International Financial Reporting Standards



AP 6
Disclosure Initiative
Materiality

CMAC meeting 27 February 2014

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.



Disclosure Initiative

Ongoing activities

Short-term projects

Medium-term projects

Digital reporting
New EDs

Amendments to IAS 1

Debt <u>dis</u>closures Materialityassessment of existing guidance Research project— Principles of Disclosure in IFRS Research project— review of existing Standards



Agenda

- In this meeting we will discuss a potential project on materiality.
- We will ask you:
 - If you think there are issues today with the application of the concept of 'materiality'.
 - If so, to explain the issues that you encounter and how do they affect your work.
 - If so, if you agree with the proposed approach to a materiality project.
 - To consider what users could do to positively change behaviour regarding the application of materiality.



Materiality: Conceptual Framework definition

Information is **material** if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, **materiality** is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report... [QC11]

IAS 1 Presentation of Financial Statements, also contains materiality requirements



Materiality – a change in behaviour is needed

Litigation/ reputational costs of making a wrong Way IFRS decision are high Cost/operational disclosure constraints make it requirements are easier to follow written is unclear checklists or leaves no room for judgement Lack of The term understanding Lack of materiality is used about how to mean different Judgement information is things used BIFRS

Materiality-potential project

Why

Responding to concern that materiality is not being applied well in practice

Response

- Working with auditors and regulators
- Assessing adequacy of existing guidance & propose whether additional guidance is required or not

Time

- Short-term project
- Start in second half of 2013
- First paper (scope) to IASB Q1 2014



Materiality project – views so far

Objective

- Help preparers, auditors and regulators use judgement about what should or should not be disclosed
- Encourage better dialogue between themselves and with users
- Make disclosures more effective

Scope & Focus

- Financial statements as a whole
- Focus on disclosures in the notes

Potential topics

- Understanding materiality
- Applying the concept
- How IFRS are written



Materiality project – potential topics

Understanding 'materiality'

- How it is applied
- Literature review
- Case law
- Local GAAP
- Across jurisdictions

Applying the concept

- Significant accounting policies
- Other?

Way IFRS written

- Clear objective
- Examples or requirements
- Internal processes



Proposed approach

Phase 1: Research

 Undertake research on how the concept of materiality is understood and applied

Phase 2: Research phase

- Public research paper
- Clear language: are amendments to IFRS necessary?
- Applying the concept: is additional material necessary?

Phase 3: Additional work



 Applying the concept: dependent on decisions in Phase 2

Work on significant accounting policies



ED[?], Amendments to IAS 1 and/or other material



Questions for CMAC

- Do you think there are issues today with the application of the concept of 'materiality'?
 - If so, what are the issues that you encounter and how do they affect your work?
 - If so, do you agree with our proposed approach to a materiality project?
- What could users do to positively change behaviour regarding the application of materiality?



Questions



