

March 31, 2020

Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, UK E14 4HD

**Re: Disclosure of Accounting Policies**

Dear Mr. Hoogervorst:

CFA Institute appreciates the opportunity to comment on the International Accounting Standards Board's (IASB's) Exposure Draft, [\*Disclosure of Accounting Policies: Proposed Amendments to IAS and IFRS Practice Statement 2\*](#) (the Exposure Draft or ED). CFA Institute<sup>1</sup> is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the Corporate Disclosure Policy Council (“CDPC”).<sup>2</sup>

We recognize that the Exposure Draft is intended to help entities improve accounting policy disclosures and to make them more relevant and useful to users of financial statements. However, we are not convinced that the proposed changes in the ED meet the intended objective.

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<sup>1</sup> CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 countries and territories.

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

***Accounting Policy Disclosure Issues: Does the Exposure Draft Address?***

In order to address poor quality accounting policy disclosures, it is important to understand the issues with respect to these disclosures in existing financial reports. In our view, the issue with policy disclosures is more of an application than standard-setting problem. As a result, we see regulatory enforcement action as more necessary and should be explored prior to a standard-setting action.

The following are the most prevalent issues with accounting policy disclosures:

1. ***Boilerplate*** – The existence of boilerplate accounting policy disclosures – essentially repeating the IFRS requirements instead of informing financial statement users regarding how the standard requirements are applicable to the company;
2. ***Lack of Clarity and Completeness*** – Accounting policies are not always clear and sometimes lack completeness in covering the full lifecycle impact of transactions. For example, initial recognition, subsequent recognition and derecognition;
3. ***Timeliness*** – We use the term timeliness to describe the situation where a company engages in transactions and makes accounting policy choices but omits such disclosures on the grounds of quantitative materiality thresholds in early periods. Many times, a company’s analysis fails to consider qualitative factors or events that could result in the policy decisions becoming very important as a result of business or market events. This results in the failure to communicate to investors the risks inherent in the business, the related policy choices and the importance of these exigent circumstances on the business; and
4. ***Change from Period to Period*** – Accounting policies included in prior periods are omitted in current reporting periods, and vice versa, without explanation. For users, it is not always clear as to the reasoning behind the removal (or addition) of accounting policies. Many times, investors compare accounting policies between periods simply to gain insight into the addition or removal as it can result from underlying changes in business conditions of interest to them.

As it relates to these issues and the IASB’s current proposal, we would make the following observations:

1. ***Boilerplate*** – Whilst, we do not support boilerplate disclosures, we do not agree with those who believe that boilerplate accounting policies should be omitted in favor of solely including “material” company specific tailor-made policies within the financial statements. Our view is that raising the threshold from “significant” to “material” only allows omission of accounting policies – it does not mean those policies remaining will be more company specific or tailored. The inclusion of boilerplate disclosures that highlight relevant topics is a less bad outcome than omission of accounting policies. In fact, an issuers inclusion of boilerplate disclosure in comparison to customized accounting policies provides a different set of information which helps analysts rate them on corporate governance metrics (e.g. quality of financial reporting).

Those who don't provide tailored policy disclosures are making a disclosure choice and providing a transparency signal to investors.

Presently, companies have the opportunity to address the boilerplate issue and make the disclosures more company specific without raising the materiality threshold. We believe it is a mistake for the IASB to believe raising the threshold for disclosure without first solving the most pressing problem of boilerplate disclosure would be helpful to investors. There is nothing currently that precludes the inclusion, highlighting or company specific tailoring of such policies today – yet boilerplate disclosures exist and the ED does not address this issue.

