

International Financial Reporting Standards

CMAC meeting, 6 November 2015
Agenda paper 5

Disclosure Initiative: Materiality Practice Statement Application of Materiality

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

Purpose of the session

- To receive feedback on the Exposure Draft: IFRS Practice Statement *Application of Materiality to Financial Statements*.
- Specifically, whether CMAC members find the Draft Practice Statement (PS) helpful in understanding the judgement used by management in producing financial statements.
- To get feedback on whether the PS is understandable to investors.
- To ask for any other feedback on the PS.

Agenda

- Background information on the draft PS.
- Questions to CMAC members.

Disclosure Initiative

Completed projects

Ongoing activities

Implementation projects

Research projects

Amendments to IAS 1

Digital reporting

Proposed amendments to IAS 7 'debt reconciliation'

Distinction between a change in accounting policy and estimate

Materiality Practice Statement

Principles of Disclosure (POD)

Standards-level review of disclosures

Why are we undertaking a project on materiality?

- Concerns that the poor application of materiality contributes to both too much irrelevant information in financial statements and not enough relevant information.
- Concern there is limited guidance on materiality in IFRS, particularly on how it should be applied to disclosures in the notes to the financial statements.
- Guidance may help to positively influence behaviours that we hear contribute to disclosure problems. eg the use of checklists and risk aversion.

Why should we issue guidance?

- During outreach we heard widespread support for developing guidance to address the lack of understanding on how to apply the concept of materiality.
- In particular the following were highlighted as issues when applying materiality;
 - the tendency to focus too much on the quantitative aspect of materiality; and
 - the lack of clarity about materiality judgements in the context of the notes.

What is a Practice Statement?

- A Practice Statement is non-authoritative guidance—it is not a Standard.
- Entities are not required to comply with the Practice Statement, unless specifically required by their jurisdiction.
- However, an entity is required to follow the guidance on materiality in IFRS. The PS helps an entity make the judgements needed to apply that guidance.

Objective of the Draft Practice Statement

- The primary objective is to assist management in applying the concept of materiality to general purpose financial statements prepared in accordance with IFRS.
- Also aims to help the users of those financial statements understand the approach that management followed when making judgements about materiality.

What will be included in the draft PS?

- The guidance:
 - provides explanations and examples to help preparers apply the definition of materiality; and
 - illustrates the types of factors that management should think about when considering whether information is material.
- The draft PS proposes guidance in three main areas:
 - the characteristics of materiality;
 - presenting and disclosing information in the financial statements; and
 - omissions and misstatements.
- It also contains a short section on materiality when applying recognition and measurement requirements.

- Even though some jurisdictions have legal or regulatory requirements about materiality, this should not necessarily conflict with the requirements in the PS (providing those local requirements do not prevent an entity from applying requirements in IFRS if the effect of doing so would be material).
- IFRS does not prohibit an entity from providing additional information in order to meet local requirements in a jurisdiction.

- The FASB have recently clarified that they see the definition of materiality as a legal concept and have proposed to use the US Supreme Court's definition.
- The IASB is not aware of any difficulties for foreign filers in the US caused by the difference between the US and IFRS definitions.

Why is the PS primarily aimed at management?

- The problems with the application of materiality primarily relate to management and the preparation of financial statements.
- The PS aims to improve the quality of disclosures which will have a positive effect for those who use financial statements.
- The definition and PS highlight users' needs at the centre of management's materiality judgements.

Question 1 to CMAC members

Would the PS help an investor to understand the materiality judgements that management have gone through in the process of preparing the financial statements?

Question 2 to CMAC members

Do you think the guidance will be understandable by readers who have a reasonable level of business/ accounting knowledge of IFRS? If not, which paragraphs/ sections are they and why?

Questions to CMAC members

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Question 3 to CMAC members

**Do you think any additional content should be included in the PS?
If so, what and why?**

Question 4 to CMAC members

Do you have any other comments?

Thank you

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