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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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المنظمة الدولية لهيئات الأوراق المالية

28 November 2019

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: ED/2019/6 – *Disclosure of Accounting Policies – Proposed Amendments to IAS 1 and IFRS Practice Statement 2*

Our ref: 2019/O/C1/MS/IASB/168

Dear International Accounting Standards Board Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft ED 2019/6: *Disclosure of Accounting Policies – Proposed Amendments to IAS 1 and IFRS Practice Statement 2* (the Exposure Draft or ED).

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

We support the IASB's effort to improve communication in financial reporting. We agree that the direction of the IASB's proposals to require disclosure of material accounting policies will help entities to identify and disclose accounting policies that provide material information to the primary users of financial statements and to identify and eliminate the disclosure of immaterial accounting policies from the financial statements.

Determination of Significant Judgements

We agree with the concept that an accounting policy is likely to be material if it relates to an area of significant judgment. The implicit presumption in the ED is that entities are appropriately identifying and disclosing significant judgments. However, many regulators observe that significant judgement disclosures are often omitted or are not precise as to the nature of the judgements that management has made. This presents the risk that entities who are inappropriately omitting these judgements could also inappropriately omit the disclosure of material accounting policies as a result of the proposals. We are of the view that the IASB should consider whether further guidance in IAS 1 on the determination of significant judgements is necessary for preparers to better execute and apply these concepts. Further comments on proposed paragraph 117B(d) are included in our response to Question 3.

Attributes of the Primary Users

We agree that accounting policy disclosure should be entity-specific and not simply a repetition of requirements of IFRS standards. However, an entity is also required to consider the needs of the primary users of the financial statements. The Conceptual Framework states that financial reports are prepared for "users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently" - this may not be the same as having detail knowledge about specific requirements in IFRSs. Therefore, the proposals could be viewed as placing heavy reliance on users to be well-versed with and to have access to the requirements in IFRSs. Members are of the view that it would be helpful for the IASB to clarify what level of information or knowledge a preparer can assume a primary user knows or has access to.

Responses to Specific Questions

Our responses to the specific questions raised in the Exposure Draft have been provided below:

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 the proposed amendment? If not, what changes do you suggest and why?

We agree with replacing "significant" accounting policies with "material" accounting policies in IAS 1, as the concept of materiality is well understood by companies and users.

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?

Members did not express concerns with the proposed statement.

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 have the following comments with respect to proposed paragraph 117B:

i. Proposed paragraph 117B requires the disclosure of an accounting policy if it is needed to understand other material information in the financial statements, whereas in the core principle in proposed paragraph 117, the threshold for disclosure is whether an accounting policy when considered with other information can reasonably be expected to influence the decisions of primary users. It is not clear why the threshold for determining whether an accounting policy is material differs in the two paragraphs. We recommend that the IASB harmonize the concepts.

ii. We note that the examples listed in proposed 117B(a)-(e) are narrow in focus in that they only consider the attributes of the accounting policy itself in the determination of whether that policy is likely to be material. However, consistent with the core principle, it should be clarified that entities should also more broadly consider other information in the entity's financial statements and the needs of the primary users in determining which accounting policies to disclose.

iii. The wording in proposed paragraph 117B should be strengthened. As currently drafted, paragraph 117B states that "*…an entity is <u>likely</u> to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events and conditions… [emphasis added]*", and it fits within one of the examples listed in 117B(a)-(e).

Members do not agree with the use of the word "*likely*" in this paragraph. Given that 117B already supposes that the transaction, event or condition is material, we think that the existence of any of the scenarios in (a)-(e) *should* result in the determination that the accounting policy is material. As such, we recommend that the IASB strengthen the wording to indicate that only in rare circumstances would an accounting policy that relates to a material transaction, other event or condition and meets one of the examples listed, would *not* be considered a material accounting policy.

iv. With respect to proposed paragraph 117B(b), there is a risk that in some cases, only disclosing policies where a choice amongst alternatives is made places heavy reliance on users to be well-versed with the requirements in IFRSs. We think it would be helpful for the IASB to explicitly clarify that an entity is not precluded from disclosure of an accounting policy, notwithstanding that there may not have been other acceptable policy alternatives in an IFRS standard.

Similarly, (and in line with the alternative view expressed by Mr. Martin Edelman), we think that in some cases disclosure of an accounting policy may be useful when the accounting policy that is required by IFRS is particularly complex. We suggest that the IASB incorporate the consideration of complexity of a policy in proposed paragraph 117B. Otherwise, there is a risk that entities could omit disclosure of an accounting policy that might impact an investor's decision.

v. Proposed paragraphs 117B and 117B(d) as currently drafted contain three criteria for an entity to identify the accounting policy as being material:
   - it relates to material transactions, events or conditions,
   - it relates to an area for which the entity has made a significant judgement or assumption in the application of the policy, and
   - that judgement has been disclosed in accordance with IAS 1.

This assumes that entities are appropriately identifying and disclosing significant judgments. However, as noted in our General Observations, many regulators observe that significant judgement disclosures are often omitted or are not precise as to the nature of the judgements that management has made. This leads to the risk that entities who are inappropriately omitting these judgements could also inappropriately omit the disclosure of material accounting policies as a result of the proposals. In addition to considering whether further guidance in IAS 1 on the determination of significant judgements is necessary for preparers to better execute and apply these concepts, we are of the view that the threshold for disclosing the policy in 117B(d) should be *making* the significant judgment or assumption, independent of whether that significant judgement or assumption is also disclosed.

vi. Lastly, we support the concept that preparers should always provide entity-specific disclosures. As such we are of the view that proposed paragraph 117C should be given more prominence by being identified as a core principle. Related to this, proposed paragraph 117B(e) contains a similar concept and may not be necessary as a criterion in 117B, if 117C is given further prominence as a core principle.

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?

The diagram in proposed paragraph 88C appears to be inconsistent with proposed paragraph 117. Specifically, the following wording in paragraph 88C: *"…is the information provided by the accounting policy that relates to a <u>material</u> transaction, other event or condition <u>itself</u> [emphasis added] material to the financial statements..,"* refers to the materiality of the accounting policy *itself*, whereas BC7 and the core principal in paragraph 117 refer to the consideration of the accounting policy *<u>in combination</u>* with other information in the financial statements.

Members are of the view that providing specific examples on applying the concept of materiality in determining which accounting policies to disclose and in providing direction to preparers on more entity-specific disclosure behaviours is helpful.

Question 5: Would any wording or terminology introduced in the proposed amendments be difficult to understand or translate?

Members did not express concern regarding the wording or proposed terminology introduced in the proposed amendments, except as otherwise noted in our response to Question 3.

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Question 6: Do you have any other comments about the proposals in this Exposure Draft?

Please refer to our comments under "General Observations."

In addition, we generally believe that disclosures are easier to understand when the accounting policy disclosure is included in the same note as the information to which it relates. As such, we suggest that the IASB re-consider whether it may be useful for users if material accounting policies are disclosed in the same note as the information to which the policy relates.

We appreciate your thoughtful consideration of the responses provided in this letter. If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Sincerely,

Makoto Sonoda
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions