IFRS Practice Statement 2

Making Materiality Judgements

January 2022

BASIS FOR CONCLUSIONS

IFRS Practice Statement 2 *the Making Materiality Judgements*

This Basis for Conclusions accompanies, but is not part of, the IFRS Practice Statement 2 Making Materiality Judgements *(Practice Statement). It summarises the considerations of the International Accounting Standards Board (Board) when developing the Practice Statement. Individual Board members gave greater weight to some factors than to others.*

Background

BC1 The Board was informed at the Discussion Forum on Financial Reporting Disclosure in January 2013, through feedback on the 2014 Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements* and from other sources, that entities experience difficulties making materiality judgements when preparing financial statements. Some entities are unsure how to make materiality judgements and tend to use disclosure requirements in IFRS Standards as if they were items on a checklist, rather than using judgement when deciding what information to provide in financial statements. Some stakeholders stated that these difficulties and practices contribute to a disclosure problem—namely, entities provide too much irrelevant information and not enough relevant information in their financial statements.

BC2 Some stakeholders suggested that one of the factors contributing to these difficulties was the lack of guidance on materiality in IFRS Standards, particularly on how entities should make materiality judgements about information disclosed in the notes to the financial statements. In the light of this feedback, the Board decided to provide further guidance. The aim of the Board is to promote a behavioural change in the way entities prepare their financial statements, encouraging a greater exercise of judgement when determining what information to include or not to include in those statements.

BC3 In October 2015, the Board published the Exposure Draft IFRS Practice Statement *Application of Materiality to Financial Statements* (Practice Statement ED). The Board developed the Practice Statement ED after considering the input obtained from outreach and consultations with the IFRS Advisory Council; the Accounting Standards Advisory Forum (ASAF); the World Standard-Setters; the Global Preparers Forum (GPF); the Capital Markets Advisory Committee (CMAC); representatives of the International Auditing and Assurance Standards Board and the International Organization of Securities Commissions; and a number of other accounting professionals, academics and representatives of other regulatory bodies.[1]

1 The IFRS Advisory Council, the Accounting Standards Advisory Forum (ASAF), the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC) are the Board's advisory bodies. The World Standard-Setters is a meeting of accounting standard-setters organised by the Board.

BC4 The Board received 95 comment letters in response to the Practice Statement ED. The Board also conducted outreach on the proposals in the Practice Statement ED, including consultation with the ASAF, the CMAC and the GPF. Responses to the Practice Statement ED indicated widespread support for the Board to issue practical guidance on making materiality judgements in the preparation of financial statements. The Board considered the input it received on the Practice Statement ED when developing this Practice Statement.

Form of the guidance

BC5 The Practice Statement sets out non-mandatory guidance with the aim of assisting entities in making materiality judgements when preparing general purpose financial statements. Entities applying IFRS Standards are not required to comply with the Practice Statement to state compliance with those Standards. Nevertheless, the Board expects the Practice Statement to help promote a greater understanding of the role of materiality in applying IFRS Standards and of how judgement should be exercised to assess materiality in preparing financial statements. The Board expects that better understanding of the role of materiality will ultimately make financial statements more useful and easier to understand.

BC6 The Board decided to provide guidance on how to make materiality judgements in the form of a non-mandatory Practice Statement because:

(a) issuing mandatory requirements in a Standard could risk appearing prescriptive, which could undermine the emphasis on entities applying their judgement in the assessment of materiality; and

(b) issuing guidance as a separate non-mandatory document, rather than as non-mandatory implementation guidance supporting a specific Standard, such as IAS 1, would help to emphasise that the concept of materiality is pervasive throughout IFRS Standards.

BC7 Moreover, the Board was told that adding mandatory requirements in a Standard could risk creating conflicts with local legal or regulatory frameworks. Nevertheless, the Board observed that even though some jurisdictions might have legal or regulatory requirements that interact with IFRS materiality requirements, this should not result in a conflict with the guidance in the Practice Statement, provided that those local requirements do not prevent an entity from applying the requirements in IFRS Standards. No respondents to the Practice Statement ED and no participants in the outreach organised by the Board reported such a circumstance.

BC8 Furthermore, this Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. The Board decided that non-mandatory status was more appropriate.

BC9 Finally, the Board issued a Practice Statement rather than asking the IFRS Foundation staff to develop educational material because a Practice Statement is subject to full due process, including public consultation, and is more accessible than educational material.

