29 November 2019

International Accounting Standards Board
Columbus Building
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Email: commentletters@ifrs.org

Dear Sir/ Madam

SAICA SUBMISSION ON ED/2019/6 – *DISCLOSURE OF ACCOUNTING POLICIES:* PROPOSED AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2

In response to your request for comments on ED/2019/6 – *Disclosure of Accounting Policies*: Proposed Amendments to IAS 1 and IFRS Practice Statement 2, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this exposure draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Ahmed Mohammadali-Haji
Chairperson: APC

Bongeka Nodada
Project Director: Financial Reporting Standards

SAICA SUBMISSION ON ED/2019/6 – *DISCLOSURE OF ACCOUNTING POLICIES:* PROPOSED AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2

GENERAL COMMENTS

We appreciate the objective of the International Accounting Standards Board (Board) to provide specific guidance on which accounting policies to disclose in order to direct the preparers to more entity-specific disclosure behaviours. We believe that additional guidance on disclosure of accounting policies will be helpful in directing the attention of the preparers to the appropriate and relevant accounting policies, which in turn will allow users to more effectively focus on decision useful information.

We agree with the clarification in the proposed amendments that not all accounting policies relating to material transactions, other events or conditions are themselves material to the financial statements. However, we are concerned that the proposed guidance is somewhat inconsistent, and therefore may not be as effective as intended. The type of user/the users' needs have not been considered in determining whether an accounting policy is material – i.e. a user not an expert in IFRS will consider an accounting policy to be useful in understanding the accounting for an event/transaction, whereas an IFRS expert would have a much higher threshold in considering whether accounting policy information is useful or not.

We support the Board's effort to provide guidance in the IFRS Practice Statement 2 (the PS) on how to apply the concept of materiality to accounting policy disclosures. This will help raise awareness regarding disclosure overload and encourage management to more actively pursue disclosure effectiveness by applying the materiality concept. However, we do not think that the two examples are sufficiently clear in guiding preparers in determining what information about an accounting policy is material and needs to be disclosed.

Many entities also provide standardised and boilerplate information about those significant judgements, assumptions and estimates required by paragraphs 122 and 125 of IAS 1 – *Presentation of Financial Statements*. We suggest that the Board should also consider providing additional guidance on how to prepare entity-specific and tailored accounting policy disclosures, in order to achieve the behavioural change among preparers that is sought after.

Our more specific concerns are set out in the following responses to the specific questions contained in the Exposure Draft (ED).

SPECIFIC COMMENTS

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 an amendment to the IAS 1 requirement on accounting policy disclosures that will guide entities to provide more effective and decluttered information. However, we believe that this objective could be met by clarifying what the standard means by "significant" accounting policies instead of amending it to "material".

Materiality is a term described by the *Conceptual Framework for Financial Reporting (Conceptual)* relating to information that if omitted or misstated, could influence the decisions that users make. It seems improbable that a user's decisions could be influenced by or based on an accounting policy that explains the treatment of a transaction or event. The accounting policy enables the user to understand the information in the financial statements, but we do not believe an accounting policy that explains the transaction or event will necessarily influence their decisions.

We believe it may be possible for a user's decisions to be influenced by an accounting policy where management had a choice or polices described in paragraphs 117B (a), (b), (c) and (d) for a material transaction or event.

We therefore believe the Board should explain the distinction between material accounting policies that explain the treatment of a transaction or event and where material accounting policy choices are available and the choices made or polices described in paragraphs 117B (a), (b), (c) and (d).

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?

We understand that accounting policies are developed for material transactions and events based on the *Conceptual Framework*; it is not clear how a transaction or event could be material and the accompanying accounting policies immaterial, this is discussed in our responses to Question 4 below. This is further made unclear by paragraph 117 which states that information about an accounting policy is considered together with other information included in the financial statements. This seems to imply that if a transaction or event is material, the accompanying accounting policy is also material. We suggest the Board clarify how this conclusion can be reached.

We can accept that an accounting policy that explains the transaction or event may be immaterial. However, since removing an accounting policy that explains a transaction that is assessed to be immaterial may disadvantage some users, we support the amendment in paragraph 117B e) that requires the entity to make the accounting policy specific to the entity and circumstances of the transactions or event.

We agree that "accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed". However, we encourage the Board to consider highlighting the concept of 'obscuring information', i.e. that disclosing immaterial policies may have the effect of obscuring material information.

