

STAFF PAPER

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Accounting Standards Advisory Forum

Project	Materiality
Paper topic	Cover paper
CONTACT(S)	Aisling Carney Michael Stewart
	acarney@ifrs.org mstewart@ifrs.org
	+44 (0)20 7246 6480 +44 (0)20 7246 6922

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Purpose of this session

1. The purpose of this session is to obtain advice and comment from ASAF members on two aspects of our materiality project:
 - (a) the identification of primary users, their information needs and their expectations; and
 - (b) a draft 'Four-step Approach' for making materiality judgements when preparing a financial report.

Introduction

2. IAS 1 *Presentation of Financial Statements* requires management to apply materiality judgements when preparing an IFRS financial report. Paragraph QC11 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* defines materiality:

Information is material if omitting it or misstating it could influence decisions that users¹ make on the basis of financial

¹ Paragraph 2.11 of the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting (Conceptual Framework ED)* proposes modifying this definition by including the word 'primary' before the word 'user'. Consequently, in this set of papers we have referred to 'primary users'.

information about a specific reporting entity. In other words, materiality is an entity specific aspect of relevance based on the nature and magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

3. In October 2015, the Board published an Exposure Draft *IFRS Practice Statement: Application of Materiality to Financial Statements* (draft *Practice Statement*). The objective of the draft *Practice Statement* is to assist management in applying the concept of materiality to general purpose financial reports prepared applying IFRS Standards.

Issues for discussion

4. There are two issues arising from the feedback received on the draft *Practice Statement* that we would like to discuss with you;
 - (a) the identification of primary users, their information needs and their expectations; and
 - (b) a draft 'Four-step Approach' for making materiality judgements when preparing a financial report.

Identification of primary users, their information needs and their expectations

5. Several stakeholders, in their feedback on the draft *Practice Statement*, raised concerns about proposed guidance on identifying primary users and their information needs and expectations.
6. We include in **Agenda Paper 2A** for this session a summary of the concerns raised and our analysis of them. That paper asks ASAF members for their advice and comment on these issues.

Materiality judgement process

7. Many stakeholders, in their feedback on the draft *Practice Statement*, asked the Board to describe more clearly the judgement process of applying materiality.

8. In response to these requests, we have developed a draft Four-step Approach, including a description of factors we propose management consider when applying materiality. We intend to recommend to the Board that it includes this in the *Practice Statement*.
9. **Agenda Paper 2B** for this session describes the draft Four-step Approach and asks questions to ASAF members for their advice on this.