BC10 Responses to the Practice Statement ED indicated widespread agreement with the considerations that led the Board to include its guidance in a non-mandatory Practice Statement.

Scope

BC11 The objective of this Practice Statement is to provide entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. The Board discussed whether to broaden the audience of the Practice Statement by also addressing it to other parties involved in financial reporting, but concluded that the Practice Statement should only be addressed to those involved in the preparation of the financial statements. The Board noted, however, that the Practice Statement is also likely to help other parties, such as auditors, users of financial statements, regulators and enforcers, understand the approach an entity follows in making materiality judgements when preparing its financial statements.

BC12 The Board discussed whether the Practice Statement should also be addressed to entities applying the *IFRS for SMEs*® Standard. However, the *IFRS for SMEs* Standard is a separate and stand-alone accounting framework based on full IFRS Standards with modifications to reflect cost-benefit considerations specific to small and medium sized entities and the need of users of the financial statements of such entities. The *IFRS for SMEs* Standard does not refer to the concept of primary users as included in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and does not include recent changes to full IFRS Standards (eg that an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information). Therefore, the Board decided that the Practice Statement is not intended for entities applying the *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard permits, but does not require, entities to refer to guidance available in full IFRS Standards. Those entities may therefore refer to the guidance in the Practice Statement in the same way they consider the requirements and guidance in full IFRS Standards dealing with similar and related issues in developing and applying accounting policies when the *IFRS for SMEs* Standard does not specifically address a transaction, other event or condition.

BC13 Materiality is a general concept widely used for financial reporting and other purposes. For example, auditors usually assess materiality when making judgements about the nature, timing and extent of the work to be done to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Some respondents to the Practice Statement ED noted that preparers and auditors of financial statements assess materiality using a comparable approach—they both focus on information that could reasonably be expected to influence decisions of the users of an entity's financial statements. The Board discussed whether to include in the Practice Statement a reference to the assessment of materiality for auditing or other purposes, but decided to focus its guidance on the preparation of financial statements only. Assessing materiality for purposes other than the preparation of financial statements is beyond the scope of this Practice Statement. Moreover, referring to different applications of the concept of materiality might cause confusion.

General characteristics of materiality

Definition of material

BC14 The Board has discussed the definition of 'material' and whether to change or clarify that definition in its Principles of Disclosure project. In September 2017, on the basis of those discussions, the Board published the Exposure Draft *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (Definition of Material ED). The Definition of Material ED proposes refining the definition of material by incorporating the existing description of material information in paragraph 7 of IAS 1[2] and emphasising the need to ensure material information is not obscured, as described in paragraph 30A of IAS 1. IFRS Standards already include both concepts; consequently, the Practice Statement includes these notions. The Board considered whether to postpone issuing this Practice Statement until the completion of the Definition of Material project. However, the Board concluded that providing guidance on making materiality judgements as quickly as possible would be useful and responded to requests for guidance.

BC15 Moreover, the Board observed that, since the proposed amendments in the Definition of Material ED do not constitute substantive changes to the existing requirements in IFRS Standards, they are unlikely to result in a change in practice for most entities or to significantly affect entities' financial statements. Therefore, the guidance in this Practice Statement would not be affected by the proposed amendments, other than by the possible need to update the definition of material quoted in the document.

Materiality judgements are pervasive

BC16 The Board discussed whether to focus the guidance in the Practice Statement on IFRS presentation and disclosure requirements only, but concluded that the need for materiality judgements is pervasive in the preparation of financial statements, also encompassing recognition and measurement requirements. Consequently, the Board provided, throughout the Practice Statement, guidance on how to make materiality judgements in the context of recognition and measurement as well as of presentation and disclosure.

Primary users and their information needs

BC17 The Practice Statement explains that, when making its materiality assessments, an entity should consider the primary users of its financial statements—its primary users—as defined by the *Conceptual Framework*, that is, existing and potential investors, lenders and other creditors. The Board

2 '… the assessment needs to take into account how users […] could *reasonably* be expected to be influenced in making economic decisions' [emphasis added].

discussed whether it would be appropriate to emphasise the existence, among those primary users, of different subsets of users whose information needs might differ. However, the Board concluded that requiring an entity to identify different subsets of primary users, or focusing on any special information needs and expectations those users might have, could create a tension with the definition of general purpose financial statements, which focuses on the common information needs of a wide range of users. Consequently, the Practice Statement refers to the three categories of primary users identified in the *Conceptual Framework*—existing and potential investors, lenders and other creditors.

