement. That analysis will address feedback received in the October 2018 Board meeting. This will include:

    (a) ensuring the term 'useful' is used only in a way that is clear and consistent with the *Conceptual Framework*;

    (b) ensuring that the guidance clearly articulates the distinction between an accounting policy and the financial statement item to which that accounting policy relates; and

    (c) reconsidering the staff example relating to revenue recognition (Example 1B in ***October 2018 Agenda Paper 11A***).

Question 1

Does the Board agree with staff recommendation that the Board should amend paragraphs 117-124 of IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies (as described in paragraph 35 of this paper)?

Appendix A—Paragraphs 117-124 of IAS 1 *Presentation of Financial Statements*

…

Disclosure of accounting policies

117 An entity shall disclose its significant accounting policies comprising:

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120 [Deleted]

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) [deleted];

(b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

124 Some of the disclosures made in accordance with paragraph 122 are required by other IFRSs. For example, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Appendix B— Extracts from the *Disclosure Initiative—Principles of Disclosure* Discussion Paper

…

What is the issue?

6.6 Some users of financial statements and other stakeholders have told the Board that the accounting policy section of an entity's financial statements is often long and unhelpful because:

(a) some entities do not distinguish between accounting policies necessary for users to understand the financial statements and other accounting policies.

(b) some entities do not distinguish between the following types of accounting policies:

(i) those for which the entity:

i. makes a choice between alternative accounting policies allowed in IFRS Standards; and/or

ii. makes significant judgements and/or assumptions in applying the accounting policy.

(ii) other accounting policies, ie accounting policies in which the entity does not have a choice and does not make significant judgements and assumptions in applying those policies.

(c) when describing their accounting policies, some entities replicate the requirements set out in IFRS Standards without tailoring them to their own circumstances.

As a result, users of financial statements can find it difficult to identify which information relating to accounting policies is material.

6.7 The Board has also received feedback from preparers that the current requirements in IFRS Standards provide too little guidance on:

(a) what makes an accounting policy significant;

(b) which information to disclose about a significant accounting policy; and

(c) where to locate accounting policy disclosures in the financial statements.

…

What makes an accounting policy significant?

6.9 Stakeholders communicated the following different views about which accounting policies entities should disclose:

(a) some institutional investors and other stakeholders say that to help users understand financial statements, entities need to disclose only those accounting policies:

(i) that have changed during the period; or

(ii) where the entity:

i. makes a choice between alternative accounting policies allowed in IFRS Standards; or

ii. makes significant judgements and/or assumptions in applying the accounting policy.

(b) other stakeholders say that for users to understand the financial statements, they also need disclosure of other accounting policies, for example, all accounting policies used for material items, transactions or events.

(c) still other stakeholders say that some users of financial statements—for example, retail investors—would benefit from disclosure of all the accounting policies used in preparing the financial statements.

…

Which information about a significant accounting policy should be disclosed?

6.17 The Board observes that ineffective disclosure of information about significant accounting policies appears to be primarily due to difficulties in applying the concept of materiality. Specifically, after identifying its significant accounting policies, an entity has difficulty assessing which information about those significant accounting policies could reasonably be expected to influence decisions made by the primary users of its financial statements. The Board is developing guidance in a Practice Statement to help entities make materiality judgements when preparing financial statements.

6.18 The Board has considered whether to develop further guidance in response to concerns that some entities replicate requirements set out in IFRS Standards without tailoring them to their own circumstances. The Board suggests that entity-specific disclosures about accounting policies are the most helpful to users. This means that:

(a) the accounting policies have been used by the entity in preparing the financial statements; and

(b) an entity describes how it has applied the requirements in IFRS Standards to its own circumstances to enhance a user's understanding of that entity, rather than simply providing a generic description that could apply to many other entities. For example, disclosing that revenue on the transfer of goods is recognised when the entity satisfies the performance condition of transferring the goods to a customer in accordance with the criteria in IFRS 15 *Revenue from Contracts with Customers* is an example of generic (or boilerplate) accounting policy disclosure. An example of an entity-specific description of that entity's accounting policy for revenue recognition might include information on how the entity determines when it has transferred control of the goods to the customer.

