

Disclosures

Applying materiality

10 November 2015



“The proposals seek to drive behavioural change by empowering management to apply the concept of materiality when judging which disclosures are relevant to users and which are not. But it remains to be seen how effective they will be.”

Gabriela Kegalj
KPMG’s global IFRS presentation
deputy leader

Proposals aim to help management apply materiality concept to IFRS financial statements

Highlights

- What’s the issue – Management are often uncertain about how to apply the concept of materiality
- Materiality acts as a filter – Helps management to sift relevant and irrelevant information
- Applying judgement is key – Understand range of factors including user needs
- Next steps – Use the guidance to evaluate your disclosures

Making financial statement disclosures more relevant and less boilerplate is one of the IASB’s key focus areas. New [proposals on applying materiality](#) are the latest step in the Board’s [disclosure initiative](#).

The new guidance complements [Amendments to IAS 1 Presentation of Financial Statements](#) – the first step in the disclosure initiative – which clarified that companies need not apply a specific disclosure requirement in IFRS if the related information is not material.

It also arrives at a time when capital market [regulators](#) are focusing more closely on the quality of financial statement disclosures.

Materiality as a filter

Applying the concept of materiality enables management to sift information that is relevant to users of financial statements from information that is not.

However, management are often uncertain about how to apply the concept of materiality, and so defer to using the disclosure requirements within IFRS as a checklist.

Judgement is key

Deciding what information is material is a matter of judgement – not a compliance exercise – and depends on a range of factors.

The proposed guidance should help management to become more confident in exercising their judgement. To be effective, they need to strike the right balance by providing relevant information that is specific to their circumstances.

Guidance on key challenges

The practice statement provides guidance on the key challenges encountered when applying the materiality concept.

Key challenges	Guidance
Tendency to focus on quantitative aspects	– How to factor qualitative factors into the materiality assessment
Deciding how to present or disclose information	<ul style="list-style-type: none"> – When to aggregate and disaggregate information – Whether to include information in the primary financial statements or the notes – How to deal with immaterial information
Assessing whether omissions and misstatements of information are material	<ul style="list-style-type: none"> – Current period and prior period misstatements – Intentional misstatements

Voluntary application

As the guidance would be issued as a practice statement, application would be voluntary unless specifically required in a jurisdiction.

Next steps

Read our [comment letter](#). For more information read the [IASB press release](#) or speak to your usual KPMG contact.

Visit our [IFRS – Disclosures](#) hot topics page for our latest insights on making financial statement disclosures clear and relevant.

Visual guide

Disclosure initiative

Status and key objectives of projects

February 2016



Completed

Amendments to IAS 1 *Presentation of Financial Statements*

Encouraging management to apply professional judgement in determining what information to disclose in their financial statements.
Effective 1 January 2016.

Amendments to IAS 7 *Statement of Cash Flows*

Requiring new disclosures that help users to evaluate changes in liabilities arising from financing activities.
Effective 1 January 2017.



Published

Draft practice statement *Application of Materiality to Financial Statements*

Facilitating management's judgements on applying the materiality concept to the financial statements. It builds on the *Amendments to IAS 1*.



In progress

Principles of Disclosure (PoD)

Identifying and developing a set of principles for disclosure in IFRS that could form the basis of a standards-level project.
Discussion paper due in Q2 2016.

Standards level review of disclosures

Reviewing disclosures in existing IFRSs to identify targeted improvements and to develop a drafting guide; informed by the PoD project.

Proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Clarifying the definitions of a change in accounting policy and a change in accounting estimate.

 Implementation project

 Research project