

STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative		
Paper topic	Materiality		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose of the paper

1. The purpose of this paper is to ask the IASB to discuss four issues about how to move forward with the materiality research project. The paper provides a staff analysis for each issue and makes a recommendation that the staff believe reflects the best course of action.

Structure of the paper

2. The structure of the paper is as follows:
 - (a) Outreach and discussions
 - (b) Background
 - (c) **Issue 1:** Do we need to change the current definition of materiality?
 - (d) **Issue 2:** Should the IASB provide any guidance on materiality?
 - (e) **Issue 3:** How should we deal with conflicting terminology?
 - (f) **Issue 4:** Where to position materiality requirements
 - (g) Summary of the staff recommendations
 - (h) Time line for the remainder of the project

Outreach and discussions

3. This paper has been prepared following a number of IASB discussions about materiality as well as consultations with the IFRS Advisory Council; the Accounting Standards Advisory Forum (ASAF); World Standard-Setters (WSS); Global Preparers Forum (GPF); European Financial Reporting Advisory Group (EFRAG); International Organization of Securities of Commission Regulators (IOSCO); International Accounting and Assurance Standards Board (IAASB); and a number of accounting professionals and academics. In addition, the staff have carried out their own academic review and research. This included performing outreach with National Standard-Setters to help us to understand what materiality means in their legal/regulatory environment (see Agenda Paper 11A(a) for the September 2014 IASB meeting).
4. At its September 2014 meeting the IASB had a discussion on the general principles of materiality and the problems associated with its application. However, the IASB did not make any decisions about the action it should take.

Background

5. This section provides a brief synopsis of the key characteristics of materiality and the main problems we have identified during our outreach. It provides context for IASB discussions at this meeting and also provides the IASB with an indication of the type of points that the staff envisage should be emphasised and expanded on by guidance.

Key characteristics of materiality

6. Paragraph QC11 of the *Conceptual Framework* states that ‘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.’.
7. Materiality is an abstract concept that is applied in many different contexts, not only when preparing financial statements or performing audits, but in many non-financial day-to-day situations, eg deciding what information would influence a decision to purchase an item. Applying materiality involves a qualitative assessment (ie an

assessment of both the nature and the amount/size of information), and so quantitative information, eg the price of an item, is only one ‘quality’ that would be considered.

8. Applying the concept of materiality when communicating information requires the facts to be viewed within the context of the surrounding circumstances and the reasons for giving the information and then using judgement to decide whether to include or exclude a piece of information. Ultimately the question is not whether an individual piece of information is material by itself, but in the light of its context as a whole.
9. For example, materiality decisions about communicating information in financial statements require judgements to be based on the expectations of the *decision-makers*, the types of *decisions* they are likely to make, the *context* in which those decisions will be made (the financial statements), and the *entity-specific relevance* of the information.

Summary of the main problems associated with materiality

10. The generic concept of materiality is well understood. However, the staff have identified several problems that have arisen when applying that concept within the context of financial reporting. On the basis of our outreach and analysis (‘outreach’—as described in paragraph 3), there appears to be a good general understanding that materiality depends on the context and is entity-specific. However, the outreach brought to our attention a number of problems, many of which the staff think may be addressed through this project.
11. The staff think that materiality is intrinsically linked to two issues that the Disclosure Initiative is trying to alleviate: the inclusion of too much irrelevant information and the exclusion of some relevant information. On the basis of our outreach, the staff think that both a lack of understanding in how to apply the concept of materiality and the use of contradictory language within Standards (see paragraph 13) are contributing to these two issues. Also on the basis of our outreach, the staff also identified factors outside the control of the IFRS Foundation that affect application of materiality, such as the behaviour of those in the financial reporting process, eg the risk of needing to justify to regulators or auditors why some information has not been included. We

heard, particularly at the WSS and Advisory Council meetings, that work by the IASB may provide a catalyst for change, but that providing guidance on materiality alone may not be sufficient to address the problem without also addressing the contradictory language within the Standards and considering behavioural aspects.

