

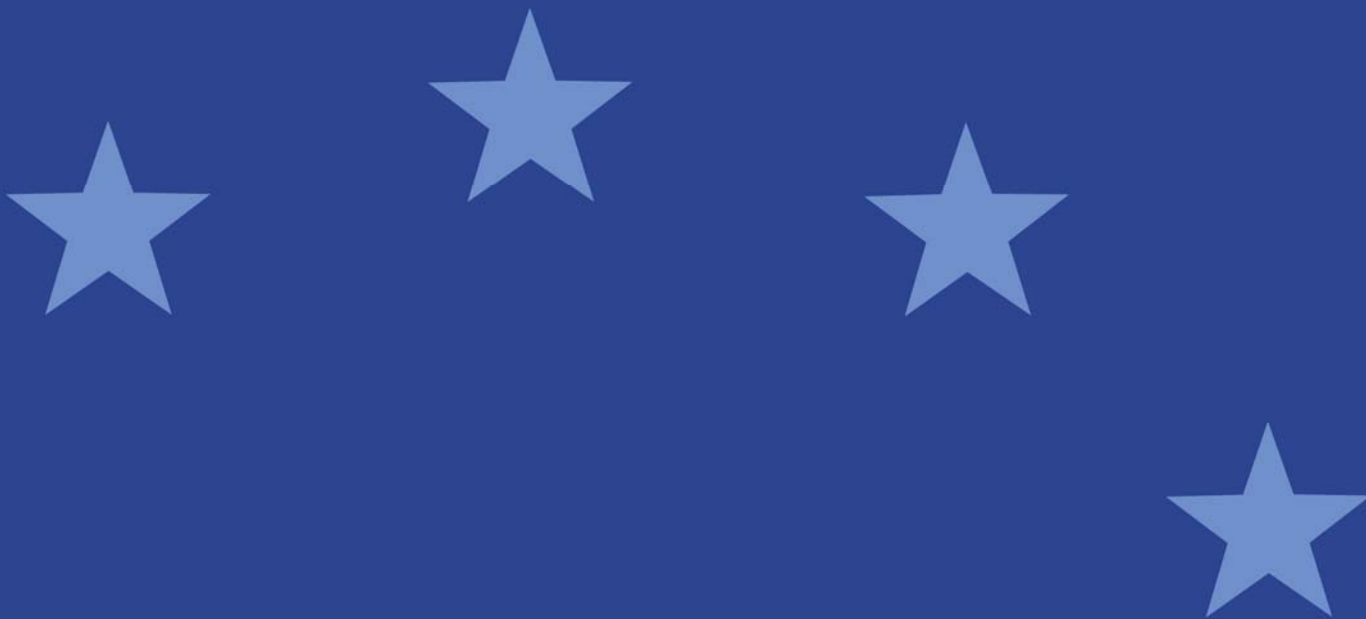


European Securities and  
Markets Authority

2. Sitzung IFRS-FA vom 14.02.2012  
02\_09b\_IFRS-FA\_MaterialityESMA

# Consultation Paper

Considerations of materiality in financial reporting



## **Responding to this paper**

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- indicate the specific question to which the comment relates;
- respond to the question stated;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

Comments should reach us by 29 February 2012.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Consultations'.

### **Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

### **Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Disclaimer'.

### **Who should read this paper**

All interested parties are invited to comment on this consultation paper. It will be primarily of interest to those charged with the governance of issuers who prepare their financial statements under IFRS, the users of the financial reports prepared by same, the auditors of such entities, and other parties who have a particular interest in the concept of materiality and the application of same in an IFRS context.

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### **List of annexes to the paper**

Annex I:	Summary of questions
Annex II:	IFRS references to materiality and users of financial statements

### **List of abbreviations and acronyms used in this report**

EECS	European Enforcer Coordination Sessions
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretation Committee
ISA	International Standards on Auditing
EC	European Commission
EU	European Union

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## **Executive Summary**

The objective of financial statements is to provide information to a range of users for the purpose of economic decision making. To be useful, such statements must present fairly the financial position, performance and cash flows of the reporting entity. Where information which is required by the relevant financial reporting framework is omitted or misstated and such information could influence the economic decision-making of a user, financial statements cannot be said to achieve a fair presentation. The concept of '*materiality*' is used to describe such information.

A recurring theme of discussions at the European Enforcers Coordination Sessions (a forum in which all European National Enforcers of financial information meet to exchange views and discuss experiences of enforcement of IFRS) is the apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers. The purpose of this consultation paper is to seek comments from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application of this important concept in financial reporting.

