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28 November 2019

Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

Dear Mr Hoogervorst

Exposure Draft 2019/6 – Disclosure of Accounting Policies: Proposed amendments to IAS 1 and IFRS Practice Statement 2

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft *Disclosure of Accounting Policies*.

We support the Board's initiative to help entities provide accounting policies disclosure that are more useful to primary users of financial statements by introducing guidance to identify accounting policies that contribute to the understandability of the financial statements and help eliminate the clutter from disclosure of immaterial accounting policies.

Whilst we agree that it is useful to replace "significant" (a term that is not defined in IFRSs as a separate standalone term) by "material", we are concerned that without further guidance, the assessment of whether an accounting policy is material may be driven primarily by quantitative considerations. We do not believe this would be appropriate. This is why we suggest that additional guidance is added to IAS 1 to highlight that the assessment of materiality should be based on whether the transaction, other event or condition to which the accounting policy relates is material in size or nature or a combination of both. We note that a sentence to this effect is proposed as part of the amendments to IFRS Practice Statement 2. We believe that this reminder that a materiality assessment is not merely a quantitative exercise requires greater visibility.

We have provided more detailed comments in response to the questions in the appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

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Yours sincerely

Veronica Poole
Global IFRS Leader

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Appendix 1

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 that it is useful to replace "significant" (a term that is not defined in IFRSs as a separate standalone term) by "material". However, we are concerned that without further guidance, the assessment of whether an accounting policy is material may be driven primarily by quantitative considerations. This would be contrary to the definition of materiality in IAS 1 that indicates that materiality depends on the nature or magnitude of the information or both. Therefore, to promote a holistic assessment of materiality we suggest that the following statement (currently in paragraph 117B) be added to paragraph 117 instead: "An accounting policy is material if its disclosure is needed for a user to understand information provided about a material transaction, other event or condition in the financial statements". We acknowledge that the Board determined this to be an unnecessary repetition (as noted in BC12). Based on our experience, we do not agree with this conclusion.

We also propose the following editorial change to the amendments to paragraph 117, to ensure greater consistency with the definition of materiality in IAS 1.7

> *Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it ~~can~~ **could** reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those 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 agree that not all accounting policies relating to material transactions, other events or conditions are themselves material.

From an editorial perspective, we believe that proposed paragraph 117A should be limited to its first sentence ("Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed"). The second sentence ("Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material") should either be presented separately or as the first sentence in proposed paragraph 117B. We make this suggestion because whilst the first sentence is factual, the second requires an assessment and judgement. We believe that a reminder to that effect should be added to paragraph 117B. For example, paragraph 117B could start with the following sentence.

> *An entity uses judgement to assess whether an accounting policy relating to material transactions, other events or conditions is itself material.*

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?

In addition to the modifications proposed to paragraph 117B in our response to Question 2, we have the following comments on the examples provided in paragraph 117B

- item (a): The requirement to disclose a change in accounting policy is already included in IAS 8 and the requirement in IAS 8 appears more broad. The disclosure requirement in IAS 8 extends to

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changes that might have an effect on future periods whereas item (a) refers to a material change to the amounts included in the financial statements. Hence, because item (a) does not add to the existing requirement in IAS 8, we suggest that this item should be either deleted from paragraph 117B or cross referenced to existing requirements.

- item (d): We suggest that the following words be deleted "*and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1*". This is because the judgements required to be disclosed in paragraph 122 are those that have the *most significant effect* on the amounts recognised in the financial statements. Further, the assumptions that are required to be disclosed in paragraph 125 are those that have a significant risk of resulting in a material adjustments within the next financial year. We believe that if the application of an accounting policy that relates to material transactions, other events or conditions requires significant judgement or assumptions, it is likely to be a material accounting policy even if the judgement or assumptions do not meet criteria for disclosure in paragraphs 122 and 125.
- item (e): it is not clear what is meant to be captured by item (e). It appears to indicate that the description of the accounting policy should be customised to the specific circumstances of an entity. Whilst this is a useful statement, it may not be a relevant example of what is a material accounting policy and should be presented separately from the items in paragraph 117B. If item (e) serves a different purpose (for example, it is meant to incorporate in IAS 1 the principle illustrated in proposed Example T of IFRS Practice Statement 2 that an accounting policy is not material if all material information included in the accounting policy is already disclosed elsewhere in the financial statements), consideration should be given to expressing it more clearly.

We also suggest that the list of examples of circumstances that would indicate that an accounting policy is material be expanded to include examples that include also a qualitative assessment of materiality. For example, the accounting policy applied to supplier financing arrangements may be material because the impact of the arrangements may be material to the operations of the entity even though the amounts outstanding under the arrangements at the reporting date may not themselves be material. This would be consistent with IFRS Practice Statement 2 paragraph 88C that "*This assessment is made in the same way as for other information—by considering **qualitative** and quantitative factors as described in paragraphs 44–55.*" [emphasis added]

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?

We believe that the examples are useful. We believe that they could be more effective if they indicated how changes to the fact patterns may result in a different conclusion. We also suggest including examples that rely more on a qualitative assessment of materiality as we have also suggested in our response to Question 3.

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

We have not identified any such difficulties.

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

We do not have any additional comments.