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Project	Materiality
Paper topic	Identification of primary users, their information needs and expectations
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Purpose of this session

1. The purpose of this session is to obtain advice and comment from ASAF members on the need for management to identify primary users, their information needs and their expectations in the context of applying materiality when preparing IFRS financial reports. This discussion is in relation to the Board's proposed *IFRS Practice Statement: Application of Materiality to Financial Statements* (draft *Practice Statement*).

Structure of this Paper

2. This paper is structured as follows:
 - (a) Introduction;
 - (b) Summary of selected guidance from the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and proposed guidance from the draft *Practice Statement*;
 - (c) Feedback on the draft *Practice Statement* relating to identification of primary users, their information needs and expectations;
 - (d) Staff analysis; and

- (e) Questions for the ASAF members.

Introduction

3. This paper summarises feedback we received on the draft *Practice Statement* relating to management's identification of primary users, their information needs and their expectations in the context of applying materiality when preparing a financial report in accordance with IFRS Standards. The paper also provides the Staff's initial analysis of this feedback and asks for ASAF members' advice and comments on the matters raised. We will present our analysis and the advice we receive from the ASAF to the Board at a future Board meeting.

Summary of selected guidance¹ from *Conceptual Framework* and proposed guidance in draft *Practice Statement*

4. The *Conceptual Framework* identifies primary users, to whom general purpose financial reports are directed, as existing and potential investors, lenders and other creditors (OB5). It defines the purpose of a general purpose financial report is to provide financial information about the reporting entity that is useful to those primary users in making decisions about providing resources to the entity (OB2).
5. The information needed by those primary users for the purposes of making those decisions as information to help them assess the prospects for future net cash inflows² (OB3). That is, information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (OB4).

¹ The referenced paragraphs are included in full in the appendix

² Paragraph 1.3 of the *Conceptual Framework* ED proposed to add 'and their assessment of management's stewardship of the entity's resources' to highlight the role that information plays in helping primary users' assessment of stewardship. As part of its redeliberations of the proposed amendments to the *Conceptual Framework*, the Board has tentatively decided to clarify the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as:

- i. decisions to buy, sell or hold equity and debt instruments;
- ii. decisions to provide or settle loans and other forms of credit; and
- iii. decisions needed to exercise rights while holding investments, such as rights to vote on or otherwise influence management's actions.

6. The *Conceptual Framework* notes that general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks (OB6). The *Conceptual Framework* also notes that individual primary users have different, and possibly conflicting needs and desires and that the Board, in developing IFRS Standards, will seek to provide information that will meet the needs of the maximum number of primary users (OB8).
7. Paragraph QC11 of the *Conceptual Framework* defines materiality as:
- Information is material if omitting it or misstating it could influence decisions that users³ make on the basis of financial 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.
8. The draft *Practice Statement* expanded on these notions:
- (a) Paragraph 12 proposed that when making a materiality judgement, 'management should consider both the entity's specific circumstances and how the information will be used by users of the financial statements'.
 - (b) Paragraph 14 proposed that 'management should consider the characteristics of [the primary] users, including their likely interests and what types of decisions they are making', and that this would 'enable management to identify the information that the primary users could reasonably expect to receive and that could reasonably be expected to influence their decisions'.
 - (c) Paragraph 17 proposed that an entity 'may have several different types of primary users'. It also proposed that 'there may be a broad range of

³ 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 paper we have referred to 'primary users'.

information needs and some may have dissimilar information needs and expectations'. It further proposed that 'if an entity has many classes of primary users, the financial statements should present and disclose information so as to meet the common information needs of a broad range of those classes'.

- (d) Paragraph 19 proposed that 'information would usually be expected to be material if it is relevant to either a range of primary users across different classes or to a significant class of primary user (for example a class with a large number of users)'.
- (e) Paragraph 21 went on to propose that management should consider the entity's specific circumstances, and 'whether the entity's primary users have any special needs and whether the information provided meets or exceeds the needs of an entity's primary users'.
- (f) Paragraph 22 suggested that ways to 'identify whether information is or is not useful to the primary users include... considering information about users' expectations, including how they think the entity should be managed (ie stewardship) gathered through discussions with users or from information that is publicly available'.

