DRSC

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**IFRS Technical Committee**
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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Berlin, XX November 2019

Dear Hans,

**IASB Exposure Daft ED/2019/6 *Disclosure of Accounting Policies - Proposed amendments to IAS 1 and IFRS Practice Statement 2***

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Daft ED/2019/6 *Disclosure of Accounting Policies - Proposed amendments to IAS 1 and IFRS Practice Statement 2* issued by the IASB on 1 August 2019 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

The IASB proposes to amend IAS 1 and IFRS Practice Statement 2. IAS 1 requires entities to disclose their 'significant' accounting policies. The Board proposes to replace that requirement with a requirement to disclose 'material' accounting policies. In addition, the Board is proposing amendments to IAS 1 and IFRS Practice Statement 2 to help entities apply the concept of materiality in making decisions about accounting policy disclosures.

We appreciate the IASB's intention to help entities providing accounting policy disclosures that are more useful to primary users of financial statements and to eliminate immaterial accounting policy disclosures from their financial statements. We agree with the IASB's motivation, since in practice accounting policy disclosures often only duplicate the requirements of IFRS Standard and hence only contain to a limited extent entity-specific information.

However, we do not believe that the objective will be achieved by replacing the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. To our opinion it needs to be clarified further to what extent redundancies to requirements of IFRS Standards need to be avoided or whether to some extent general explanations are necessary to understand the context of disclosures. This also applies to the accounting expertise of the primary users of the entity's financial statements (i.e. how much accounting knowledge can be assumed by the entity when preparing accounting policy disclosures?).

We welcome that the ED proposes guidance and examples to IFRS Practice Statement 2. These examples focus on the identification of accounting policy disclosures that contain only information that duplicates the requirements of IFRS Standards, i.e. there is a lack of positive examples illustrating a ‘best practice’ of entity-specific disclosure.

For the reasons above, we do not believe that the proposed amendments to IAS 1 and IFRS Practice Statement 2 will lead to changes in the practice of accounting policies disclosures.

Our response to the ED questions is laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Ilka Canitz (canitz@drsc.de) or me.

Yours sincerely,

*Andreas Barckow*

President

**Appendix – Answers to the questions in the ED**

| **Question 1** |
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| 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.<br>Do you agree with this proposed amendment? If not, what changes do you suggest and why? |

We agree with embedding the requirements of accounting policy disclosure into the concept of materiality instead of requiring entities to disclose their 'significant accounting policies'. However, it is not sufficiently clear what is meant by 'material accounting policies' in contrast to 'significant accounting policies'. Therefore, we question whether the objective of the ED – to help entities identify and disclose all accounting policies that provide material information to primary users of financial statements and eliminate immaterial accounting policies – will be achieved by the proposed amendments.

Also, the statement in the proposed new paragraph 117 of IAS 1 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*' is too broad and a clear disclosure objective with respect to accounting policy disclosures is missing.

Therefore, we believe that the proposed amendments to IAS 1 and IFRS Practice Statement 2 are not operational and hence, will not lead to changes in the practice of accounting policies disclosures.

In our opinion, it needs to be clarified further:

- what is the purpose of accounting policy disclosure requirements, by providing a clear disclosure objective,
- which kind of accounting policy disclosures are considered as immaterial or 'boilerplate' (in nature and extent), in order to demonstrate, which accounting policy disclosure is not thought to provide material information to primary users of financial statements,
- which accounting policy disclosures shall be provided, by providing more positive examples of meaningful and entity-specific accounting policy disclosures (please refer to our answer to the question 4), and
- to what extent are primary users of financial statements familiar with specific requirements included in IFRS Standards, i.e. are accounting experts. In other words: providing some introductory notes, i.e. briefly summarizing the content of the recognition and measurement requirements of an IFRS Standard, may increase the understandability of entity-specific information provided in the notes.

| **Question 2** |
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| 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.<br><br>Do you agree with this proposed statement? If not, what changes do you suggest and why? |

We agree with the proposed statement of paragraph 117A of IAS 1 that accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed.

We also agree with the proposed statement that not all accounting policies related to material transactions, other events or conditions are themselves material. Considering, for example, a material amount of cash and cash equivalents, which is measured at amortised cost, we agree that there is no need to disclose the accounting policy for the initial and subsequent measurement of cash and cash equivalents. Such an accounting policy disclosure would merely duplicate the requirements of IFRS Standards and thus is redundant. However, the number of circumstances in which accounting policies related to material transactions are themselves not material might be limited.

Overall, we agree with the proposed statement of the new paragraph 117A of IAS 1 and with the diagram in paragraph 88C of IFRS Practice Statement 2. However, to our opinion accounting policies that relate to material transactions usually are themselves material and shall be disclosed.

| **Question 3** |
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| 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.<br><br>Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why? |

The statement in the proposed new paragraph 117B of IAS 1 'An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements' is too broad and therefore will likely not contribute to the IASB's intention to enable entities to distinguish between material and immaterial accounting policy disclosures.

