

STAFF PAPER

6 November 2015

Prepared for Capital Markets Advisory Committee meeting

| Project | Disclosure Initiative | | |
|-------------|--|--|---------------------|
| Paper topic | Practice Statement on the application of materiality to financial statements | | |
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Purpose of this meeting

1. At this meeting the staff will ask CMAC members for feedback on the draft Practice Statement *Application of materiality to financial statements*.

Background information

2. The IASB was informed at the Discussion Forum on Financial Reporting Disclosure in January 2013, in its related survey and by other sources, that there are difficulties applying the concept of materiality in practice when preparing the financial statements. Some interested parties are of the view that these difficulties contribute to a disclosure problem, namely, that there is both too much irrelevant information and not enough relevant information in financial statements. A number of factors have been identified for why materiality is not being applied well in practice. One of these is that there is limited guidance on materiality in IFRS, particularly how it should be applied to disclosures in the notes to the financial statements. In light of this feedback, the IASB decided to undertake a project on materiality.
3. We have previously spoken to the CMAC about materiality. At a meeting in February 2014 we heard that it was not transparent to investors and analysts how

the concept is applied to Financial Statements. CMAC members asked the IASB investigate ways to make the process of applying materiality judgement more transparent to users.

4. At its November 2014 meeting, the IASB discussed the next steps for the project and tentatively decided:
 - 1) to change the current definition of materiality in IFRS only to align the definitions in IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the *Conceptual Framework for Financial Reporting* with each other. However the forthcoming *Principles of Disclosure* Discussion Paper will describe the rationale for retaining the current definition of materiality, and will ask for feedback on this issue;
 - 2) to insert a paragraph in IAS 1 clarifying the key characteristics of materiality. This will also be included for discussion in the *Principles of Disclosure* Discussion Paper; and
 - 3) to provide guidance on the application of materiality, which will take the form of a Practice Statement.
5. The Exposure Draft of a draft Practice Statement *Application of materiality to financial statements* was issued on 28 October 2015, and is available [here](#). There is a comment period of 120 days, ending on 26 February 2016.

Questions for CMAC members on the guidance in the draft Practice Statement

Questions:

- 1) Would the PS help an investor to understand the process that management has gone through to prepare the financial statements?
- 2) 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?
- 3) Do you think any additional content should be included in the PS? If so, what, and why?

4) Do you have any other comments?