Feedback⁴ received on draft *Practice Statement* relating to identification of primary users, their information needs and expectations

- 9. The discussion in the draft *Practice Statement* has promoted comments on the following issues:
 - (a) the link between materiality and primary users' needs and expectations;
 - (b) the notion that different entities have different types of primary users making different types of decisions, and the suggestion that:
 - (i) management actively consider the likely interests and decisions of those users;

⁴ The comment letters received on the draft *Practice Statement* are available at <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Exposure-Draft-October-2015/Pages/Comment-letter.aspx>

- (ii) an entity with a broader range of primary users would provide a broader range of information; and
 - (iii) information would be disclosed if it is relevant to a significant class of primary user, even if that information is not relevant to other primary users.
- (c) the identification of the ‘special needs’ of primary users; and
- (d) the suggestion that management consider primary users’ expectations, including how primary users think that the entity should be managed.

Link between materiality and primary users’ needs and expectations

10. Several respondents agreed with the notion that identifying primary users’ needs would help to identify whether information is material (eg Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) CL8, UK Financial Reporting Council (FRC UK) CL10, European Banking Authority (EBA) CL57)⁵. One respondent described the proposed approach to materiality as ‘through the eyes of users’ (Federation of European Accountants (FEE) CL31). Another respondent welcomed the requirement for ‘genuine thought from preparers about users of their financial statements’ (The CFA Society of the UK (CFA UK) CL74). Another noted, and agreed with, the identification of the ‘specific needs’ of the primary users as a ‘prerequisite to an appropriate materiality assessment’ (International Organization of Securities Commissions (IOSCO) CL95).
11. Some respondents agreed with the overall approach outlined in paragraphs 12-29 of the draft *Practice Statement* (eg Ernst & Young (EY) CL70). However, some disagreed with the proposal to the reference to identifying users’ expectations. For example one respondent noted that it ‘effectively demands the preparers...to have insight into users’ minds’ (eg Hong Kong Association of Banks (HKAB) CL 27).
12. Another respondent (Australia and New Zealand Banking Group (ANZ) CL47) commented that paragraphs 14, 21, 50 and 52 of the draft Practice Statement suggest that the preparer is required to (a) identify the primary users, the characteristics of

⁵ The reference *CLxx* refers to the ID number assigned to the comment letter. The comment letters can be found at <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Exposure-Draft-October-2015/Pages/Comment-letter.aspx>

those users and the types of decisions they are making, and (b) determine what information could reasonably be expected to influence the decisions of those users using the requirements of IFRS Standard as a ‘basis’. ANZ explains that using the IFRS Standards as a ‘basis’ for the information to be included in the financial report would require a preparer to determine whether to:

- (i) provide disclosures in the level of detail specified by a Standard, or even provide them at all; or
- (ii) provide information in addition to the information specified in IFRS.’

13. ANZ notes that the draft *Practice Statement* observes that ‘in developing disclosure requirements the IASB seeks to identify the information that is expected to meet the needs of a broad range of primary users, for a wide variety of entities’. ANZ go on to suggest that ‘the assessment of whether disclosure of information specified by a Standard is material should be justified only on quantitative grounds since by including the disclosure requirement the IASB has implicitly concluded that the information is capable of being qualitatively material.’

