Project **Post-employment Benefits**

Topic **Disclosures—Materiality**

Objective

1. The objective of the paper is to request the working group to discuss the issue of materiality in the context of post-employment benefits disclosures.

2. Anecdotal evidence indicates two issues with materiality and disclosures:

   (a) The disclosure of information required by a specific standard even when the information is immaterial.

   (b) The nondisclosure of material information necessary to comply with a disclosure principle in a standard because such information is not specifically required.

   Both of these issues are captured in the common term 'tick-box mentality to disclosures'.

3. While the two issues in the paragraph above relates to disclosures in general, the following paper focuses on post-employment benefits disclosures only.

Guidance on materiality

4. The *Framework for the Preparation and Presentation of Financial Statements* provides the following guidance on materiality (which is reproduced here for convenience):

   Materiality

   29 The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important, for

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example, the amounts of inventories held in each of the main categories that are appropriate to the business.

30 Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

5. Also IAS 1 *Presentation of Financial Statement*s sets out the following guidance on materiality (which is reproduced here for convenience):

Definitions

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Material **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

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Materiality and aggregation

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant

> separate presentation in those statements may warrant separate presentation in the notes.
>
> 31 An entity need not provide a specific disclosure required by an IFRS if the information is not material.

Disclosure of immaterial information

6. Usually a standard contains a disclosure principle(s) and a list of specific disclosures. Sometimes an entity presents information specified in IAS 19 even though such information is immaterial in the particular circumstances of that entity in that period.

7. IAS 1 paragraph 31 addresses this situation and permits an entity to not disclose immaterial items, even if specified in a standard. The disclosure of immaterial items sometimes may reduce the usefulness of financial statements by obscuring material items.

8. Such occurrences of disclosures of immaterial information may be influenced by the presence of:

   (a) disclosure checklists

   (b) regulators' action(s) on the nondisclosures of specified items.

9. To address this issue, the Investors Technical Advisory Committee (ITAC) of the US Financial Accounting Standards Board (FASB) propose a three-level disclosure framework set out in agenda papers 2B and 2C.

Nondisclosure of material items

10. As stated previously in paragraph 6, the majority of IFRSs contain a disclosure principle(s). A standard can never specify all items that may be material. Hence, by setting disclosure objectives, standard setters intend that entities disclose all material items, whether they be explicitly specified or not, to achieve the disclosure objectives.

11. However, entities rarely disclose nonspecified information in the financial statements. A possible reason is that such information may increase preparation and audit costs and/or place the entity at a competitive disadvantage.

Current approaches

12. Exposure Draft 10 *Consolidated Financial Statements* was published in December 2008. The two issues noted in paragraph 2 are addressed with proposed specific guidance.

13. ED 10 addresses the situation where entities could provide a litany of immaterial disclosures with the following guidance in paragraph B31:

> B30 To meet the disclosure objectives in paragraph 48, a reporting entity must disclose the information set out in paragraphs B32-B49.
>
> B31 A reporting entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this [draft] IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, a reporting entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, a reporting entity shall not disclose information that is so aggregated that it obscures important differences between the types of involvement or associated risks.

14. When compliance with the specified disclosures in ED 10 is not sufficient to meet the disclosure objectives in ED 10, ED 10 supplies the following guidance:

> 49 If the specific disclosures required by this and other IFRSs do not meet the objectives in paragraph 48, a reporting entity shall disclose whatever additional information is necessary to meet those objectives.

Discussion questions
1. Do you agree that there are issues with: (a) the disclosure of immaterial information that is specified by IAS 19? (b) the nondisclosure of material information on post-employment benefits? If so, what do you believe has caused these problems? 2. If so, do you have any recommendations to address the disclosure of immaterial information specified for post-employment benefits?

3.	If so, do you have any recommendations to address the nondisclosure of material information not specified by IAS 19 that meets the disclosure objectives of IAS 19?