

STAFF PAPER

4 November 2015

Prepared for the Global Preparers Forum Meeting

Project	Disclosure Initiative		
Paper topic	Practice Statement on the application of materiality to financial statements		
CONTACT(S)	Kristy Robinson	krobinson@ifrs.org	+44 (0)20 7246 6933
	Michelle Fisher	mfisher@ifrs.org	+44 (0)20 7246 6918
	Aisling Carney	acarney@ifrs.org	+44 (0)20 7246 6480

This paper has been prepared for discussion at a public meeting of the GPF. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB nor of the IFRS Foundation. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Purpose of this meeting

1. At this meeting the staff will ask GPF members for feedback on the Exposure Draft of the IFRS Practice Statement *Application of materiality to financial statements* (the ED).

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. 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 *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.
4. The Exposure Draft of the IFRS Practice Statement *Application of materiality to financial statements* was issued on 28 October 2015, and is available [here](#)¹. There is a comment period of 120 days, ending on 26 February 2016.

Questions for GPF members on the guidance in the ED

Questions:

- 1) Do you think the guidance will be understandable by, and helpful to, preparers of financial statements? (please refer to Question 3(a) in the ED)
- 2) Do you find the examples helpful in the draft Practice Statement? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? (please refer to Question 2 in the ED)
- 3) Do you think that any additional topics or content should be included in the Practice Statement? (please refer to Question 3(a) in the ED)

¹ http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Exposure-Draft-October-2015/Documents/ED_IFRSPracticeStatement_OCT2015_WEBSITE.pdf

4) Do you think any paragraph/sections are unnecessary and could be removed? (please refer to Question 3(d) in the ED)

5) Do you agree that the guidance should be issued as non-mandatory guidance in the form of a Practice Statement? (please refer to Question 1 in the ED)

6) Do you have any other comments? (please refer to Question 5 in the ED)