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Mr Hans Hoogervorst
International Accounting Standards Board
Columbus Building
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Our ref RD/288

29 November 2019

Dear Mr Hoogervorst,

Comment letter on Exposure Draft ED/2019/6 *Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2*

We appreciate the opportunity to comment on the International Accounting Standards Board's ('the Board') Exposure Draft ED/2019/6 *Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2* (the ED), published in August 2019. We have consulted with, and this letter represents the views of, the KPMG network.

We welcome the proposed amendments and believe they may encourage preparers to rethink their approach to accounting policy disclosure, in respect of deciding **what** accounting policies to disclose as well as focussing on providing more entity-specific descriptions so that the resultant information is **relevant** to primary users of financial statements. The disclosure of relevant accounting policy information often involves materiality judgements that require broader behavioural change from various stakeholders, including regulators and auditors. We believe the proposed amendments are an important initiative in promoting such behavioural change.

While we agree with the overall direction of the proposals, we believe that the proposed principle for determining material accounting policy disclosure is not clear. In our response to Question 1 we highlight specific inconsistencies in the proposals. We are concerned that the ambiguity of the guidance may lead to differing interpretations resulting in inconsistent approaches applied in practice.

We are also concerned that the proposed guidance may imply that accounting policies that repeat IFRS requirements are immaterial and need not be disclosed. We continue

to believe¹ that to a certain extent accounting policy descriptions may need to repeat IFRS requirements to provide appropriate context for reflecting an entity's specific circumstances. Removing these accounting policies simply because they repeat IFRS requirements may hinder the ability of primary users of financial statements, who may not be IFRS experts, to understand the financial statements as a whole. We note that such disclosure needs to be supplemented by entity-specific information, where appropriate.

The appendix to this letter contains our detailed responses to the questions on the proposals.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Reinhard Dotzlaw or Gabriela Kegalj at +44 020 7694 8871.

Yours sincerely

KPMG IFRG Limited

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¹ See KPMG comment letter dated 2 October 2017 on the Discussion Paper *Disclosure Initiative - Principles of Disclosure*.

Appendix

This appendix contains our detailed responses to specific questions raised by the Board.

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 support the proposed replacement of the term “significant” with “material” as this terminology change aligns better with the refined definition of material as introduced in *Definition of Material – Amendments to IAS 1 and IAS 8*.

We also welcome the proposed clarification, at a conceptual level, of what makes an accounting policy material in paragraphs 117 and 117B. This should encourage preparers to apply materiality judgements when deciding what accounting policies to disclose.

However, we note an inconsistency between the proposed explanatory paragraphs 117A and 117B with the proposed amendment in paragraph 117 that may be confusing and lead to varying application of the proposed guidance – i.e. paragraph 117 describes material accounting policies by reference to “information considered with **other information** included in an entity’s financial statements”, whereas the first sentence in 117B refers to “information needed to understand **other material information** in the financial statements” (emphasis added).

We agree that the principle approach to assessing the materiality of accounting policies be made in the context of **other information** included in the financial statements (i.e. information provided about a material transaction, other event or condition in the financial statements, as articulated in paragraph BC7) and we recognise that in most cases, this other information will, by definition, be **material** because it is included in the financial statements. Nevertheless, the inclusion of immaterial information is not prohibited, subject to it not obscuring material information, and some entities may need to include immaterial information (from an IFRS perspective) to comply with local laws and regulations². If the first sentence in explanatory paragraph 117B is intended to

² IFRS Practice Statement 2, Example G

differ from the proposed text in paragraph 117 (by the additional reference to other “material” information), we suggest the Board clarify the relationship between them.

We also note that the proposed paragraph 117A appears to introduce another benchmark for deciding which accounting policies are to be disclosed i.e. ‘accounting policies that relate to material versus immaterial transactions, other events and conditions’. This paragraph does not equate with principles-based guidance introduced in 117 and 117B and may lead to further confusion without the explanation of how it relates to the broader conceptual principle.

In addition, paragraph 117A appears out of place in the sequence of guidance proposed in paragraphs 117 and 117B and we recommend the Board reconsider placement of this paragraph to improve the flow of explanatory guidance accompanying paragraph 117, and move it possibly below proposed paragraph 117D. See response to Question 2 for specific comments on the proposed paragraph 117A.

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?

Accounting policies related to immaterial transactions, other events and conditions

Subject to our comments in response to question 1, we agree with the first statement in the proposed new paragraph 117A of IAS 1 that accounting policies which relate to immaterial transactions, other events and conditions are themselves immaterial and therefore need not be disclosed. This is consistent with the existing statement in IAS 1.31 that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. We believe that a cross-reference to paragraph 31 of IAS 1 would be helpful.

