

Disclosure Initiative

Principles of Disclosure Materiality Practice Statement

**Better Communication:
Seeing the wood for the trees:
role of disclosures?**

4 July 2017

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Agenda

- Background to the Disclosure Initiative
- Principles of Disclosure
 - Objectives of the project and Discussion Paper
 - Disclosure issues and proposed approaches to address them
 - Expected project timetable
- Materiality Practice Statement

Background to the Disclosure Initiative

Central theme of the Board's work

Better Communication in Financial Reporting

Disclosure Initiative

Primary Financial Statements

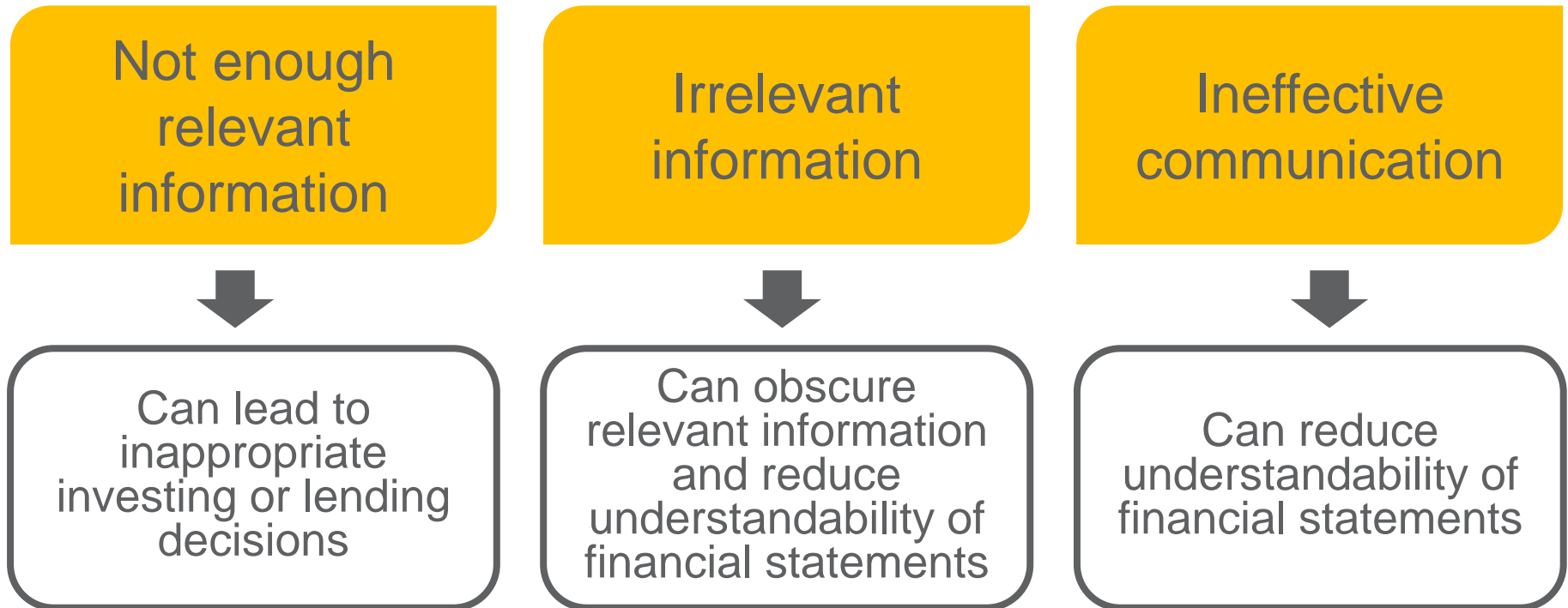
IFRS Taxonomy™

Content and its organisation

Content delivery

Disclosure Initiative—the disclosure problem

The Board has identified three main concerns about disclosures in the financial statements:



Disclosure Initiative

Completed projects

Materiality implementation projects

Research projects

Amendments to IAS 1 to remove barriers to application of judgement

Amendments to IAS 7 to improve disclosure of liabilities from financing activities

Materiality Practice Statement

Definition of material

Principles of Disclosure

Standards-level Review of Disclosures

Principles of Disclosure

*Objectives of the project and
Discussion Paper*

Objective of the project

- Request to develop **disclosure principles** that apply across IFRS Standards

Help entities apply judgement and communicate effectively

Help users by improving disclosures

Help the Board improve disclosure requirements

Ultimate goal:

- New general disclosure standard or amendments to IAS 1 *Presentation of Financial Statements*
- Possibly with supporting guidance/education material