12. Our outreach also confirmed that many practitioners focus too much on the quantitative aspect of materiality and use quantitative thresholds to assess whether something is material. Stated materiality thresholds within jurisdictions create the wrong impression, ie that only large amounts are considered important.
13. On the basis of our outreach, the staff have identified the following problems relating to the language used in our Standards:
 - (a) the use of synonyms for materiality in IFRS Standards and other documents appears to be causing confusion regarding different ‘levels’ or ‘thresholds’ of materiality. If management are unsure whether information should be disclosed, they are likely to choose the safe option of including it. This contributes to concerns about over disclosure.
 - (b) the wording in individual Standards appears to mandate disclosures by using language such as ‘shall disclose, as a minimum’. Such wording does not encourage entities to apply judgement based on their own circumstances.
 - (c) a lack of clear disclosure objectives in individual Standards. The result of this is that sometimes management does not understand the purpose of making certain disclosures, eg why specified disclosures are relevant for a given transaction, or they do not understand what level of detail is required. This makes it difficult for management to assess whether information is relevant in their own particular circumstances, which in turn leads to over-disclosure.
14. Whatever action the IASB decides to take, it will be important to bear in mind differences between legal systems and regulatory environments. The courts in each jurisdiction are likely to be the ultimate arbitrators of any disputed materiality decisions. The general view of attendees at the WSS meeting and some other parties in our outreach was that, provided any action by the IASB was at a reasonably high

level and was non-prescriptive, materiality should be able to operate across jurisdictions without major inconsistencies. However some WSS attendees noted that any action could have limited influence in jurisdictions where regulators mandate disclosure of certain items, eg based on quantitative thresholds, regardless of those items' other qualitative characteristics.

Issue 1: Do we need to change the current definition of materiality?

15. In considering the application of materiality to financial statements, the staff first considered whether the current definition of materiality in IFRS needs to be changed.

Staff analysis

16. On the basis of our outreach, the staff have identified the following concerns about the definition of materiality, which were raised by a few parties:
- (a) Use of the wording 'could influence decisions of users' as a threshold for whether information is material may lead to the term being applied too widely, ie almost anything 'could' influence a decision. Some parties have suggested that changing 'could' to 'would' or 'is likely to' may be more appropriate. This would also bring the IFRS definition closer to the definition used by the US Supreme Court.
 - (b) The focus of the definition might be improved if it had a positive rather than a negative focus. Some parties thought that the phrase 'information is material if omitting it or misstating it' has negative connotations and could encourage disclosure overload. These parties thought that the focus of the definition should be on what to include, rather than on what to omit, and that preparers and auditors might think about the requirement in a more neutral way if it was framed more positively.
 - (c) The definition refers to 'users' but does not consider the characteristics of those users (see also paragraphs 21-23). A preparer considering every possible decision for every possible user is not using materiality as an effective filter.

Changing the definition

17. The staff note, however, that many parties in the outreach were in favour of keeping the current definition unchanged. These parties thought that changing the definition would be unlikely to change the way in which materiality is applied in practice. For example, in the feedback to the ESMA consultation paper on materiality¹, it was noted that many constituents think the difference between ‘could influence’ and ‘would influence’ does not reflect any underlying difference in the intended meaning, and would not make a practical difference in decision-making. In addition, it has been noted that ‘could’ and ‘would’ mean the same thing when translated into some other languages.
18. The staff have considered what a new definition would look like if the IASB addressed the concerns raised in paragraph 16 and have provided the following illustration of how the staff think it would look:
- Information is material if it probably would [is likely to] influence decisions that the primary users of the general financial reports make about a specific reporting entity.*
- The staff are sceptical that this change would result in any differences in how the concept of materiality is applied within the context of financial reports.
19. For the reasons outlined in paragraphs 17 and 18, the staff recommend that we do not change the definition of materiality within IFRS. However, the staff do suggest that in order to address the concerns in paragraph 16, a question should be included in the Discussion Paper that will be issued in the Principles of Disclosure project asking whether constituents think the IASB should reconsider the definition of materiality. A previous *Conceptual Framework* Discussion Paper asked a very similar question. However we think that, in the light of the research, outreach and IASB discussions, it would be prudent to expose this question again.
20. In addition, to help address the concerns in paragraph 16, the staff suggest that a paragraph should be inserted into IAS 1 that would briefly clarify the key characteristics of materiality (for example, as outlined in paragraphs 6-9). These points can then be expanded upon in any guidance produced by the IASB. However,

