

STAFF PAPER

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IASB Meeting

Project	Materiality
Paper topic	Materiality - Cover paper
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Purpose of this session

1. The purpose of this session is to ask the International Accounting Standards Board (the Board¹) whether, in the light of comments received on the Exposure Draft IFRS Practice Statement: *Application of Materiality to Financial Statements* (the Exposure Draft¹), members want to change the final IFRS Practice Statement: *Application of Materiality to Financial Statements* (the final *Practice Statement*¹).
2. This paper:
 - (a) provides background information on the Materiality project;
 - (b) introduces the papers that will be discussed during this session; and
 - (c) sets out the next steps of the Materiality project.

Background information

3. The Board was informed at the Discussion Forum on Financial Reporting Disclosure in January 2013, in its related survey and by other sources, that there are difficulties applying the concept of materiality when preparing the financial statements. Some interested parties were of the view that these difficulties

¹ This definition has been used consistently in all the Agenda Papers prepared for this meeting.

contribute to a disclosure problem, namely, that there is both too much irrelevant information in financial statements and not enough relevant information.

4. The Board heard that there are a number of reasons why materiality is not applied well in practice. One of these is that there is limited guidance on materiality in IFRS Standards; in particular how it should be applied to disclosures in the notes to the financial statements. In the light of this feedback, the Board decided to undertake a project on the application of materiality.
5. The Board discussed decided to provide guidance on the application of materiality in the form of a Practice Statement and published an Exposure Draft, the objective of which is to assist management in applying the concept of materiality to general purpose financial statements prepared applying IFRS Standards.
6. We received 95 comment letters and conducted outreach meetings with preparers, standard-setters, auditor and users. A high-level overview of the feedback received was presented to the Board at its April 2016 meeting².
7. Feedback on the Exposure Draft was also received from the Accounting Standards Advisory Forum (ASAF) in December 2015 and July 2016 and with the Capital Market Advisory Committee (CMAC) and Global Preparers Forum (GPF) members in November 2015 and June 2016.

Papers for this session

8. Each Agenda Paper we prepared for this session focuses on issues raised by respondents regarding the content and/or the form of the Exposure Draft and asks the Board members to discuss the following issues.
9. Summary:
 - (a) Agenda Paper 11B *Audience, focus and definition* discusses:
 - (i) who should the addressees of the final *Practice Statement* be (ie the audience);
 - (ii) whether the final *Practice Statement* should only refer to the concept of materiality for the purpose of financial

² <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/April/AP11A-Disclosure-Initiative.pdf>

statements, or whether it should also refer to other concepts of materiality (ie the focus);

- (iii) and which definition of materiality should to be used in the final *Practice Statement*.
- (b) Agenda Paper 11C *Primary users' needs and expectations* addresses issues relating to:
 - (i) identifying primary users;
 - (ii) their information needs; and
 - (iii) their expectations for the purposes of applying materiality when preparing IFRS financial statements.
- (c) Agenda Paper 11D *The Materiality Process* proposes a four-step process to apply materiality to an entity's financial statements (the Materiality Process).
- (d) Agenda Paper 11E *Primary financial statements versus notes and aggregation / disaggregation of information* proposes guidance on:
 - (i) the application of materiality to the primary financial statements versus the notes; and
 - (ii) the aggregation / disaggregation of information.
- (e) Agenda Paper 11F *Accounting policy disclosures* addresses issues relating to the disclosure of accounting policies.
- (f) Agenda Paper 11G *Comparative versus corresponding approach and conflicts with local regulations* addresses issues relating to the application of materiality to previous period information presented in current period financial statements; and potential conflicts between the final *Practice Statement* and any local legal or regulatory disclosure or materiality requirements.
- (g) Agenda Paper 11H *Interim reporting* addresses issues relating to the application of materiality to interim financial statements.
- (h) Agenda Paper 11I *Publicly available information* discusses the impact of publicly available information on the materiality assessment.

Next steps

10. At the November 2016 meeting staff will ask the Board to discuss the form that the guidance should take in the light of comments received on the Exposure Draft.
11. We shall also present papers on issues relating to the application of materiality to:
 - (a) errors;
 - (b) covenants; and
 - (c) entities applying the IFRS for SMEs.
12. We also plan to discuss the interaction of materiality with stewardship and to clarify terminology issues in preparation for drafting the final guidance.