As noted in our response to Question 1, despite the statement in the proposed paragraph 117A that immaterial accounting policies need not be disclosed, entities may nevertheless disclose them (there is no direct prohibition) and some may view ‘more is better’ to satisfy expectations of certain stakeholders. We believe it would be helpful to clarify how the inclusion of immaterial accounting policy disclosure should be evaluated in the context of the guidance in IAS 1.30A and the refined definition of materiality as

per Amendments to IAS 1 and IAS 8³ which specifies that an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information.

Accounting policies related to material transactions, other events and conditions

From a conceptual perspective, we do not object to the second sentence in proposed paragraph 117A ('not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements') as we believe that materiality of accounting policies is an area of judgement.

However, it is unclear from the proposals how an entity determines which accounting policies that relate to material transactions, other events or conditions would be considered immaterial and need not be disclosed.

One may infer from the proposed illustrative examples in IFRS Practice Statement 2 (PS 2), and based on the guidance in 117A, that an entity need not disclose information that includes descriptions copied directly from the text of IFRS (which we believe may be warranted in certain circumstances). Alternatively, one might assume that the indicators of material accounting policies in paragraph 117B(a)-(e), when considered in reverse, would suggest that the accounting policy is not material. However, we note that the example in 117B(e) is so broad that it is difficult to understand what comprises the residual category of information that need not be disclosed (i.e. to what accounting policies would proposed 117B(e) not apply?).

To better illustrate the intended application of the proposed guidance in 117A and what information need not be disclosed, we recommend the Board revise the illustrative examples in PS 2 to clearly demonstrate such situations and explain the considerations entities would weigh in making their materiality assessment. See response to Questions 3 and 4.

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?

³ Definition of Material – Amendments to IAS 1 and IAS 8 published in October 2018, effective 1 January 2020

We generally agree with the list of indicators of material accounting policies in proposed new paragraph 117B but as noted in our response to Question 2, we question how/whether these examples would help an entity to determine which accounting policies are **not** material.

We have the following comments with respect to proposed examples 117B(e) and (d).

Proposed paragraph 117B(e)

We believe that example 117B(e) is too broad and, unlike the other examples listed in 117B, does not describe specific circumstances. Instead, it seems to express a generic attribute of accounting policy disclosure. One can infer that it is a ‘catch-all’ category given that all IFRS requirements need to be applied to the entity’s specific circumstances, as do also all of the other examples (a)-(d). In addition, we are concerned with the phrase ‘in a way that reflects’ in 117(e) as it could be misinterpreted as permission to override certain IFRS requirements, i.e. depending on an entity’s particular facts. We also note that this example to some extent overlaps with the proposed paragraph 117C.

Without further guidance or specific factors to consider, this example may not be particularly helpful in determining which accounting policies that relate to material transactions, other events and conditions are material and warrant disclosure, versus what is immaterial and need not be disclosed.

As noted in our response to Question 2, the proposals seem to be mainly focused on eliminating descriptions that are lifted directly from IFRS text. We recommend that the Board illustrate the applicability of example 117(e) and explain how it relates to 117C.

Proposed paragraph 117B(d)

This example specifically refers to IAS 1.122 and 125, which cover a relatively narrow subset of items, such that other accounting policies might not fit in this subset:

- paragraph 122 addresses management judgements made in applying the entity’s accounting policies that have “the most significant effect” on amounts recognised in the financial statements, and
- paragraph 125 relates to estimates requiring management’s “most difficult, subjective or complex judgements” and requires disclosure about the assumptions and major sources of estimation uncertainty at the end of the reporting period “that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities **within the next financial year**” (emphasis added).

We believe that users may still find disclosure of accounting policies that involve **other** judgments and assumptions, although potentially not as significant or complex as those

described at IAS 1.122 or sources of estimation uncertainty not holding the level of risk described at IAS 1.125, relevant to their understanding of the financial statements. The proposed example 117B(d) seems to imply that these accounting policies would not need to be disclosed. We therefore suggest that the Board consider expanding 117B(d) to cover such assumptions and policies.

The interaction of proposed IAS 1.117B(d) with example S may not provide sufficient clarity. Example S refers to proposed paragraph 117B(d) to support disclosure of a revenue recognition accounting policy including information on the timing of revenue recognition. However, determining point in time versus over time revenue recognition often may not involve significant judgement that warrants disclosure under IAS 1.122; it would be generally disclosed pursuant to the requirements of IFRS 15.123.

In addition, the example denotes judgements and assumptions made in applying an accounting policy and refers to both paragraphs 122 and 125 of IAS 1. However IAS 1.125 relates to assumptions made about accounting estimates and not accounting policies. As such, we consider the proposed 117B(d) should also refer to assumptions made in forming an accounting estimate and other sources of estimation uncertainty. The last part of 117B(d) should also be updated to '...in accordance with paragraphs 122 ~~and~~ or 125 of IAS 1' given that disclosures are required if either paragraphs 122 or 125 are met.

