IFRS

STAFF PAPER

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Project	**Disclosure Initiative—Accounting Policies**		
Paper topic	Guidance		
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Objective

1. The objectives of this paper are to explore developing:

   (a) guidance to help entities apply the four-step materiality process in *IFRS Practice Statement 2—Making Materiality Judgements* (Materiality Practice Statement) when determining which accounting policies to disclose; and

   (b) examples to demonstrate the practical application of the guidance described in (a).

Overview

2. This paper is structured as follows:

   (a) Summary of staff recommendations (paragraphs 3-4);

   (b) Background (paragraphs 5-12);

   (c) Summary of staff approach (paragraphs 13-16);

   (d) Which accounting policies to disclose (paragraph 17-18);

   (e) Guidance for entities to use when applying the four-step materiality process to accounting policy disclosure (paragraphs 19-25);

(f) Examples demonstrating the application of the four-step materiality process to accounting policy disclosures (paragraphs 26-32);

(g) Location of guidance and examples (paragraphs 33-36);

(h) Questions for the Board;

(i) Appendix A—Extracts from *IFRS Practice Statement—Making Materiality Judgements*;

(j) Appendix B—Extracts from the 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper;

(k) Appendix C—Two-tiered approach to identifying material accounting policies;

(l) Appendix D—Mapping of Example 2A to requirements in IFRS Standards.

Summary of staff recommendations

3. Staff recommend that the Board clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material.

4. Staff also recommend that the Board:

   (a) develop guidance to help entities apply effective judgement when deciding whether those accounting policies relating to material transactions, other events or conditions are in fact material;

   (b) develop two or three examples to demonstrate the practical application of the guidance described in (a) and base those examples on paragraphs 46 to 55 of the Materiality Practice Statement (see Appendix A);

   (c) locate the guidance and examples described in (a) and (b) above within the 'Specific topics' section of the Materiality Practice Statement; and

   (d) make additional, minor amendments throughout the Materiality Practice Statement to clarify that the four-step materiality process is applicable to accounting policy disclosures.

Background

5. Paragraphs 117-24 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose its significant accounting policies. The Board has heard concerns that stakeholders' views differ about which accounting policies are 'significant' and should be disclosed. Consequently, the Board developed and discussed three categories of accounting policies in the 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper (see Appendix B).

6. 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***).

7. Few respondents provided alternative approaches to the proposal in the *Principles of Disclosure* Discussion Paper (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

8. 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***).

9. 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.

10. 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]".

11. 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.

Board next steps

12. The Board discussed next steps on this topic in its July 2018 meeting (see ***July 2018 Agenda Paper 11E***). In light of the feedback received, the Board tentatively decided to:

    (a) develop additional guidance and examples for the Materiality Practice Statement; and

    (b) consider at a future meeting whether it would like to make any amendments to the requirements of IFRS Standards—for example IAS 1 *Presentation of Financial Statements*.

Summary of staff approach

13. We think it is important for the Board to clearly articulate its objective for developing guidance and examples. In particular, what practical effect the Board expects to see in financial statements when an entity applies the guidance and examples being developed.

14. In light of the feedback received from users of financial statements (see paragraphs 8-11) the staff think the objectives of the guidance and examples are twofold:

    (a) to help entities identify and disclose all accounting policies that provide material information to users. To achieve this, we think the Board needs to provide guidance about *what* makes an accounting policy material to a primary user of financial statements; and

(b) to help entities eliminate accounting policies from their financial statements if those accounting policies do not provide useful information to users of financial statements. To achieve this, we think the Board needs to provide entities, and other stakeholders, with the tools they need to have confidence in judging accounting policies to be immaterial when appropriate.

15. Consequently, staff have developed recommendations in three parts:

(a) which accounting policies to disclose—here we recommend that the Board clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements (see paragraphs 17-18 and Question 1 for the Board);

(b) guidance—content for inclusion in the Materiality Practice Statement which explains how an entity can apply the four-step materiality process to determine which accounting policies relating to material transactions, other events or conditions are material and should be disclosed. We think that this guidance will primarily help entities achieve the objective described in paragraph 14(a); and

(c) examples—examples for inclusion in the Materiality Practice Statement to demonstrate the application of the four-step materiality process to accounting policy disclosure. We think these examples will primarily help entities achieve the objective described in paragraph 14(b).