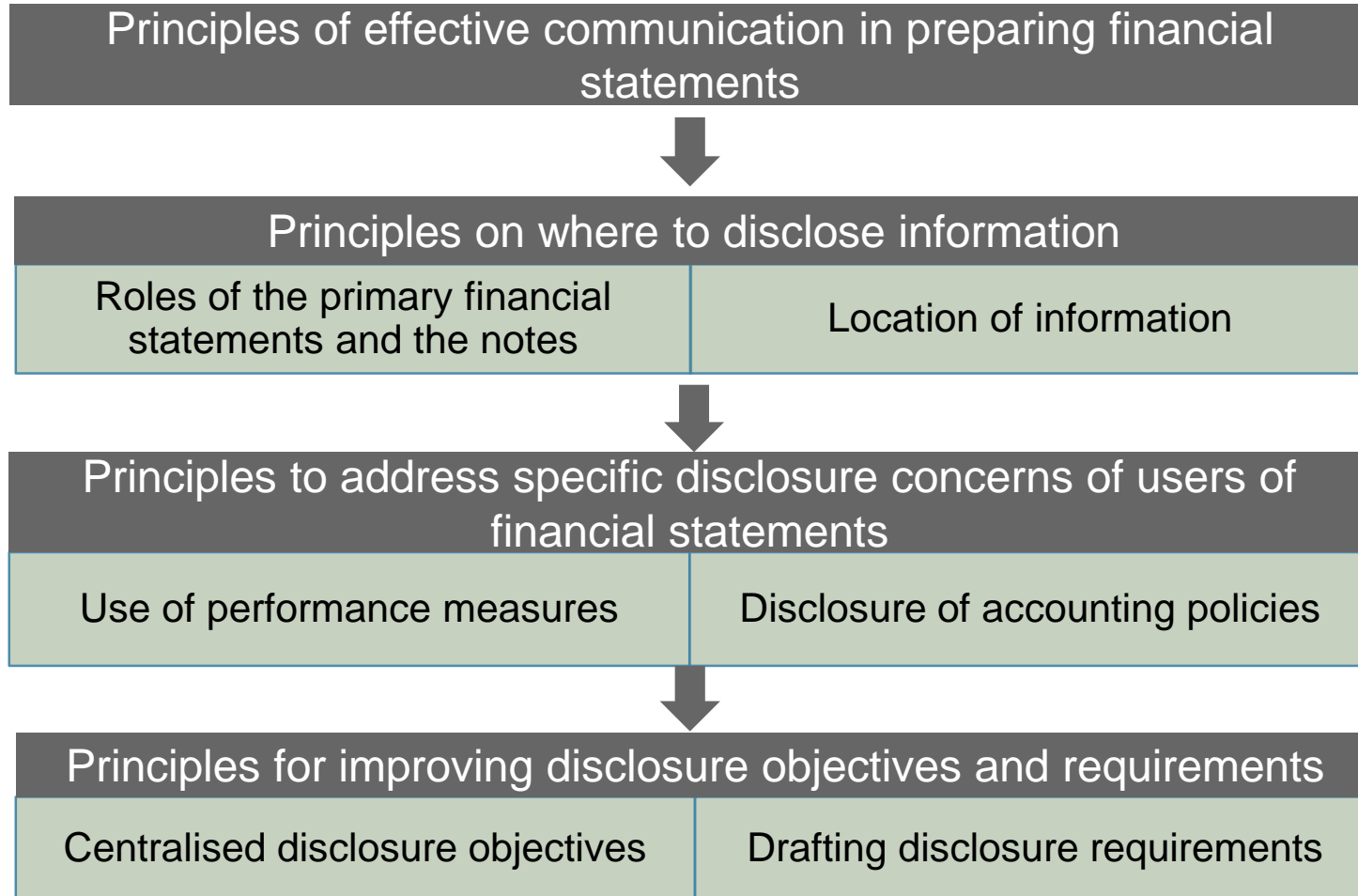
Objective of the Discussion Paper

- Seek **feedback** on

Approaches to address identified disclosure issues

Whether there are other disclosure issues to consider

Outline of Discussion Paper

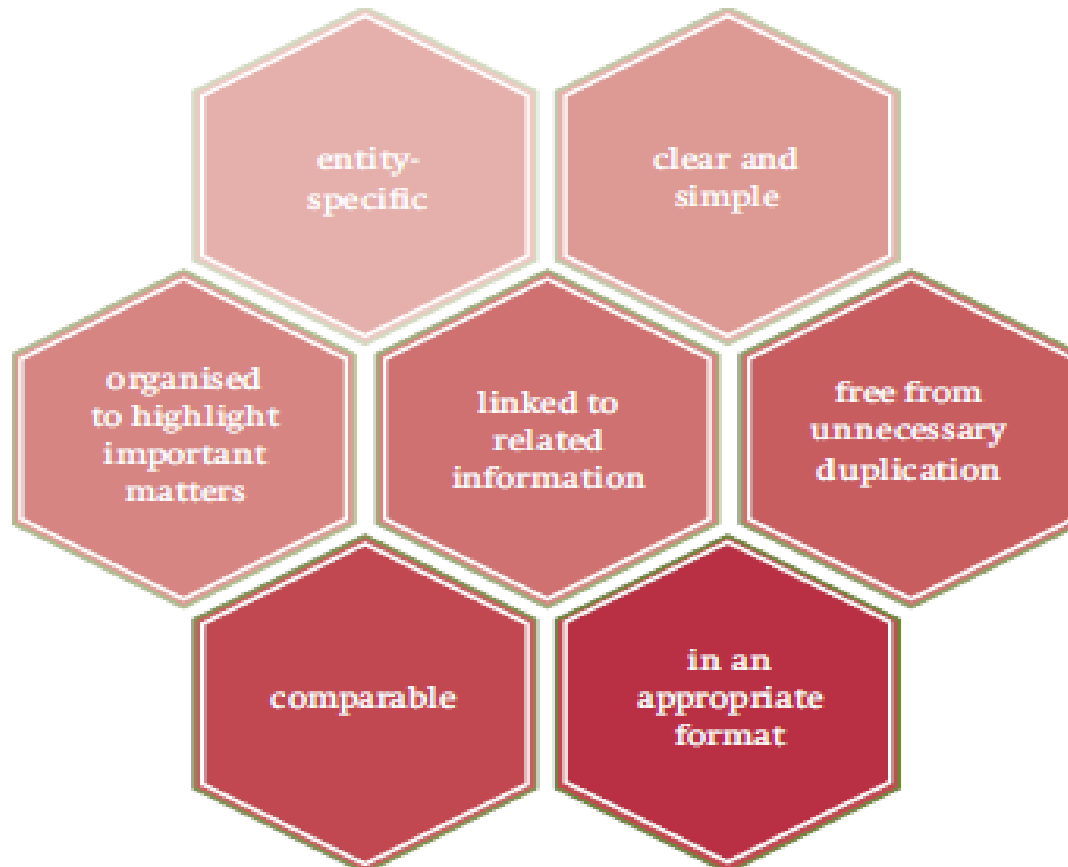


Principles of Disclosure

Disclosure issues and proposed approaches to address them