Some members suggest that the amendment allows preparers to have two sets of accounting policies, one being the policies and judgements that are assessed to be material and a second set where the policies may be assessed as immaterial based on the policies being other policies than those mentioned in or polices described in paragraphs117B (a),(b), (c) and (d). These would need to be clearly titled as such.

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?

We agree that the lists of examples of circumstances enumerated in paragraph 117B are relevant in determining whether an accounting policy is material to the financial statements. However, the wording of the requirement suggests that the list is not exhaustive, and thus a policy not captured in the listing may still be considered material. Contrary to the proposed requirement, we are not able to identify other circumstances in which disclosure of an accounting policy would be material. Therefore, we believe the Board should consider revisiting the wording.

Some members would like to bring to the attention of the Board that the interpretation of paragraph 117B may imply that in applying this paragraph, we require a two-step approach – materiality AND one of the examples. The wording may need to be revisited if that is not the intended meaning.

We note that the criteria in (a) to (d) of paragraph 117B are already included in the current standard. Criterion (e) is new. However, the nature of item (e) is somewhat different from the others. Item (e) arguably refers to policies applied by an entity in which choices and/or judgment has been made, and as such is an incremental addition to the list. However, such policies would often fall within criterion (d). Furthermore, (e) also addresses what disclosures should be made about material accounting policies, i.e., the disclosures should be specific to the facts and circumstances of the entity, and as such is not helpful in determining whether an accounting policy is material or not. Therefore, we believe the "what disclosures" dimension of item (e) should rather be included in the guidance in paragraph 117C. If there are policies being material in reference to (e), as opposed to (d), we believe (e) needs to be clarified.

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?

We agree that providing illustrations in the PS would be useful for entities in applying the concept of materiality to accounting policy disclosures. However, we do not think that the two examples are sufficiently clear. The examples focus on the fact that an entity should provide entity-specific information and avoid standardised accounting policies and duplication of the requirements in the standards. We believe that the examples in the PS could be further improved by providing additional guidance and illustration of the contents of material accounting policy disclosures.

Furthermore, we believe that the two examples intended to illustrate the difference between material and immaterial accounting policies are not achieving its intention, since the difference between the two scenarios is unclear.

Therefore, we encourage the Board to revisit the two illustrative examples with the intention to clarify: (a) what accounting policies an entity needs to disclose in the financial statements; and (b) what information about those accounting policies it should disclose/does not need to disclose.

Example S only provides the reason why disclosures of accounting policy for revenue recognition is likely to be material (i.e., because the entity has made significant judgements in applying the accounting policy and it had to consider how the requirement of the standard apply to its own circumstances). However, the example provides no guidance on what information about the accounting policy the entity will need to disclose.

On the other hand, Example T fails to distinguish between what accounting policies an entity needs to include in the financial statements and what information about those accounting policies that should be disclosed. The example seems to focus more on highlighting the need to avoid accounting policies that duplicate the requirement of the standard. It is clear from the example that certain information about impairment of non-financial assets is "material" (e.g., the discount rate used in impairment testing). However, it is unclear how the Board believes the interaction between specific information being considered to be material and the assessment of whether policy disclosures are material works.

There are members who believe that although the examples are limited in their efficacy, their purpose is not tell to the preparer what to disclose but to illustrate the thought-process the preparer would use to decide which accounting policies are to be included.

To ensure that preparers are aware of the examples in the PS, and to give the examples greater emphasis, we believe it may be useful to include the examples within the standard itself (in the appendices or in the Basis of Conclusion).

Question 5

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

The ED uses the terms "material accounting policies". In reference to our comments above, we believe an accounting policy that merely explains the transaction may not influence the users' decisions but an accounting policy where management had a choice and policies described in paragraphs 117B (a), (c) and (d) may influence the user. As mentioned above, we believe this distinction is necessary.

Question 6

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

The Board suggests that the proposed amendments should be applied prospectively. The Board notes in paragraph BC17 "that retrospective application of the proposed amendments would not be possible because the proposed amendments affect only the disclosure of accounting policies". It is not clear to us whether prospective application means that an entity would need to disclose: (a) only material accounting policies for the current period; or (b) both material accounting policies in the current period and significant accounting policies in the comparative period. We suggest that the Board clarifies this in the ED.

The left side of the "Diagram – determining whether an accounting policy is material" in the PS includes a broken line that suggests an entity would still need to consider whether other disclosure requirements have been met for immaterial transactions, other events or conditions. We suggest that this line be deleted as the disclosure requirements of other standards are not required for immaterial transactions, other events or conditions.

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