¹ http://www.esma.europa.eu/system/files/2012_525.pdf_paragraph_17.

the weight attached to those characteristics will benefit from their clarification within a Standard. This paragraph could also be exposed for comment in the Discussion Paper that will be issued in the Principles of Disclosure project.

Clarifying the description of ‘user’ (paragraph 16(c))

21. It has been suggested that the IASB should consider clarifying the term ‘user’ within the definition of materiality. The *Conceptual Framework*² describes the user as:
 - (a) an existing and potential investor, lender or other creditor;
 - (b) having reasonable knowledge of business and economic activities;
 - (c) who reviews and analyses the information diligently; and
 - (d) who may need to seek the aid of an adviser.
22. The level of knowledge of the user to be assumed by the preparer was discussed at the WSS and ASAF meetings and has arisen in another project within the Disclosure Initiative (Significant Accounting Policies³). Notwithstanding the description of a user in the *Conceptual Framework*, some parties at these meetings thought that the IASB should consider whether there is a need to consider other users with a range of different skills and knowledge; for example, retail investors as well as commercial institutional investors.
23. The staff acknowledge that in deciding which information will influence a user, it is more difficult to consider more than one class of user. However, the staff observe that we must bear in mind that different types of financial statement users exist. The staff are worried that any changes to the description of a user in the *Conceptual Framework* by the Disclosure Initiative may have unforeseen consequences. It is therefore the staff’s opinion that, if changes are to be considered, such changes should be looked at as part of the *Conceptual Framework* project. However, the staff note that the IASB has decided not to address this issue as part of the *Conceptual Framework* project. Consequently, the staff think it would be helpful if any guidance that we produce on materiality were to include information on the types of considerations that preparers should think about relating to users of the financial

² See paragraphs OB5-OB8 of the *Conceptual Framework*.

³ Discussed at the IASB meeting in September 2014.

statements. This could address the concerns we heard during our outreach and research about the nature of a user.

Consistent definitions within IFRSs

24. There have been calls for the IASB to consider the appropriateness of using slightly different wording in the definitions used within the different IFRS Standards.
- (a) The *Conceptual Framework* defines materiality as:
- 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. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.
- (b) Whereas IAS 1 and IAS 8 define materiality as:
- 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.
25. It is clear that these definitions do not differ much, if at all, in substance. However, bringing them in line with each other would draw attention to the fact that materiality is a pervasive and consistent principle throughout IFRS, would result in consistent definitions and would reduce misunderstandings. Alignment could be done easily and would also help to highlight the importance of materiality.

Staff recommendation

26. The staff recommend:

- (a) not changing the definition of materiality except to align the wording in the definitions in the *Conceptual Framework*, IAS 1 and IAS 8, through the Principles of Disclosure Discussion Paper.
- (b) adding a paragraph to IAS 1 that would briefly clarify the key characteristics of materiality and including this in the Discussion Paper in the Principles of Disclosure project.
- (c) asking a question in the Discussion Paper in the Principles of Disclosure project about whether constituents think the IASB should reconsider the definition of materiality.

Question 1 to the IASB

Do you agree with the staff recommendation?

Issue 2: Should the IASB provide guidance on materiality?

27. This section will consider whether it is appropriate for the IASB/IFRS Foundation to provide guidance on the application of materiality within the context of the financial statements. It will also consider the sort of guidance that could be provided.

Issue 2(a) Guidance or no guidance?