BC18 Furthermore, the Board decided to emphasise in the Practice Statement that the primary users of an entity's financial statements include potential investors, lenders and other creditors, as well as existing ones. The Board concluded this would address concerns some stakeholders expressed about an inappropriate focus on specific existing users; the Board decided to make clear that an entity cannot narrow the information provided in its financial statements by focusing only on its existing users' information needs.

BC19 An entity considers decisions its primary users make on the basis of the financial statements when deciding what information to include in those statements. Consequently, the Board decided the Practice Statement should describe primary users' decisions and related information needs as set out in the *Conceptual Framework*. Primary users' decisions depend on the returns they expect from the resources they provide to an entity. Expectations about returns, in turn, depend on primary users' assessment of the amount, timing and uncertainty of the future cash inflows to the entity, as well as on the assessment of management's stewardship of the entity's resources.

BC20 The Board further considered the *Conceptual Framework* when developing its guidance on the information needs of primary users an entity should consider when making materiality judgements. Providing all the information existing and potential investors, lenders and other creditors need is not the objective of general purpose financial statements. The Board clarified that an entity is not required to address information needs that respond to unique or individual information requests. An entity should aim to meet primary users' common information needs. In developing its guidance, the Board clarified that, to avoid losing information relevant to one category of primary users (among the three identified in the *Conceptual Framework*), the common information needs are not limited to the information needs simultaneously shared across all categories of primary users. An entity separately identifies the common information needs for each of the three categories, and meets the total of these needs.

Interaction with local laws and regulations

BC21 The Board discussed the interaction of materiality requirements in IFRS Standards with local laws and regulations in the light of stakeholders' comments relating to potential conflicts between the guidance in the Practice Statement ED and local legal or regulatory requirements. The Board noted that the Practice Statement provides guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards; it does not provide guidance on how to apply local legal or regulatory requirements.

BC22 Nevertheless, the Board acknowledged that local requirements might affect information provided in the financial statements. In these circumstances, an entity must comply with the materiality requirements in IFRS Standards, but the Standards do not prohibit the disclosure of additional information required by local laws or regulations, even if that information is not material according to IFRS Standards. A conflict would only occur if local laws or regulations prohibit the inclusion of information that is material for the purpose of IFRS Standards. No respondents to the Practice Statement ED and no participants in the outreach organised by the Board reported such a circumstance.

BC23 When information in addition to that required by IFRS Standards is provided in the financial statements, paragraph 30A of IAS 1 requires an entity to ensure that material information required by the Standards is not obscured. The Board observed that the appropriate organisation of information in the financial statements would allow an entity to meet that requirement.

Making materiality judgements

BC24 Respondents commenting on the Practice Statement ED welcomed the fact it gathered guidance on materiality from multiple IFRS Standards. However, some respondents suggested it would be useful to also describe the practical steps an entity follows when making materiality judgements in the preparation of its financial statements. The Board developed a four-step process (materiality process) in consultation with the ASAF, the CMAC and the GPF. The description of the materiality process illustrates the role materiality plays in the preparation of financial statements and clarifies how a materiality judgement is made. The materiality process also identifies the factors an entity should consider when making materiality judgements.

BC25 Consistent with the non-mandatory status of the Practice Statement, the Board developed the materiality process as an example of the approach an entity may follow in making materiality judgements, but clarified that the materiality process includes the materiality requirements an entity must apply to state compliance with IFRS Standards.

BC26 The Board considered whether to focus its guidance on the application of judgement or to illustrate the overall process of which materiality judgements are a part. However, as some respondents to the Practice Statement ED noted, describing the overall process helps an entity understand how materiality judgements can influence the preparation of its financial statements, as well as how the various materiality decisions are connected with each other.

BC27 The Board included Step 1 (identify) to provide an entity with a clear starting point for its assessments. Stakeholders largely agreed that an entity should use the requirements in IFRS Standards to identify information that primary users might need to make decisions about providing resources to the entity. When using the requirements in IFRS Standards, an entity benefits from the assessment the Board makes when developing IFRS Standards—when developing a Standard the Board identifies information it expects will meet the needs of a broad range of primary users. The Board also considered that some information not specified in IFRS Standards might be necessary to enable primary users to understand the impact of an entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows. Therefore, the Board decided that the entity's knowledge about its primary users' common information needs should be an additional input to Step 1. On the basis of that knowledge, an entity should consider whether to include additional information not specified by IFRS Standards in its financial statements.

