# Comments on the Exposure Draft - Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2

Thank you so much for giving us the opportunity to comment on the Exposure Draft on Disclosure of Accounting Policies – Proposed amendments to IAS 1 and IFRS Practice Statement 2. Given below are our 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?

**Response 1**

It is not clear as to why at this juncture, the Board is trying to change the well-established practice of disclosure of accounting policies. The concern on the difference between material and significant has existed since the issuance of erstwhile IAS 1 "Disclosure of Accounting Policies".

After reading the contents of the exposure draft, it appears that the Board is applying the concept of materiality to accounting policies differently from the normally understood manner. The exposure draft indicates that a transaction that is material to the financial statements may not be material for disclosure of accounting policies! This appears indigestible! The Board intends to say that an entity should disclose accounting policies for only those transactions, events or conditions that are "very material" to the financial statements. This is nothing but old wine in a new bottle. This is how the word" significant" has been understood as "more than material". Thus, the Board could have simply clarified what the word "significant" means. However, in doing so, the Board had the challenge to align that clarification to the use of the word "significant" in other standards which the Board does not want to clarify or wants to keep it open to the judgement of the preparers, auditors and users which has been the case in most of the Standards. IFRS is management's call and auditors' challenge. The management keeps taking calls and the auditor is required to challenge those calls by obtaining sufficient appropriate audit evidence to justify those calls. The entities and auditor had become familiar with the use of the word "significant" and have been applying it consistently since the erstwhile IAS 1 Disclosure of Accounting Policies. Now the auditor will be faced with new challenge of justifying whether an accounting policy is material though the transaction, event or condition to which it pertains is already judged to be material. What is the necessity of creating such new challenges? The Board has accepted inconsistencies in accounting based on the reason that the practice is well established. For example, lessor accounting, accounting for financial liabilities, accounting for common control transactions etc. Why not accept this inconsistency between material transactions, events and conditions and significant accounting policies as a well understood and well-established practice.

Think from a user's perspective. A reader of financial statements sees the same accounting policies being disclosed previously as "Significant Accounting Policies" and now after the issuance of this amendment as "Material Accounting Policies". The reader wonders for the reason for changing from "Significant" to "Material" when there is no change in the contents disclosed. The user then sees an increase in costs to study whether the policies already being disclosed are material accounting policies. The conclusion of the study is that all are material. This is going to be result in more than 50% of the cases. To a user, it looks as a gimmick to keep the Board engaged and the professionals also engaged without any significant value addition to the information being provided in financial statements. The Board could use the time taken in issuance of this amendment in addressing or researching other issues such as whether equity method is consolidation method or a measurement method, the conceptual basis for capitalising costs of financing activities etc. which the Board has termed as "Long-term" agenda items.

Paragraph BC7 admits that an accounting policy would rarely be assessed as material to the financial statements. Thus, at conceptual level, the word "Material" as a prefix to accounting policies seems to be misnomer. In the Board's view, an accounting policy would be material if its disclosure is needed for a user to understand the information provided about a material transaction, other event or condition in the financial statements. Therefore, the Board could have clarified in paragraph 117 of

IAS 1 that "An accounting policy would be significant if its disclosure is needed for a user to understand the information provided about a material transaction, event or condition."

We, therefore, do not agree with the proposed amendment to replace the word "Significant" with "Material" for the reasons and proposed changes stated above.

**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?

**Response 2**

We do not agree with the proposition that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements. In our view, if a transaction, event or condition is material for a reporting period, its accounting policy must be considered as material to make users understand those financial statements irrespective of whether it requires repetition of the contents of the standard. We completely agree with the views of Mr. Martin Edelmann that the implicit assumption in this exposure draft is that all users of financial statements are accounting experts or have read IFRSs and possess a library of accounting literature which is far-far away from the ground realities. The Board must attempt come down to earth before proposing lofty ideals. The Board must attempt to simplify the financial statements to make it understandable to users who are not experts or have not read accounting standards rather than make them incomplete, inconsistent, more complicated and difficult to understand.

Think from a reader's perspective. The reader finds property, plant and equipment, intangible assets, inventories in the balance sheet with a material amount but finds no accounting policy on the same because no significant judgement or estimates were involved, the entity had disclosed the same in the previous year and any disclosure would have simply repeated the principles contained in the Standard. That user is a new user for those financial statements. The user is not aware of what accounting policy was disclosed previously. The user must necessarily read previous financial statements to understand how the company accounts for those transactions, events and conditions. Thus, the amendment makes the financial statements incomplete.

Further, the amendment uses the word "need not". This is like providing options. The Board must say clearly whether an entity must disclose an accounting policy when must that entity disclose an accounting policy and how must that entity disclose that accounting policy. By "how", we mean what should the accounting policy contain. The words "need not" leaves the judgement to the management and the auditor to challenge that judgement. The same reader compares financial statements of another entity, a competitor of the earlier one, and finds accounting policies for property, plant and equipment, intangible assets and inventories being disclosed. The reader starts wondering how a financial statement that does not provide accounting policy be considered as more relevant than the one that provides the accounting policy though a repetition of the contents of the standard. The reason for this inconsistent disclosure of accounting policies between entities would be the words "need not" which means that the entity may or may not. It is difficult to digest that such amendment would make the financial statements more relevant to users.

The Board wants the entities to speak their language based on the specific facts and circumstances and not just repeat the language of the standard. The Board could achieve its wish by requiring entities to speak their language. For this, the Board must study application of each standard minutely to understand how entity specific facts can be built in the accounting policy. Rome was not built in a day. Similarly, the disclosure of accounting policies of varied transactions, events and conditions cannot be made relevant by amending only one standard that requires disclosure of accounting policies. Based on the study, the Board can require those details to be provided in accounting policy. A classic example is the disclosure requirement contained in paragraph 119 which makes it difficult, but not impossible, for an entity to simply copy and paste the principles given in the standard. Such a wish cannot be fulfilled by applying short-cuts by amending IAS 1. Such a wish can only be fulfilled by amending each standard.

**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?

**Response 3**

The proposed listing of circumstances as examples in which an entity is likely to consider an accounting policy to be material to its financial statements make the financial statements incomplete, inconsistent and incomparable. The reasons for our view and the changes that we propose for the Board to achieve its objective have been stated in our response to Questions 1 and 2.

**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?

**Response 4**

The examples do demonstrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. However, what is not demonstrated is the necessity of having separate set of guidance for application of materiality for accounting policy disclosures. Why the same principles of materiality cannot be applied in all cases? Further, in our view, the entity is required to see whether a transaction, event or condition is material to the financial statements. If it is material, its accounting policy has got to be material. The word "Material" has only one definition. Its application cannot be different for a particular transaction, event or condition and the accounting policy for that transaction, event or condition.

Therefore, we do not agree with those examples and suggest that the Board clarify that if a transaction, event or condition is considered material then its accounting policy shall be considered material. The Board must further clarify that an accounting policy must state the entire accounting lifecycle applicable to any asset, liability, income, expense or equity that is considered material to the financial statements. By entire lifecycle is meant recognition, initial measurement, subsequent measurement, reclassification, designated for hedging, termination of that designation, impairment and derecognition, as may be applicable.

**Question 5**

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

**Response 5**

Our views on the wording or terminologies introduced in the proposed amendments have been stated in response to earlier questions.

**Question 6**

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

**Response 6**

Our comments on the proposals in the Exposure Draft are contained in responses to the earlier questions and have no further comments to offer.