28. Throughout our outreach we have come across divided views on whether or not the IASB/IFRS Foundation should provide guidance on the application of materiality to preparers and the wider financial reporting community. The question of whether to provide guidance or not is central to deciding what the IFRS Foundation's role is in improving the application of materiality. It appears that a majority of participants in our outreach favour some form of guidance, although a significant minority of participants, across all respondent types, do not.

Staff analysis*Should we have guidance?*

29. Below is a list of the reasons that the staff have identified, on the basis of our outreach, for and against the IFRS Foundation/IASB providing guidance on the application of materiality.

In favour

- (a) In most of the outreach that we have carried out, we have heard widespread calls for the development of guidance. Support has come from preparers, auditors, regulators and users. It is thought by these parties that the concept is not well understood and/or is being applied incorrectly. In particular, it appears some jurisdictions think that that materiality is purely a quantitative assessment and in other jurisdictions, even though they understand that a qualitative assessment is required, there is too much reliance on the use of numerical thresholds.
- (b) We have been told there is a lack of clear understanding by preparers on how to apply the concept of materiality in IFRSs, because of the lack of guidance and/or conflicting sources of requirements/guidance at a national level.
- (c) The publication of guidance would highlight the importance of materiality, its pervasive nature, and increase awareness of the concept.
- (d) The guidance could provide further clarity that the requirements in Standards only need to be applied to material information. It could also help to address the concerns about the language used in Standards highlighted in paragraph 13 (note: this will also be addressed in the forthcoming IAS 1 amendments). This may reduce the prevalence of views that a checklist approach should be applied to disclosures. Some jurisdictions view non-disclosure of information mentioned by an IFRS Standard as non-compliance, regardless of whether this information is material or not. Guidance may help to prevent materiality from being

viewed as a compliance exercise, leading to more comprehensive, and more streamlined, financial statements.

- (e) Guidance may help to counteract risk-averse behaviour. If preparers and auditors are given guidance to refer to, they may feel more confident in exercising judgement when using the concept.
- (f) Many jurisdictions have seen the need to develop their own guidance on materiality. If the IASB provides guidance on applying materiality, this will reduce the need for regional and national organisations to provide their own, potentially inconsistent, guidance. This might in turn lead to a reduction in divergence in practice worldwide. The high quality national guidance already developed by some jurisdictions could be used as a starting point for any guidance that the IASB/IFRS Foundation may produce.

Against

- (g) At each outreach session there was a minority who thought that there is no need for further guidance. The main reason against providing guidance is a concern that it would contain a level of prescription that would diminish the level of judgement inherent in the concept. There is also a fear that guidance produced by the IASB might be too prescriptive and could conflict with national practices and legal/regulatory frameworks.
- (h) Some have argued that the concept is well understood and that guidance on the application of materiality would be superfluous. They contend that we should instead focus on trying to influence behaviour, eg that we should try to discourage risk aversion.
- (i) Others have expressed a view that although they think the concept is not well applied, guidance on materiality would not be sufficient on its own without first reconsidering the use of the language used in disclosure requirements in Standards.
- (j) It has also been suggested that we should focus on describing what is relevant, rather than material; ie we should focus on developing better disclosure objectives. Those in favour of this approach argue that this focus

would encompass more of the processes involved in financial reporting, and to include all of the information expected by auditors and regulators.

What application problems would it address?

30. Despite assertions that the concept is well understood, the staff have heard widespread contradictory interpretations of materiality within the context of financial reporting. In particular, there appears to be widespread confusion regarding the relative importance of quantitative materiality thresholds. Materiality is a qualitative assessment. The fact that a figure is large (a quantitative focus) does not necessarily make it material, because a quantitative amount is only one of the qualities to consider.
31. It is also apparent from our outreach that there is confusion between materiality in a general accounting sense (as used by auditors and preparers in making a decision to disclose something or to correct an error) and materiality thresholds used by auditors as a tool in performing an audit. The staff note that while the same concept of materiality applies from an audit perspective, auditors make materiality decisions for a different purpose than management do when preparing financial statements. Guidance could help to clarify these misunderstandings.
32. It is also apparent that many of the problems associated with materiality arise from the environment in which materiality is applied. These behavioural problems include time pressures on management and risk aversion. For example, we have heard that it is easier for preparers to include information in the financial statements than instead to monitor on an ongoing basis whether that information is material, and/or justify the removal of disclosures to auditors, regulators and other parties. In addition, there is a lack of understanding by those outside the accounting profession that judgement is key to assessing which disclosures are required to be made in the financial statements. The litigation risk inherent in not disclosing a material item is also an important concern. The provision of guidance would go some way towards enhancing awareness of the role of materiality and would help to influence the behavioural changes that many see as the key problem.
33. The introduction of guidance would not change the generic concept of materiality. This concept is well understood and needs no further explanation. However, the staff