## **Next steps**

ESMA will consider the feedback it received to this consultation paper in Q2 2012. Based on the outcome of the consultation paper, ESMA will go further and publish a final report later in 2012.

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## **I. Introduction**

1. Operating under the Corporate Reporting Standing Committee which is the operational ESMA group charged with accounting issues, the European Enforcers Coordination Sessions (EECS) is a forum in which all European National Enforcers of financial information meet to exchange views and discuss experiences of enforcement of application of IFRS in the financial statements.
2. European National Enforcers of financial information monitor and review financial statements and consider whether they comply with IFRS as endorsed in the European Union and other applicable reporting requirements, including relevant national law. A recurring theme of such discussions is the apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers.
3. The objective of this document is to provide a comprehensive overview of the IFRS literature referring to the concept of materiality and considerations regarding the role that materiality plays in judgments made as part of the preparation of IFRS financial statements. While this consultation paper objective is only to seek views on the concept of materiality, on the basis of answers that will be received, ESMA might consider the need of further developments in this area.
4. The objective of IFRS financial statements is to provide information to a range of users for the purpose of economic decision making. To be useful, such statements must present fairly the financial


position, performance and cash flows of the reporting entity. Where information which is required by the relevant financial reporting framework is omitted or misstated and such information could influence the economic decision-making of a user, financial statements cannot be said to achieve a fair presentation. The concept of 'materiality' is used to describe such information.

5. Thus, the application of the concept of materiality is of critical importance in the context of the preparation of financial statements. It impacts on many decisions such as how an entity should recognise, measure, and disclose specific transactions and information in the financial statements, whether misstatements require correction and whether assets and liabilities or items of income or expense should be separately presented.
6. The framework of enforcement activity was established by ESMA (at that time, CESR) by issuing two principles based standards: Standard No. 1 – Enforcement of standards on financial information in Europe (CESR/03-0731) and Standard No. 2 – Co-ordination of enforcement activities (CESR/03-317c2), accompanied by Guidance for implementation of co-ordination of enforcement of financial information (CESR/04-257b3). Principle 16 of Standard No. 1 states that

*'Where a material misstatement in the financial information is detected enforcers should take appropriate actions to achieve an appropriate disclosure and where relevant, public correction of misstatement (in line with the requirements of the reporting framework). Non-material departures from the reporting framework will not normally trigger public correction even though they normally deserve an action as well.'*

*'Materiality should be assessed according to the relevant reporting framework.'*

7. Considering the role and implication of materiality in financial reporting, the purpose of this consultation paper is to seek comments from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application of this important concept in financial reporting.
8. It should be noted that, in this paper, materiality is being looked at from the perspective of the preparation of financial statements under the IFRS accounting standard framework. It does not look at it from the audit perspective although it is noted in the paper that definition of materiality in auditing standards may be different to that in IFRS (paragraph 18 of this paper). Equally it does not take into account legal requirements in individual countries or any court case decisions on materiality as these are specific to the jurisdiction and the individual circumstances.

**Q1: Do you think that the concept of materiality is clearly and consistently understood and applied in practise by preparers, auditors, users and accounting enforcers or do you feel more clarification is required?** 

**Q2: Do you think ESMA should issue guidance in this regard?** 

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<sup>1</sup> <http://www.esma.europa.eu/popup2.php?id=192>

<sup>2</sup> <http://www.esma.europa.eu/popup2.php?id=2046>

<sup>3</sup> <http://www.esma.europa.eu/popup2.php?id=2557>

## II. IFRS provisions

9. Reflecting its importance to the financial reporting process, IFRS make several references to the application of the concept of materiality including the following:

a. the term '*material*' is defined as follows:

*'Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.'* (IAS<sup>4</sup> 1 – *Presentation of Financial Statements*, paragraph 7 and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 5<sup>5</sup>);

b. materiality is entity-specific, to be judged in the context of an entity's financial report, and IFRS cannot specify a uniform quantitative threshold (Framework<sup>6</sup>, paragraph QC11, BC 3.18);

c. materiality is an aspect of relevance because immaterial information does not affect a user's decision (Framework, paragraph BC3.18);

d. material classes of similar items are presented separately, while items of a dissimilar nature or function are presented separately unless immaterial (IAS 1, paragraph 29);

e. items which are not sufficiently material to warrant separate presentation in the financial statements may warrant separate presentation in the notes (IAS 1, paragraph 30);

f. specific IFRS disclosures are not required where the information is not material (IAS 1, paragraph 31);

g. accounting policies set out in IFRS do not need to be applied where the effect of applying them is immaterial (IAS 8, paragraph 8);

h. it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity's financial position, financial performance or cash flows (IAS 8, paragraph 8);

i. financial statements do not comply with IFRS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows (IAS 8, paragraph 41); and

j. in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data (IAS 34 – *Interim Financial Reporting*, paragraph 23).

