

## STAFF PAPER

December 2020

## IASB Meeting

| Project     | Disclosure Initiative: Accounting Policies |  |                      |
|-------------|--|--|----------------------|
| Paper topic | Sweep issues                               |  |                      |
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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*.

**Background and objective**

1. In July 2020, the Board gave staff permission to begin the balloting process for *Disclosure of Accounting Policies* which amends IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (see [July 2020 Agenda Paper 20B](#)). As a result of comments received during the balloting process, the staff have identified two issues on which we would like the Board's input:
  - (a) whether to introduce transition requirements or an effective date into IFRS Practice Statement 2; and
  - (b) whether the Board agrees with a proposed revision to paragraph 117B of IAS 1.
2. We are seeking your feedback on these issues because:
  - (a) a few Board members raised concerns that the amendments to IFRS Practice Statement 2 do not include transition requirements or an effective date.
  - (b) a few Board members raised concerns that the guidance proposed in paragraph 117B of IAS 1 could be read as introducing an alternative definition of material.

3. We have not identified any additional issues that we need to discuss with the Board at this stage.

### Summary of staff recommendations

4. The staff recommend that the Board does not add transition requirements or an effective date to the amendments to IFRS Practice Statement 2 (see paragraphs 7-17).
5. The staff recommend that paragraph 117B of IAS 1 should state that accounting policy information is expected to meet the definition of material if it is needed to understand other material information in the financial statements (see paragraphs 18-24).

### Overview

6. This paper is structured as follows:
  - (a) Transition requirements and effective date for IFRS Practice Statement 2 (paragraphs 7-17);
    - (i) Board discussions (paragraphs 7-9);
    - (ii) Staff analysis and recommendation (paragraphs 10-17);
    - (iii) Question for the Board
  - (b) Paragraph 117B of IAS 1 (paragraphs 18-24);
    - (i) Background (paragraphs 18-19);
    - (ii) Board discussions on the guidance proposed in paragraph 117B of IAS 1 (paragraph 20);
    - (iii) Staff analysis and recommendation (paragraphs 21-24);
    - (iv) Question for the Board;
  - (c) Appendix A—Extract from IFRS Practice Statement 2;
  - (d) Appendix B—Extract from the August 2020 *Due Process Handbook*;
  - (e) Appendix C—Example of transition requirements and an effective date for the amendments to IFRS Practice Statement 2

## Transition requirements and effective date for IFRS Practice Statement 2

### **Board discussions**

7. The Board discussed and tentatively decided on the transition requirements and effective date of the amendments to IAS 1 at its July 2020 Board meeting (see [July 2020 Agenda Paper 20A](#)). At that meeting, one Board member suggested adding transition requirements and an effective date to the amendments to IFRS Practice Statement 2 to clarify that an entity should only apply the amendments to IFRS Practice Statement 2 when it also applies the amendments to IAS 1.
8. In response to this comment, staff added a paragraph to the draft Basis for Conclusions to the amendments to IFRS Practice Statement 2 explaining that an entity should consider applying the amended guidance when it also applies the related amendments to IAS 1.
9. However, a few Board members raised concerns about this approach. These Board members thought that the Board should introduce transition requirements or an effective date in the body of IFRS Practice Statement 2 for the following reasons:
  - (a) Adding a description of the effective date of the amendments would be consistent with the Board's tentative decisions for IFRS Practice Statement 1 *Management Commentary*. At its October 2020 meeting, the Board tentatively decided that entities wishing to state compliance with IFRS Practice Statement 1 would be required to apply the revised IFRS Practice Statement 1 for annual reporting periods beginning on after the date of its publication with earlier application permitted (see [October 2020 Agenda Paper 15C](#) and paragraph 10(a)).
  - (b) Paragraph 89 of IFRS Practice Statement 2 (see Appendix A) already includes guidance about its application date (ie a description of the date from when the guidance in IFRS Practice Statement 2 can be applied). Consequently, the amendments to IFRS Practice Statement 2 should include something similar (see paragraph 10(b)-(c)).