2. ***Lack of Clarity and Completeness*** – We don't believe the IASB's proposal has addressed this issue and we would urge the Board to require preparers to disclose full lifecycle impacts of transactions. This would create a better linkage of accounting policies with the economics of the business and assist users in making well-informed forecasting adjustments.
3. ***Timeliness*** – We are concerned that the IASB's proposed changes will provide more opportunities to omit or delay the disclosure of policies, which are very important to users, on the pretext of a 'materiality' consideration judged by preparers rather than through the eyes of investors. We believe the IASB's proposal should consider the proposed 'materiality' concept as a principle in arranging and sorting accounting policy disclosures – rather than a filter for determining the inclusion or exclusion of accounting policies. We believe management should comment on new transactions that result in new accounting policy choices, even if they are initially considered to be less significant. This would include explaining how these transactions fit in with their business objectives, capital structuring and strategic plans. In this way analysts will have visibility into such transactions and policy choices and whether and when they may be important to their analysis. See also response to Question 3 in the **Appendix**.
4. ***Change from Period to Period*** – We would advocate that the board provide guidance to preparers so that there is a consistent criterion regarding the communication of inclusion of new and exclusion of previous accounting policies. As with the timeliness point mentioned above, this will also improve transparency and user understandability of the changes happening in the business.

#### ***Change in Threshold: Unintended Negative Consequences***

The proposed change from 'significant' to 'material' would require inclusion of an accounting policy which can 'reasonably be expected to influence decisions that primary users of general-purpose financial statements make'. As we noted above, we are concerned that the use of 'material' will raise the current threshold of the accounting policies to be included in the financial statements. As a result, the change, instead of being helpful to users, will omit or delay the inclusion of accounting policies that are important to users. This will have the effect of reducing the usefulness and comparability of accounting policy disclosures.

As a result, the ‘materiality’ concept that could be applied in practice by preparers will be out of sync with what investors believe is relevant to their analysis and investment decision-making. Further, there is also a risk that the proposed ‘materiality’ concept could become a quantitative threshold overriding consideration around qualitative aspects – including the notion that accounting policies become more or less significant over time and with relevant business conditions.

In our opinion, the proposal will have unintended negative consequences instead of achieving the well-intended objective to improve accounting policy disclosures. As a result, we would advocate to retain the original ‘significant’ wording instead of going ahead with the proposed change.

***An Improved Solution: Retain Existing Disclosures, Prioritize and Tailor to Company***

In our view, a better solution would be to require preparers to use the materiality threshold proposed by the Exposure Draft to highlight and rearrange disclosures in order of priority, while at the same time retaining all significant accounting policies. Implementing such prioritization will allow investors to understand the most material accounting policies both currently and how they change over time. Further, including an explanation of the change in prioritization and the inclusion and exclusion of policies would address the lifecycle, timeliness and period to period change issues noted above. Still further, requiring companies to include references to footnotes and balances related to the accounting policies and to tailor them to the nature of the transaction is what is most necessary.

We are not supportive of calls to disclose accounting policies on company websites or in other locations as these can be readily changed and it will not be clear whether they are covered by an audit opinion. The narrative that the inclusion of accounting policies lengthens the footnotes or financial statements such that investors are confused or overloaded is a false narrative. This narrative also reflects a lack of understanding regarding how investors consume financial information and the information disclosed within financial statements. What would be helpful is the prioritization, as noted above, combined with tagging in a machine-readable format such that investors can compare changes in accounting policies between periods and companies.

Rather than removing significant accounting policies, we would advocate for a prioritization of accounting policies from most material to least significant and that these accounting policies be reordered as business events, transactions or market conditions warrant. This provides management the ability to highlight the material items without reducing the decision-usefulness of the notes by eliminating significant policies. Furthermore, the importance of accounting policies could vary overtime with changes in business and economic conditions and the prioritization can act as a company specific means of tailoring the information.

*Responses to Specific ED Questions*

We include our specific responses to the ED questions in the **Appendix**.

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If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at [sandra.peters@cfainstitute.org](mailto:sandra.peters@cfainstitute.org) or Kazim Razvi at [kazim.razvi@cfainstitute.org](mailto:kazim.razvi@cfainstitute.org).

Sincerely,

*/s/ Sandra J. Peters*

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**RESPONSES TO EXPOSURE DRAFT QUESTIONS**

***Q1: The Board 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?***

As we note in the body of the letter, we do not support the proposal to amend the threshold to move from significant to material.

