

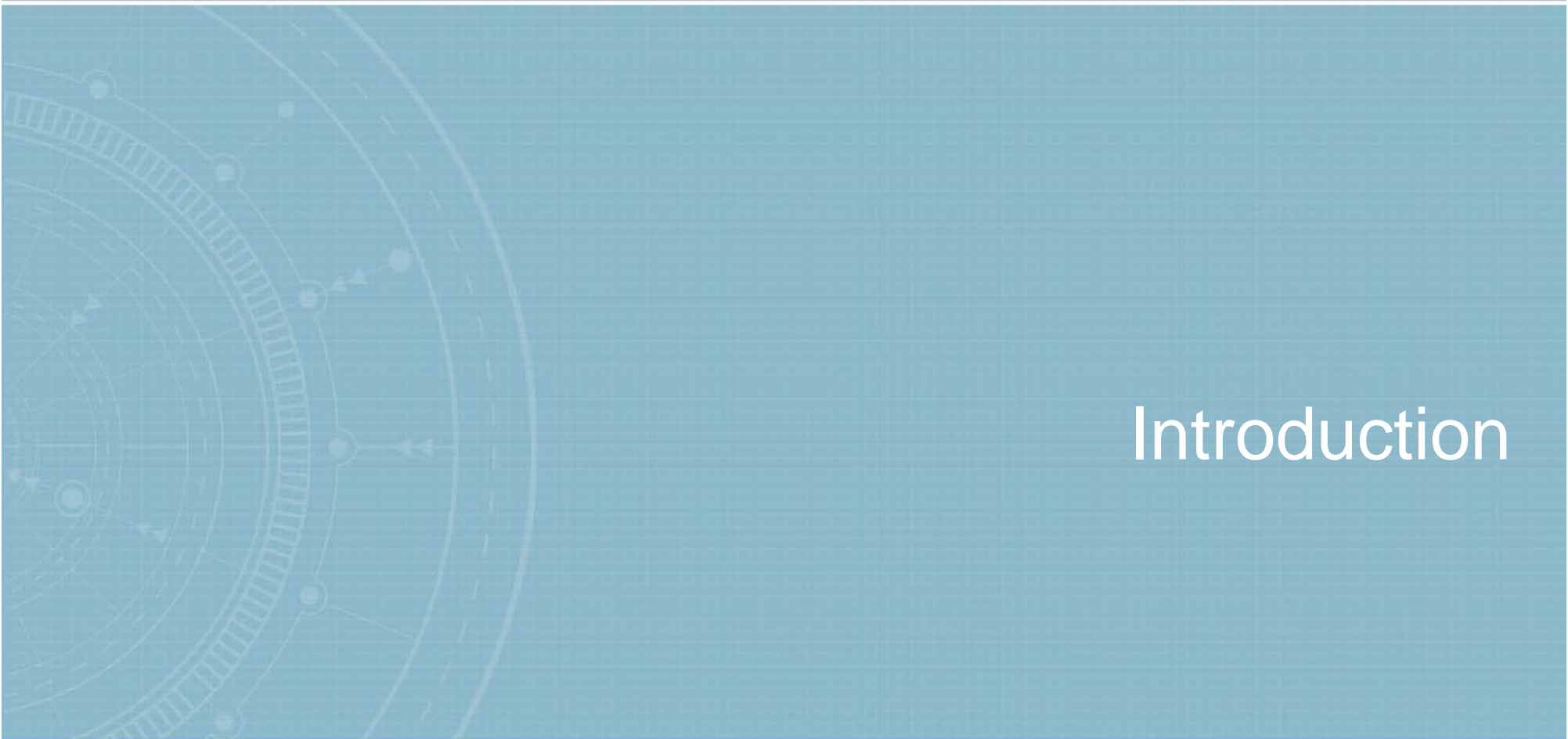
IFRS Practice Statement *Making Materiality Judgements*

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Introduction



Objective of the Practice Statement

- The objective of the IFRS Practice Statement *Making Materiality Judgements* (the Practice Statement) is to **provide** reporting entities with **guidance on making materiality judgements** when preparing general purpose financial statements in accordance with IFRS Standards.
- The **guidance may also help other parties** involved in financial reporting to understand how an entity makes materiality judgements in the preparation of such financial statements.
- The Practice Statement is applicable when preparing financial statements in accordance with IFRS Standards. It is **not intended for** entities applying the ***IFRS for SMEs*[®] Standard**.

Why are we issuing the guidance?

- The Board was informed that some entities experience difficulties in making materiality judgements when preparing financial statements—those entities are unsure how to make materiality judgements and tend to **use disclosure requirements** in IFRS Standards **as if they were items on a checklist**, rather than using judgement.
- These difficulties and practices contribute to a **disclosure problem**—entities include **too much irrelevant** information and **not enough relevant** information in financial statements.
- According to some stakeholders, one of the factors contributing to these difficulties was the **lack of guidance in IFRS Standards** on how to make materiality judgements.

