

March 2015

International Financial Reporting Standards

Agenda Paper 4B
Accounting Standards Advisory Forum
26-27 March 2015

Materiality:
project update

Purpose of the session

- To update you on the current status of the Materiality project.
- To solicit your opinions on the content of the draft Practice Statement.
- To ask whether you think any other topics should be added to the Practice Statement.

Current status

Why

- Concern that materiality is not well applied in practice
 - lack of judgement about what disclosures to include or exclude
- Contributes to two aspects of the ‘disclosure problem’:
 - disclosure overload; and
 - not enough relevant information.

Output

- Practice Statement (non-authoritative):
 - help preparers make materiality judgements.
- Section in the *Principles of Disclosure* Discussion Paper:
 - definition of materiality; and
 - clarifying paragraphs outlining threshold, definition of a user etc.

Overarching principles

Roles of 'primary' financial statements and the notes

Materiality and aggregation

Communication principles , grouping, ordering and formatting

Specific issues

Non-IFRS information

Disclosure objectives

Consistency/comparability of disclosures

Cross-referencing

Accounting policies

Proportionality

Wider issues

Disclosure of changes policies and estimates (IAS 8)

Implications on existing Standards

Digital reporting

International Financial Reporting Standards

Proposed Practice Statement

Why do we need guidance?

- To highlight the importance of materiality.
- To clarify common areas of misunderstanding; in particular that materiality is a qualitative concept and not solely quantitative.
- To encourage preparers to exercise judgement.
- To combine and build on some of the existing guidance published by standard-setters and regulators worldwide, and to make it relevant to a IFRS setting.

Why a Practice Statement?

- Flexibility-It is not a Standard or mandatory, however, jurisdictions can choose to mandate it.
- It will be exposed in accordance with normal due process:
 - it will require public consultation, which will encourage transparency, as well as promoting buy in from preparers; and
 - it will provide uniformity across IFRS jurisdictions.
- It allows greater use of illustrative examples.

- The guidance in the Practice Statement will not aim to provide a comprehensive list of considerations when making judgements about materiality in preparing the financial statements.
- Instead, it will aim to illustrate the sorts of factors an entity should take into consideration.
- The Practice Statement will apply to the preparation of financial statements in accordance with IFRS. However, entities may find the Practice Statement helpful when preparing other types of financial information

- What is materiality?
 - expansion on the definition.
- Who are the primary users?
- What are the key characteristics of materiality:
 - it is a pervasive concept;
 - it requires the use of judgement; and
 - it involves a qualitative assessment.
- The types of considerations when applying materiality:
 - the characteristics of the primary users;
 - the type of decisions being made by the primary users and their information needs; and
 - the appropriate context for assessing materiality.

Content cont...

- Materiality on the face vs in the notes vs in the financial statements as a whole.
- Dealing with immaterial information.
- Aggregation of information.
- How to deal with identified errors, omissions or misstatements:
 - types of misstatements, eg mistakes vs intentional;
 - make a collective assessment; and
 - consider unadjusted prior period misstatements.
- The differences with materiality in the context of IFRS and the materiality thresholds used by auditors.

Questions

- Do you think other topics should be addressed in the Practice Statement?
- Do you have any other comments on the proposed content of the Practice Statement?

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