

29 November 2019

Hans Hoogervorst
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Dear Hans,

AOSSG comments on IASB Exposure Draft ED/2019/6 *Disclosure of Accounting Policies*

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB's ED/2019/6 '*Disclosure of Accounting Policies* (the "ED")'. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

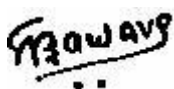
The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Presentation and Disclosure Working Group.

We received ten comments from Australia, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Saudi Arabia, Sri Lanka, and Thailand. There were mixed views for the proposed amendments. The views of the AOSSG for each question are provided in Appendix.

The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

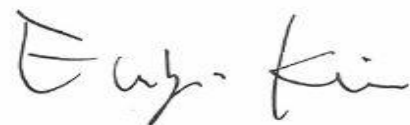


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APPENDIX – Detailed comments from the AOSSG on ED/2019/6 *Disclosure of Accounting Policies*

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?

Most members agreed with the Board’s proposal. One member mentioned that the use of ‘significant’, an undefined term, causes confusion in practice, and stakeholders have differing views about what constitutes a significant accounting policy. Another member noted that the proposal clarifies the principle of accounting policy disclosures and is a good starting point to help entities decide which accounting policy disclosures warrant disclosures based on materiality.

On the other hand, one member disagreed with the proposal. The member believes that the proposed amendments in the ED would not achieve the objective of improving the disclosure of accounting policies. The member is not convinced with the IASB’s reasoning for this change.

Wordings of paragraph 117

One member suggested changing the wording of paragraph 117. Rather than repeating the definition of ‘material’, the member suggested to rephrase it in plain English as below. The changed phrase is underlined

117 An entity shall disclose its material accounting policies. An accounting policy is material if information about that accounting policy is needed for a user to understand other material information in the 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?

Most of the members agreed with the Board’s proposal. Moreover, some respondents made suggestions to paragraph 117A.

Some members think that it is difficult to understand the statement in the proposed paragraph 117A that ‘...not all accounting policies relating to material transactions, other events or conditions are themselves material’ without reading the new example T in the Materiality Practice Statement. Those members go on to recommend the IASB should further elaborate in IAS 1 under what circumstances such an accounting policy would not be material to support this statement.

One member suggested further clarification of the interpretation of “immaterial transactions.”

One member mentioned that the term “accounting policies” is not clear whether it means a singular or collective accounting policies to a transaction. Often multiple accounting policies relating to a particular transaction, other event or condition are collectively described as an accounting policy. For example, the accounting policy for property, plant and equipment can

comprise accounting policies for depreciation, revaluations, additions, etc. It is important to be clear on what is meant by an accounting policy as this will affect what information is required to be disclosed. If an entity has a material class of property, plant and equipment but has not had material additions or disposals during the reporting period, it may have more confidence to conclude that although disclosing the measurement basis of that class of property, plant and equipment would be material, disclosing information about its accounting policy for additions and disposals would not be material. Therefore, this member suggested to reword paragraph 117A to state “not all information about accounting policies relating to material transactions, other events or conditions is material to an entity’s financial statements”. This would prevent immaterial information from being lumped and disclosed together with material information if an accounting policy is perceived as having broad meaning.

One member views that all accounting policies relating to material transactions, other events or conditions, should be disclosed irrespective of whether they themselves are material or not to the entity’s financial statements. The member believes the manner of application of requirements of IFRS Standards by an entity in its facts and circumstances would generally be essential to understand the material transactions, other events or conditions, which are communicated through disclosure of accounting policies. Therefore, the member suggests deleting the second sentence of paragraph 117A as it could be confusing.

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?

Most members generally agreed that including examples would provide useful guidance, but some members expressed concerns for items in paragraph 117B.

As conditions rather than as mere examples, 117B(a)-(e)

One member proposed that these conditions should not be just referred to as examples of circumstances where an entity is likely to consider the materiality of an accounting policy but be referred to as conditions under which the accounting policies must be disclosed.

Limiting to two types of accounting policy, 117B(b) and 117B(c)

One member believes that the examples of accounting policies that are to be included in the authoritative guidance should be limited to these two types of accounting policies which are reasonably expected to influence the primary users’ decisions:

- (i) accounting policies that are chosen from one or more alternatives in an accounting standard; and
- (ii) accounting policies that are developed in the absence of an accounting standard that specifically applies.

Accounting standards in the member’s jurisdiction have treated these two types of accounting policies as significant accounting policies for a long time and the concept has been well accepted. Also, the member noted that paragraphs 119 and 121 of IAS 1 *Presentation of Financial Statements* currently refer to these two types of accounting policies. However, the

understandability of accounting policies that are reasonably expected to influence the primary users' decisions could be improved by amending these paragraphs and to clarify that these two types of accounting policies are those that are required to be disclosed.