BC28 Step 2 (assess) describes factors an entity should consider in identifying whether an item of information is material. The Board concluded that the application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. Respondents to the Practice Statement ED also agreed that, in making materiality judgements, an entity should consider both quantitative and qualitative factors. The Practice Statement includes some examples of materiality factors. However, the Board decided to describe a limited number of factors rather than provide an exhaustive list of considerations to be taken into account.

BC29 The Board decided to include some guidance in the materiality process on the way an entity should reflect its materiality judgements. Step 3 (organise) deals with the output of an entity's materiality judgements and provides guidance the entity might want to consider to make its financial statements easier to understand. The Board recommends that an entity considers the different roles of the primary financial statements and the notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information and/or to disclose the information in the notes. However, the Board decided not to provide further guidance on those topics in the Practice Statement. A discussion of the roles of the different components of the financial statements, as well as of the implications of those roles, has been included in the *Principles of Disclosure* Discussion Paper, which the Board published in March 2017.

BC30 Step 4 (review) gives an entity the opportunity to 'step back', once it has prepared its draft financial statements, and consider the information from an aggregated perspective. The Board discussed whether this step duplicates the assessment performed in Step 2 and clarified that an entity makes its materiality judgements in Step 2, but then reviews these judgements once a draft of the financial statements is available. In Step 2, an entity based its assessment on the expected financial statements as a whole, while it was still preparing its draft. In Step 4, an entity checks its assessment against the actual draft financial statements—this review may lead the entity to revisit the assessment performed in Step 2, provide additional information in the financial statements, remove immaterial information or reorganise existing information.

Specific topics

Prior-period information

BC31 When discussing materiality judgements about prior-period information included in financial statements, the Board acknowledged some legal or regulatory requirements might set out the amount of prior-period information to include in the financial statements. However, the Board decided that providing guidance on making materiality judgements about prior-period information in the Practice Statement would be necessary to promote behavioural change consistently across all parts of the financial statements and to encourage entities to exercise greater judgement when determining what information to include or not to include in financial statements.

BC32 The Board developed the guidance in the Practice Statement in the light of the minimum comparative information required by IAS 1. However, the Board acknowledged that an entity needs to consider any legal or regulatory requirements when making materiality judgements about prior-period information. Consequently, the Board decided to explain that, in its current-period financial statements, an entity may summarise prior-period information, compared to the way it was included in prior-period financial statements, except when local laws or regulations demand otherwise. The Board also clarified that an entity that wishes to state compliance with IFRS Standards cannot provide less information than the information required by the Standards, even if local laws and regulations permit otherwise.

BC33 The Board also emphasised that, when providing prior-period information in addition to the minimum comparative information required by IFRS Standards, information has to be provided in accordance with those Standards and should not obscure material information. Some stakeholders asked whether providing prior-period information at the same level of detail as current-period information could be seen as obscuring material information in the current-period financial statements. The Board does not expect that such prior-period information would obscure current-period material information.

Errors

BC34 The Board discussed whether to include in the Practice Statement guidance to help entities determine whether an error is material. The Board noted that the assessment of whether an error could reasonably be expected to influence primary users' decisions is an integral part of the preparation of the financial statements, and therefore concluded that the Practice Statement should address this topic. The Board noted that the materiality factors an entity would apply to conclude whether an error is material are the same as those described in the materiality process. Consequently, there is no need to provide any specific additional guidance. In the 'Errors' section, the Practice Statement suggests that an entity refer to the considerations described in the materiality process.

BC35 Respondents to the Practice Statement ED asked the Board to also address the situation in which an entity faces errors generated by the accumulation over several periods of errors that were immaterial both in individual prior periods and cumulatively over all prior periods (sometimes called 'cumulative errors'). The Board concluded it would be helpful to clarify that, in such circumstances:

(a) materiality judgements about cumulative errors that an entity made at the time the prior-period financial statements were authorised for issue need not be revisited in the current period, provided those judgements were reasonable at the time they were made and the entity considered information that was available, or was reasonably expected to be available, at that time; however

(b) an entity needs to assess whether cumulative errors have become material to the current-period financial statements.