16. We think that the guidance and examples described in this paper are intrinsically linked—ie the guidance described in paragraph 15(b) would not be sufficient without the examples described in paragraph 15(c) and vice versa. Consequently, staff recommendations and questions for the Board which relate to guidance and examples are presented together at the end of this paper.

Which accounting policies to disclose

17. Feedback from users suggests that not all accounting policies that relate to material transactions, other events or conditions are themselves material. For example, users have told us that accounting policies that simply repeat the requirements of an IFRS Standard, or that do not require the exercise of significant judgement, do not influence the decisions that users make (see paragraphs 8-11). Staff agree with this feedback. Furthermore, we have noted numerous examples of accounting policies that do not contain useful information when reviewing financial statements (see also paragraph 28). Consequently, staff have developed a two-tiered approach to help preparers identify when an accounting policy is material and should be disclosed (see Appendix C). This approach requires preparers to address two questions:

    (a) *is the transaction, other event or condition material in size or nature, or both?* —this question helps entities determine which accounting policies *have the potential* to be material by explicitly linking accounting policies for disclosure to material transactions, other events or conditions; and

    (b) *is the accounting policy that relates to the material transaction, other event or condition material?* —this question helps entities determine if an accounting policy that relates to a material transaction, other event or condition is material to the financial statements and therefore should be disclosed.

18. Staff recommend that the Board clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material. Consequently, staff have developed the guidance and examples in the remainder of this paper using the two-tiered approach.

Question for the Board

Question 1
Does the Board agree with the staff recommendation that it should clarify that not all accounting policies relating to material transactions, other events or conditions are material to the financial statements?

Guidance for entities to use when applying the four-step materiality process to accounting policy disclosure

19. In the Materiality Practice Statement, the Board introduced an approach to making materiality judgements. This approach, the four-step materiality process, explains how an entity might approach the assessment of materiality in the preparation of financial statements:

    (a) Step 1—identify. Identify information that has the potential to be material;

    (b) Step 2—assess. Assess whether information identified in step 1 is, in fact, material;

    (c) Step 3—organise. Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users; and

    (d) Step 4—review. Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

20. Staff believe it is unnecessary to develop guidance to help entities determine if a transaction, other event or condition is material because the Board has already undertaken several activities to help entities make these decisions:

    (a) 2014 amendments to IAS 1 relating to materiality and aggregation. These amendments became effective for annual periods beginning on or after 1 January 2016;

(b) development of the Materiality Practice Statement issued in September 2017;

(c) development of Better Communication: Making Disclosures More Meaningful case studies (issued in October 2017); and

(d) the separate Disclosure Initiative project on the Definition of Material (final amendment expected to be published in November 2018).

21. Consequently, to develop guidance to help entities identify material accounting policies, the staff recommend amending the approach outlined in the Discussion Paper to remove reference to categories of accounting policies (see paragraphs 5-7). Further, we recommend that the content from the Discussion Paper that respondents identified as useful should be reframed as a series of explanatory paragraphs for inclusion in the Materiality Practice Statement. These paragraphs would be intended to help entities:

(a) identify accounting policies that have the potential to be material as they relate to material transactions, other events or conditions (step 1);

(b) apply judgement about whether those accounting policies identified at step 1 are in fact material (step 2); and

(c) effectively communicate accounting policies by disclosing only the accounting policy information that primary users find useful (step 3).

22. For example, such explanatory paragraphs might read:

Accounting policies

(a) Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed.

(b) 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. In making this assessment, an entity considers the factors described in paragraphs 46 to 55.

