IFRS in Focus

IASB amends IAS 1 and IFRS Practice Statement 2 with regard to the disclosure of accounting policies

Contents

This *IFRS in Focus* outlines the amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* titled *Disclosure of Accounting Policies*, published by the International Accounting Standards Board (Board) in February 2021.

- The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies.
- Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added.
- To support the amendments, 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.
- The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Background

IAS 1 requires that an entity discloses its significant discounting policies. The Board's Discussion Paper DP/2017/1 *Disclosure Initiative—Principles of Disclosure* indicated that stakeholders' 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 amendments

The Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies. Therefore, the Board decided to amend IAS 1 to replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. In the Board's view, accounting policy information 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 the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

For example, standardised information or information that only duplicates or summarises the requirements of IFRS Standards are less useful to users of financial statements.

The Board concluded that these amendments would help entities reduce immaterial accounting policy disclosures in their financial statements. The Board made it clear that if an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

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The revised Standard explains how an entity can identify material accounting policy information. Such information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements.

For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and the accounting policy:

- Has changed during the period
- Was chosen from alternatives permitted by IFRS Standards
- Was developed in accordance with IAS 8 *Accounting Policies*, *Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies
- Relates to an area for which the entity is required to make significant judgements and assumptions
- Relates to complex accounting, and users of the entity's financial statements would otherwise not understand the relating transactions, other events or conditions

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Observation
One Board member voted against the publication of the amendment. She disagreed with the implication that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex. In her view, the notion of complexity is highly subjective and does not constitute a robust basis for a requirement. This may lead to more information being disclosed than necessary. In her dissenting opinion, the Board member stated that reciting words from IFRS Standards cannot meet the definition of material without stretching that definition endlessly.

To support the amendments, the Board also amends 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 Board adds guidance and examples to the Practice Statement to help entities apply its 'four-step materiality process' to accounting policy disclosures.

Effective date and transitional provisions

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. They are applied prospectively.

For the amendments to IFRS Practice Statement 2 the Board concluded that, as the amendments provide non-mandatory guidance on the application of the definition of material to accounting policy information, transition requirements and an effective date are unnecessary.

Further information

If you have any questions about the amendments to IAS 1 and IFRS Practice Statement 2, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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