117B(a)

One member views that the changes in accounting policy should always be deemed material, even if this does not have a material impact on the numbers reported in the current period. Changes in accounting policies could also be an indication of other (more fundamental) changes at the entity or they could impact in a future period and therefore should always be identified and explained (eg changes in useful lives or policy on when repair and maintenance expenses are capitalised) as it is not enough if a new policy is disclosed without explaining the changes.

Some members have concern that the reference to “amounts included in the financial statements” may place undue emphasis on the quantitative assessment of materiality. These members viewed that whether an accounting policy is material requires consideration of qualitative factors as well.

117B(e)

Some members find the wording of 117B(e) confusing. Specifically, one of these members believes that paragraph 117B(e) describes what every entity should do when applying the requirements of an IFRS Standard – i.e. apply the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances. The member's understanding of the intent of paragraph 117B(e) is to emphasise that entity-specific information about accounting policies can be material, even when the entity is simply applying the requirements of an IFRS Standard, if it explains how the entity has applied the requirements to its own facts and circumstances. The member recommends revising 117B(e) to clearly capture information about an accounting policy that relates to material transactions, other events or conditions and “is needed to understand how an entity has applied requirements in IFRS Standards to the entity's specific facts and circumstances.”

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?

Most members find it useful to add examples in the IFRS Practice Statement 2. Furthermore, one of these members suggests adding more illustrative examples from various scenarios, for example materiality assessment of accounting policy disclosure for expected credit losses, because it might not be that straightforward to make the distinction of whether the accounting policies are material to be disclosed or otherwise.

One member believes it would have been more useful, if the examples could be developed to illustrate the difference between the present requirement of “significant” and the new requirement of “material”. So after the scenario, if the example could list few possible immaterial policies (which are not required to be disclosed) as well the examples, it would be more effective.

Diagram in the Practice Statements 2

Issues identified for the diagram in the Practice Statements 2 are as follows:

- (i) Hard to understand how paragraph 88C and the process illustrated in the diagram fit into the four-step materiality process described in paragraph 33
- (ii) Diagram only makes reference to the proposed paragraphs 117, 117A and 117D. To deal with this issue, it is suggested that the Diagram should also demonstrate how to apply the proposed paragraphs 117B and 117C to help readers understand the logical flow of these paragraphs and to provide a complete thinking process for determining whether an accounting policy is material

Example S

One member mentioned that it would be helpful if the conclusion was revised to clearly illustrate that information about the allocation of revenue (under paragraph 117B(d) of the ED) and information about the timing of the revenue (under paragraph 117B(e) of the ED) could be material.

One member noted that example S only demonstrates how to judge whether the accounting policy is material and suggests the IASB to expand the example by providing guidance on what kinds of entity-specific information might be disclosed.

Example T

Some members agree that Example T illustrates a situation where an entity duplicates the IFRS requirements. In addition, those members recommended the following:

- Suggested to expand Example T to illustrate:
 - (i) how a generic accounting policy could be redrafted to be entity-specific and provide information about how an entity has applied IFRS Standards to its facts and circumstances; and
 - (ii) that not all information relating to an accounting policy is in fact material. For example, if the entity has material intangible assets but does not have a material goodwill balance, information about its accounting policies relating to goodwill is unlikely to be material and need not be disclosed. Further, should additions and disposals of intangible assets not be material in the current period, there would be no need to disclose information about additions and disposal in the accounting policy for intangible assets.
- Suggested to develop Example T to illustrate two contrasting cases:
 - (i) illustrating when an impairment accounting policy just duplicates IFRS requirements and is not material; and
 - (ii) illustrating an impairment accounting policy that contains entity-specific information (eg one that describes how the entity determines its cash generating units for impairment testing) and is considered material.
- Suggested to demonstrate how the proposed paragraphs 117-117D are applied in example T in order to help readers understand the logical flow of these paragraphs (eg provide a clearer link between the example and proposed paragraphs 117-117D).

One member views that disclosure in Example T is not a duplication of IFRS requirements as it is mistaking (i) the disclosure of the judgements and assumptions used in applying the accounting policy for (ii) the disclosure of the accounting policy itself. The member believes that just because the significant judgments or assumptions are disclosed separately in accordance with individual IFRSs, it does not mean that the disclosure of the accounting policy itself becomes unnecessary.

One member expressed concern that the accounting policy descriptions may need to repeat IFRS requirements to provide appropriate context for reflecting an entity's specific circumstance.

Question 5

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

Some members view that the term 'material' and 'significant' when translated are interchangeable. Therefore, if the term 'significant' is changed to 'material', the level of change in the meaning in the English term may not necessarily match that of the translated term. One member suggested adding a clear supplementary explanation to the Basis for Conclusions in IFRS.