Principles of effective communication

- Ineffective communication can make financial statements difficult to understand and analyse
- Information in financial statements should be:

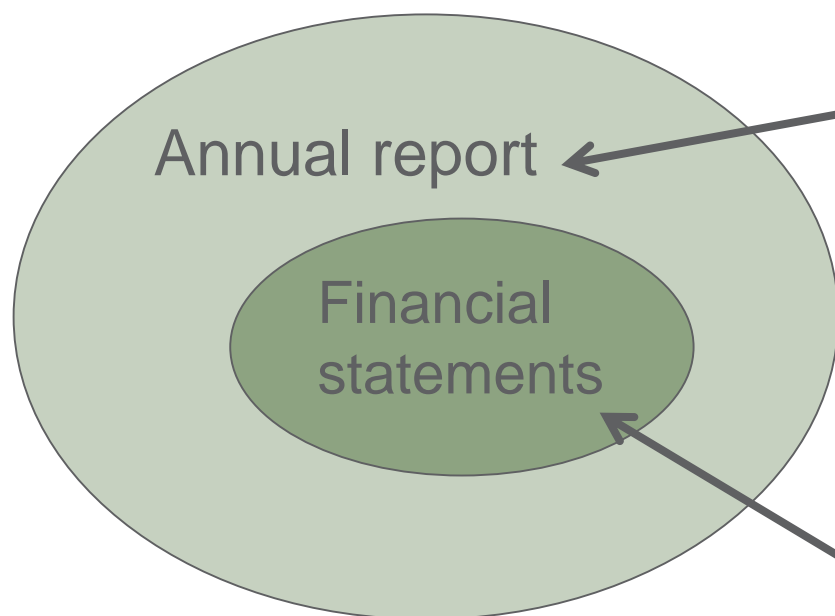


Roles of primary financial statements and notes

- Should information be provided in the primary financial statements or the notes?

