IASB ISSUES AMENDMENTS TO IAS 1, IAS 8 AND IFRS PRACTICE STATEMENT 2

Disclosure of Accounting Policies and Definition of Accounting Estimates

INTERNATIONAL FINANCIAL REPORTING BULLETIN

2021/07

BACKGROUND

As part of its ongoing Disclosure Initiative project, on 12 February 2021, the IASB issued narrow-scope amendments to:

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IFRS Practice Statement 2 *Making Materiality Judgments*

The amendments are intended to assist entities as follows:

- Amend IAS 1 to require 'material accounting policy information' to be disclosed rather than 'significant accounting policies' and provide additional guidance in deciding which accounting policies should be disclosed; and
- Directly define the term 'accounting estimate' to clarify the distinction between a change in accounting policy and a change in accounting estimate.

STATUS
Final

EFFECTIVE DATE
Annual reporting periods beginning on or after 1 January 2023.

ACCOUNTING IMPACT
Some entities may reduce the extent to which they disclose certain accounting policies and the distinction between changes in accounting estimate and changes in accounting policy may be easier to distinguish.

AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2

What has been amended in IAS 1?

Several paragraphs of IAS 1 were amended, including IAS 1.10, which has been amended as follows:

Prior to amendments	Subsequent to amendments (<u>emphasis added</u>)
A complete set of financial statements comprises: … (e) notes, comprising significant accounting policies and other explanatory information; …	A complete set of financial statements comprises: … (e) notes, comprising **<u>material accounting policy information</u>** and other explanatory information; …

Prior to these amendments being issued, some entities interpreted the requirement to disclose 'significant accounting policies' broadly to mean virtually all accounting policies that an entity applies in preparing financial statements in accordance with IFRS. This might have included disclosure of immaterial accounting policies (e.g. policies relating to foreign exchange when an entity has very limited transactions in currencies other than its functional currency), policies where IFRS provides no optionality (e.g. the recognition of deferred tax assets and liabilities) or disclosure of policies that had not changed.

What is 'material accounting policy information'?

IAS 1.117 was amended to state that '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 amendments aim to require disclosure of accounting policy information that focuses on how an entity has applied the requirements of IFRSs to its own circumstances (i.e. entity-specific information rather than a summary of what IFRSs require or immaterial information).

IAS 1.117B states that accounting policy information is likely to be considered material if it relates to material transactions, other events or conditions and:

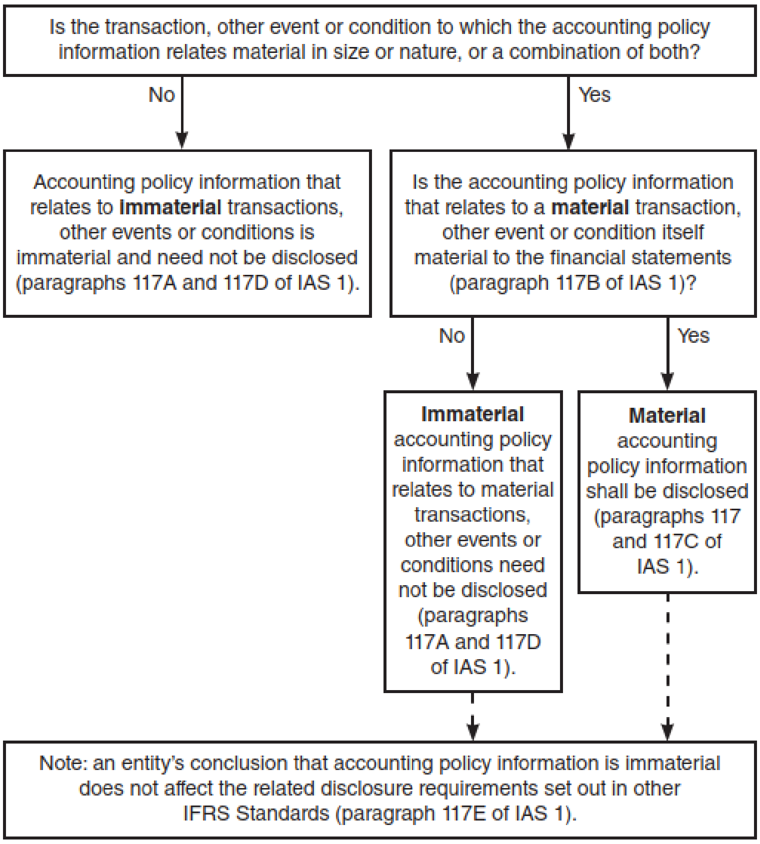
Examples in IAS 1.117B	Situation where this example may be met	Situation where this example may not be met
Changes in accounting policy	An entity adopts a new IFRS (e.g. an insurance company adopting IFRS 17 in 2023) or an entity changes an accounting policy (e.g. changing policy from the cost to revaluation model in IAS 16).	The accounting policy has not changed.
A choice of one or more options in IFRS	An entity elects to use the fair value model for investment property rather than the cost model.	The requirements of IAS 12, which are mandatory, with no optionality.
Developed in the absence of specific IFRS requirements	An accounting policy developed relating to a business combination occurring between two entities under common control, which is not included within the scope of IFRS 3.	The requirements of IAS 12, which are mandatory, with no application of IAS 8 required to develop a policy in the particular circumstance.
Significant judgement or assumptions used in applying accounting policy	Significant judgement is required in determining multiple aspects of an entity's revenue recognition policies (e.g. determining the transaction price, allocating the transaction price to multiple performance obligations, etc.).	Determining which costs to be capitalised in property, plant and equipment when little to no judgement is required in making this assessment (e.g. the purchase price is capitalised).
Accounting requirement is complex and users would otherwise not understand the transactions	Accounting for complex financial instruments (e.g. convertible notes and other compound financial instruments or those with multiple embedded derivatives).	The requirement in IAS 21 to translate monetary items denominated in a currency other than the functional currency of the entity as at period end.