(c) Accounting policies are likely to be material if they are necessary to understand the information in the financial statements. For example, an entity may consider an accounting policy to be material to the financial statements if it:

(i) has changed during a reporting period because the entity was required to or chose to change its policy and this change has resulted in a material change to the amounts included in the financial statements;

(ii) was chosen from alternatives allowed in IFRS Standards, for example, the option to measure investment property at either cost or fair value;

(iii) 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;

(iv) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy as described in paragraphs 122 and 125 of IAS 1; or

(v) relates to an area for which an entity has applied the requirements of an IFRS Standard in a way that reflects its own unique circumstances.

(d) Accounting policies that describe how an entity has applied the requirements in IFRS Standards to its own circumstances (ie entity-specific accounting policies) are likely to be most useful to users and enhances their understanding of financial statements.

23. If an accounting policy relates to a material transaction, other event or condition then step 1 of the four-step materiality process is satisfied for that accounting policy (ie the accounting policy has the potential to be material).

24. In applying step 2 of the four-step materiality process, we think that the guidance in paragraph 22 would be helpful. An accounting policy may be material if any of the five factors listed in bullet points (i)-(v) apply. However, we think that this guidance would be easier to apply if it was accompanied by examples that demonstrate the application of those paragraphs to particular fact patterns (see paragraphs 26-32).

25. The guidance in paragraph 22(d) prompts preparers to consider if accounting policies are being effectively communicated and is intended to help preparers apply step 3 of the four-step materiality process.

Examples demonstrating the application of the four-step materiality process to accounting policy disclosures

26. We have developed examples that demonstrate the application of the four-step materiality process to accounting policy disclosures based on paragraphs 46 to 55 of the Materiality Practice Statement (see Appendix A).

27. In developing the examples to include, we think it is important for the Board to keep in mind the objectives described in paragraph 14. In particular, we think it is important for the Board to develop examples that directly address the issues

identified with today's typical accounting policy disclosures. Consequently, to facilitate the Board's discussion, staff have developed a series of examples which highlight the need to focus disclosure only on information which is useful to users of financial statements, and address each of the scenarios listed below:

(a) scenario 1— boilerplate or generic information being disclosed in accounting policies (paragraph 30); and

(b) scenario 2—accounting policies which duplicate recognition and measurement requirements of IFRS Standards (paragraph 31-32).

28. When developing the examples described in this section, staff have reviewed accounting policies in IFRS financial statements to help identify real scenarios that represent the issues identified by users of financial statements.

29. Similar to other topics considered in the Materiality Practice Statement, staff recommend that the Board develop two or three examples to accompany the guidance for entities to use when determining whether an accounting policy is material and should be disclosed. Nevertheless, we have prepared four examples in order to highlight the issues identified by stakeholders and to facilitate detailed Board discussion at this meeting. Staff then plan to bring the decision about which examples to include in the Materiality Practice Statement back to the Board at a future meeting.

Scenario 1

30. The following examples have been developed to address boilerplate or generic information being disclosed in accounting policies that are material to the financial statements. Consequently, each example demonstrates that only information which preparers believe will be useful to their primary users should be disclosed as part of their accounting policy.

Example 1A
Background An entity has a material balance of property, plant and equipment as at the reporting date. The entity has multiple classes of assets, each with a different depreciation policy that reflects the useful life of the assets.

Application Having identified that property, plant and equipment is material, the entity assesses whether its accounting policy for property, plant and equipment is, in fact, material. In developing its accounting policy for property, plant and equipment, the entity: (a) exercised judgement—in particular, in relation to determining the useful life of some asset classes; and (b) made an accounting policy choice—this related to measuring property, plant and equipment at historical cost and not at fair value. The entity noted it has applied the requirements of IAS 16 *Property, Plant and Equipment* in a way that reflects its own unique circumstances. Consequently, the entity concluded that the accounting policy for property, plant and equipment is likely to be useful to its primary users in understanding information in the financial statements and is therefore material. The entity then considered which information to include in the accounting policy. In doing so, the entity concluded that those factors that led it to concluding the accounting policy is material were helpful in identifying what information would be useful to its primary users. Consequently, the entity tailored the accounting policy information to reflect its own circumstances and disclosed information about the depreciation policies and useful economic lives applied to each class of property, plant and equipment. It also disclosed that the historical cost measurement basis was applied. The entity reviewed its draft financial statements and assessed whether the accounting policy for property, plant and equipment is material to the financial statements. Based on its knowledge and experience of its primary users and transactions, other events and conditions, the entity was satisfied that the accounting policy is material both individually and in combination with other information in the context of the financial statements as a whole.