BC36 The Board decided to include a statement in the Practice Statement to remind an entity that a cumulative error must be corrected if it becomes material to the current-period financial statements. The Board discussed whether to provide further guidance on how to correct such an error, but concluded that the Practice Statement should focus on how to make materiality judgements, instead of dealing with the consequences of these judgements. IAS 8 contains the requirements on the correction of errors.

BC37 The Practice Statement ED included some wording implying that if an entity intentionally misstates or omits information to achieve a particular presentation or result, such an error is always material. Respondents to the Practice Statement ED commented that the wording appears inconsistent with paragraph 41 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraph 41 of IAS 8 does not characterise such errors as material, however, it requires the correction of all errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. The Board decided to align the wording in the Practice Statement with the wording of paragraph 41 of IAS 8.

Information about covenants

BC38 When discussing whether the existence of a covenant, or similar contractual terms, could influence materiality judgements, the Board identified two concerns:

(a) do any specific considerations apply in making materiality judgements on information about the existence and terms of a covenant, or a covenant breach?

(b) does the existence of a covenant influence materiality judgements about information other than about the existence of the covenant, or a covenant breach, included in the financial statements?

BC39 In respect of the first concern, the Board concluded that, in addition to the materiality factors described in the materiality process, materiality judgements are specifically influenced by the consequences of a breach occurring and the likelihood of that breach occurring. In particular, the Board clarified that, regardless of the significance of the consequences of a breach occurring, information about the covenant is not material if the likelihood of the breach occurring is remote. In providing this clarification, the Board applied the disclosure threshold set in paragraph 28 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the disclosure of contingent liabilities.

BC40 In respect of the second concern, the Board discussed including in the Practice Statement guidance stating that the existence of a covenant should not influence an entity's assessment of the materiality of other information in the financial statements. In other words, an entity is not required to reperform its materiality assessments the closer it gets to breaching a covenant. However, some stakeholders observed that such guidance would conflict with existing guidance developed by other parties on the assessment of the materiality of errors. To avoid creating any confusion among preparers and others involved in financial reporting, the Board decided not to include in the Practice Statement guidance on the impact of covenants on materiality assessments.

Materiality judgements for interim reporting

BC41 The Board discussed whether to provide guidance on how to make materiality judgements when preparing an interim financial report. The Board concluded that, when preparing an interim financial report, an entity should consider the same materiality factors it considers in preparing its annual financial statements. However, the Board also noted that it would be helpful to explain any additional considerations relevant to making a materiality judgement in the preparation of an interim financial report. In particular, the Board noted that it would be helpful to explain how the different time period and purposes of an interim financial report, compared to the annual financial statements, affect materiality judgements, as well as to address some practical concerns raised by respondents to the Practice Statement ED.

Materiality judgements for accounting policy information (see paragraphs BC76H–BC76AB of IAS 1)

BC41A In February 2021 the Board amended IAS 1 to require an entity to disclose its material accounting policy information rather than its significant accounting policies.

BC41B To help entities to apply the amendments to IAS 1, the Board also amended IFRS Practice Statement 2 to illustrate how an entity can judge whether accounting policy information is material to its financial statements.

BC41C The Board added guidance and examples to IFRS Practice Statement 2 to help an entity apply the four-step materiality process to accounting policy information. The guidance and examples help an entity apply the amendments to IAS 1 by:

(a) confirming that in assessing whether accounting policy information is material, an entity considers both qualitative and quantitative factors (see paragraph 88C);

(b) linking materiality judgements to accounting policy disclosures using the four-step materiality process described in paragraph 33 (see paragraph 88C).

(c) emphasising the need to focus on useful information for users of financial statements (see paragraphs 88C–88E); and

(d) demonstrating how an entity can apply the four-step materiality process to address:

(i) standardised (boilerplate) information disclosed as part of material accounting policy information (see Example S); and

(ii) accounting policy information that only duplicates or summarises the requirements of IFRS Standards (see Example T).

BC41D Examples S and T are intended only to illustrate the application of the amendments to IAS 1 and the four-step materiality process to accounting policy information. They do not illustrate the application of the definition of material to all disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* and IAS 36 *Impairment of Assets*. An entity is also required to comply with the other disclosure requirements of those IFRS Standards.

BC41E The Board concluded that accounting policy information that includes standardised information, or that duplicates or summarises some of the requirements of IFRS Standards, could sometimes be material. The Board added guidance about when such accounting policy information might be material to an entity's financial statements (see paragraph 88F).

