



Need to know

IASB proposes amendments with regard to the disclosure of accounting policies

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This *Need to know* addresses the proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* set out in Exposure Draft ED/2019/6 *Disclosure of Accounting Policies (Proposed amendments to IAS 1 and IFRS Practice Statement 2)* (the 'ED') published by the International Accounting Standards Board (IASB) in August 2019.

- The proposals, if finalised, would amend IAS 1 to require an entity to disclose its material accounting policies instead of its significant accounting policies.
- The ED proposes further amendments to IAS 1 that would explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material would be added.
- To support this amendment the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.
- Comments on the ED are requested by 29 November 2019.

Background

IAS 1 requires that an entity discloses its significant accounting policies. The IASB's Discussion Paper *Disclosure Initiative—Principles of Disclosure* (the 'DP') indicated that stakeholder's views differ about what constitutes a significant accounting policy. Feedback on the DP suggested that the ineffective disclosure of significant accounting policies is primarily due to difficulties in applying the concept of materiality as the disclosure requirements for accounting policies do not refer to materiality.

The proposed amendments

The IASB concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies. Therefore, the IASB proposes to amend IAS 1 to replace all instances of the term 'significant accounting policies' with 'material accounting policies'. In the IASB's view, an accounting policy would be material if its disclosure is needed for a user to understand other material information in the financial statements.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

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The supporting paragraphs in IAS 1 would also be amended to explain how an entity can identify a material accounting policy. Examples of material accounting policies that are likely to be material include those relating to material transactions, other events and circumstances and that:

- Have changed during the reporting period
- Were chosen from alternatives allowed in IFRS Standards
- Were developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies
- Relate to an area of significant judgement and assumption
- Reflect unique entity-specific application of an IFRS Standard

Observation

The IASB clarifies that not all accounting policies relating to material transactions, other events or conditions are themselves material.

For example, accounting policies that only duplicate the requirements of an IFRS Standard and those that describe situations which do not require the exercise of judgement are unlikely to influence the decisions that primary users of financial statements make on the basis of those financial statements.

The IASB is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements.

To support the proposed amendments to IAS 1, the IASB also proposes amending IFRS Practice Statement 2 to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements. In particular, the IASB proposes adding guidance and examples to IFRS Practice Statement 2 to help entities apply its 'four-step materiality process' to accounting policy disclosures.

Transitional provisions, effective date and comment period

Should the amendments be finalised, the IASB proposes that an entity applies the amendments prospectively.

The ED does not propose an effective date. The IASB will set the effective date for the amendments after the comment period ends. Application of the amendments before the effective date is proposed to be permitted.

The IASB requests comments on the ED by 29 November 2019.

Further information

If you have any questions about the proposed amendments to IAS 1 and IFRS Practice Statement 2, please speak to your usual Deloitte contact.



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