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Comment Letter on the Exposure Draft ED/2019/6 "Disclosure of Accounting Policies – Proposed amendments to IAS1 and IFRS Practice Statement 2"

Dear Madam, dear Sir

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 58 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Exposure Draft (ED).

We do not support the proposed amendments as they currently stand. This is for the same reasons articulated by Martin Edelmann in his Alternative View (AV1-AV3 of the ED), and also as set out in more detail in the appendices to this letter.

It appears to us that the IASB is addressing a perceived problem about the application of judgement with a legislative remedy. We would dispute that there is such a significant (or material) problem with Accounting Policy disclosures; and we suggest that a more appropriate response would be to issue further Implementation Guidance and Illustrative Examples so as to help preparers apply their judgment, rather than issuing additonal requirements to try and legislate for good judgement.

Moreover in these proposals the IASB is missing the opportunity to promote better understanding of IFRS in markets where there are other financial reporting regimes (such as Switzerland) and in emerging markets. Users of financial information do not have such a good understanding of IFRS as the proposals imagine, and the financial statements of preparers do educate and inform the financial community about IFRS generally and create best practice.

In our view, contrary to the statements in BC18 of the ED, these proposals will add to the time and costs of preparing financial statements and not reduce them.

Our response has been prepared in conjunction with our member companies. Please contact us if you require additional information.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

Dr Gabriel Rumo	Denise Laufer
Director	Member Executive Committee

cc SH Board

APPENDIX

QUESTIONS FOR RESPONDENTS

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?

Answer to Question 1

No. We believe the “materiality” is fundamentally the wrong concept to apply to accounting policies. We do not see a particular issue with the current paragraphs 117 to 124.
From our perspective, accounting policies aim to achieve two purposes:

1. To explain the key concepts and accounting judgements used in the financial statements. A reader needs to clearly understand these in order to make sense of the financial statements. These can be labelled as the “Critical Accounting Policies”.
2. As a reference to how the accounting and financial reporting works in the financial statements. A reader might need to refer to these in case of specific questions about a specific item.

Materiality is, in our view, not the appropriate way to consider such matters. If there are specific topics around presentation and content of accounting policies, then we believe this could be better and more practically addressed by preparing Implementation Guidance and Illustrative Examples of best practice.

Such guidance could cover cases where published accounting policies might not be necessary. For example, a bank would probably not need an accounting policy for inventories in its financial statements, although it may well have one in its internal accounting guidance. This comes down to the business model and not simply materiality.

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?

Answer to Question 2

No. The proposals require that the preparer makes some fundamental assumptions about how much or how little the reader knows about the underlying IFRS rules. We believe it is more helpful to give the reader a comprehensive view of the accounting policy and that the standards should allow the preparer flexibility to do that.

For example: IAS 2 pp9 requires that inventories are measured at the lower of cost and net realisable value. There is no choice about this, no exercise of judgement and everybody using IFRS should be doing exactly the same thing. So, what should a preparer include?

If we read pp117B, BC 10(a) and Example T of the ED, we assume that the view of the IASB is that this disclosure should not be included. Indeed, the way the standard is worded some auditors and regulators may interpret this as "must not be included".

We disagree. Assuming the company has material inventory values, this disclosure should always be included.

- There are many different methodologies of inventory valuation and different accounting regimes can have different requirements. Depending on the reader's own background and their day-to-day environment they may have a different basic understanding of the issue.
- We do not believe that it can be taken for granted that all users of financial statements know by heart the requirements of each IFRS, even in jurisdictions where only IFRS can be used.

We believe it is also acceptable, and indeed desirable, that preparers lift the wording direct from the standard in such cases. If everybody has to do exactly the same thing, it is surely helpful to readers that everybody describes it in exactly the same way. If each preparer felt obliged to reword the text differently (to avoid accusations of so-called "boilerplate" disclosure) then readers may infer that they each are doing a different thing.

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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?

Answer to Question 3

New paragraph 117B makes the conceptual mistake of trying to legislate for all circumstances relating to judgement.

The examples in sections (a) through (e) of new paragraph 117B are fine as far as they go, and they could be usefully positioned in Implementation Guidance and Illustrative Examples. But they are by no means comprehensive.

To give just one example, just because a particular transaction did not occur in the current year or comparative period does not mean it will not occur in the future. And if it does occur during a financial period then readers may wish to refer to the most recent financial statements in order to understand the accounting.

It is for this reason that many preparers will have an accounting policy for goodwill impairment, even if they had no such impairments recently, or ever. Similarly, many preparers with an active M&A function will have an accounting policy for associates and joint arrangements. They may not be material at the moment, but it is quite possible that a highly material transaction takes place. Paragraph 121 of the existing IAS 1 covers this scenario; unfortunately, this paragraph is scheduled for deletion in the ED proposals.

The risk that the IASB takes here is that preparers, auditors and regulators will use this new paragraph 117B as checklist and anything that does not appear on this list will be targeted for deletion – and preparers will have to come up with justifications to retain such items. Preparers will need to establish an auditable process, at least annually, to review all of the accounting policies from start to finish. Some will need to be deleted. Some that were previously deleted will need to be added back. Preparers will need to maintain a library of accounting policies in the background and there will be a kind of revolving door about which ones are included in a particular year. We do not believe this at all helpful to users of financial statements.

