

4 November 2019

Mr Hans Hoogervorst
Chairman of the International Accounting Standards Board
IFRS Foundation
30 Cannon Street
London EC4M 6XH
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Submitted to: www.ifrs.org

Dear Hans

ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Thank you for the opportunity to comment on ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (the ED). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

We are very supportive of the IASB’s projects to help make financial information more useful and improve the way financial information is communicated to users of the financial statements.

We are broadly supportive of the proposals contained in the ED and welcome the proposal to require entities to disclose their *material* accounting policies. This proposal is consistent with the NZASB’s recommendation to the IASB in our 2017 comment letter on DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (POD DP).

We believe it is important that there is clear guidance to assist entities in making materiality judgements about accounting policy disclosures.

Over the last few years a number of New Zealand companies have undertaken streamlining initiatives to declutter their financial statements. Although this is a pleasing development, we have recently heard some concerns from regulators and users that entities continue to have difficulties in identifying and disclosing material information about accounting policies.

Reflecting on the New Zealand experience, we consider that it would be helpful if, in addition to clarifying the proposed guidance on making materiality judgements, the IASB develops an objective for the disclosure of information about accounting policies. We think that both aspects are necessary to help preparers make better materiality judgements about accounting policy disclosures.

We believe the proposals need to be revised to clarify that entity-specific information about accounting policies relating to material transactions, other events or conditions can be material, even when the entity is simply applying the requirements of an IFRS Standard. Information about accounting policies may be material when it is needed for users to understand how the entity has applied the requirements in IFRS Standards to its own facts and circumstances, even when there is no choice or judgement involved in applying those requirements.

Our detailed recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey (Lisa.Kelsey@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix to *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Question 1

The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their ‘material’ accounting policies instead of their ‘significant’ accounting policies.
Do you agree with this proposed amendment? If not, what changes do you suggest and why?

We agree with the IASB’s proposal to amend paragraph 117 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their *material* accounting policies instead of their *significant* accounting policies. This proposal is consistent with the NZASB’s recommendation to the IASB in our 2017 comment letter on the POD DP.

Similar to the feedback the IASB has received, the NZASB has also received feedback that the use of *significant*, an undefined term, causes confusion in practice, and stakeholders have differing views about what constitutes a *significant* accounting policy. We believe that requiring the disclosure of *material* accounting policies would place greater emphasis on the application of materiality when making accounting policy disclosures.

We agree with the IASB’s view (outlined in paragraph BC7 of the ED’s Basis for Conclusions (BC)) that the concept of materiality can be applied in making decisions about the disclosure of accounting policies. As noted in paragraph IN3 of IFRS Practice Statement 2 *Making Materiality Judgements* “the need for materiality judgements is a pervasive concept in the preparation of financial statements. An entity makes materiality judgement when making decisions about recognition and measurement as well as presentation and disclosure.”

We believe information about accounting policies can affect users’ understanding and analysis of other material information in the financial statements and therefore has the potential to influence decisions that primary users of general purpose financial statements make.

Therefore, we agree that *information about an accounting policy is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.*

However, we do not agree that it is necessary to add the italicised sentence above, which essentially replicates part of the definition of material, to paragraph 117. Rather, we would prefer paragraph 117 to read as follows.

117 An entity shall disclose its material accounting policies. An accounting policy is material if information about that accounting policy is needed for a user to understand other material information in the financial statements.

We are comfortable with the proposed deletion from paragraph 117 of the reference to “measurement basis (or bases) used in preparing the financial statements” and “other accounting policies used that are relevant to an understanding of the financial statement”. We agree with the IASB’s view that this deletion will better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements.

Question 2

The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements.

Do you agree with this proposed statement? If not, what changes do you suggest and why?

We recommend that paragraph 117A is reworded to state “not all information about accounting policies relating to material transactions, other events or conditions is material to an entity's financial statements”.

We believe that, more often than not, information about how an entity has applied the requirements in IFRS Standards to its own facts and circumstances would be material to the understanding of material transactions, other events or conditions – even if no significant judgements or choice were involved.