Example 1B
Background An entity operates within the retail industry. It makes sales both in store and online. The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when the customer obtains control of the goods sold. For sales made in store, this is when the customer purchases goods. For online sales, revenue is recognised when goods are delivered to customers in accordance with agreed shipping terms. The entity has identified that revenue is material for the reporting period.

Application

Having identified that revenue is material to the financial statements, the entity assesses whether its accounting policy for revenue is, in fact, material.

The entity evaluates the impact of disclosing the accounting policy by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policy:

a) has not changed during the reporting period;

b) was not chosen from alternatives allowed in IFRS Standards;

c) was not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies; and

d) does not relate to an area for which an entity is required to make significant judgements and/or assumptions.

However, the accounting policy addresses both revenue recognition for sales made in store and online. In particular, the timing of revenue recognition differs between sales made in store and those made online.

Consequently, the entity concluded that disclosing the accounting policy for revenue recognition is likely to be useful to its primary users in understanding information in the financial statements and is therefore material. This is because the accounting policy contains entity-specific information about how the requirements of IFRS Standards have been applied in the entity's particular circumstances.

The entity then considered which information to include in the accounting policy. In doing so, the entity considered that those factors that led it to concluding that the accounting policy is material were helpful in identifying what information would be useful to its primary users. The entity therefore tailored the accounting policy information to reflect its own circumstances and disclosed only information about the timing of revenue recognition for both sales made in store and online.

The entity reviewed its draft financial statements and assessed whether the accounting policy for revenue recognition is material to the financial statements. Based on its knowledge and experience of its primary users and transactions, other events and conditions, the entity was satisfied that the accounting policy is material both individually and in combination with other information in the context of the financial statements as a whole.

Scenario 2

31. When reviewing financial statements, staff have noted some instances in which accounting policy disclosures contain *only* information that repeats the requirements of IFRS Standards. In light of the feedback received from users of financial statements (see paragraphs 8-11), we think that such accounting policies

do *not* provide useful information to users of financial statements. Rather, accounting policy disclosures should reflect how an entity has applied the IFRS Standards in its own unique circumstances.

32. However, staff acknowledge that in some circumstances an entity may be limited to duplicating the recognition and measurement requirements of individual IFRS Standards. The examples below demonstrate the importance of considering whether the information disclosed is useful to users.

Example 2A
Background An entity has material balances of intangible assets and property, plant and equipment. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets: *“The carrying amount of the group’s intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated. For goodwill, and intangibles without a finite life, the recoverable amount is estimated at least annually.* *An impairment charge is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.* *Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.* *The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.* *An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment charge had been recognised.”* **Application** Having identified that assets that are subject to impairment are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

However, the entity noted that it would also be making disclosures about its impairment assessments in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1.

The entity concluded that disclosing a separate accounting policy for impairment is unlikely to be useful to their primary users in understanding information in the financial statements and is therefore not material. This is because:

(a) the accounting policy does not contain entity-specific information and as a result repeats the requirements of IFRS Standards (see Appendix D); and

(b) material information about *how* the entity has applied IAS 36 during the reporting period has instead been included as part of those disclosures made in meeting the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1 (ie a separate accounting policy would duplicate information already disclosed elsewhere in the financial statements).

Example 2B

Background

As at the reporting date, an entity has a material balance of cash and cash equivalents.

Application

Having identified that cash and cash equivalents are material to the financial statements, the entity then assesses whether its accounting policy for cash and cash equivalents is, in fact, material.