Different entities have different types of primary users making different decisions

14. One respondent provided an example of differing interests of primary users, being a primary user ‘more interested in corporate governance information, because their main decisions relate to exercising their voting rights, rather than making buy, hold or sell decisions’ (Deloitte Touche Tohmatsu Limited (DTTL) CL76).
15. Another respondent expressed concern that management should need to ‘consider actively the likely interests of and decisions’ of the primary users (Moore Stephens CL36). That respondent expressed concern that there was ‘too much emphasis on the needs of [primary] users’ in the draft *Practice Statement*. They observed that ‘the broader the range of users, the greater will be the amount of information to include in the financial statements’. They raised this comment in the context of the potential consequence for ‘consistency between reporting entities’.
16. One respondent noted, and agreed with, a consequence they observed in relation to information being material to a significant class of primary user that ‘information

would be disclosed if it is relevant to a significant class of primary user, [even if it is] not [relevant] to other primary users (Canadian Accounting Standards Board (AcSB) CL44).

Identify ‘special needs’ of primary users

17. One respondent described the need to take account of any ‘special needs’ as a ‘fundamental point’ (Basel Committee on Banking Supervision (BCBS) CL82). This respondent and another respondent (EBA CL57) requested more guidance on assessing the ‘special needs’ of primary users.
18. However, some concern was expressed that the concept of ‘special needs’ is inconsistent with current definition of general purpose financial statements which focuses on the ‘common information needs of a wide range of users’ (KPMG CL69 and Singapore Accounting Standards Council (Singapore ASC) CL93).
19. One respondent expressed the view that users’ expectations should not determine what should be disclosed, but instead it should be the requirements of the Standards (PricewaterhouseCoopers (pwc) CL81). That respondent and another (South African Institute of Chartered Accountants (SAICA) CL58) gave an example of a private entity preparing IFRS financial statements in which the parent company and the tax authority are the only primary users – these respondents expressed concern about whether the focus in the draft *Practice Statement* on meeting user needs, including ‘special needs’, might, in this case, lead to the inappropriate reduction or omission of several notes, other than the tax related notes.

Consider primary users’ expectations about how those primary users think the entity should be managed

20. Some noted that for a preparer to obtain information about how users think the entity should be managed would be difficult to implement. Instead, financial statements should reflect how the entity is actually managed (ACTEO CL25, also FEE CL31. Similar concern from Malaysian Accounting Standards Board (MASB) CL52).
21. A respondent also questioned whether the examples given in paragraph 22 of the draft *Practice Statement* would enable management to obtain evidence of the types of

information that is important to users at the level of granularity required to make a materiality decision (Grant Thornton CL30).

Staff analysis

22. Several respondents agree with the notion that identifying primary users' needs helps to identify whether information is material. However, some respondents raised concerns about how far management needs to go in identifying primary users and identifying and meeting their needs and expectations. In this analysis we consider:
- (a) A two-element approach to identifying material information
 - (b) Identifying subsets of primary users
 - (c) Use of the term 'expectations' of primary users

A two-element approach to identifying material information

23. The *Conceptual Framework* refers to the Board seeking to provide information that meets the needs of the maximum number of primary users, referring to the 'common information needs' of primary users.
24. The *Conceptual Framework* also notes that:
- (a) general purpose financial reports cannot provide all of the information that primary users need; but
 - (b) that an entity is not prevented from including additional information that is most useful to a particular subset of primary users.
25. We think that the draft *Practice Statement* is (appropriately) attempting to explain how to:
- (a) Meet the common information needs of a maximum number of primary users; and
 - (b) Identify when and what additional information is relevant to particular subsets of primary users.

26. The objectives described in paragraphs 25(a) and 25(b) could be thought of as two elements in identifying what information is material and should therefore be included in an entity’s financial report. We are considering to propose to the Board to incorporate such a two-element approach into the *Practice Statement*.

First element: the common information needs of primary users

27. The Board, in setting the IFRS Standards, has already identified the information that it thinks will be relevant to the maximum number of primary users, when that information is applicable to the entity. Consequently the entity needs to determine to what extent the information identified in the IFRS Standards is applicable to the entity. We think there is merit to the argument that this would principally be a quantitative assessment because the Board has largely considered the qualitative aspects of materiality when developing the requirements in the applicable IFRS Standard.