- (c) Adding transition requirements or an effective date avoids the risk of an entity applying the guidance being added to IFRS Practice Statement 2 without also applying the amendments to IAS 1 (see paragraph 10(d)).
- (d) Transition requirements or an effective date should be included in the body of Practice Statements rather than in the Basis for Conclusions (see paragraph 16).

### **Staff analysis and recommendation**

10. The staff do not recommend adding transition requirements or an effective date to the amendments to IFRS Practice Statement 2 because:
- (a) There are differences between the purpose of IFRS Practice Statement 1 and IFRS Practice Statement 2 which justify a different approach to transition requirements and effective dates (see paragraphs 11-12).
  - (b) Adding transition requirements or an effective date to the amendments to IFRS Practice Statement 2 would be inconsistent with the approach the Board has taken to other material that accompanies, and/or supports the application of, IFRS Standards such as agenda decisions, illustrative examples, implementation guidance and educational material (see paragraphs 13-14).
  - (c) Adding transition requirements or an effective date to the amendments to IFRS Practice Statement 2 would be inconsistent with previous amendments to IFRS Practice Statement 2. For example, in October 2019 the Board amended the definition of material in paragraph 7 of IAS 1, which resulted in amendments to IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 that resulted from the *Definition of Material* were not accompanied by transition requirements or an effective date.
  - (d) Adding transition requirements or an effective date to the amendments to IFRS Practice Statement 2 would be unnecessary. We do not think it would be possible for an entity to apply the amendments to IFRS Practice Statement 2 independently of applying the amendments to IAS 1. This is

because, until the amendments to IAS 1 become effective, an entity is required to disclose its significant accounting policies (see paragraph 117 of IAS 1) rather than its material accounting policy information so the guidance on identifying material accounting policy information in IFRS Practice Statement 2 is arguably not relevant.

- (e) Adding transition requirements or an effective date to the amendments to IFRS Practice Statement 2 could be seen as undermining the non-mandatory status of IFRS Practice Statement 2.

*The different purpose of IFRS Practice Statement 1*

11. The purpose of IFRS Practice Statement 1 is similar to the purpose of an IFRS Standard—an entity may be required or choose to prepare management commentary that complies with IFRS Practice Statement 1, just as it may be required or choose to prepare financial statements that comply with IFRS Standards. Consequently, revisions to IFRS Practice Statement 1 have a similar status to revisions to an IFRS Standard and require an effective date—that is, a date from when an entity that wishes to assert compliance must apply the revised version.
12. In contrast, similar to agenda decisions and educational material, the purpose of IFRS Practice Statement 2 is to improve the consistent application of the Standards. In particular, IFRS Practice Statement 2 seeks to improve the consistent application of the definition of material in paragraph 7 of IAS 1 and does not add or change the requirements in the Standards (see Appendix A). The Disclosure Initiative: Accounting Policies project is adding guidance to IFRS Practice Statement 2 to improve the consistent application of the definition of material to accounting policy disclosures. So, like agenda decisions and educational material, the amendments to IFRS Practice Statement 2 would not require an effective date.

*Due Process Handbook*

13. The *Due Process Handbook* has no specific requirements regarding transition requirements or an effective date for non-mandatory guidance, or amendments to non-mandatory guidance, such as that contained in IFRS Practice Statement 2.

14. The Board has the following approach with respect to agenda decisions and implementation guidance/illustrative examples:
- (a) agenda decisions—because they reiterate what IFRS Standards already require, agenda decisions are not accompanied by transition requirements or an effective date. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* applies if, as a result of an agenda decision, an entity determines that it needs to change an accounting policy. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (see Appendix B and paragraph 8.6 of the *Due Process Handbook*).
  - (b) implementation guidance and illustrative examples:
    - (i) amendments made directly to implementation guidance or illustrative examples (ie the amendments are not accompanied by amendments to the relevant Standard)—these types of amendments take effect immediately and are not accompanied by a description of transition requirements or an effective date (for example, *Annual Improvements to IFRS Standards 2018-2020*, issued in May 2020, amended an IFRS 16 *Leases* illustrative example which took effect immediately and was not accompanied by transition requirements or an effective date).
    - (ii) amendments made to implementation guidance or illustrative examples as a result of amendments being made to the related Standard—these types of amendments will only appear in the ‘required’ text (or take effect) when the amendments to the related Standard take effect and are not accompanied by a description of transition requirements or an effective date.