The entity first considered the characteristics of its cash and cash equivalents:

(a) all cash and cash equivalents have been held in an independent banking institution for the full reporting period;

(b) the entity does not have access to an overdraft facility;

(c) there have been no unexpected variations or changes in trends and none of the cash and cash equivalents have uncommon, or non-standard, features; and

(d) the entity's accounting policy for cash and cash equivalents:

  (i) has not changed during the reporting period;

  (ii) was not chosen from alternatives allowed in IFRS Standards;

  (iii) was not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting*

	Estimates and Errors in the absence of an IFRS Standard that specifically applies; and
(iv)	does not relate to an area for which an entity is required to make significant judgements and/or assumptions.

Furthermore, if the entity included an accounting policy for cash and cash equivalents in its financial statements, that accounting policy would be limited to reproducing requirements in IFRS Standards and would not provide any entity-specific information. Consequently, the entity considered that disclosing the accounting policy is not likely to be useful to its primary users in understanding information in the financial statements and is therefore not material.

Location of guidance and examples

Specific topics

33. Within the Materiality Practice Statement is a section that addresses specific topics detailing how an entity may choose to apply the concept of materiality in the context of:

    (a) prior-period information;

    (b) errors;

    (c) information about covenants; and

    (d) materiality judgements for interim reporting.

34. As the additional guidance and examples being developed relate to the specific topic of accounting policy disclosure, staff recommend that the guidance and examples are added to the section for specific topics within the Materiality Practice Statements.

Making Materiality Judgements—A four-step materiality process

35. Paragraphs 33 to 60 of the Materiality Practice Statement explain how an entity can make materiality judgements applying the four-step materiality process (see paragraph 19).

36. In addition to including a section on accounting policy disclosure in the 'Specific topics' of the Materiality Practice Statement, staff consider that amendments

should be made to the content of the Materiality Practice Statement. For example, the Board may consider amending paragraphs 46 to 51 of the Materiality Practice Statement to make reference to accounting policies as part of considering qualitative factors.

Questions for the Board

Questions 2-5

Does the Board agree with the staff recommendations that the Board should:

2. Develop guidance to help entities apply effective judgement when deciding whether those accounting policies relating to material transactions, other events and conditions are in fact material;
3. Develop two or three examples to demonstrate the practical application of the guidance described in (2) and base those examples on paragraphs 46 to 55 of the Materiality Practice Statement (see Appendix A);
4. Locate the guidance and examples described in (2) and (3) above within the 'Specific topics' section of the Materiality Practice Statement; and
5. Make additional, minor amendments throughout the Materiality Practice Statement to clarify that the four-step materiality process is applicable to accounting policy disclosures?

Appendix A—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.

Appendix B—Extracts from the 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper

6.11 … The Board identified three categories of accounting policies (paragraphs 6.12-6.14).

6.12 Category 1—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:

(a) those that have changed during a reporting period because the entity either was required to or chose to change the policies;

(b) those chosen from alternatives allowed in IFRS Standards, for example, the option to measure investment property at either cost or fair value;