We recommend the Board revise proposed paragraph 117B(d) to reflect the above.

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?

Due to the concerns expressed above (see our response to Questions 2 and 3), we believe that of all the examples in 117B, (d) and (e) may be the most challenging to apply. We think the examples would be most useful if they could effectively illustrate how entities would apply 117B(d) and (e) in determining which accounting policies need (or not need) to be disclosed. This would serve to support the statement in proposed paragraph 117A that 'not all accounting policies relating to material transactions, other events or conditions are themselves material'. The diagram in proposed paragraph 88C also does not demonstrate adequately how an entity would make this determination.

We have the following specific comments on the proposed examples in PS 2.

Example S

We believe that example S may not be as useful as intended given it utilises an accounting policy for transactions or conditions that are generally always material – the amount and/or nature of revenue generated in a reporting period is usually material information for users. In our experience, based on the factors set out in proposed paragraph 117B (in particular 117B(e)) only in very rare cases would revenue recognition policies be considered ‘immaterial’. This is because revenue recognition policies often involve judgements based on the entity’s specific circumstances. However, as noted in our response to Question 3, the judgement regarding point in time versus over time revenue recognition may not be ‘significant’ enough to warrant disclosure under IAS 1.122 and hence reference to IAS 1.117B(d) may not be needed. We note that paragraphs 123 to 126 of IFRS 15 contain specific disclosure requirements on significant judgements and changes in judgements an entity makes in applying IFRS 15. Unlike example T, the commentary in example S seems to ignore the interaction with disclosure requirements of the standard that directly applies to this transaction – i.e. IFRS 15. As such, we do not believe that the example is particularly helpful in highlighting what accounting policy disclosure would be considered immaterial in the context of revenue recognition and under what circumstances.

We recommend that the Board illustrate an alternative scenario that would not meet the threshold of ‘material accounting policy’ in the context of revenue recognition or consider providing a non-revenue example that better demonstrates the assessment process that entities are expected to follow when considering the proposed guidance in 117B.

Example T

The commentary to this example includes the following conclusions:

- an impairment accounting policy needs not be disclosed because information is already disclosed elsewhere pursuant to other specific requirements of specific IFRSs (as required by IAS 36 and IAS 1.122 and 125); and

While we agree that material accounting policy disclosure should not duplicate with information disclosed elsewhere in the financial statements, such conclusion may be misleading as in fact the information that relates to impairment of intangibles often involves significant judgements and assumptions and therefore, to the extent intangibles are material, it would be considered material accounting policy under the proposed paragraph 117B(d). As such, the conclusion appears to contradict the proposed IAS 1.117B(d) that makes specific reference to significant judgements under IAS 1.122 and 125. It also may imply that the description of

accounting policy can only be presented in a separate note (by referring to ‘a separate accounting policy for impairment’ versus information disclosed elsewhere pursuant to IAS 1.122 and 125). In our experience, the description of accounting policy can be presented together with the actual note that includes other relevant disclosure requirements related to the transaction, event or condition. Alternatively, notes can be cross-referenced to avoid duplication of information.

- an impairment accounting policy is immaterial and needs not be disclosed because this accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards.

While we support entity-specific descriptions and disclosure that is relevant to the entity’s own circumstances, we believe that to a certain extent accounting policy descriptions may need to repeat IFRS requirements to provide appropriate context for reflecting an entity’s specific circumstances. As stated in proposed paragraph 117B, an accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statement.

We recommend that the Board revise the commentary in example T to address the above.

Question 5

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

We are not aware of any difficulties in understanding or translating the wording or terminology in the proposals.

Question 6

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

We have the following observations on the proposals.

BC 13 of the proposed amendments to IAS 1 and IFRS Practice Statement 2

We consider the reference to IAS 38 as an example inappropriate given that there is an accounting policy choice on the measurement model (i.e. cost model and revaluation model) and therefore the accounting policy would likely be material according to the proposed IAS 1.117B(b) assuming the intangibles are material.

Proposed amendments to IFRS 7.21 and B5

The proposed amendment in paragraph 21 of IFRS 7 is almost identical to the extant wording. In particular, it highlights that material accounting policies include 'measurement basis' which is specifically removed in the proposed amendment to IAS 1.117 for reasons stated in BC11. It is unclear if this proposed amendment is intended to create an exception such that the measurement bases for financial instruments should always be disclosed. If this is the intention of the Board, it would be helpful to explain the rationale in the Basis for Conclusions.

Drafting of proposed paragraph 117B(e)

The beginning of sub-paragraph (e), if retained, should be drafted as "results in applying the requirements..." instead of "applies the requirements..." to better flow with the preamble of 117B that states "...if that accounting policy relates to...and:".