One member notes that the driver of the proposed amendments is the focus on materiality of information provided by the disclosure of the policy. Given this understanding and the fact that the words "material" and "significant" are interchangeable in many languages, the member suggests some changes to the wording of the proposed amendments to shift the focus from 'materiality', or 'significance', of the policy to the materiality of information about the policy. This member suggested the following changes to accomplish the Board objective (New text is underlined and deleted text is struck through):

117 An entity shall disclose its ~~material~~ accounting policies if information about an accounting policy is material. 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.

117A Accounting policies that relate to immaterial transactions, other events or conditions ~~are themselves immaterial and~~ need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions ~~are themselves material~~ need to be disclosed.

117B ~~An accounting policy is material if~~ Information about ~~that~~ an accounting policy is needed if it is necessary to understand other material information in the financial statements. For example, an entity is likely to consider information about an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

...

117D If an entity concludes that information about an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

122 An entity shall disclose, along with its ~~material~~ accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the

entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

One member is not convinced with the IASB's reasoning for this change. There are other IFRS Standards that use the term 'significant' instead of 'material' (for example, paragraph 34 of IAS 28 Investments in Associates and Joint Ventures refers to 'significant transactions' whereas the proposed paragraph 117A of IAS 1 in the ED refers to 'material transactions'). The member has difficulty understanding why the term 'significant' is replaced with the term 'material' only in the context of the disclosing accounting policies and not elsewhere in IFRS Standards.

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

Alternative view of Mr. Martin Edelmann

Some members agreed with Mr. Martin Edelmann's view that not all users are accounting experts. They considered that repeating of IFRS standards may be necessary to enhance the understanding of the financial statement for those users.

One member recommends the IASB should add guidance in the Materiality Practice Statement explaining that if management thinks the disclosure of additional accounting policies may help understanding for some financial statement users, for example when accounting required by an IFRS Standard is complex, then they should be disclosed. The member suggests this guidance emphasizes that when providing additional accounting policies, entities should (i) provide entity-specific information where possible, rather than repeat IFRS requirements; and (ii) exercise judgement in deciding where to disclose them to prevent obscuring material accounting policies, for example they might be disclosed in an appendix to the financial report.

On the other hand, another member noted that users did not raise any concern in this area. This indicates that investors are either financially literate enough such that they do not need this type of information, or they rely on expert advice in making their investment decisions.

Amendments to other IFRS Standards and publications

One member noted the IASB's conclusion in paragraph BC16 that "amendments to other requirements in IFRS Standards are therefore not necessary". Paragraph BC22 of IAS 8 *Accounting Policies, Changes in Estimates and Errors* (extract below) states that IAS 8 specifies the application of materiality in applying accounting policies and correcting errors. Paragraphs 28 to 31 of IAS 8 set out disclosure requirements when there is a change of accounting policies.

BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

The proposals in the ED introduce requirements relating to the application of the concept of materiality to the disclosure of accounting policies. For the avoidance of doubt, the member suggests that the IASB clarify how materiality judgements in relation to the disclosure of accounting policies under IAS 1 (per the proposed amendments) relate to materiality judgements about the disclosure of changes in accounting policies made under IAS 8.

Considering the 'Accounting Policies and Accounting Estimates (Amendments to IAS 8)' project

Some members mentioned that the IASB should consider the 'Accounting Policies and Accounting Estimates (Amendments to IAS 8)' ED together along with the current proposal.

One member suggested to first clarify the two concepts, accounting policy and accounting estimation. The member noted that the lack of clear distinction between the two concepts often leads to inconsistent application of IFRS standards.

One member commented that if the two EDs were considered separately, IFRS standards that address related issues may be amended twice in a short period of time.

Defining the terms 'significant' and 'substantial'

One member mentions that the term 'significant' is used in many other IFRS Standards, such as, IFRS 9, IAS 19, IAS 20, IAS 28, etc. Moreover, Sometimes the term 'significant' appears to be used interchangeably with the term 'substantial', while practically the threshold for determining 'significant' or 'substantial' could be quite different.

For example, paragraph 3.2.7 of IFRS 9, wherein to explain substantial risks and rewards, the term 'significant' is used.

3.2.7 An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer....

On the other hand, in another case, the term 'significant' is used to refer to a threshold that is different from the threshold used for the term 'substantial'. An example for this is paragraph 5, IAS 28 which states "If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence..."

Therefore, there is a need to define the terms 'significant' and 'substantial' for their consistent application throughout IFRS Standards.

Scope of the proposed amendments

One member recommends the IASB should clarify that:

- (i) The proposed amendments only apply to making materiality decisions about the disclosure of accounting policies for the purposes of preparing general purpose financial statements; and
- (ii) therefore, assessing materiality for purposes other than the preparation of financial statements, for example determining key audit matters, is beyond the scope of this proposal.