think there is a need for guidance on the application of materiality within the context of the financial statements. If guidance advocates ‘good behaviour’, then it is difficult to argue that developing guidance should not be considered a good use of resources by the IFRS Foundation. Similarly materiality, used appropriately, is pervasive to all types of financial reporting. Consequently, guidance on applying the concept within the context of the financial report would have a positive impact on all aspects of financial reporting, ie that impact would not only be restricted to the financial statements.

What areas could the guidance cover?

34. Examples of areas that the staff think it would be helpful to consider covering in the guidance include:
- (a) additional clarification and detail on the main characteristics of materiality (see paragraphs 6-9).
 - (b) clarification that materiality applies to all requirements in Standards, even if the language used in the Standards may appear to suggest otherwise.
 - (c) the types of considerations that are involved when applying the concept of materiality, including illustrative examples of some of the key considerations for particular scenarios:
 - (i) what is the objective of providing the information;
 - (ii) what are the characteristics of the users of the information;
 - (iii) what types of decisions are likely to be made by the users;
 - (iv) whether the information is likely to affect the assessment of a matter and whether this matter is important enough to affect the decision by a shareholder; and
 - (v) that materiality ultimately depends on a full consideration of the facts and circumstances and that for this reason it is impossible to provide a complete list of considerations to apply to any given scenario.
 - (d) addressing the issue that many practitioners focus too much on the quantitative aspect of materiality, for example by providing examples of

situations that may render a quantitatively small misstatement material—
such as whether a misstatement:

- (i) is in a sensitive area;
 - (ii) masks trends;
 - (iii) changes a loss into a profit; or
 - (iv) affects compliance with regulatory requirements or loan covenants.
- (e) the application of materiality to the notes to the financial statements; and
- (f) considering the need for an individual and collective assessment of misstatements and dealing with accumulated misstatements.

Note: if the IASB decides to develop guidance, the staff propose to discuss the content of the guidance at a future meeting.

35. In producing its own guidance, the IASB could consider and draw on much of the material that has already been produced at a jurisdiction level, eg by the US SEC, UK ICAEW etc.

Staff recommendation

36. The staff recommend that the IASB should develop guidance on the application of materiality.

Question 2a to the IASB

Do you agree with the staff recommendation?

Issue 2(b) What type of guidance?

37. This section considers three different possible types of guidance: application guidance, education material, or a practice statement, and assesses the suitability of each type.

Staff analysis*Application guidance*

38. Application guidance requires full due exposure for amendments to Standards, which includes public consultation. This will have the advantage of getting input from stakeholders during development and may highlight any problems in practice that are unforeseen by the staff. In addition, the issuance of an Exposure Draft and an amendment to a Standard will create greater public awareness of the guidance and hence the considerations surrounding the application of materiality. Furthermore, any changes to the guidance in the future would also need to be subject to the same full exposure.
39. Because the document will be mandatory, it will be applied universally and increase the uniformity of application worldwide. However, the need to accommodate national legal frameworks may restrict the flexibility of what can be included in the guidance, meaning that issues can only be dealt with at an extremely high level.
40. Application guidance is the most formal of the options. This has the benefit of attaching weight to the requirements, although it also runs the risk of appearing prescriptive. This could undermine the overriding need to apply judgement in the application of materiality and may meet resistance in jurisdictions that already have their own established guidance/practice on applying materiality.