Component of financial statements	Role
Primary financial statements are statements of: <ul style="list-style-type: none">• financial position• financial performance• changes in equity• cash flows	To provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses
Notes	To explain and supplement the primary financial statements

- Duplication and fragmentation can make financial statements less understandable and difficult to analyse



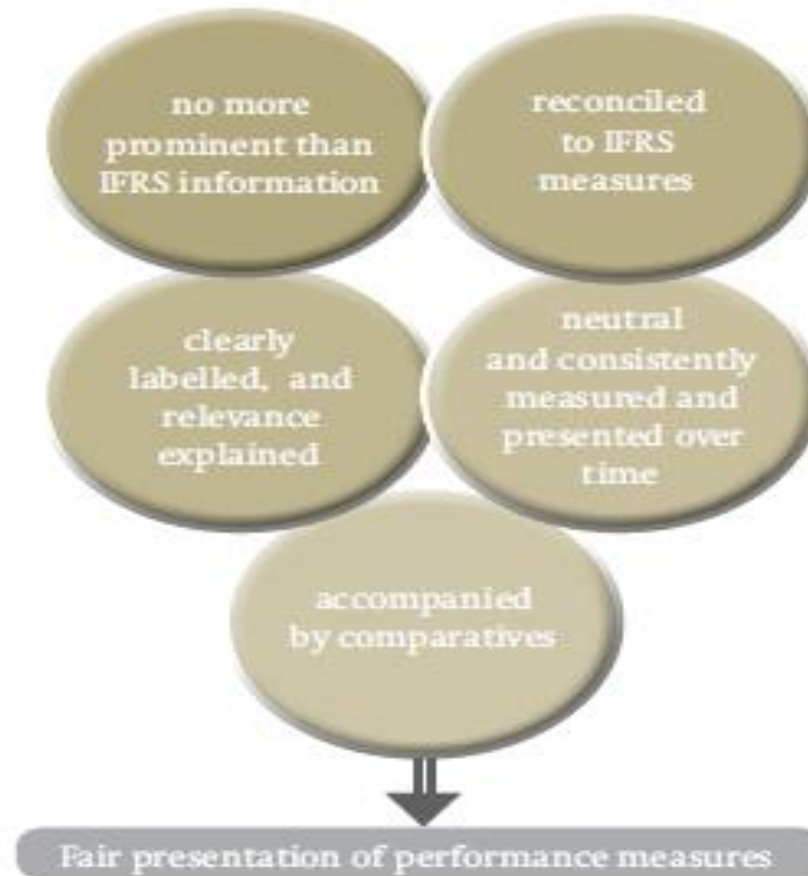
Information necessary to comply with IFRS Standards may be **placed outside financial statements**, but within annual report if

- annual report more understandable
- financial statements understandable
- information is faithfully represented, cross-referenced and clearly identified

Information labelled as 'non-IFRS' may be **placed within the financial statements** if listed, clearly identified and explained

Use of performance measures

- Can provide useful information if used correctly
- Can be misleading if used incorrectly
- Use of performance measures should be:



Disclosure of accounting policies

- Users commonly **express concerns** about ineffective disclosure of accounting policies
- Guidance could:

Clarify which accounting policies are necessary for understanding the financial statements

Explain how to better organise and locate accounting policies and significant judgements and assumptions

Disclosure objectives and requirements

Problems

Some Standards lack clear disclosure objectives

Prescriptive disclosure requirements

Some inconsistencies and unclear relationships between disclosures requirements

Possible approaches

Central set of disclosure objectives as a basis for more unified disclosure objectives and requirements

Approach developed by the NZASB staff for drafting disclosure objectives and requirements in Standards

Objectives (standard-level)

Overall disclosure objective

Disclosure subobjectives

Disclosure requirements

Tier 1—Summary information

Tier 2—Additional information
(if necessary)

The approach:

- emphasises the use of judgement, and
- uses less prescriptive language

Principles of Disclosure

Expected project timetable

Expected project timetable



Feedback on Discussion Paper will also inform

- Primary Financial Statements project
- Standards-level Review of Disclosures project

Materiality Practice Statement

IFRS Practice Statement *Making Materiality Judgements*



Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples

Objective



Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards

Form of the guidance



The Practice Statement does not change any existing requirements* nor introduce any new requirements; it is a non-mandatory document developed by the Board

* The forthcoming *Definition of Material* ED proposes aligning the definitions of material in IFRS Standards and refining them by incorporating concepts currently described elsewhere in IFRS Standards.