We support the inclusion of a list of examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. However, the given list of examples covers a wide range of circumstances. Especially the examples given in (d) (significant judgements or assumptions) and (e) (entity's specific application of the requirements of an IFRS Standard) apply to nearly all accounting policy disclosures. Therefore, the list of examples does not make clear, which kind of account policy disclosures are 'boilerplate' and need not be disclosed. Hence, we do not believe that the proposed list of examples will lead to a focus on more relevant, entity-specific disclosures.

| **Question 4** |
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| 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.<br>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 support the addition of examples to IFRS Practice Statement 2 to illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. However, the examples provided should not merely focus on the identification of accounting policies that only duplicate the requirements in IFRS Standards and can be omitted. Instead, we suggest providing more positive examples demonstrating how to make materiality judgments and how to provide entity-specific disclosure. In our opinion, especially providing some sample disclosure notes will be helpful for entities in preparing their accounting policy disclosures.

With respect to Example T, we do not agree with the proposed solution. On the one hand, identifying the cash-generating units to which an asset belong, requires judgement. Hence, an accounting policy disclosure with respect to the identification of cash-generating units might provide useful information to the primary users of the entity's financial statements.

On the other hand - if there is no material information to include in a description of the entity's impairment accounting policy that is not already disclosed elsewhere - we suggest, to add a sample disclosure note in Example T. Even though these disclosures are required by IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1, in our view such a sample disclosure note will point out which information shall be provided and which information and can be omitted.

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

*'Significant' vs. 'Material'*

In German, both terms – 'significant' as well as 'material' – have a clear meaning and can be distinguished from one another ('bedeutend' vs. 'wesentlich'). However, 'significant' and 'material' are not synonyms. 'Significant' rather relates to a level of relevance, higher than 'material'. Consequently, replacing the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies, may be misunderstood and may lead to more extensive disclosure. Translation into other languages may lead to further misunderstandings.

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

*Missing reference to the concept of materiality (i.e. to paragraph 31 of IAS 1)*

According to paragraph 31 of IAS 1 disclosure requirements in IFRS Standards are subject to the application of materiality, i.e. a disclosure that would otherwise be required by a Standard need not be provided if the information resulting from that disclosure is not material. Hence, under legacy IFRS it is already clear, that the concept of materiality shall be applied to the disclosure of accounting policies.

Therefore, instead of requiring entities to disclose their 'material' accounting policies, we suggest requiring entities to disclose their accounting policies and including a reference to the concept of materiality in the proposed paragraph 117 of IAS 1. In doing so, confusion with respect to the wording can be avoided. Furthermore, the new requirements will be linked to the overarching concept of materiality included in paragraph 31 of IAS 1. Therefore, we suggest the following wording in the proposed paragraph 117 of IAS 1:

> 117 An entity shall disclose its ~~material~~ accounting policies. <u>Paragraph 31 of IAS 1 states that disclosure requirements in IFRS Standards are subject to the application of materiality.</u> 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.'

*Immaterial accounting policies 'need not' be disclosed*

According to the proposed new paragraph 117A of IAS 1, accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. The IASB is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements (ref. paragraph BC10(a) of the proposed ED). Thus, the new proposed paragraph 117A of IAS 1 intends to eliminate immaterial disclosure but is not requiring the omittance of immaterial disclosure.

However, the definition of materiality covers information that 'if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those information' (ref. paragraph 7 of IAS 1). Further on, paragraph 7 of IAS 1 states, that material information may be obscured if 'the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.'

To our opinion, to some extent, general explanations within accounting policy disclosures might be helpful for primary users of financial statements. Therefore, we agree with the proposed wording of paragraph 117A of IAS 1 that immaterial accounting policies 'need not' be disclosed (instead of: 'shall not' be disclosed). On the other hand, we observe, that entities tend to present accounting policy disclosures that are too broad and contain only to a small extent entity-specific information. Therefore, we suggest putting more emphasis on the IASB's intention to eliminate immaterial ('boilerplate') accounting policy disclosure.

*Proposed consequential amendments to other IFRS Standards*

According to the IASB, amendments to other requirements in IFRS Standards are not necessary (ref. proposed paragraph BC16 of IAS 1). Nevertheless, the ED is proposing some consequential amendments to other IFRS Standards. We acknowledge that the IASB is proposing these amendments in order to align the wording to the proposed new paragraph 117 of IAS 1 ('material accounting policies' instead of 'significant accounting policies'). However, we suggest to also update the specific disclosure requirements of other IFRS Standards if these are requiring entities to disclose the accounting policies adopted.

*'Voluntary' disclosure requirements included in other IFRS Standards*

Some disclosure requirements throughout the IFRS Standards encourage, but do not require disclosure (e.g. paragraph 79 of IAS 16, paragraph 132 of IAS 36). In the light of the IASB's efforts to help entities focusing on material disclosures the IASB might want to reconsider the wording of "encouraging" entities to provide additional disclosures on a voluntary basis.