The Board expects that the Practice Statement will:

- enhance awareness of the role of materiality to promote positive **changes in behaviour** (eg discourage rigid adherence to checklists);
- encourage an entity to **exercise judgement** to a greater extent, leading to a **reduction in boilerplate disclosures** and redundant information;
- provide a **framework** to assess the **need for information** in the financial statements that is additional to that specified by IFRS Standards; and
- provide a **reference point for discussions** between an entity and its auditors on the assessment of materiality, which could help facilitate agreement.

- The Practice Statement is not a Standard, it sets out **non-mandatory guidance**. Entities applying IFRS Standards are not required to comply with the Practice Statement to state compliance with those Standards.
- The Board was concerned that adding new mandatory requirements in a Standard could **risk creating conflicts** with local legal or regulatory frameworks.
- The Practice Statement **does not change** any existing requirements in IFRS Standards **nor introduce** any new **requirements**. Hence the Board considered non-mandatory status more appropriate.

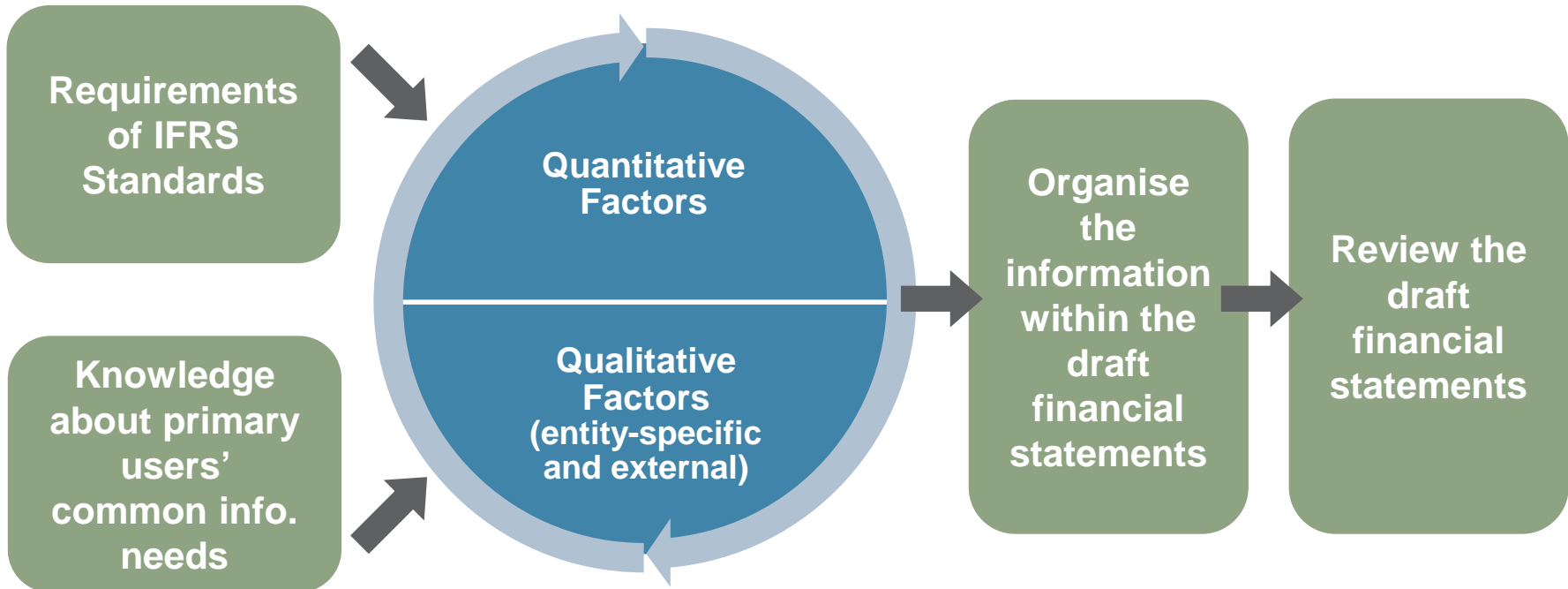


Overview of the Practice Statement

The Practice Statement provides:

- an overview of the **general characteristics** of materiality;
- a **four-step process** an entity may follow in making materiality judgements when preparing its financial statements (the materiality process); and
- **guidance** on making materiality judgements for **specific topics**:
 - prior period information;
 - errors;
 - covenants; and
 - interim reporting.

A four-step materiality process





Next steps and promotion of the Practice Statement

- The Practice Statement is expected to be issued in **mid-2017**.
- The Practice Statement will be included in the IFRS bound volume and **freely available** on the IFRS Foundation web site, consistent with the only Practice Statement issued so far—IFRS Practice Statement *Management Commentary*.
- Considering the nature of the Practice Statement (non-mandatory guidance), the Board is seeking advice on how to promote and support the guidance to foster a **behavioral change** in the way entities prepare their financial statements.