As noted in the POD DP (paragraph 6.13) and the alternative view of Mr Martin Edelmann, users of financial statements are not expected to be IFRS experts/accounting experts. Therefore, information that could help users understand and analyse other material information in the financial statements is likely to be material itself as it has the potential to influence decisions that primary users of general purpose financial statements make. However, we are not implying it is the role of the preparer of financial statements to educate users on requirements contained in IFRS Standards.

We believe our suggested amendment to paragraph 117A would give preparers more confidence to make materiality judgements in relation to the information an entity discloses about its accounting policies for material transactions, other events or conditions.

For example, an entity that has a material class of property, plant and equipment but has not had material additions or disposals during the reporting period may have more confidence to conclude that although disclosing the measurement basis of that class of property, plant and equipment would be material, disclosing information about its accounting policy for additions and disposals would not be material.

We also believe this clarification would avoid confusion about what is meant by the term “accounting policies”. Often multiple accounting policies relating to a particular transaction, other event or condition are collectively described as *an accounting policy*. For example, the accounting policy for property, plant and equipment can comprise accounting policies for depreciation, revaluations, additions etc. It is important to be clear what is meant by an accounting policy as this will affect what information is required to be disclosed.

We agree that accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. This is consistent with the NZASB's view that the disclosure of immaterial accounting policies should not be required (but also not prohibited) – this view was expressed in the NZASB's comment letter on the POD DP.

Question 3

The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements.

Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

We believe that the inclusion of the proposed examples in IAS 1 is useful and will help preparers make better materiality judgements about accounting policy disclosures.

Including these examples in IAS 1 will give the examples authoritative status and greater transparency than if they were merely included in IFRS Practice Statement 2. However, we have the following concerns with the examples proposed in paragraph 117B.

We believe that these ‘examples’ would be better described as qualitative factors. We note Example S on page 13 of the ED already refers to these ‘examples’ as qualitative factors.¹

We agree with the examples provided in paragraph 117B(b)–(d). However, we believe that the lead in to these ‘examples’ should clarify that they indicate when information about an accounting policy may be material – as opposed to an accounting policy in its entirety.

In regard to paragraph 117B(a) we suggest the IASB considers removing the last part of the sentence (which reads “and this change resulted in a material change to the amounts included in the financial statements”). In our view, information about changes in accounting policies for material items could be needed for a user to understand information about that material item – irrespective of whether the change resulted in a material change to the amounts included in the financial statements. We have concerns that the reference to “amounts included in the financial statements” may place undue emphasis on the quantitative assessment of materiality.

In our view paragraph 117B(e) as currently drafted is confusing. We believe that paragraph 117B(e) describes what every entity should do when applying the requirements of an IFRS Standard – i.e. apply the requirements of an IFRS Standard in a way that reflects the entity’s specific circumstances. Our understanding of the intent of paragraph 117B(e) is to emphasise that entity-specific information about accounting policies can be material, even when the entity is simply applying the requirements of an IFRS Standard, if it explains how the entity has applied the requirements to its own facts and circumstances.

Therefore, we recommend 117B(e) is revised to clearly capture information about an accounting policy that relates to material transactions, other events or conditions and “is needed to understand how an entity has applied requirements in IFRS Standards to the entity’s specific facts and circumstances.”

¹ Extract from Example S on page 13 of the ED:

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

- (a) were not changed during the reporting period;
- (b) were not chosen from alternatives in IFRS Standards; and
- (c) were 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.

Question 4

The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

Example S

We agree Example S is useful and will provide helpful guidance for preparers.

However, we suggest it would be helpful if the conclusion was revised to clearly illustrate that information about the allocation of revenue (under paragraph 117B(d) of the ED) and information about the timing of the revenue (under paragraph 117B(e) of the ED) could be material.

Example T

We agree example T is useful to illustrate why accounting policies that duplicate requirements from IFRS Standards or duplicate information provided elsewhere in the financial statements are not useful. However, as the example is currently worded, we have concerns it may be interpreted too broadly, resulting in the potential loss of material information.