28. We think that the assessment for the first element would not be a binary outcome of providing all or none of the disclosures set out in a particular IFRS Standard; we think that the assessment would involve identifying which of the disclosures is required.

Second element: additional information needs of primary users

29. The requirements set out in IFRS Standards are intended to meet the information needs of a broad range of primary users for a wide variety of entities. However, materiality is an entity-specific aspect of relevance and so must reflect the entity’s specific circumstances. In this second element of the materiality assessment, management would consider if there is additional information that is relevant to the primary users as a whole, or to a particular subset of primary users (see paragraphs 36 to 39 for discussion of identifying subsets of primary users).

30. In order for management to assess whether additional information is relevant to primary users in general, or to a particular subset of primary users, it would be necessary to:

- (a) identify the primary users / subsets of the entity’s primary users; and
- (b) understand the additional information needs of those primary users.

31. The assessment required for this second element would include both quantitative and qualitative aspects of materiality.

Concerns about meeting the ‘special needs’ of primary users

32. Concerns were raised about meeting the ‘special needs’ of primary users in the circumstance in which the entity has a narrow range of existing investors, lenders and other creditors, for example only the parent and the tax authority. The concern raised was that consideration of these ‘special needs’ could lead to an inappropriate reduction or omission of information from the financial report.
33. Primary users include potential investors, as well as existing investors. Consequently we think that the information provided should not be limited on the basis that there are currently limited existing investors. Instead, the information provided should reflect the common information needs of a broader range of primary users.
34. In the context of the two-element approach to identifying material information, the concerns raised about an inappropriate reduction or omission of information from the financial report would be of particular relevance to the first element. Consequently we think guidance on the need to consider the potential investors as a subset of the primary users of the financial report, could be included in the practice statement.
35. This could be described in the *Practice Statement* as part of the first element (described above) in the approach to identifying material information.

Identifying subsets of primary users

36. The draft *Practice Statement* refers to ‘ranges’, ‘classes’ and ‘types’ of primary users. For the purposes of this paper for identifying primary users’ needs, we refer to a ‘subset’ of primary users.
37. There could be many different characteristics, and thus information needs, that distinguish, and therefore identify, a subset of primary users. However, whatever that characteristic is, it will be one that identifies an information need that is common among that subset and is different from the entity’s other primary users. This is because the objective is to identify additional information needs for that particular subset of primary users.

38. The subsets of primary user could be based on:
- (a) the type of instruments that those primary users hold, for example ordinary equity holders, compared with preference shareholders, compared with bond holders, etc.; or
 - (b) a common characteristic among the subset of primary users. An example could be a subset of foreign, rather than domestic, primary users. This common characteristic might be concentrated in primary users holding the same type of instrument, or common to ones who hold different types of instrument. An example of how information needs might differ between foreign and domestic subsets of primary users could be in their information needs about how a particular domestic tax operates, if the impact of that tax is significant to the entity.
39. We think that identifying subsets of primary users can assist management in identifying the additional information needs of primary users. However, taking into account the objective of meeting the common information needs of a maximum number of primary users, and acknowledging that general purpose financial reports cannot meet all of the information needs of primary users, we think that the *Practice Statement* should highlight the need to identify only the major subsets of primary users.

Use of the term ‘expectations’ of primary users

40. The term ‘expectations’ of primary users has been used differently in the draft *Practice Statement* compared with the *Conceptual Framework*.
41. The *Conceptual Framework* uses the term ‘expectations’ in the context of primary users’ expectations about returns, and how these depend on the primary users’ assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. (During its redeliberations of the comments on the *Conceptual Framework* ED, the Board has tentatively decided to add that primary users’ expectations of returns additionally depend on the primary users’ assessment of management’s stewardship of resources).
42. The draft *Practice Statement* uses the term ‘expectations’ to:

- (a) Distinguish between subsets of primary users (paragraph 17); and
 - (b) As an example in paragraph 22 of how management could identify whether information is or is not useful to primary users.
43. We think that these different uses of the term ‘expectations’ between the *Conceptual Framework* and the draft *Practice Statement* is unhelpful, and has led to some respondents to the draft *Practice Statement* understanding that the preparer needs to have insight into the users’ minds. We do not think that management should be expected to understand users’ expectations, and so we propose that this is changed in the *Practice Statement*.

