Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

26 November 2019

Mr Hans Hoogervorst
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Hans,

IASB Exposure Draft ED/2019/6
Disclosure of Accounting Policies

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on this Exposure Draft (ED).

The HKICPA appreciates the IASB's efforts to propose narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (Materiality Practice Statement) to help entities provide accounting policy disclosures that are more useful to users of financial statements. We also agree that the concept of materiality should be applied to the disclosure of accounting policies and support the IASB's proposal to require an entity to disclose 'material' instead of 'significant' accounting policies.

However, the HKICPA has some comments and recommendations on the proposals as follows:

Proposed amendments to IAS 1 *Presentation of Financial Statements*
The HKICPA thinks that it is difficult to understand the statement in proposed paragraph 117A that '…not all accounting policies relating to material transactions, other events or conditions are themselves material' without reading new example T in the Materiality Practice Statement. We recommend the IASB should further elaborate in IAS 1 under what circumstances such an accounting policy would not be material to support this statement. We also suggest the second sentence of proposed paragraph 117A is moved below the proposed paragraph 117C to provide a more logical sequence of requirements.

Furthermore, the HKICPA considers that the proposed paragraph 117B(a) is not consistent with the principle of materiality. The example refers to 'material change to amounts', which implies only quantitative factors are considered. Whether an accounting policy is material requires consideration of qualitative factors as well. We also note a change in accounting policy may affect users' decisions on the future operation of company, and should not only be based on the financial impact of the change at a point in time.

Proposed amendments to the Materiality Practice Statement
The HKICPA considers that the 'Diagram-determining whether an accounting policy is material' (Diagram) is useful for readers to apply the proposal. However, it only makes reference to the proposed paragraphs 117, 117A and 117D. We suggest 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.

The HKICPA notes 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.

Furthermore, the HKICPA considers that the analysis in example T might cause confusion. Having identified that assets subject to impairment testing are material to the financial statements and the impairment accounting policy meets the proposed paragraph 117B(d), one would conclude that the accounting policy for impairment is material. However, the separate accounting policy is not ultimately required to be disclosed because it merely duplicates the IFRS requirements. We consider that it would be easier for readers to understand the proposals if the IASB developed 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. In addition, the IASB should demonstrate how the proposed paragraphs 117-117D are applied in example T in order to help readers understand the logical flow of these paragraphs (ie provide a clearer link between the example and proposed paragraphs 117-117D).

<u>Overall comments</u>
The *Conceptual Framework for Financial Reporting 2018* states that financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. The HKICPA notes that users are not expected to be IFRS experts. If all accounting policies that only duplicate the recognition or measurement requirements of IFRS are removed from the financial statements, users who are unfamiliar with IFRS requirements may have to consult IFRS Standards in order to understand the financial statements.

In this respect, we agree with Martin Edelmann's comment in paragraph AV3 of the ED. We recommend 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. However, we suggest this guidance emphasizes that when providing additional accounting policies, entities should:

- provide entity-specific information where possible, rather than repeat IFRS requirements; and
- 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 report.

In addition, we recommend that the IASB should consider incorporating the Diagram and the new examples in the illustrative examples supporting IAS 1 to make them more accessible and help readers apply the IAS 1 requirements.

Finally, the HKICPA recommends the IASB should clarify that:

- 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

- 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.

<u>Work undertaken by HKICPA in forming its views:</u>

The HKICPA:

(a) issued an Invitation to Comment on the ED on 2 August 2019 to our stakeholders;
(b) sought input from its Disclosure Initiative Advisory Panel comprising technical and industry experts and auditors from accounting firms; and
(c) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder feedback. The Committee comprises of academics, preparer representatives from various industry sectors, investors, regulators, and technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact me or Katherine Leung (katherineleung@hkicpa.org.hk) Associate Director of the Standard Setting Department.

Sincerely,

Christina Ng
Director, Standard Setting Department