Educational material

41. Educational material could accommodate a broad discussion of materiality aimed at assisting people to develop the skills necessary to make materiality judgements. Because it is not binding, its scope and content could be wider than that of application guidance. Its non-mandatory nature would allow the guidance to coexist with local legal systems more easily than application guidance would. Because of that flexibility, the IASB would be able to include more detailed examples and guidance, which would have less risk of appearing prescriptive.
42. A disadvantage of this option is because it is not part of the Bound Volume, it is possible that the guidance will become less accessible as time passes. However, if this option is chosen, it is possible that the IFRS Foundation Education Initiative

could continue to promote it and make it readily available. Nevertheless, because the application guidance will be used all around the world in a variety of regulatory environments, there is a risk that it could be overridden over time through local interpretations and will not improve uniform application of materiality.

Practice statement

43. A practice statement is not an IFRS and is not mandatory. However, it can be mandated by a jurisdiction, if the authorities in the jurisdiction wish to do so. Such non-mandatory requirements would probably be favoured by national standard-setters who are worried that this project may conflict with their local guidance/requirements.
44. This option would combine many of the advantages of the previous two options. It would be a formal document, which would provide more uniformity and require public consultation (thus giving constituents the opportunity to provide input during development). We only have one previous example of a practice statement, which was on management commentary, so there would be flexibility in the content when developing a new practice statement in comparison to application guidance. By being a formal document, it would not have as much flexibility in its content as education material, but it would have more credibility and prominence. In addition, like education material, it could provide illustrative examples with the intention of helping entities make materiality decisions in different contexts.
45. A disadvantage of this option is that, because of its non-mandatory nature, it might not reduce the existing divergence in practice across some jurisdictions.

Overall assessment

46. We have heard through our outreach that people have found some national guidance on application of materiality useful, for example guidance produced by the SEC (US) and the AASB (Australia). These national publications most closely resemble the education guidance and practice statement options, in the sense that they are non-mandatory documents.
47. The staff think that there are greater advantages, and fewer disadvantages, in pursuing the practice statement option. We also think that it would address concerns about the need for public consultation heard during our outreach and voiced by several IASB

members during the September IASB meeting. Furthermore, because the practice statement requires public exposure, it gives the IASB the opportunity to ask a question in the Exposure Draft to obtain feedback on whether constituents think that including guidance in a practice statement is the best approach, or whether they would prefer the guidance to be included in application guidance or education material.

48. Application guidance or a practice statement would take slightly more time and resources to develop in comparison to education material, because of the need to expose the document for public comment. However the staff think that public consultation is an important step to ensure that the guidance is of high quality and is appropriate across jurisdictions.

Staff recommendation

49. The staff recommend that the IASB should include guidance on application of materiality in a practice statement. The staff also recommend that in the Exposure Draft of the practice statement the IASB should ask constituents if they think that a practice statement is the best method of providing guidance on materiality.

Question 2b to the IASB
Do you agree with the staff recommendation?

Issue 3: How should we deal with conflicting terminology?⁴

50. On the basis of our outreach and responses in the IAS 1 comment letters, it is clear that many parties perceive the language used in the Standards to be confusing and inconsistent with the concept of materiality (see paragraph 13). For example use of problematic words such as “substantial” (eg IFRS2.45 and IAS32.16B), “significant” (eg IFRS 3.B64 and IFRS 12.13) and “important” (eg IAS 7.17 and IAS 10.18), and also use of prescriptive language, such as “shall disclose, at a minimum” (eg IFRS 13.93).

⁴ The New Zealand Accounting Standards Board (NZASB) are also undertaking work on how disclosure requirements are drafted, including the clarity of the disclosure objectives. This will become part of the Principles of Disclosure Discussion Paper.

