

AGENDA PAPER

IFRS Advisory Council Meeting

London 13 – 14 October 2014

Agenda ref 4

TOPIC Materiality – IASB Research Project (Cover note)

PRESENTERS Aisling Carney, Kristy Robinson, Alan Teixeira

CONTACT acarney@ifrs.org

This paper has been prepared for discussion at a private session during a meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Objective of this session

1. The purpose of this session is to seek the Council’s views on materiality and their vision for solving the problems associated with materiality and disclosure, either by the IASB or other parties.
2. This paper briefly describes;
 - (a) The work carried out so far in the materiality project;
 - (b) The documents that are being presented to the September IASB meeting.
3. During the introduction session, we will go through the presentation (paper 4A) which provides background to research and a summary of our findings during research so far along with possible next steps.
4. During the break-out session, we will ask the Council members to consider the issues presented at the end of this cover note.

The project so far

5. In March 2014 the IASB agreed that the staff should undertake research to understand how materiality and similar concepts are being applied within the context of financial reporting in different jurisdictions. The objective of this project is to help preparers, auditors and regulators use judgement when applying the concept of materiality in order to make financial reports more meaningful. The scope of the project is the application of materiality across the whole of the financial statements. However, the focus is on applying the concept of materiality to the notes.
6. The project considers the following areas:
 - (a) whether there is a lack of understanding of what is meant by the (general) concept of 'materiality';
 - (b) whether the problem is a the lack of clarity, or understanding, about how to apply the concept of materiality, in particular with regard to disclosures in the notes to the financial statements;
 - (c) how disclosure requirements are written, ie is the language used to describe disclosure objectives and other disclosure guidance in IFRS unclear or too prescriptive?; and
 - (d) could additional guidance be developed that assists entities to determine what a significant accounting policy is.
7. The staff have had informal discussions with representatives of IOSCO and the IAASB to help inform the scope of our work. We wrote to national and regional standard setters to request their help in understanding how materiality is applied in their jurisdiction, and analysed the responses. We have also reviewed academic papers, requirements by regulators, industry papers and case law. We have had a number of discussions with academics and practitioners.

September 2014 IASB meeting

8. The staff presented to the IASB the same documents that you have for this topic. The IASB session was a public session, but was educational in nature rather than decision making.
9. IASB members indicated that the thinking in the project was developing along the right lines. There were mixed views about whether the IASB should develop application guidance. Overall, the Board was probably in favour of developing some resources to help preparers and users understand how materiality applies to financial reporting. But there was a range of views on what form that might take—education, a Practice Statement or amendments to an IFRS.
10. On the next page we have set out four questions for you to consider. We are not seeking technical responses to the questions—such asking you to define materiality. Instead, we welcome your input and advice from a broader range of backgrounds.
11. Papers for the September IASB meeting are available here ([AP 11A](#)):

Materiality Break-out session questions

Whose responsibility is it to define and explain materiality?

Q1 In our research on materiality it is striking that the definitions (of materiality) used for a wide variety of purposes are so similar. There are minor differences, but the concept seems to be widely used.

The IASB defines/describes materiality in the Conceptual Framework. Should the IASB even have this definition of materiality or could it simply use the term (as is the case in the IS Securities legislation where the word is not defined)? Does the IASB need a definition? Or should this be the responsibility of securities regulators?

Application Guidance

Q2 Some preparers (and other parties in the financial reporting supply chain) say that they need more guidance on applying materiality to financial reports. Others say that it is a matter of common sense and the IASB can only do harm by developing guidance.

How can the IASB help people to exercise judgement in applying materiality? Do you think the problem is that people come from different backgrounds and are struggling to deal with a judgement based system? Is it a lack of clarity within the financial reporting standards about how to apply it in a particular context—such as the notes?

Q3 If the IASB did develop guidance, do you think it might best be in the form of education material, or do those applying IFRS need more direct requirements?

Your response to this question might be influenced by your answer to Question 1. Additionally, in October 2013 the Council considered the problem of delineating between educational material and ‘authoritative’ application guidance. That discussion is relevant here. The papers for that session (Agenda Paper 4) can be accessed on the IASB website (<http://www.ifrs.org/Meetings/Pages/AC-Oct-13.aspx>) or on the IFRS Advisory Council private SharePoint pages.

What risks does the IASB face in developing guidance?

Getting others engaged

Q4 Are there any actions the IASB can take to provide a catalyst to encourage other parties involved in financial reporting to further facilitate the use of judgement in materiality decisions?