STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative: Materiality**		
Paper topic	Prior period information		
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Purpose of this paper

1. This paper considers the comments received on the Practice Statement ED and should be read together with Agenda Paper 11 *Cover paper*. It asks the Board whether members want to change the final *Practice Statement* in the light of comments relating to the application of materiality to prior period[1] information provided in current period financial statements.

2. The Board discussed this issue during its October 2016 meeting[2] and asked the staff to provide further analysis. In particular the Board asked the staff to analyse the possibility of providing guidance on the application of materiality to previous period information without distinguishing between the 'comparative financial statements' and the 'corresponding figures' approaches to prior period information.

3. The 'Guidance proposed in the Practice Statement ED' and 'Summary of feedback' sections of this paper include a summary of the content discussed at the October 2016 Board meeting. The complete content can be found in Agenda Paper 11G *Comparative versus corresponding approach and conflicts with local regulations* from October 2016.

[1] In this paper, 'prior period' should be read as 'prior periods' if financial statements include amounts and disclosures for more than one prior period.

[2] See Agenda Paper 11G *Comparative versus corresponding approach and conflicts with local regulations* presented to the Board in October 2016.

Guidance proposed in the Practice Statement ED

4. The Practice Statement ED provided some guidance and examples on how to apply materiality to prior period information. In particular it emphasised that information included in the prior period financial statements does not need to be repeated with the same level of detail in the current period financial statements if it is not material to the current period financial statements (paragraph 54 of the Practice Statement ED).

5. The Practice Statement ED did not describe, nor discuss the difference, between the 'comparative financial statements' approach and the 'corresponding figures' approach to prior period information. These two approaches can result in a different amount of prior period information included in the current period financial statements (and also in different auditor reporting responsibilities in respect of prior period information). Which of those two approaches is applied is often specified by law or regulation but may also be specified in the terms of the audit engagement.

Summary of the feedback

6. Respondents generally requested more practical guidance on how to apply materiality to prior period information. In particular they asked the Board to address situations in which information not included in the prior period financial statements is material to an understanding of the current period financial statements.

7. Finally, some audit firms, as well as the International Organization of Securities Commissions (IOSCO), commented on the consequences of the guidance for audit. They noted that the guidance in the Practice Statement ED 'may be unworkable with existing audit requirements since the approach being suggested appears to be more aligned with the "corresponding figures" approach discussed in ISA 710' (IOSCO, CL95[3]). Therefore some suggested that 'consideration is

[3] The reference CLxx, used throughout the paper, refers to the ID number assigned to the comment letter. The comment letters can be found on the IFRS Foundation website: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Exposure-Draft-October-2015/Pages/Comment-letter.aspx.

given to different approaches used in different jurisdictions (ie comparative financial information vs corresponding figures approach as defined in auditing literature)' (KPMG CL69).

8. We received similar feedback from some members and staff of the International Auditing and Assurance Standards Board (the IAASB) when we met with them informally to discuss the content of the Practice Statement ED.

Staff analysis

9. IFRS Standards require an entity to present information in respect of the preceding period for all amounts reported in the current period's financial statements[4] (see paragraph 38 of IAS 1 *Presentation of Financial Statements*). Moreover, an entity is required to include prior period information 'for narrative and descriptive information if it is *relevant to understanding the current period's financial statements*' [emphasis added] (paragraph 38 of IAS 1).

10. These requirements specify the 'minimum comparative information' demanded under IFRS Standards. In *Annual Improvements 2009-2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the requirements for providing comparative information and also specified that 'an entity may present comparative information in addition to the minimum comparative information required by IFRSs, as long as that information is prepared in accordance with IFRSs' (paragraph 38C of IAS 1).

11. We understand that the guidance on prior period information to include in the current period financial statements might be interpreted differently by entities depending on whether they apply a 'corresponding figures' approach or a 'comparative financial statements' approach to prior period information.

12. The two approaches are not defined in nor described by the IFRS Standards. The auditing literature (eg the International Standards on Auditing (ISAs)) describes the main differences between the two as follows:

[4] Except when IFRS Standards permit or require otherwise.

(a) according to paragraph 6 of the ISA 710, in a 'corresponding figures' approach the amount of prior period information an entity needs to provide in the current financial statements is dictated primarily by its relevance to the current period figures;

(b) the same paragraph of ISA 710 states that in a 'comparative financial statements' approach the amount of prior period information an entity needs to provide in the current financial statements is comparable with that of the financial statements of the current period; and

(c) according to paragraph 3 of the ISA 710, while in a 'corresponding figures' approach the auditor's opinion on the financial statements refers to the current period only (paragraph 3(a) of the ISA 710), in a 'comparative financial statements' approach the auditor's opinion refers to each period for which financial statements are presented (paragraph 3(b) of ISA 710).

13. At the October 2016 meeting Board members asked us to avoid providing, in a non-mandatory Practice Statement, an *interpretation* of whether the 'comparative information' mandatory requirements contained in IAS 1 reflect a 'corresponding figures' approach or a 'comparative financial statements' approach.

14. Nevertheless, we believe that it is important that the Board provides guidance on how to apply materiality to prior period information in the final *Practice Statement* to meet the objective of the Materiality project. According to the Basis for Conclusions on the Practice Statement ED, the guidance on materiality is

> … expected to help to influence positive changes in behavioural issues (…) [and] encourage management to exercise judgement to a greater extent when determining what information to include or not to include in financial statements. It is hoped that such exercise of judgement will contribute to a reduction in the amount of boilerplate disclosures and redundant information and an increase in the quality and accessibility of information in the financial statements (paragraph BC24 of the Basis for Conclusions on the Practice Statement ED).