Do these amendments to IAS 1 affect the disclosure requirements of other IFRSs?

No, IAS 1.117E states that an entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs. For example, an entity may conclude that it has no material accounting policy information to disclose relating to property, plant and equipment, however, if material, the entity must still disclose the information required by IAS 16.

What has been amended in IFRS Practice Statement 2?

IFRS Practice Statement 2 *Making Materiality Judgements* has been amended to provide non-mandatory guidance on how entities may make materiality judgements in determining which accounting policy information is material. The Practice Statement was amended to include numerous examples of how an entity may apply the amendments in IAS 1 to specific fact patterns (e.g. impairment of assets, revenue recognition, etc.). The amendments to the Practice Statement also introduce this diagrammatic summary of the requirements of IAS 1 concerning the disclosure of material accounting policy information:



What effect might these amendments have on an entity's financial statements?

A common criticism of IFRS financial statements has been that they contain too much irrelevant information, not enough entity-specific information and irrelevant information often obscures useful information. An entity applying these amendments may not only reduce the length of their financial statements, but also highlight more useful information to users of financial statements.

AMENDMENTS TO IAS 8

What has been amended in IAS 8?

Prior to these amendments, IAS 8 did not directly define 'accounting estimates'; it only defined a 'change in accounting estimate'. These amendments now directly define an accounting estimate as:

Term	Definition
Accounting estimate	Accounting estimates are monetary[1] amounts in financial statements that are subject to measurement uncertainty.

[1]The term 'monetary amount' does not have the same meaning as the term 'monetary item' as defined in IAS 21.

IAS 8.32A and 34A further explain that an entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (e.g. techniques used to measure a loss allowance for expected credit losses applying IFRS 9) and valuation techniques (e.g. techniques used to measure the fair value of an asset or liability applying IFRS 13).

The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors (e.g. a change in measurement technique used to estimate expected credit losses).

Why was this amendment made?

The IFRS Interpretations Committee informed the Board of difficulties encountered by preparers in distinguishing changes in accounting policy from changes in accounting estimate. This distinction is important because these two changes are accounted for differently:

Type of Change	Accounting Requirement
Change in accounting estimate	Recognised prospectively in the period of the change, if the change affects that period only (e.g. a change in expected credit loss estimation) or the period of the change and future periods, if the change affects both (e.g. a change in the estimated useful life of an item of property, plant and equipment).
Change in accounting policy	Aside from changes in accounting policy relating to the initial application of an IFRS, where specific transitional requirements exist, a change in accounting policy is generally accounted for retrospectively (e.g. comparatives are restated as if that change in accounting policy had always been in effect).

Now that accounting estimates are defined directly, entities may find it easier to distinguish between a change in accounting estimate and a change in accounting policy.

EFFECTIVE DATE

The amendments to IAS 1 and IAS 8 are mandatorily effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. As IFRS Practice Statement 2 is non-mandatory guidance issued by the IASB, it is not a 'Standard' and therefore no mandatory adoption date for the amendments has been specified.

The amendments to IAS 8 apply only to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments (i.e. an entity is not required to revisit previous changes in accounting policies/estimates).