Questions for ASAF members

Questions for the ASAF members

A two-element approach to identifying material information

The staff are considering to propose to the Board that the *Practice Statement* identifies a two-element approach to identifying material information to include in a financial report. The first element would comprise the information that IFRS Standards identify for inclusion in the financial report, but reduced to exclude information that is identified as not material, principally from a quantitative perspective. The second element would identify additional information to be included in the financial report in order to meet the additional information needs of all, or a major subset of, primary users. This information would be identified through both a quantitative and qualitative assessment.

Do ASAF members think that such an approach to materiality would be helpful, and do ASAF members think that the first element would be a largely quantitative assessment?

The staff also think that the *Practice Statement* could include guidance on the need to consider potential investors as a subset of the primary users of the financial report in order to respond to concerns about an inappropriate reduction or omission of information from the financial report in circumstances when there is a narrow range of existing investors, lenders and other creditors.

What advice do ASAF members have on the inclusion of guidance in relation to potential investors in the *Practice Statement*?

Subsets of primary users

The staff suggest the guidance in the *Practice Statement* on identifying the subsets of an entity's primary users, and their additional common information needs as a group, highlights the need to identify only the major subsets of primary users. Consequently management would not need to identify minor subsets of primary users nor identify the additional information needs of individual primary users nor identify the expectations of users.

Do ASAF members think it is helpful to identify subsets of primary users in order to identify material information? What are ASAF members' views on the staff suggestion that the guidance included in the *Practice Statement* should focus on identifying only major subsets and their additional common information needs as a group?

What advice do you have on how those major subsets should be identified?

Limit use of the term 'expectations' of primary users in the *Practice Statement*

The term 'expectations' of primary users has been used differently between the *Conceptual Framework* and the draft *Practice Statement*. We suggest that the term 'expectations' of primary users is not used in the *Practice Statement* unless it is referring precisely to the way it is used in the *Conceptual Framework*.

Do ASAF members agree with restricting the use of the term 'expectations' of primary users in this way in the *Practice Statement*?

Appendix

Extracts from the *Conceptual Framework*

Objective, usefulness and limitations of general purpose financial reporting

OB2 The objective of general purpose financial reporting¹ is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

¹ Throughout this *Conceptual Framework*, the terms *financial reports* and *financial reporting* refer to *general purpose financial reports* and *general purpose financial reporting* unless specifically indicated otherwise.

OB3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

OB4 To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board² have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.

² Throughout this *Conceptual Framework*, the term *management* refers to *management and the governing board of an entity* unless specifically indicated otherwise.

OB5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

OB6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

OB7 General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

- OB8 Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.
- OB9 The management of a reporting entity is also interested in financial information about the entity. However, management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally.
- OB10 Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.
- OB11 To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The *Conceptual Framework* establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive. As with most goals, the *Conceptual Framework's* vision of ideal financial reporting is unlikely to be achieved in full, at least not in the short term, because it takes time to understand, accept and implement new ways of analysing transactions and other events. Nevertheless, establishing a goal towards which to strive is essential if financial reporting is to evolve so as to improve its usefulness.

...

Materiality

- QC11 Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Extract from the draft *Practice Statement*

Judgement

- 12 When assessing whether information is material to the financial statements, management applies judgement to decide whether information could reasonably be expected to influence decisions that the users make on the basis of those financial statements. When applying such judgement, management should consider both the entity's specific circumstances and how the information will be used by users of the financial statements. An entity's circumstances change over time and so materiality is reassessed in each reporting period in the light of the entity's circumstances during that period. This assessment should include comparing the current year information with comparative information for prior periods to assess changes in the entity's activities or circumstances during the period.