We suggest it would be helpful if this example is expanded to illustrate:

- (i) how a generic accounting policy could be redrafted to be entity-specific and provide information about how an entity has applied IFRS Standards to its facts and circumstances; and
- (ii) that not all information relating to an accounting policy is in fact material. For example, if the entity has material intangible assets but does not have a material goodwill balance, information about its accounting policies relating to goodwill is unlikely to be material and need not be disclosed. Further, should additions and disposals of intangible assets not be material in the current period, there would be no need to disclose information about additions and disposal in the accounting policy for intangible assets.

Other comments on proposed amendments to IFRS Practice Statement 2

We are not clear how paragraph 88C and the process illustrated in the diagram fits into the four-step materiality process described in paragraph 33. We recommend that the IASB clarify this.

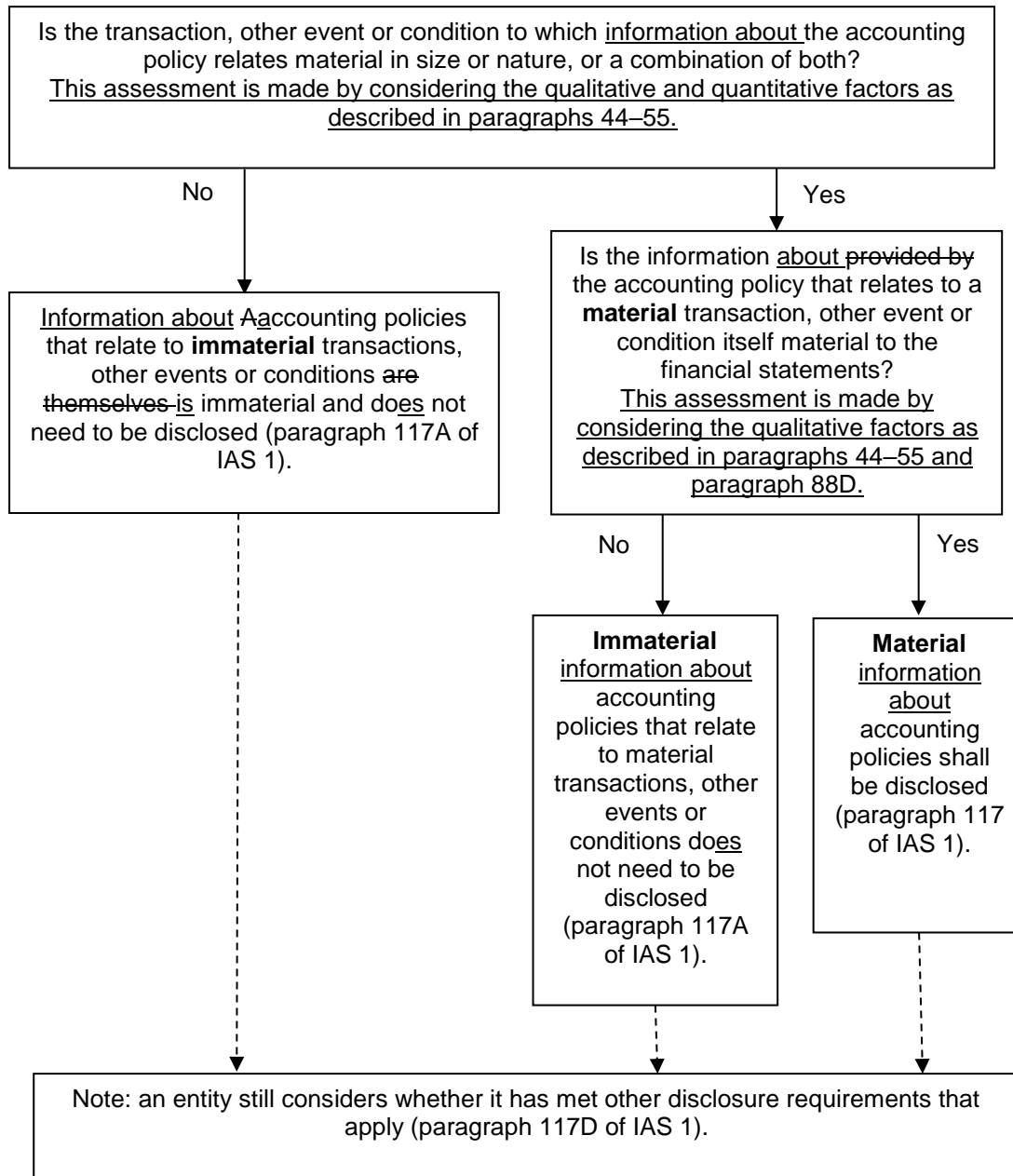
We are also not clear how paragraph 88D fits into the process illustrated in the diagram. Paragraph 88C states “This assessment is made in the same way as for other information – by considering qualitative and quantitative factors as described in paragraphs 44–55”. We would expect paragraph 88C to refer to the qualitative factors described in paragraph 88D when an entity is making materiality judgements in relation to information about accounting policies. Our interpretation is that the qualitative factors in paragraph 88D are additional to those qualitative and quantitative factors described in paragraphs 44–55. We recommend that the IASB clarify this.