- **Publication pack**

- Project Summary and Feedback Statement
- Project Snapshot
- Webcast

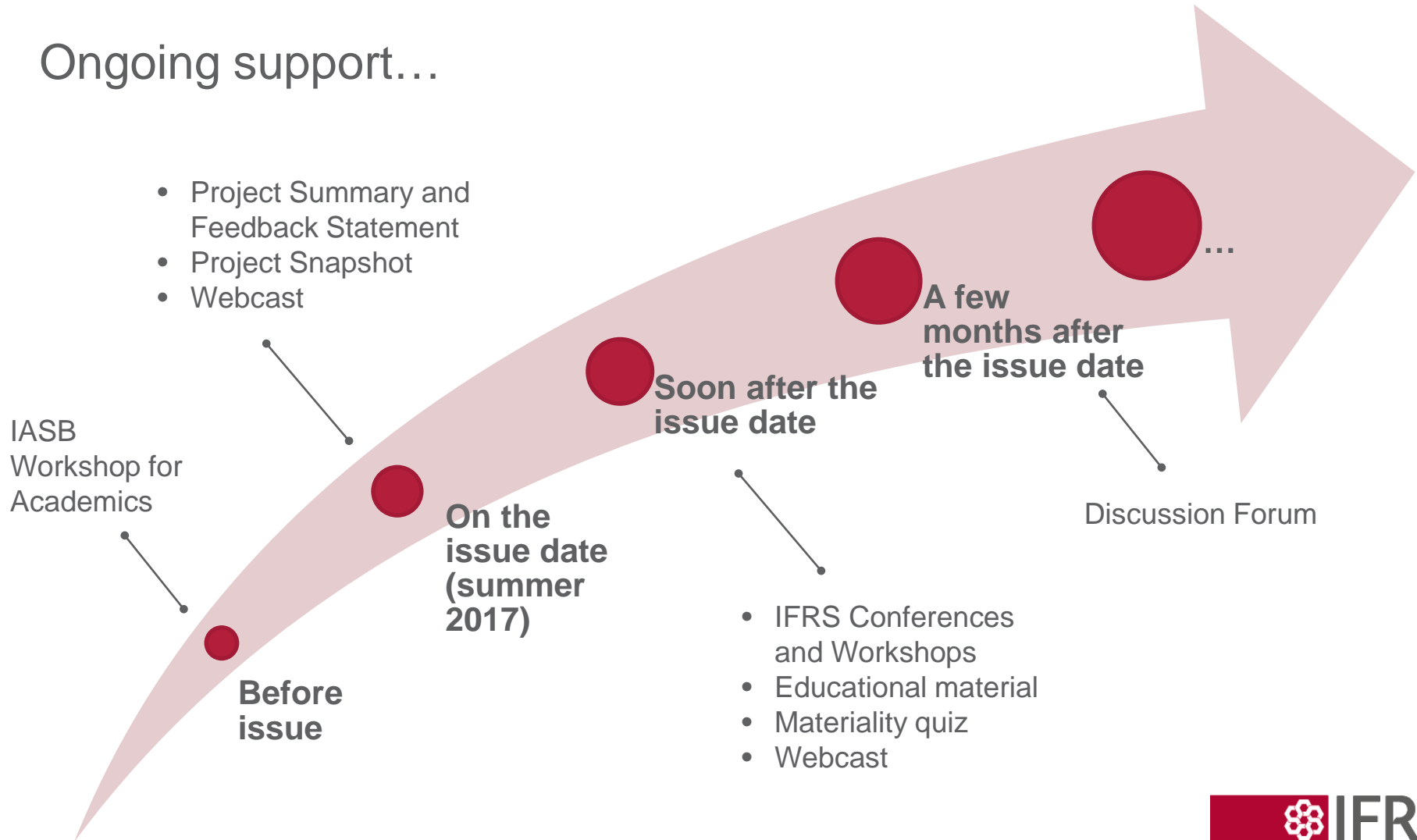
- **Educational activities**

- IFRS Conferences and Workshops
- IASB Workshop for Academics
- Development of educational material
- Materiality quiz

- **Discussion Forum**

Presentations and panel discussions involving preparers, auditors, regulators, users of financial statements and standard-setters.

Ongoing support...



Questions for the Advisory Council

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- **Question 1**—slide 13 lists some ideas on how to promote and support the Practice Statement. Considering the nature of the Practice Statement (non-mandatory guidance), what other activities do the Advisory Council members think the Board should consider to promote and support the guidance in the Practice Statement?
- **Question 2**—what could other parties, including Advisory Council members' organisations, do to promote and support the Practice Statement, leveraging the broader IFRS network?

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