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<sup>5</sup> Versions applicable as at July, 2010


<sup>6</sup> *Conceptual Framework for Financial Reporting*, issued by the IASB in September, 2010

The full text of all references to the application of the concept of materiality contained in IFRS literature is contained in Annex II.

10. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions<sup>7</sup>.
11. An assessment of materiality requires an understanding of the characteristics of the users of the financial statements of an entity<sup>8</sup>, the attributes of the information required by those users, the purpose of the information being disclosed<sup>11</sup> as well as other matters outlined in this Paper.

### III. Characteristics of Primary Users and the Objective of Financial Reports

12. Based on the definition of materiality as outlined above, the primary consideration in determining whether an item is material is whether its omission or misstatement could influence the economic decisions that users make. The emphasis on providing information to users of financial statements is contained in individual standards as outlined in Annex 2 and elsewhere in this Paper.
13. Since the assessment of materiality requires evaluation of whether particular information could influence users' decisions, an understanding of the type of users of an entity's financial statements and the kind of decisions they make is necessary. The Framework notes that 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 (who are termed the '*primary users*' of financial statements<sup>9</sup>) in making decisions about providing resources to the entity<sup>10</sup>. The Framework also acknowledges that other parties, such as regulators and members of the public may also find general purpose financial reports useful<sup>11</sup>. However, it is also noted that the Framework states that financial reports are not primarily directed to those other parties<sup>12</sup>.
14. The foregoing definition of materiality in IAS 1 paragraph 7 puts emphasis on whether an item 'could influence the economic decisions that users make'. The stated objective of general purpose financial reporting in the Framework is to provide useful information to aid user decision making about 'providing resources to the entity'.

**Q3: In your opinion, are 'economic decisions made by users' the same as users making 'decisions about providing resources to the entity'? Please explain your rationale and if possible provide examples.** 

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<sup>7</sup> Paragraph 9 of IAS 1 *Presentation of Financial Statements*

<sup>8</sup> Paragraph 7 of IAS 1 *Presentation of Financial Statements*

<sup>9</sup> OB5 of *The Conceptual Framework for Financial Reporting 2010*

<sup>10</sup> OB2 of *The Conceptual Framework for Financial Reporting 2010*

<sup>11</sup> Paragraphs OB9, OB10 of *The Conceptual Framework for Financial Reporting 2010*

<sup>12</sup> Paragraphs OB9, OB10 of *The Conceptual Framework for Financial Reporting 2010*

15. The primary users of financial statements 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<sup>13</sup>. Nonetheless it is obvious that the information contained in the financial statements is useful to a wider user group than just those primary users identified above. There are many stakeholders with an interest in an entity's financial reports, including (but not limited to) existing and potential investors, employees, lenders, suppliers, customers, regulators and other Government agencies and the public. IFRS requires financial statements to present fairly the financial position, financial performance and cash flows of an entity and the application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation<sup>14</sup>. It is assumed that all users of financial statements are interested in whether the financial statements achieve a fair presentation and the presumption is that financial statements will comply with the accounting standards.
16. The types of decisions that primary users make and the kind of information that may be relevant to those decisions also require consideration in the context of the evaluation of an omission or misstatement. 'Relevant information' is that which is capable of making a difference in the decisions made by users<sup>15</sup>. For example, financial statements could normally be expected to provide information that is relevant for primary users in decisions regarding:
- a. whether to decide to buy, hold or sell of an entity's equity and debt instruments (existing and potential investors)<sup>16</sup>;
  - b. whether to provide and settle loans and other forms of credit (existing and potential lenders and other creditors)<sup>23</sup>;
  - c. the ability of the entity to provide remuneration and retirement benefits (present and past employees<sup>17</sup>);
  - d. whether amounts owed are likely to be paid and whether to continue to supply goods and/or services to the entity (existing and potential creditors and present employees<sup>18</sup>); and
  - e. the entity's compliance with certain regulatory requirements (existing and potential investors, lenders and other creditors).
17. For most of these decisions the financial statements should support the primary users to help them assess the prospects for future net cash inflows to an entity<sup>19</sup>.
18. However, when taking an economic decision, primary users may also study information in financial reports to assist in their evaluation of the stewardship and accountability of those entrusted to manage the entity<sup>20</sup>. That evaluation will entail a review of financial and non-financial information.