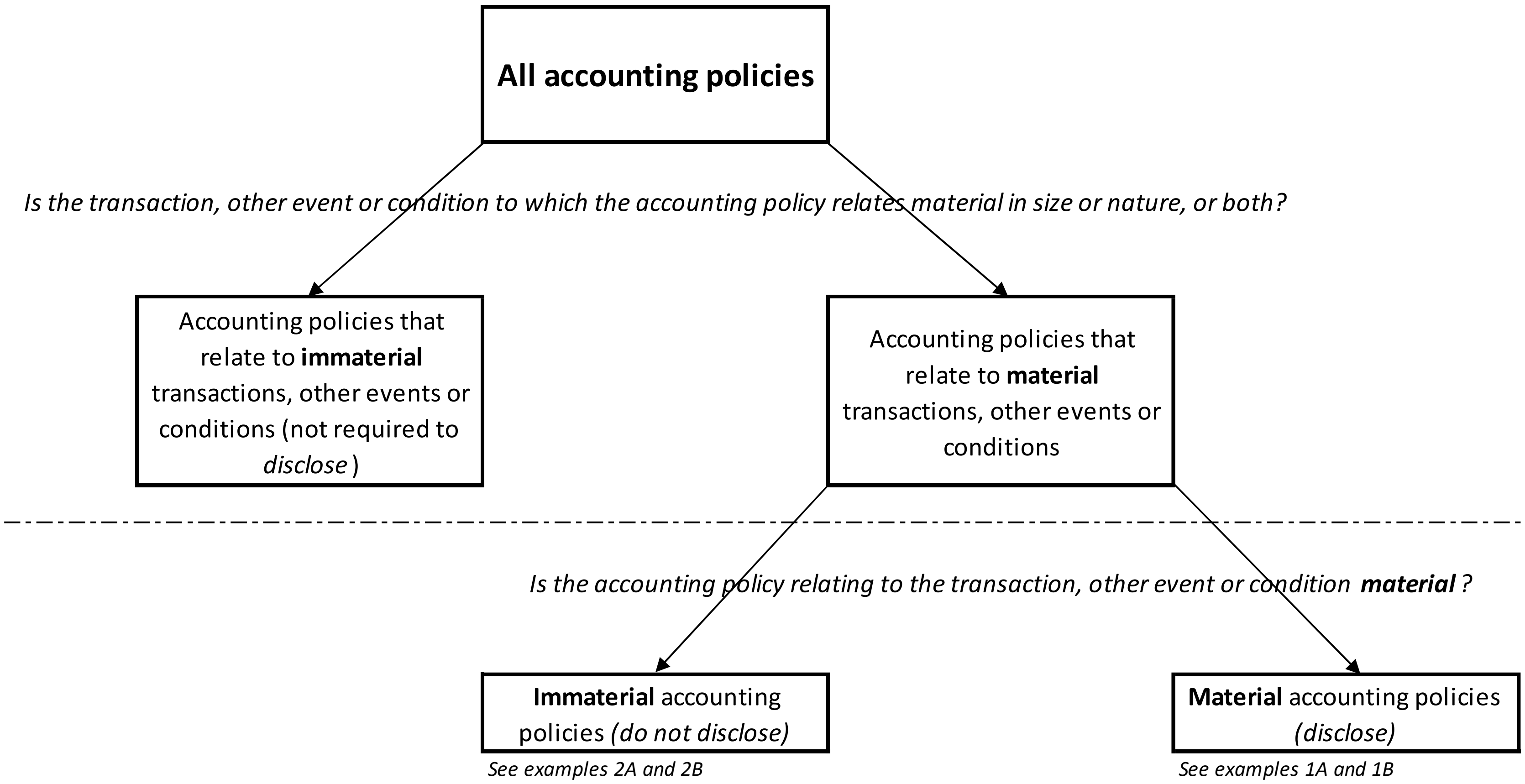
(c) those developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies; and

(d) those for which an entity is required to make significant judgements and/or assumptions as described in paragraphs 122 and 125 of IAS 1 in applying the accounting policy.

6.13 Category 2—accounting policies that are not Category 1, but also relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature; and

6.14 Category 3—any other accounting policies used by an entity in preparing the financial statements and not included in Categories 1 or 2.

Appendix C—Two-tiered approach to identifying material accounting policies



Appendix D—Mapping of Example 2A to requirements in IFRS Standards

D1. The table below demonstrates how the accounting policy disclosure in the Background to Example 1B links to requirements in IAS 36 *Impairment of Assets*. Note that this example was based on several sets of published financial statements.

Extract from Example 1B	**IAS 36 requirement**
The carrying amount of the group's intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.	Paragraph 9
For goodwill, and intangibles without a finite life, the recoverable amount is estimated at least annually.	Paragraph 10(a)
An impairment charge is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.	Paragraphs 59-60
Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.	Paragraph 104
The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use.	Paragraph 74
In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.	Paragraph 55
For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the CGU to which the asset belongs.	Paragraph 22
An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount,	Paragraph 114
but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment charge had been recognised.	Paragraph 117