Staff analysis

51. We have heard that usage of different, yet similar, nomenclature to ‘materiality’ has caused confusion on two levels. Firstly, people are confused as to whether materiality is a graduated, step-by-step, concept with various levels of materiality, denoted by different words (significant, important etc). In the staff’s experience it is not uncommon to hear accountants talk about something ‘being more or less material’. Secondly, when a Standard draws attention to a disclosure only being necessary in the event that it is material to the entity, it creates the illusion that materiality is not necessary in other instances. This lack of clarity, together with the use of prescriptive language in Standards, contributes to the erosion of the idea that materiality is a pervasive concept.
52. A Standards-level review of disclosure requirements is being carried out as part of the Disclosure Initiative. In this project the staff will review disclosure requirements in existing Standards to identify and assess conflicts, duplication and overlaps. This project is informed by the principles being developed in the Principles of Disclosure project. As part of this work, the Disclosure Initiative team aims to identify situations in which these synonyms were actually intended to mean ‘materiality’ and situations in which instead they signified a technical or plain English meaning. The Disclosure Initiative team will also consider ways of making the language in Standards less prescriptive.

Staff recommendation

53. The staff recommend that we should wait until further work has been performed in the Review of Standards project before considering changes to address use of inconsistent and overly prescriptive wording within the existing Standards.

Question 3 to the IASB

Do you agree with the staff recommendation?

Issue 4: Where to position materiality requirements

54. We have been asked, during our outreach, whether it is sufficient to only address materiality in IAS 1, IAS 8 and the *Conceptual Framework*. In particular, would the inclusion of the definition of ‘materiality’, or a reference to the concept of materiality, in each Standard act as a reminder that materiality is pervasive?

Staff analysis

55. The staff note that this issue is linked to Issue 3 regarding confusion that may arise from the use of synonyms for ‘material’. Currently the Standards include phrases such as ‘when material’ or ‘if significant’, which could give the impression that materiality considerations do not apply to other requirements within Standards if they do not make an explicit reference to materiality.
56. Materiality is a concept that applies to all requirements in Standards, not only when explicitly mentioned. However, this is also the case for all ‘Qualitative Characteristics of Useful Financial Information’. If we were to include in each individual Standard a reminder that materiality applies, then it would seem appropriate to also do this for other characteristics as well. Otherwise, it would seem to reduce the relative importance of the other characteristics.
57. It is clear that there is a need to make it more prominent that materiality is pervasive. This could be achieved by the staff recommendations for guidance in Issue 2. It could also be emphasised in any further outreach or education sessions carried out by the IASB.

Staff recommendation

58. The staff do not recommend including in each Standard a reminder that materiality applies.

Question 4 to the IASB
Do you agree with the staff recommendation?

Summary of main staff recommendations for Issues 1-4

59. The staff recommend the following:
- (a) the IASB should provide guidance on the application of materiality;
 - (b) that guidance should take the form of a practice statement;
 - (c) the IASB should not change the definition of materiality within IFRS other than to align the definitions in IAS 1, IAS 8 and the *Conceptual Framework* with each other;
 - (d) the IASB should insert a paragraph into IAS 1 to clarify the key characteristics of materiality;
 - (e) (c) and (d) should be covered by the Discussion Paper in the Principles of Disclosure project;
 - (f) the IASB should wait until further work has been performed in the Review of Standards project before considering possible changes to the synonymous words within the Standards and instances of excessively prescriptive language; and
 - (g) not including a materiality reminder in each Standard.

Time line for the remainder of the project

60. Provided the IASB supports our recommendations, the staff estimate the following time line:

Topics	Timeline
Alignment of definitions/additional paragraph in IAS 1	<p>Included in the Principles of Disclosure project</p> <p>February 2015—Discussion at the IASB meeting</p> <p>Q2—Drafting of Discussion Paper</p>

Topics	Timeline
Guidance (practice statement)	February 2015—Discussion of content at the IASB meeting Q1—Commence drafting Q2/3—Publish Exposure Draft
Materiality synonyms	Integrated into the Review of Standards project

61. Note: the time line above may be adjusted to co-ordinate with the work being performed by the IAASB and IOSCO on materiality and to allow for their input on our guidance.