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<sup>13</sup> Paragraph OB4 of *The Conceptual Framework for Financial Reporting 2010*

<sup>14</sup> Paragraph 15 of IAS 1 *Presentation of Financial Statements*

<sup>15</sup> Paragraph OC6 of *The Conceptual Framework for Financial Reporting 2010*

<sup>16</sup> Paragraph OB2 of *The Conceptual Framework for Financial Reporting 2010*


<sup>17</sup> The retirement benefit obligation, in particular, could be categorised as a creditor to the entity and thus present or past employees are in the category of 'other creditors' in this regard and are thus primary users of the financial statements .

<sup>18</sup> Employees are also in the category of 'other creditors' with regard to unpaid payroll.


<sup>19</sup> Paragraph OB3 of *The Conceptual Framework for Financial Reporting 2010*


<sup>20</sup> Paragraphs OB4, BC1.24-BC1.28 of *The Conceptual Framework for Financial Reporting 2010*



**Q4: Is it your understanding that the primary user constituency of general purpose financial reports as defined by the IASB in paragraph 13 includes those users as outlined in paragraph 16 above? Please explain your rationale and if possible provide further examples** 

19. The assessment of materiality involves consideration of whether an omission or misstatement ‘... **could** ... influence the economic decisions that users make ...’ [bold emphasis added]. The information does not have to change a decision, but rather it must have the capacity to influence it. For example, having considered additional relevant information, a primary user may not alter a decision, although in different circumstances, such information could have changed the decision. Moreover, a particular piece of information may lend further support to information or trends already evident in the financial statements and thus reinforce the primary user’s decision. In light of the foregoing, in our opinion, IASB’s use of the word ‘could’ as opposed to, for example, ‘would’ implies a lower materiality threshold. It is also noted that the auditing standards, when referring to misstatements and omissions, uses the expression ‘could **reasonably be expected to** influence the economic decisions of users’<sup>21</sup> [bold emphasis added] which could also lead to a different assessment of materiality.

**Q5a: Do you agree that the IASB’s use of the word ‘could’ as opposed to, for example, ‘would’ implies a lower materiality threshold? Please explain your rationale in this regard.** 

**Q5b: In your opinion, could the inclusion of the expression ‘reasonably be expected to’ as per the Auditing Standards, lead to a different assessment of materiality for auditing purposes than that used for financial reporting purposes. Have you seen any instances of this in practice?** 

#### **IV. Attributes of the information**


20. Together with considerations about primary users’ decision-making needs, the assessment of whether information could influence the decision of a primary user will clearly depend on the attributes of the information concerned. The IASB definition of the term ‘material’ identifies the attributes of size and nature, and specifies that items should be judged in the surrounding circumstances of their omission or misstatement. In other words, both quantitative and qualitative factors are relevant to all materiality decisions.


21. Thus, while quantitative thresholds usually form part of a materiality assessment, the materiality of an item should not be determined solely by a simple quantitative comparison to primary statement totals such as profit for the period or statement of financial position totals. When considering a quantitative threshold in assessing materiality, the individual line item in the primary statement to which the item belongs should also be assessed when determining the materiality of the item in question. An overall materiality threshold applying across all transactions or balances cannot be defined numerically. This should result in different materiality thresholds being applied depending on the particular aspects of the financial statements.

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<sup>21</sup> For example, paragraphs 2 and 10 of ISA 320 – *Materiality in planning and performing an audit*

22. The nature of, and the circumstances surrounding, an item will vary and each entity must make an assessment according to its own particular circumstances and financial statements. Examples of common transactions and outcomes where materiality judgements are usually particularly sensitive, and thus where the adjudged materiality threshold may be lower, include, amongst others:
- a. breaches of legal and/or regulatory requirements;
  - b. transactions with related parties, including key management personnel's compensation;
  - c. an unusual or non-recurring transaction(s)/balance(s);
  - d. an error that results in a reversal of a trend - for example, a loss being turned into a profit or *vice versa*; and
  - e. an error that impacts on ratios or other metrics used to evaluate, for example, compliance with debt covenants.
23. An item that may not be material in one financial reporting period could become material in another and *vice versa*.