***Q2: 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 agree with the view that current detailed accounting policy disclosures are not always helpful for the reasons noted in the body of the letter. That said, we believe the inclusion of accounting policies which are significant are not harmful to investors. Investors can choose to ignore the detailed accounting policy section and can skim through selective policies included in notes to financial statements – focusing on the ones that are relevant to their analysis, at a particular point-in-time. Rather than removing the significant policies, we would advocate for a prioritization of accounting policies from most material to least significant and that these accounting policies be reordered as business events, transactions or market conditions warrant. This provides management the ability to highlight the material items without reducing the decision-usefulness of the notes by eliminating significant policies. Furthermore, the importance of accounting policies could vary overtime with changes in business and economic conditions and the prioritization can act as a company specific means of tailoring the information.

Accordingly, we do not agree with Paragraph 117A because, in our view, the paragraph may remove significant accounting policies from financial statements and increases the risk that important policies – related to material transactions – will not be disclosed in a timely manner. Therefore, we cannot support this proposed statement to be included in IAS 1.

***Q3: 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?***

The examples are intended to capture most of the material policies, but we believe it is not comprehensive enough to cover all or ensure timely inclusion of policies in the financial statements. For example, management may conclude that supplier-financing arrangements are not material at the commencement of the arrangements. This could be true economically – at the time the arrangements are entered into and based on accounting guidance. However, the existence of such arrangements is important information for investors to be aware of as and when an entity contractually enters into such arrangements as these arrangements create the potential for rapid increases in leverage and the emergence of liquidity issues. Consider the following policy excerpt from Glencore Annual Report for 2018:

*Transactions for the purchase of commodities may contain a financing element such as extended payment terms. Under such an arrangement, a financial institution may issue a letter of credit on behalf of Glencore and act as the paying party upon delivery of product by the supplier and Glencore will subsequently settle the liability directly with the financial institution, generally from 30 up to 90 days after physical supply. Judgement is required to determine the most appropriate classification and presentation of these transactions within the statements of cash flows and financial position. In determining the appropriate classification, management considers the underlying economic substance of the transaction and the significance of the financing element to the transaction. Typically, the economic substance of the transaction is determined to be operating in nature as the financing element is insignificant and the time frame in which the original arrangement is extended by, is consistent and within supply terms commonly provided in the market. As a result, the entire cash flow is presented as operating in the statement of cash flow with a corresponding trade payable in the statement of financial position. As at 31 December 2018, trade payables include \$5,152 million (2017: \$6,673 million) of such liabilities arising from supplier financing arrangements, the weighted average of which have extended the settlement of the original payable to 59 days (2017: 80 days) after physical supply and are due for settlement 29 days (2017: 42 days) after year end.*

The recently expressed concern within the investor community that disclosures around supply-chain financing (also referred to as [reverse factoring](#)) arrangements are not adequately and consistently disclosed in the financial statements is an example of the problem with the timely communication of an accounting policy. A policy disclosure, even if only significant rather than material when executed, assists investors in correctly assessing the short-term liquidity and leverage impacts to the investee company. Such a disclosure, will also help analysts with proactively adjusting leverage ratios on an ongoing basis and correctly assessing the future stress scenarios. This is but one example of how the proposed changes would enable management to omit or delay reporting of important accounting policies negatively impacting transparency of information to investors and markets.

Based on the proposed examples in paragraph 117B (a) to (e), many companies may opt to omit such disclosures all together. None of the criteria, in our view, clearly captures a transaction like reverse factoring which neither requires significant judgements nor detailed technical analysis. The above transactions are already omitted under the current requirements and we believe the proposed changes would further increase opportunities to omit important information.

***Q4: 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 believe the examples are useful and helpful, but as stated above, will not meet the intended aim of the Exposure Draft.

***Q5: Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?***

No comments.

***Q6: Do you have any other comments about the proposals in this ED?***

No comments.