15. In our opinion addressing the application of materiality to prior period information will help meet these objectives. Therefore, we further discussed the main characteristics of the different approaches to prior period information with some of the respondents and developed a recommendation for guidance on the application of materiality to prior period information compatible with both approaches.

Including additional prior period information

16. The requirement in paragraph 38 of IAS 1 to include the prior period information needed to understand the current period financial statements is not conditional on whether that prior period information was included in the prior period financial statements. Consequently the inclusion of prior period information not previously presented or disclosed would be required if this is necessary to understand the current period financial statements.

17. For example, consider an entity for which there has been a material change (increase) in provisions during the current period. To allow a proper understanding of the current period financial statements an entity might need to provide a greater disaggregation of its prior period provisions balance in order to match the level of disaggregation needed for the current period.

18. The following example illustrates another circumstance when additional prior period information could be required in the current period financial statements:

> In the prior period, an entity had outstanding an immaterial amount of debt. Information about this debt was appropriately assessed as immaterial in the prior period, and so the entity did not disclose any maturity analysis showing the remaining contractual maturities or other disclosures that would otherwise be required by paragraph 39(a) of IFRS 7 *Financial Instruments: Disclosures*.
>
> In the current period the entity has issued a large amount of debt. The entity has appropriately concluded that it must include information about debt maturity, which it has presented in a table, in the current period financial statement. The entity might conclude that prior period information is also necessary; a short narrative description of the prior period immaterial balances could be sufficient rather than a full debt maturity table for the prior period amounts.

Summarising prior period information

19. IAS 1[5] requires an entity to consider what prior period information is needed in order to understand the current period financial statements. This could lead to the possibility of summarising prior period information provided that an entity retains the information necessary to understand the current period financial statements.

20. One stakeholder we spoke to raised the prospect that a user may be reading the entity's financial statements for the first time and so sufficient prior period information would need to be included in order that such a user has sufficient background and context to understand the current period financial statements. We think that this could be an useful way to think about the materiality assessment of prior period information.

21. The following example illustrates the requirements of IAS 1 with respect to prior period information:

> An entity disclosed, in the prior period financial statements, details of a legal dispute which lead to the recognition in that period of a provision. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the entity disclosed in the prior period financial statements a detailed description of uncertainties about the amount and timing of possible outflows together with the major assumptions made concerning future events[6].
>
> In the current period most of the uncertainties have been resolved and, even though the legal dispute has not been settled, a court pronouncement confirmed the amount already recognised by the entity. On the basis of the requirements in IFRS Standards, in the current period the entity does not need to reproduce all of the information provided in the prior period financial statements. Because most of the uncertainties have been resolved, users of the financial statements for the current period would no longer need detailed information about those uncertainties. Instead information about those resolved uncertainties might be summarised and updated according to the current period circumstances and events.

[5] See paragraph 38 of IAS 1.

[6] See paragraph 85 of IAS 37.

22. We commented in paragraphs 7 and 8 of this paper that some stakeholders had highlighted that some jurisdictions have specific legal, regulatory or audit requirements in respect of the extent of prior period information to be included in financial statements. We heard concerns that some might conclude that the guidance in the Practice Statement ED could override those jurisdictional requirements.

23. We would expect that an entity would provide sufficient prior period information in order to comply with local requirements. Furthermore we note that paragraph 38C of IAS 1 contemplates the inclusion of additional prior period information in the financial statements provided that it is prepared in accordance with IFRS Standards.

24. We also note that paragraph 30A of IAS 1 requires that additional information does not obscure information that is material according to IFRS Standards. Some stakeholders asked whether the provision of prior period information at the same level of detail as is given for the current period financial statements could be seen as obscuring current period information. We would not expect that such prior period information would obscure current period information.

Staff recommendation

25. We recommend that the Board states, in the final *Practice Statement*, that the assessment of whether to provide prior period information should be made on the basis of its relevance to understanding the current period financial statements, as required by IAS 1.

26. Accordingly, we recommend that the Board includes in the final *Practice Statement* guidance to clarify that prior period information which is material to the current period (ie is needed in order to understand the current period financial statements) should be included, together with all the details needed to understand the current period financial statements.

27. Consequently an entity:

    (a) should include prior period information that was not included in the prior period financial statements, if this is needed to understand the current period financial statements; and

    (b) need not automatically reproduce prior period information in the current period financial statements but should instead assess to what extent that information is needed to understand the current period financial statements.

28. Finally, we recommend the Board also acknowledges, in the final *Practice Statement*, that an entity might choose, or be required, to include additional prior period information—additional to that required by IAS 1. In these circumstances IFRS Standards do not prohibit the disclosure of additional information, but require that such information is prepared in accordance with IFRS Standards and does not obscure information that is material according to IFRS Standards.

Questions for the Board

Question 1—'corresponding figures' approach versus 'comparative financial statements' approach

Do you agree that, in the final *Practice Statement*, the Board should not describe or acknowledge the existence of two different approaches to prior period information, being the 'corresponding figures' and 'comparative financial statements' approach?

Question 2—guidance on prior period information

Do you agree that the final *Practice Statement* should state that the assessment of whether to provide prior period information should be made on the basis of its relevance to understanding the current period financial statements, in line with IAS 1 requirements?

Question 3—prior period information additional to that required by IAS 1

Do you agree that, in the final *Practice Statement*, the Board should acknowledge that an entity might choose, or be required, to include additional prior period information and that, in these circumstances, IFRS Standards do not prohibit the disclosure of additional information, but require that such information is prepared in accordance with IFRS Standards and does not obscure information that is material according to IFRS Standards?