Definition of 'material'

'take into account how users ... could *reasonably* be expected to be influenced'
(IAS 1.7)

'An entity shall not reduce understandability by obscuring material information'
(IAS 1.30A)

'Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information'
(*Conceptual Framework*)

In the Practice Statement

Also proposed in the forthcoming
Definition of Material ED

Why are we issuing guidance?



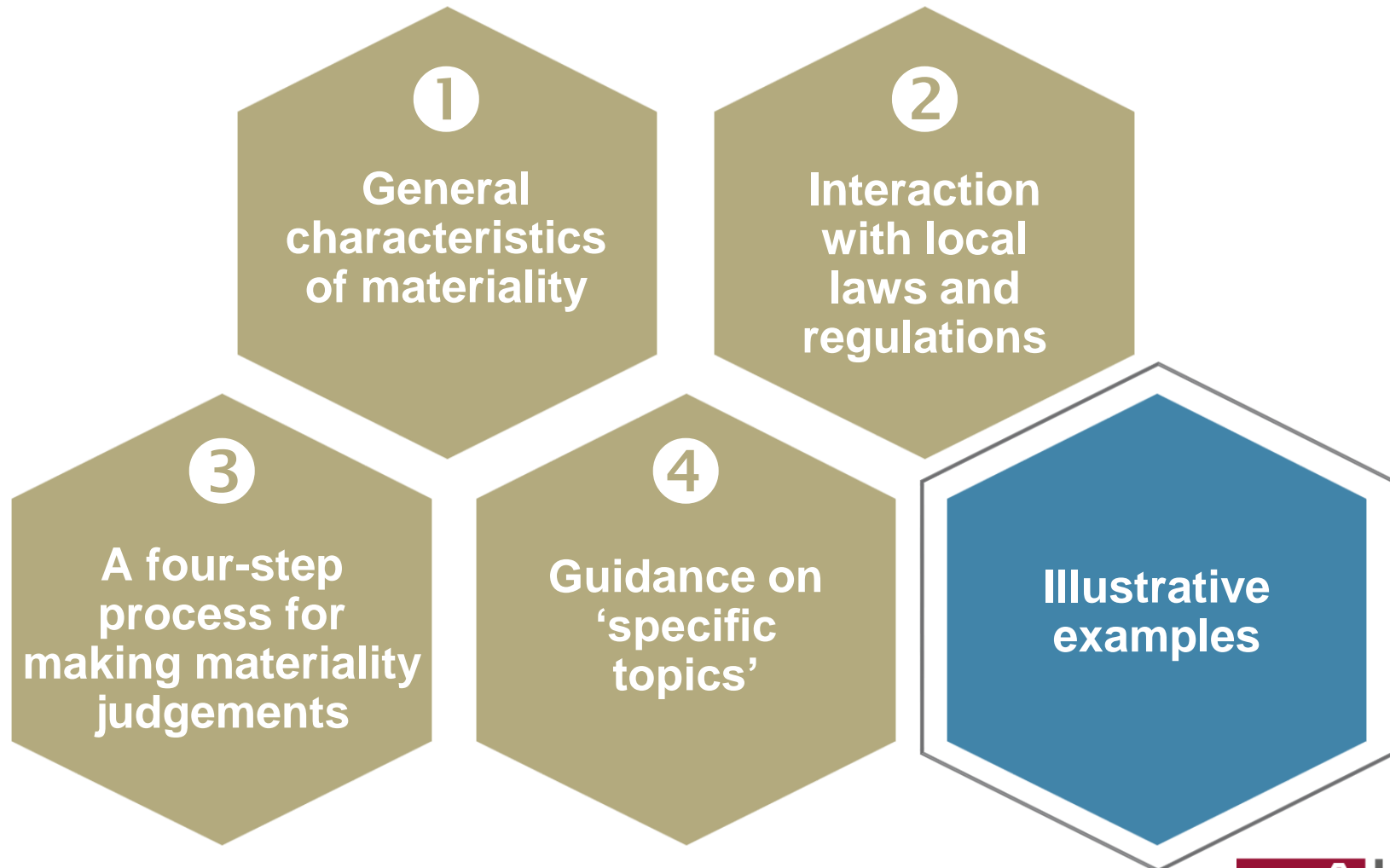
Some use IFRS disclosure requirements as a checklist

To reinforce the role of materiality and support the exercise of judgement

This contributes to a disclosure problem—
too much irrelevant information and
not enough relevant information

Higher quality disclosures—
reduction in boilerplate disclosure
and easier access to information

Content of the Practice Statement



① General characteristics

② Local laws and regulations

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The concept of materiality is **pervasive**.
Requirements in IFRS Standards **only** need to be **applied** if their **effect is material**.