Following on from our comments above, we have not found the proposed diagram particularly helpful. However, we do not have any strong objection against it being included in IFRS Practice Statement 2. To improve the helpfulness of the diagram, we recommend that the IASB considers adding cross-references to the relevant paragraphs in the Practice Statement to each step in the diagram (suggested edits on next page).

Our comments in response to question 3 above are also applicable to the proposed paragraph 88D(a)–(e).

Some suggested edits based on our understanding of the assessment (proposed new text is underlined and deleted text is struck through).

Diagram—determining whether an information about an accounting policy is material



Question 5

Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?
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Other than what has been noted elsewhere in our comment letter, we have not identified any wording or terminology in the proposed amendments that is difficult to understand.

We cannot comment on the difficulty of translation as the NZASB does not translate IFRS Standards into any other languages.

Question 6

Do you have any other comments about the proposals in this Exposure Draft?
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Disclosure objective

In our 2017 comment letter on the POD DP, the NZASB supported the use of disclosure objectives. We believe that if preparers had better clarity around the objective of accounting policy disclosures, they would be able to make better materiality judgements about such disclosures. We therefore recommend that the IASB considers developing a disclosure objective for the disclosure of information about accounting policies.

Paragraph 117C

Many entities in New Zealand have already taken steps to improve the communication effectiveness of their financial statements. For many, this has included relocating the disclosure of significant accounting policies, judgements and estimates to the related notes and tailoring these disclosures to be entity-specific. We have found that entity-specific accounting policies disclosed by many of these entities have been more useful than boilerplate disclosures for an understanding of the financial statements.

We agree information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards. Therefore, we agree with the proposed addition of paragraph 117C.

Amendments to other IFRS Standards and publications

We note the IASB's conclusion in paragraph BC16 that "amendments to other requirements in IFRS Standards are therefore not necessary".

Paragraph BC22 of IAS 8 *Accounting Policies, Changes in Estimates and Errors* (extract below), states that IAS 8 specifies the application of materiality in applying accounting policies and correcting errors. Paragraphs 28 to 31 of IAS 8 set out disclosure requirements when there is a change of accounting policies.

BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

The proposals in the ED introduce requirements relating to the application of the concept of materiality to the disclosure of accounting policies. For the avoidance of doubt, we suggest that the IASB clarifies how materiality judgements in relation to the disclosure of accounting policies under IAS 1 (per the proposed amendments) relate to materiality judgements about the disclosure of *changes in* accounting policies made under IAS 8.

Basis for Conclusions

We recommend that the IASB review the Basis for Conclusions to ensure its conclusions are clearly articulated. The IASB's views expressed in paragraph BC7 seems to be at odds with the last two sentences in BC11. Paragraph BC 11 seems to suggest that choice or judgement is needed for an accounting policy to be judged as material to the financial statements.

Editorials

IFRS Standard or publication	Paragraph reference
IFRS Practice Statement 2—Making Materiality Judgements	Paragraph IN4 (c) add in new specific topic “information about accounting policies”