**Q6a: Do you agree that the quantitative analysis of the materiality of an item should not be determined solely by a simple quantitative comparison to primary statement totals such as profit for the period or statement of financial position totals and that the individual line item in the primary statement to which the item is included should be assessed when determining the materiality of the item in question? Please explain your rationale in this regard.** 

**Q6b: Do you agree that each of the examples provided in paragraph 21 a – e above constitute instances where the quantitative materiality threshold may be lower? Are there other instances which might be cited as examples? Please explain your rationale.** 

## **V. Errors, omissions and misstatements and aggregation**


24. *Uncorrected immaterial errors:* During the periodic financial reporting process, there is the potential for using materiality in order to achieve a particular presentation of an entity's financial position, financial performance or cash flows by intentionally leaving errors uncorrected on the grounds that they are not material. IFRS does not permit such departures to be left uncorrected, if they are used to achieve a particular presentation, even where they have been assessed by the entity as immaterial<sup>22</sup>.
25. *Aggregation of individually immaterial misstatements or omissions:* In the assessment of whether the financial statements are misstated, consideration should be given not only to individual departures but also to their aggregation. A number of departures which individually are considered immaterial when aggregated may mean that the financial statements are materially misstated.

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<sup>22</sup> Paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* refers

26. *Netting of misstatements:* The set-off of compensating error amounts does not necessarily render material misstatements immaterial, particularly where such items do not appear in the same line item or subtotal amount, or where they, on their own, would relate to transactions meriting separate disclosure.

27. *Effects of accumulated misstatements:* Accumulated misstatements have to be assessed based on their impact on each financial statement period and the related financial statement disclosure. An individual misstatement which was immaterial in the reporting period in which it occurred could become material when considered with other similar misstatements in other reporting periods.

**Q7: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions, including those that arose in earlier periods and are of continued applicability in the current period, in determining materiality decisions. Please explain your views in this regard.** 

**Q8: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions as referred to in paragraphs 23 to 26 above in determining materiality? Please explain your views in this regard and provide practical examples, if applicable.** 

## VII. Note disclosures

28. In accordance with paragraph 112 of IAS 1, the notes to the financial statements shall:

- (a) present information about the basis of preparation of the financial statements and the specific accounting policies used;
- (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
- (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

### VII.I. Accounting policies

20. An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements<sup>23</sup>. In this context a view could be taken that preparers of financial reports should carefully consider making disclosures regarding materiality judgments exercised in preparing financial reports with a view to providing the primary users with information that is relevant to the primary users' understanding of those financial reports.

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<sup>23</sup> Paragraph 122 of IAS 1 *Presentation of Financial Statements*

21. When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the specific IFRS. However, these policies need not be applied if the effect is immaterial<sup>24</sup>.
22. Primary users need to know which accounting policy choices have been applied in preparing the financial statements in order to be able to assist their decision making. For example, primary users of the financial statements need to know which specific measurement basis was chosen when measuring particular assets. Paragraph 75 of IAS 16 – *Property, Plant and Equipment*, for example, states that ‘*disclosure of the methods (to measure property, plant and equipment) and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities*’ Disclosures provided in accounting policies should be relevant to the entity and not boilerplate quotations from the accounting standard in question.
23. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material<sup>25</sup>.


**Q9a: Do you believe that an accounting policy disclosing the materiality judgments exercised by preparers should be provided in the financial statements?** 

**Q9b: If so, please provide an outline of the nature of such disclosures.**

**Q9c: In either case, please explain your rationale in this regard.** 

## VII.II. Component of line item disclosures

24. A sub-category of the notes to the financial statements are components of line items, such as breakdowns of line items into smaller categories, movement analyses or other related information about a line item.
25. The assessment of materiality in this context is also relevant to the presentation of these disclosures in the financial statements. An item may be sufficiently material to warrant disclosure on the face of a primary statement or alternatively may be disclosed by way of note. An entity should present additional line items, headings and subtotals in the primary statements when such presentation is relevant to a users’ understanding of those primary statements<sup>26</sup>.
26. The assessment of the materiality of component line item disclosures is generally connected to the assessment of the materiality of the line item in the financial statements. Accordingly, omitting required notes giving additional information about a material line item in the financial statements may be considered a misstatement.