*Staff recommendation*

15. For the reasons discussed in paragraph 10, staff recommend that the Board does not add transition requirements or an effective date to the amendments to IFRS Practice Statement 2.
16. Furthermore, we agree with those Board members that think guidance about transition requirements and an effective date should not be included in the Basis for Conclusions to Practice Statements. Should the Board agree with the staff recommendation in

paragraph 15, we would remove the guidance currently included in the draft Basis for Conclusions to the amendments to IFRS Practice Statement 2.

17. Should the Board disagree with staff recommendation in paragraph 15, we have included in Appendix C an example of what a paragraph about transition requirements and an effective date for the amendments to IFRS Practice Statement 2 could look like.

**Question for the Board**

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| <b>Question 1</b>   |
| Does the Board agree with the staff recommendation in paragraph 15? |

**Paragraph 117B of IAS 1**

**Background**

18. The current draft of paragraph 117B of IAS 1 reads:

|      |  |
|------|--|
| 117B | Accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements so that those users can make decisions about providing resources to the entity. For example, ... |
|------|--|

19. A few Board members raised concerns that the guidance proposed in the first sentence of paragraph 117B of IAS 1 would introduce an alternative definition of material by stating, or implying, that accounting policy information is material if it is needed to understand other material information in the financial statements. These Board members were concerned that accounting policy information could be assessed as material without an entity considering whether that accounting policy information also meets the definition of material in paragraph 7 of IAS 1.

### **Board discussions on the guidance proposed in paragraph 117B of IAS 1**

20. At its December 2018 meeting (see [December 2018 Agenda Paper 11A](#)), the Board discussed how the definition of material could apply to accounting policy information. The staff analysis in *December 2018 Agenda Paper 11A* concluded that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to affect the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other material information in a complete set of financial statements. In other words, that accounting policy information would be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements so that those users can make decisions about providing resources to an entity.

### **Staff analysis and recommendation**

21. Staff agree with the concerns raised by a few Board members as described in paragraph 19.
22. It was not the Board's intention that the guidance in paragraph 117B of IAS 1 be considered or applied independently of the definition of material. Instead, paragraph 117B of IAS 1 was intended to act as guidance to help entities apply the definition of material to accounting policy information.
23. We think the best way to address these concerns is to revise the drafting of 117B of IAS 1. We recommend revising the first sentence of paragraph 117B of IAS 1 to instead state that accounting policy information is expected to meet the definition of material if it is needed to understand other material information in the financial statements. For example:

|      |  |
|------|--|
| 117B | <p><u>Accounting</u> policy information is <u>expected to be material if it is needed</u> <del>material if users of the entity's financial statements would need it</del> to understand other material information in the financial statements <del>so that those users can make decisions about providing resources to the entity</del>. For example, ...</p> |
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24. We think this change:
- (a) is consistent with previous discussions and decisions made by the Board (see paragraph 20); and
  - (b) would still result in the same outcome—ie that the materiality of accounting policy information is not only considered in isolation, but also considered as part of the financial statements taken a whole.

***Question for the Board***

**Question 2**

Does the Board agree with the staff recommendation in paragraph 23?

## Appendix A—Extract from IFRS Practice Statement 2

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### **Application date**

- 89 This Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. An entity that chooses to apply the guidance in the Practice Statement is permitted to apply it to financial statements prepared from 14 September 2017.

**Appendix B—Extract from the August 2020 *Due Process Handbook***

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- 8.6 Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Standards.

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## Appendix C—Example of transition requirements and an effective date for the amendments to IFRS Practice Statement 2

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### Application date

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- 90 *Disclosure of Accounting Policies*, which amends IAS 1 and was issued in [date to be determined], also added paragraphs 88A-88G. An entity that chooses to apply the guidance in paragraphs 88A-88G is permitted to apply it to financial statements when it also applies the amendments to IAS 1.