



Materiality

IFRS Advisory Council

Feedback

Alan Teixeira
IASB Senior Technical Director
October 2014

This presentation 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*.

Opening remarks

- We asked you to do a lot in an hour
- This is a rare case where a technical topic lends itself to an Advisory Council discussion
 - Materiality as a concept is pervasive
- The main themes and messages were clear and consistent

IFRS AC

- Yes, we should retain a definition
 - Provides a base-line
 - No harm in having one
- Should it be revised?
 - A strong theme in all the groups is that ‘over-disclosure’ is a problem
 - Two elements of the definition worth looking at:
 - The threshold of “could” versus “would”
 - An asymmetry – include / exclude
 - Needs to be robust (defendable)

Feedback from other outreach

- Yes, we need a definition
- We should at least consider the current wording
 - Threshold: could
 - Exclude / Include
 - User focus
- Language and translation are an issue
 - Could and would translate into the same word in some languages
 - The differences can be too subtle

IFRS AC

- It is necessary and would be helpful
 - Illustrative examples (cases) could be a particularly useful tool
 - Be careful about giving too many details.
 - Avoid bright-lines – education should help people apply judgement
 - Some could be in specific standards
- For general support material, the lack of ‘formality’ / ‘authority’ is appealing
 - BUT, some concerns about the lack of due process around the development of such material.
- Education material could help preparers establish an internal framework

Feedback from other outreach

- Largely consistent with the AC feedback.

IFRS AC

- A major part of the problem, because it leads to ‘over-disclosure’, important information being swamped by immaterial information
- Courage comes from leadership
 - The IASB could ‘support’ good practice
- The IASB could challenge practice that is not conducive to good disclosure
 - Get statistics on how often regulators challenge materiality
- People come from different backgrounds
- Difficult for us to ‘pick winners’.
- We can encourage debate.
- Not something we have been comfortable doing. It is worth the IASB considering its approach.

IFRS AC

- Although education is mainly for preparers, it is also important for auditors, regulators and investors
- Events similar to the Disclosure Discussion Forum could be helpful
- Dialogue with the different parties is important
- Need to think about how hindsight affects materiality judgements

IFRS AC

- Drafting of standards
 - Listing information that “could” be helpful creates a low threshold
 - Suffers from the same problem as the definition of materiality
 - “look at the Standards, because that would attack the source”
 - Ensure that it is clear in the Standard why the information required to be disclosed is helpful to investors.
 - Target more problematic Standards
- Alignment with other requirements
 - Regulators
 - FASB

Comment

- Illustrates the importance of getting the Standards right.
 - *IFRS 14: The entity shall apply judgement in deciding the level of detail necessary, but the following components would usually be relevant: ...*
- Confirms our view that materiality works with the Standards
- Challenging.
 - We hope that we can change some regulators by, eg , removing bright lines
 - The FASB has limited guidance. However, the arguments apply equally to the SEC guidance

IFRS AC

- It is more difficult for the smaller listed entities
 - Resources
 - Experience
 - Easier for bigger, better resourced entities to be “champions”
- Preparers are in the best position to make judgements, but regulators (and courts) ultimately “judge”
- Audit committees are an important link – ie the Board
- Other regulators contribute to the problem – duplication with regulatory (eg risk) disclosure. We should work with other regulators to reduce overlapping requirements.

Comment

- Small-cap entities tell us the same thing
- By targeting the more problematic standards you can help smaller entities proportionately more.
- It doesn't matter who takes the lead as long as they are able to influence

IFRS AC

- The overriding theme is that we are aiming to improve the quality of disclosure
 - The emphasis should be on disclosing relevant information
 - Over-disclosure of immaterial information can obscure relevant information
 - It comes down to behaviour, but we should create incentives to change
 - Need to educate:
 - IASB ‘education’ support
 - Engage with auditors, regulators
 - Vary it depending on the audience

It was also noted that although the groups were not asked to discuss the other aspects of the Disclosure Initiative, the discussions in the earlier sessions on good communication, the importance of organising information etc. the groups made it clear that these matters are also important.

individual comments
 questions or
 individual
 comments
 expressions of
 individual views
VIEW
 expressions
 feedback a
question
 expressions of individual vie
 individual comments
questions
 expressions of
 individual views
comments
 questions or
 individual
 comments
 questions or comments
 expressions of individual views
comments
 questions or individual comments
question
 expressions of individual vie
 feedback
 questions
comment
 feedback
questions
 expressions of individual views
expressions and viewpoints
 feedback and comments