



# IFRS Alert

## IASB issues IFRS Practice Statement 2: Making Materiality Judgements

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### Executive summary

The International Accounting Standards Board (IASB) has published guidance on how to make materiality judgements. The Practice Statement encourages entities to apply judgement so that financial statements focus on the information that is useful to investors rather than trying to comply with an IFRS 'checklist'.

### Background

The concept of materiality is important in the preparation of financial statements, because it helps companies determine which information to include in and exclude from their reports. However, management is often faced with uncertainty in applying that concept. Such uncertainty is encountered when making decisions about recognition and measurement but most of all when deciding what information to disclose in the notes and how to present that information.

This uncertainty has led to some entities using the disclosure requirements in IFRS Standards as a checklist rather than judging which information would be most useful to investors and other stakeholders.

### Main issues addressed by the Practice Statement

With the publication of the Practice Statement, the IASB is providing support to companies in making materiality judgements and hopes to encourage behavioural change.

The Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples entities may find helpful in deciding whether information is material.

continued overleaf



## Main issues addressed by the Practice Statement

The Practice Statement sets out a four-step process to making decisions on materiality:

Steps	Action
Step 1—Identify	<ul style="list-style-type: none"> <li>Identify information that has the potential to be material</li> </ul>
Step 2—Assess	<ul style="list-style-type: none"> <li>Assess whether the information identified in Step 1 is, in fact, material</li> </ul>
Step 3—Organise	<ul style="list-style-type: none"> <li>Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users</li> </ul>
Step 4—Review	<ul style="list-style-type: none"> <li>Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.</li> </ul>

The Practice Statement also gives guidance on specific topics such as: prior-period information; errors; information about covenants; and materiality judgements for interim reporting.

The Practice Statement is not a Standard and its application is not mandatory or required in order to state compliance with IFRS. It does not change existing requirements or introduce new ones. Instead, it aims to provide guidance to assist management in applying the concept of materiality when preparing their financial statements. The guidance in the Practice Statement can be applied from its date of publication, 14 September 2017.



## Grant Thornton International Ltd comment

We welcome the publication of the Practice Statement. We think that this guidance will help management to apply the concept of materiality and produce relevant information to investors and other stakeholders.

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