**Q10: Do you agree that omitting required notes giving additional information about a material line item in the financial statements constitutes a misstatement? Please explain your rationale in this regard.** 

<sup>24</sup> Paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

<sup>25</sup> Paragraph 18 of IAS 1 *Presentation of Financial Statements*

<sup>26</sup> This is specifically required for the Statement of Financial Position and the Statement of Comprehensive Income (paragraphs 55 and 85 of IAS 1)

### VII.III. Notes providing supplementary information

27. Notes to the financial statements are required in order to provide information required by IFRS beyond that included in the primary statements. The notes also disclose information relevant to an understanding of those statements. An entity is also required to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable primary users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance<sup>27</sup>.
28. Examples<sup>28</sup> of supplementary information beyond that included in the primary statements include disclosures about:
- (a) judgements and reasons. These include all disclosures of judgements by management in the process of preparing the financial statements. Examples include, by exception, disclosure of material uncertainties in relation to the going concern basis of accounting;
  - (b) assumptions, models, and inputs. These include disclosures of information relevant to the measurement of items in the financial statements, such as possible ranges of values, discount rates, effective interest rates and growth rates. This information is relevant to primary users because it explains how the entity subjectively determined the amount reported in the financial statements;
  - (c) sensitivity analysis disclosures<sup>29</sup>. These are disclosures to enable primary users to understand the underlying measurement variability of an item in the financial statements. An example is value at risk disclosures or other types of sensitivity analyses; and
  - (d) disclosure of the fair value of an amount recorded in the balance sheet using another measurement basis, such as historical cost or amortized cost.<sup>30</sup> An example is the requirement to disclose the fair value of reclassified financial assets.
29. A number of notes do not relate directly to financial statement items but are nonetheless of significance for the overall assessment of the financial statements of a reporting entity. Examples include the disclosure of operating segments required by IFRS 8 – *Operating Segments* and related party disclosures required by IAS 24 – *Related Party Disclosures*. Another example is the risk disclosures required to be provided in the financial statements, including disclosures of the way in which the entity manages its risks. Indeed the introduction to IFRS 7 – *Financial Instruments: Disclosures* states that the IASB '*believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgements about risk and return.*'

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<sup>27</sup> Paragraph 17(c) of IAS 1 *Presentation of Financial Statements* refers


<sup>28</sup> These examples are based on those identified by the IAASB in paragraph 16 of their Discussion Paper entitled *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

<sup>29</sup> Paragraphs 125-133 of IAS 1 *Presentation of Financial Statements* refer

<sup>30</sup> Paragraphs 25-30 of IFRS 7 *Financial Instruments: Disclosures* refer

30. Omission of such material risk notes deprives primary users of material information about the undertaking and thus potentially impairs their understanding of the financial statements. To the extent that these notes relate to specific line items in the primary statements, the assessment of materiality of such note disclosure is generally determined by the assessment of the materiality of the line item in the financial statements. Primary users will always need to have a note describing how an entity is exposed to risk and how it manages such risk. This could even be the case where such risk is non-existent or reduced to an immaterial amount. This fact could be disclosed but in such a situation there is no need for more detailed disclosure about any remaining risk.

**Q11: Do you believe that in determining the materiality applying to notes which do not relate directly to financial statement items but are nonetheless of significance for the overall assessment of the financial statements of a reporting entity:**

- (a) the same considerations apply as in determining the materiality applying to items which relate directly to financial statement items; or** 
- (b) different considerations apply; and**
- (c) if different considerations apply, please outline those different considerations.**

### **VIII. Interim reports**

- 31. In accordance with paragraph 23 of IAS 34 the materiality assessment for interim financial reporting purposes shall be assessed in relation to the interim period financial data
- 32. While judgement is always required in assessing materiality, IAS 34 bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.
- 33. With regard to disclosures, paragraph 16A of IAS 34 specifies certain minimum information, if material, to be included in the explanatory notes to the condensed financial statements. In addition to disclosing this minimum information, entities are also required to include disclosures concerning any events or transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date<sup>31</sup>.

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<sup>31</sup> The following refer:

- IAS 34.15 - '..... An entity shall include.... an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period';
- IAS 34.15C – "When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period".

34. Where amounts in the interim report:

- (a) have changed materially vis-à-vis comparative figures; or
- (b) are unusual because of their nature, size or incidence,

an entity should, where necessary to ensure users' proper understanding, disclose additional information as required by IAS 34. Such additional information should be sufficient for the purpose of explaining the nature of the amount and/or the change in that amount from the comparative period.

**Q12: In your opinion, how would the materiality assessment as it applies to interim financial reports differ from the materiality assessment as it applies to annual financial reports?**



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- IAS 34.16A(c) - an issuer is required to disclose by way of note '*... the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence*'; and
  - by virtue of paragraph 4 of IAS 1, paragraph 17(c) of IAS 1 also applies to condensed financial statements and states that a fair presentation also requires an entity '*... to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance*'.