…

Appendix C—Summary of feedback on the *Disclosure Initiative—Principles of Disclosure* Discussion Paper

C1. While respondents supported the Board in developing guidance about which accounting policies to disclose, they did not support the Board's proposed categorisation of accounting policies. They were concerned that requirements based on such categories of accounting policy would be confusing and overly prescriptive (see ***February 2018 Agenda Paper 11J***).

C2. Few respondents provided alternative approaches to the proposal in the Discussion Paper for the Board to consider. However, most respondents thought that any guidance developed by the Board on this topic should be based on the relevance, usefulness and/or materiality of accounting policies (see ***February 2018 Agenda Paper 11J***).

Feedback from users of financial statements

C3. Most users of financial statements who provided feedback on the Discussion Paper thought that accounting policy disclosures are often not useful today and could be improved (see ***February 2018 Agenda Paper 11B***).

C4. Most users said they do not find accounting policies that reproduce or summarise IFRS requirements useful. They thought that accounting policy disclosures are useful only when they:

(a) relate to material transactions, other events or conditions; and

(b) provide insight into how an entity has exercised judgement in selecting and applying accounting policies.

C5. This feedback was reiterated by some participants at the March 2018 meeting of the Board's Capital Markets Advisory Committee. In particular, one user described accounting policy disclosures as "probably the most visible reason why this project started in the first place. [Accounting policy disclosures] are so meaningless and eat up so much space [in the financial statements]".

C6. Unlike some other areas of the Discussion Paper, there was clear support from users for the Board developing guidance to help preparers decide which accounting policies to disclose. Further, users said that the application of materiality is key to deciding which accounting policies to disclose and thought that materiality should be the basis of any requirements developed by the Board. These users thought it would be useful if the Board develop more guidance on how to determine if an accounting policy is material.

Appendix D—Amended definition of material

D1. In October 2018, the Board issued the *Definition of Material* (Amendments to IAS 1 and IAS 8):

> IAS 1 *Presentation of Financial Statements*
>
> …
>
> 7 …
>
> ***Material:***
>
> **Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.**
>
> Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
>
> Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:
>
> (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
>
> (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
>
> (c) dissimilar items, transactions or other events are inappropriately aggregated;
>
> (d) similar items, transactions or other events are inappropriately disaggregated; and
>
> (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.
>
> Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Appendix E—Extracts from *IFRS Practice Statement 2: Making Materiality Judgements*

Qualitative factors

46 For the purposes of this Practice Statement, qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.

47 In making materiality judgements, an entity considers both entity-specific and external qualitative factors. These factors are described separately in the following paragraphs. However, in practice, the entity may need to consider them together.

48 An entity-specific qualitative factor is a characteristic of the entity's transaction, other event or condition. Examples of such factors include, but are not limited to:

(a) involvement of a related party of the entity;

(b) uncommon, or non-standard, features of a transaction or other event or condition; or

(c) unexpected variation or unexpected changes in trends. In some circumstances, the entity might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.

49 The relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates. An external qualitative factor is a characteristic of the context in which the entity's transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions. Characteristics of the entity's context that might represent external qualitative factors include, but are not limited to, the entity's geographical location, its industry sector, or the state of the economy or economies in which the entity operates.

50 Due to the nature of external qualitative factors, entities operating in the same context might share a number of external qualitative factors. Moreover, external qualitative factors could remain constant over time or could vary.

51 In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

Interaction of qualitative and quantitative factors

52 An entity could identify an item of information as material on the basis of one or more materiality factors. In general, the more factors that apply to a particular item, or the more significant those factors are, the more likely it is that the item is material.

53 Although there is no hierarchy among materiality factors, assessing an item of information from a quantitative perspective first could be an efficient approach to assessing materiality. If an entity identifies an item of information as material

solely on the basis of the size of the impact of the transaction, other event or condition, the entity does not need to assess that item of information further against other materiality factors. In these circumstances, a quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—can be a helpful tool in making a materiality judgement. However, a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. The entity should further assess the presence of qualitative factors.

54 The presence of a qualitative factor lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be. However, in some cases an entity might decide that, despite the presence of qualitative factors, an item of information is not material because its effect on the financial statements is so small that it could not reasonably be expected to influence primary users' decisions.

55 In some other circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could even reduce to zero. This might happen when information about a transaction, other event or condition is highly scrutinised by the primary users of an entity's financial statements. Moreover, a quantitative assessment is not always possible: non-numeric information might only be assessed from a qualitative perspective.