Users of the financial statements and their decisions

- 13 The definition of materiality refers to decisions made by the *users* of general purpose financial reports. The *Conceptual Framework* identifies the primary users of general purpose financial reports as follows and states that they are the users to whom those reports are directed:
- OB5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.
 - OB10 Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.
- 14 Having identified the primary users of the entity's general purpose financial statements and other general purpose financial reports, management should consider the characteristics of those users, including their likely interests and what types of decisions they are making. This will then enable management to identify the information that the primary users could reasonably expect to receive and that could reasonably be expected to influence their decisions.

Characteristics of the primary users of financial statements

- 15 The *Conceptual Framework* sets out basic attributes of the primary users of the financial statements:
- QC32 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.
- 16 Although management is entitled to assume that the primary users have a reasonable knowledge of business and economic activities, they cannot assume that the primary users are financial reporting experts. Furthermore, management should focus on typical and rational users, rather than a single, atypical user that is behaving unreasonably or irrationally.
- 17 An entity may have several different types of primary users. For example, the entity's investors may include individuals holding different classes of shares, institutional investors,

bond investors, employees with options to buy shares and/or other types of investors. Across the range of possible primary users there may be a broad range of information needs and some may have dissimilar information needs and expectations. For example, some information might be useful to some primary users, but not others. If an entity has many classes of primary users, the financial statements should present and disclose information so as to meet the common information needs of a broad range of those classes.

- 18 Management cannot reasonably be expected to meet all of the information needs of all of the entity's primary users. For example, a single investor might be particularly interested in detailed information about an entity's expenditure in a specific location because that investor may also have a business operating in that location, but such detailed information may be inconsequential for the other primary users.
- 19 Nevertheless, information would usually be expected to be material if it is relevant to either a range of primary users across different classes or to a significant class of primary user (for example a class with a large number of users).

Decisions made by the primary users of financial statements

- 20 The *Conceptual Framework* provides a description of the decisions made by the primary users and their information needs:
- OB2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
 - OB3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.
 - OB4 To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.
 - OB6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

- 21 In developing Standards, the IASB seeks to identify the information that is expected to meet the needs of a broad range of primary users, for a wide variety of entities. Consequently, when management considers what information should be provided in the financial statements, the requirements in IFRS should provide the basis for that assessment. The requirements within IFRS have been developed by the IASB taking into consideration the balance between the benefits of providing information to users of the financial statements and the costs of complying with those requirements. Consequently the cost of applying the requirements in IFRS is not a factor for management to consider when assessing whether information is material. However, it is not sufficient to apply the presentation and disclosure requirements in a Standard mechanically, without considering the entity's specific circumstances, whether the entity's primary users have any special needs and whether the information provided meets or exceeds the needs of an entity's primary users.
- 22 Some examples of ways in which management can identify whether information is or is not useful to the primary users include:
- (a) considering information about users' expectations, including how they think the entity should be managed (ie stewardship) gathered through discussions with users or from information that is publicly available;
 - (b) considering what decisions they themselves would seek to make and what information they would want as users of financial information in similar situations (ie as if they were external users themselves and did not possess the internal knowledge held by management for example about key risks or key value drivers);
 - (c) observing users' or market responses to information or requests for information, for example on particular transactions or disclosures issued by the entity, or responses by external parties such as analysts; and
 - (d) observing the types of information provided by entities operating in the same industry. However, while there are similarities between entities in the same industry, it does not mean that the same kind of information will necessarily be material.
- 23 Financial information is capable of making a difference to decisions if it has predictive value, confirmatory value or both.⁶ The focus of the materiality assessment is whether the information 'could reasonably be expected to influence' decisions made by users rather than whether information is capable of changing their decisions. Information is material if it confirms trends that could reasonably be expected to reinforce decisions made by the primary users. For example, an entity's earnings may have increased in line with expectations and this information may reinforce a decision to buy, hold or sell shares in the entity.

⁶ See paragraph QC7 of the *Conceptual Framework*.