Primary users to be considered when making materiality judgements are existing and potential investors, lenders and other creditors.

Aim to meet the **common information needs** of the primary users.

Assess whether information is material to the financial statements regardless of whether such information is **publicly available** from other sources.

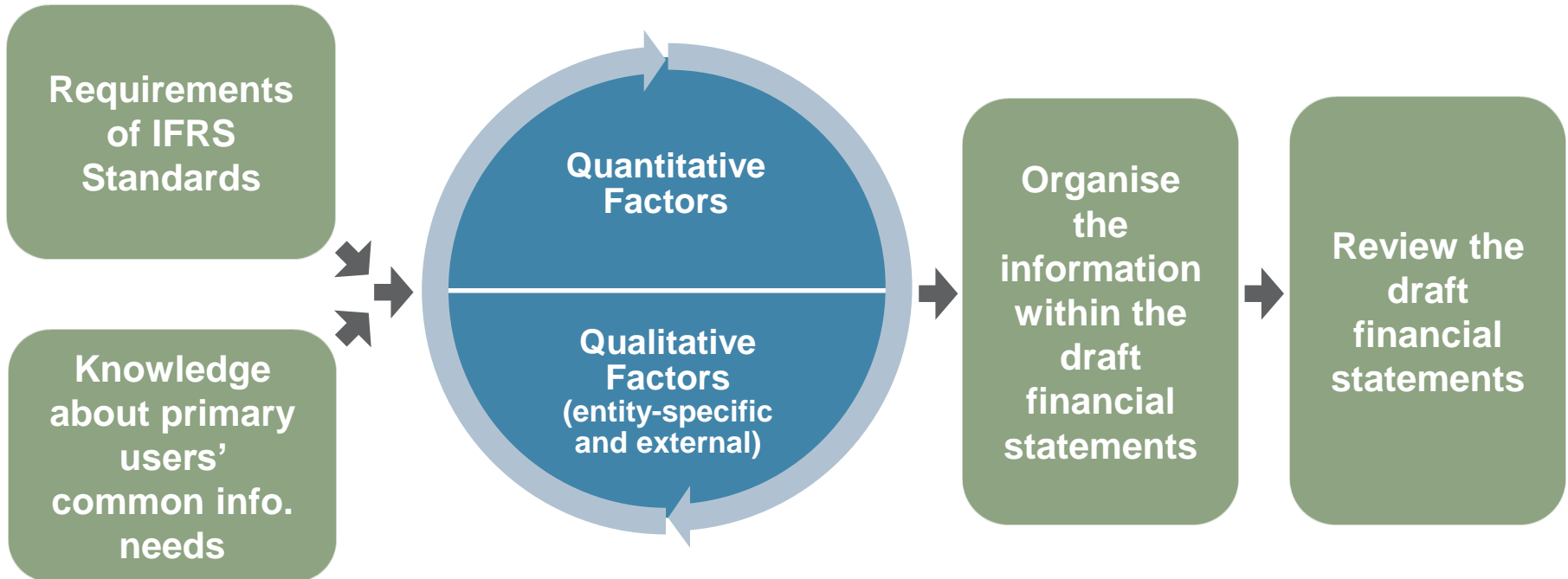
Financial statements **must comply** with **requirements in IFRS Standards**, including requirements related to materiality, to state compliance with those Standards.

An entity **cannot provide less information** than required by IFRS Standards, even if local laws and regulations permit or require otherwise.

Providing additional information to meet local legal or regulatory requirements **is permitted** by IFRS Standards.

Such information must **not obscure** material information.

③ A four-step materiality process



④ Specific topics

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Prior period information

Prior period information required depends on whether that information is **necessary to understand** the current year financial statements.

Errors

Assess whether an error is material applying the **same considerations** outlined in the materiality process.

Covenants

How an entity assesses the materiality of **information about covenants?**

Does the entity **considers the existence of a covenant** when making materiality judgements **about other information** included in financial statements?

Interim reporting

Same materiality factors as in the annual assessment, taking into consideration that the **time period** and the **purpose** of an interim financial report differ from those of the annual financial statements.

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