## **Annex I**

### **Summary of questions**

- Q1: Do you think that the concept of materiality is clearly and consistently understood and applied in practise by preparers, auditors, users and accounting enforcers or do you feel more clarification is required?**
- Q2: Do you think ESMA should issue guidance in this regard?**
- Q3: In your opinion, are ‘economic decisions made by users’ the same as users making ‘decisions about providing resources to the entity’? Please explain your rationale and if possible provide examples.**
- Q4: Is it your understanding that the primary user constituency of general purpose financial reports as defined by the IASB in paragraph 13 includes those users as outlined in paragraph 16 above? Please explain your rationale and if possible provide further examples.**
- Q5a: Do you agree that the IASB’s use of the word ‘could’ as opposed to, for example, ‘would’ implies a lower materiality threshold? Please explain your rationale in this regard.**
- Q5b: In your opinion, could the inclusion of the expression ‘reasonably be expected to’ as per the Auditing Standards, lead to a different assessment of materiality for auditing purposes than that used for financial reporting purposes. Have you seen any instances of this in practice?**
- Q6a: Do you agree that the quantitative analysis of the materiality of an item should not be determined solely by a simple quantitative comparison to primary statement totals such as profit for the period or statement of financial position totals and that the individual line item in the primary statement to which the item is included should be assessed when determining the materiality of the item in question? Please explain your rationale in this regard.**
- Q6b: Do you agree that each of the examples provided in paragraph 21 a – e above constitute instances where the materiality threshold may be lower? Are there other instances which might be cited as examples? Please explain your rationale.**
- Q7: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions, including those that arose in earlier periods and are of continued applicability in the current period, in determining materiality decisions. Please explain your views in this regard.**
- Q8: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions as referred to in paragraphs 23 to 26 above in determining materiality? Please explain your views in this regard and provide practical examples, if applicable.**



**Q9a: Do you believe that an accounting policy disclosing the materiality judgments exercised by preparers should be provided in the financial statements?**

**Q9b: If so, please provide an outline of the nature of such disclosures.**

**Q9c: In either case, please explain your rationale in this regard.**

**Q10: Do you agree that omitting required notes giving additional information about a material line item in the financial statements constitutes a misstatement? Please explain your rationale in this regard.**

**Q11: Do you believe that in determining the materiality applying to notes which do not relate directly to financial statement items but are nonetheless of significance for the overall assessment of the financial statements of a reporting entity:**

**(a) the same considerations apply as in determining the materiality applying to items which relate directly to financial statement items; or**

**(b) different considerations apply; and**

**(c) if different considerations apply, please outline those different considerations.**

**Q12: In your opinion, how would the materiality assessment as it applies to interim financial reports differ from the materiality assessment as it applies to annual financial reports?**

## Annex II

### A. IFRS REFERENCES TO MATERIALITY

#### The Framework

##### *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.
- 4.38 An item that meets the definition of an element should be recognised if:
- (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and
  - (b) the item has a cost or value that can be measured with reliability.<sup>32</sup>
- 4.39 In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in Chapter 3 Qualitative characteristics of useful financial information. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.
- BC3.17 Concepts Statement 2 and the Framework (1989) discussed materiality and defined it similarly. Concepts Statement 2 described materiality as a constraint on financial reporting that can be considered only together with the qualitative characteristics, especially relevance and faithful representation. The Framework (1989), on the other hand, discussed materiality as an aspect of relevance and did not indicate that materiality has a role in relation to the other qualitative characteristics.
- BC3.18 The discussion paper and the exposure draft proposed that materiality is a pervasive constraint in financial reporting because it is pertinent to all of the qualitative characteristics. However, some respondents to the exposure draft agreed that although materiality is pervasive, it is not a constraint on a reporting entity's ability to report information. Rather, materiality is an aspect of relevance, because immaterial information does not affect a user's decision. Furthermore, a standard-setter does not consider materiality when developing standards because it is an entity-specific consideration. The boards agreed with those views and concluded that materiality is an aspect of relevance that applies at the individual entity level."

#### IAS 1 – *Presentation of Financial Statements*

##### *Definitions*

- 7 Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in

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<sup>32</sup> Information is reliable when it is complete, neutral and free from error.

the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25 that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.”

#### *Materiality and aggregation*

- 29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- 30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- 31 An entity need not provide a specific disclosure required by an IFRS if the information is not material.