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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?

Answer to Question 4

The two examples provide extremely useful clarity about the consequences of the proposals. In our view, they highlight good reasons why these proposals should be rejected.

Example S – Disclosures for Revenue Recognition in the Telecommunications Industry.

The scenario set out in this example is well-known as the Telecommunications Industry was one of the sectors most impacted by the implementation of IFRS 15. We wonder whether preparers of financial statements in the Telecoms sector really need amendments to IAS 1, a new process for reviewing accounting policies and a two-page example to help them decide about whether or not they should include an accounting policy on revenue recognition for such contracts. We believe this is completely obvious under the existing standards to any competent preparer and cannot imagine that the kind of discussion imagined by the example would actually take place in real life. The example shows that the amendments are using a hammer to crack a nut - that has anyway already been opened.

Clearly it would not be helpful if the Telecoms company concerned simply did a copy/paste of parts of IFRS 15 without putting it into the context of their business model. But we consider that pp119 of the existing IAS 1 is quite adequate in this respect.

What would be much more useful here would be to give a best practice example of industry-specific disclosures for the circumstances described.
Example T – Disclosures for Impairment of PPE and Goodwill/Intangible Assets

In our view, this disclosure is completely appropriate and if a preparer wishes to disclose this in their accounting policies then they should be permitted to do so. The only circumstances that would argue against it would be if the assets themselves were immaterial.

The requirements of IFRS are not so widely understood as the proposals assume.

- In our experience, most users have only a casual awareness of IAS 36. They will not necessarily be familiar with the impairment process and the nuances of cash-generating units, discount rates, impairment indicators and so on.
- This is of special significance where other accounting standards that might be widely in the local market used can have other requirements. This is the case in Switzerland, where the requirements of Swiss GAAP-FER are different and even US GAAP and IFRS are not perfectly aligned.

- This is also of significance in emerging markets, or in markets such as Japan where the use of IFRS is being rolled out. Local users will not be familiar with the IFRS rules, certainly not in their local language. IFRS preparers in such circumstances have a duty and obligation to better explain IFRS, even to the extent that it might be obvious to IFRS experts.

The IASB should welcome that preparers educate readers in the use of IFRS and promote the understanding of IFRS in new markets. We fail to see what harm such disclosure does if the preparer wishes to include it. Of course, guidance can and should be given about organizing financial statements in a logical and readable manner. Such disclosure would better go in an appendix-style footnote at the back to the financial statements where the reader can refer to them if needed. Guidance on such presentational matters is missing from the proposals.

The example additionally highlights the topic of so-called "boilerplate" disclosures. There is a good reason why boilers have boilerplate warnings on them. This is to alert the user to the standard operation and maintenance of the boiler, without which it may not deliver the expected performance or might conceivably explode unexpectedly. We suggest that the similar considerations can apply to financial accounting policies, certainly in the area of impairment of goodwill.

Question 5

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

Answer to Question 5

We appreciate that this question is asked, as this aspect of standard setting has significant implications for many prepapers.

In Paragraph 117A in the ED, it is stated that "Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed."

- We assume that "need not be disclosed" means "You don't have to disclose them, but if you have reviewed it and you still want to, then that is OK".
- In practice we would be concerned that this will be interpreted and translated to mean "must not be disclosed".

We recommend that the phrase "need not be disclosed", which is used throughout the ED, be reconsidered and clarified so that it is completely clear what is meant.

We would further note that using wording directly from the standards in written accounting policies (which BC9 (ii) claims is some kind of problem) is actually is helpful when preparing translations of financial statements – because official approved translations exist in the non-English-language versions of the standards.

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Question 6

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

Answer to Question 6

<u>Cost of Implementation and Operation</u>

BC18 and BC19 discuss these matters briefly, but, in our view, they underestimate the implementation consequences of the proposals. Moreover, the proposals will add to the costs of preparation of financial statements and not reduce them.

The statements in the ED in BC9 and elsewhere about so-called "boiler-plate" information and the use of content directly from standards have consequences and will cause additional on-going efforts. Preparers will feel obliged to reword or rewrite (and then translate) existing text which is already compliant and perfectly understandable. This will be particularly costly with new concept-heavy standards such as IFRS 15. To us it seems a completely reasonable approach to use wording directly from the new standard in such cases. If each preparer rewords the standard according to their own views this will only confuse readers.

In terms of time and costs of preparation, it is relatively cheap to lift text directly from the standards, it these are appropriate to the circumstances. This is additionally cost-effective where translated versions need to be prepared.

This will add to preparation and audit costs. The new proposals will establish an annual process whereby the preparers have to go through all of their established accounting policies, decide which ones to throw-out and decide which ones that were previously thrown-out now need to be brought back. This will then need to be audited, and the resulting financial statements may well need to be filed in a regulatory environment.

These costs will impact smaller companies, with less-well-resourced financial accounting functions, harder proportionately. Similarly costs and efforts will be higher in emerging markets and other jurisdictions where there is less familiarity with IFRS.