BC41F The Board concluded that, as the amendments provide non-mandatory guidance on the application of the definition of material to accounting policy information, transition requirements and an effective date for these amendments are unnecessary.

Likely effects of this Practice Statement

BC42 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and guidance—the costs and benefits are collectively referred to as 'effects'. The Practice Statement is designed to provide guidance on how to make materiality judgements in the preparation of financial statements. The Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. With no changes in existing requirements and given that the application of the

Practice Statement is not required to state compliance with IFRS Standards, the Board concluded that a separate effects analysis was not necessary.

BC43 The expected effects of the Practice Statement have been considered as part of the Board's discussions. The Board expects the Practice Statement will:

(a) enhance awareness of the role of materiality in helping to promote positive changes in behaviour (such as to discourage rigid adherence to checklists by an entity preparing financial statements);

(b) encourage an entity to exercise judgement to a greater extent when preparing financial statements, which should lead to a reduction in boilerplate disclosures and redundant information and provide a framework for assessing the need in the financial statements for information that is additional to disclosure requirements specified by IFRS Standards; and

(c) provide a useful reference point for discussions between an entity, its auditors and regulators on the assessment of materiality, which could help facilitate agreement.

BC44 The Board does not expect any significant costs associated with the application of the Practice Statement because it introduces no new requirements nor is the application of the Practice Statement mandatory. However, some implementation costs might be faced by an entity that has previously relied on a checklist approach when preparing its financial statements. The Board expects such an entity would apply more judgement when deciding what information to include in the financial statements, if it follows the guidance in the Practice Statement. The Board concluded that the benefits of higher-quality disclosures and easier access to information for primary users of financial statements exceed the implementation costs required when entities apply judgement in preparing financial statements, rather than following a checklist. Conversely, an entity already applying appropriate judgement in the preparation of its financial statements would incur no additional implementation costs and could benefit from the issue of the Practice Statement in its interaction with auditors and other stakeholders.

BC45 The effects the Board expects from the Practice Statement were assessed against the comments received on the Practice Statement ED. Overall, respondents confirmed the Board's expectations and welcomed the proposal to issue the Practice Statement.

Interaction with the Board's other projects

BC46 The Board decided to issue this Practice Statement before the finalisation of the Principle of Disclosures project, for which a Discussion Paper was published in March 2017; the Definition of Material project, for which an Exposure Draft was published in September 2017; or the *Conceptual Framework* project—the revised *Conceptual Framework* is expected to be issued in 2018.[3] The

3 In 2018 the Board issued a revised *Conceptual Framework*. References to the *Conceptual Framework* in this Practice Statement were updated to refer to the revised *Conceptual Framework*.

Board considered whether to postpone issuing this Practice Statement until the completion of one or more of those projects; however, it concluded that it would be useful to provide guidance on making materiality judgements as quickly as possible, to respond to requests for guidance. Moreover, the Board concluded that the finalisation of these projects would be unlikely to affect the guidance in the Practice Statement.

Dissenting opinion

Dissent of Ms Françoise Flores from *Disclosure of Accounting Policies*

DO1 Ms Flores voted against the publication of *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2. The reasons for her dissent are set out below.

DO2 Ms Flores agrees with those amendments to IAS 1 and IFRS Practice Statement 2 which aim to provide primary users of financial statements with all and only relevant accounting policy information. She also supports the Board's past and current efforts to clarify how the concept of materiality should be applied more generally. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2.

DO3 In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.

DO4 A minority of respondents were concerned that the Board's proposals could be read as prohibiting the publication of any accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.

DO5 Furthermore, Ms Flores notes that paragraph 2.36 of the *Conceptual Framework of Financial Reporting*, paragraph 7 of IAS 1 and the guidance included in paragraphs 13–23 of IFRS Practice Statement 2 state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity. In her view, investors are responsible for ensuring that their economic decisions are derived from a proper and knowledgeable understanding of an entity's financial statements, which includes understanding the requirements of IFRS Standards. IFRS Standards should be regarded as public knowledge in a financial reporting environment. No mere recitation of the words from the IFRS Standards can meet the definition of material without stretching that definition endlessly. In Ms Flores' view, improving users' understanding of the requirements in IFRS Standards should be achieved through education by the IFRS Foundation. Such an objective should not be achieved by amending the requirements of IFRS Standards.