#### *Offsetting*

- 35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

#### *Identification of the financial statements*

- 53 An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information

#### *Information to be presented in the statement of comprehensive income*

- 86 An entity includes additional line items in the statement of comprehensive income and in the separate income statement (if presented), and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense.”

#### *Information to be presented in the statement of comprehensive income or in the notes*

- 97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

### *Disclosure of accounting policies*

- 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8."

### *Sources of estimation uncertainty*

- 125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year."

## **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**

### *Definitions*

- 5 Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. [...]
- 6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25<sup>33</sup> that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

### *Selection and application of accounting policies*

- 8 IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

### *Errors*

- 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

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<sup>33</sup> IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*.

### *Materiality*

- BC20 The Standard states that accounting policies specified by IFRSs need not be applied when the effect of applying them is immaterial. It also states that financial statements do not comply with IFRSs if they contain material errors, and that material prior period errors are to be corrected in the first set of financial statements authorised for issue after their discovery. The Standard includes a definition of material omissions or misstatements, which is based on the description of materiality in IAS 1 Presentation of Financial Statements (as issued in 1997) and in the Framework.
- BC21 The former Preface to Statements of International Accounting Standards stated that International Accounting Standards were not intended to apply to immaterial items. There is no equivalent statement in the Preface to International Financial Reporting Standards. The Board received comments that the absence of such a statement from the Preface could be interpreted as requiring an entity to apply accounting policies (including measurement requirements) specified by IFRSs to immaterial items. However, the Board decided that the application of the concept of materiality should be in Standards rather than in the Preface.
- BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

### **IAS 34 – *Interim Financial Reporting***

- 23 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

## **B. SELECTED REFERENCES TO USERS OF FINANCIAL STATEMENTS IN IFRS (EXCLUDING THE FRAMEWORK)**

### **IFRS 1 – *First-time Adoption of International Financial Reporting Standards***

IN5 The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.

### **IFRS 7 – *Financial Instruments: Disclosures***

IN 2 The International Accounting Standards Board believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgements about risk and return.

B39 The disclosures required in paragraphs 42D-42G may not be sufficient to meet the disclosure objectives in paragraph 42B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

### **IFRS 9 – *Financial Instruments***

The objective of this IFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

### **IAS 1 – *Presentation of Financial Statements***

7 Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25<sup>34</sup> that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

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<sup>34</sup> In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*.

General purpose financial statements (referred to as ‘financial statements’) are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.”

#### *Purpose of financial statements*

- 9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management’s stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity’s:
- (a) assets;
  - (b) liabilities;
  - (c) equity;
  - (d) income and expenses, including gains and losses;
  - (e) contributions by and distributions to owners in their capacity as owners; *and*
  - (f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity’s future cash flows and, in particular, their timing and certainty.

#### *Complete set of financial statements*

- 14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.

#### *Fair presentation and compliance with IFRS*

- 17(c) A fair presentation also requires an entity: [...] to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.
- 24 For the purpose of paragraphs 19-23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, management considers:
- (a) why the objective of financial statements is not achieved in the particular circumstances; *and*
  - (b) how the entity’s circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity’s compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the Framework.

### *Offsetting*

- 33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of comprehensive income or financial position or in the separate income statement (if presented), except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows.

### *Comparative information*

- 40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.
- 43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes.

### *Consistency of presentation*

- 46 [...] An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired.

### *Identification of the financial statements*

- 50 IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.

### *Information to be presented in the statement of comprehensive income*

- 86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance.

### *Statement of cash flows*

- 111 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

### *Notes*

- 114 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities [...]."



### *Disclosure of accounting policies*

- 118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. [...]
- 119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. [...]
- 120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

### *Sources of estimation uncertainty*

- 129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

### *Capital*

- 134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- 136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

## **IAS 7 – Statement of Cash Flows**

### *Objective*

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation."

## **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**

### *Definitions*

- 5 Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial state-

ments. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. [...]

- 6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25<sup>35</sup> that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

#### *Selection and application of accounting policies*

- 10 In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is: (a) relevant to the economic decision-making needs of users [...].

#### *Changes in accounting policies*

- 15 Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows.“

### **IAS 12 – Income Taxes**

- 84 The disclosures required by paragraph 81(c) {tax reconciliation} enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

### **IAS 16 – Property, Plant and Equipment**

- 75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities.

### **IAS 19 – Employee Benefits**

#### *Disclosure*

- 120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period

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<sup>35</sup> IASC’s *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*.

## **IAS 24 – Related Party Disclosures**

### *Purpose of related party disclosures*

- 8 ... knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.