



Technical Release

TECH 03/08

GUIDANCE ON MATERIALITY IN FINANCIAL REPORTING BY UK ENTITIES

Guidance on materiality in financial reporting by UK entities, published in June 2008 by the Institute of Chartered Accountants in England and Wales.

CONTENTS	PARAGRAPHS
Introduction	
Scope	1 - 4
Definition of materiality	5
General considerations	6 - 8
Applications of materiality	9 - 17
Users	18 - 22
Determinants of materiality	23 - 25
Size	26 - 27
Nature	28 - 31
Circumstances	32 - 35
Half-yearly statements	36
Making decisions about materiality	37 - 42
Evidencing decisions	43

This Technical Release provides general guidance and does not purport to deal with all possible questions and issues that may arise in any given situation. The Institute and the authors do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

© Institute of Chartered Accountants in England and Wales 2008

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of the Institute of Chartered Accountants in England and Wales, is acknowledged; and
- the title of the document and the reference number (ICAEW Tech 03/08) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

www.icaew.com

GUIDANCE ON MATERIALITY IN FINANCIAL REPORTING BY UK ENTITIES

Introduction

The principles of Tech 32/96 'The interpretation of materiality in financial reporting' were still sound and relevant more than 10 years after it was first published. However, many of its references to UK literature were no longer current and it did not deal at all with IFRS. The Financial Reporting Committee of the Institute's Financial Reporting Faculty has therefore updated the guidance to take account of the latest UK literature and IFRS, and to make sure that its principles remain in line with the latest thinking on materiality. This will help to minimise divergent practices in the application of materiality judgements in the preparation of financial statements.

A draft of the revised guidance was published for comment as Tech 01/07 in June 2007. Tech 03/08 has been finalised in the light of comments received. References to Company Law, Accounting and Auditing Standards and other accounting, auditing and regulatory literature and material are correct as at 9 June 2008.

GUIDANCE ON MATERIALITY IN FINANCIAL REPORTING BY UK ENTITIES

Scope

1. This guidance is for preparers of financial statements ('preparers'). It considers the issue of materiality in financial reporting, including the relevant discussion in the *Statement of Principles for Financial Reporting* ('*Statement of Principles*') issued by the Accounting Standards Board ('ASB') in December 1999. It is intended to help with the practical application of the definitions and explanations of materiality. As the principles underlying the *Statement of Principles* and the *Framework for the Preparation and Presentation of Financial Statements* ('*Framework*') adopted by the International Accounting Standards Board ('IASB') in April 2001 are consistent, it may also be useful in relation to financial statements prepared under IFRS.
2. This guidance refers primarily to the financial statements of commercial entities reporting in compliance with companies legislation and therefore intended to give a true and fair view¹. However, its principles can be applied more generally to financial statements prepared by other organisations (eg, charities, pension schemes, government departments, local authorities and public sector businesses)², although the assessment of users' needs may vary (see paragraphs 20, 22, 38 and 39 below).
3. The principles set out in this guidance may also be relevant to other information, such as that provided in an operating and financial review, a business review, a half-yearly report, interim management statements, information about post balance sheet events or in corporate governance disclosures.
4. Auditors apply similar concepts in arriving at judgements about materiality, but are subject to separate guidance issued by the Auditing Practices Board ('APB'). Audit aspects of materiality are therefore not addressed in this guidance.

¹ The Companies Act 2006 s393 requires that the directors of a company must be satisfied that their accounts prepared in compliance with the Act give a true and fair view, irrespective of the accounting framework used. The Companies Act 1985 s262(2A) provides in relation to financial statements prepared under IAS that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation. See also paragraph 8.2 of the Department of Trade and Industry's (now the Department for Business, Enterprise and Regulatory Reform's) *Guidance for British Companies on Changes to the Accounting and Reporting Provisions of the Companies Act 1985* (revised August 2005). See also the Opinion of 21 April 2008 by Martin Moore QC, referenced in FRC Press Notice 222 *Relevance of 'True and Fair' concept confirmed* (<http://www.frc.org.uk/press/pub1615.html>).

² The ASB published its *Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities* in June 2007, which includes a discussion of materiality (see paragraphs 15-19 of Chapter 3).

Definition of materiality

5. The concept of materiality is fundamental to the reporting of information. The ASB's *Statement of Principles*³ defines and explains it as follows:

- 3.28 *Materiality is the final test of what information should be given in a particular set of financial statements. While the paragraphs above describe the characteristics that, if present, will mean that the usefulness of the financial information has been maximised, the materiality test asks whether the resulting information content is of such significance as to require its inclusion in the financial statements.*
- 3.29 *Materiality is therefore a threshold quality that is demanded of all information given in the financial statements. Furthermore, when immaterial information is given in the financial statements, the resulting clutter can impair the understandability of the other information provided. In such circumstances, the immaterial information will need to be excluded.*
- 3.30 *An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship.*
- 3.31 *Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case. The principal factors to be taken into account are set out below. It will usually be a combination of these factors, rather than any one in particular, that will determine materiality.*
- (a) *The item's size is judged in the context both of the financial statements as a whole and of the other information available to users that would affect their evaluation of the financial statements. This includes,*

³ Materiality is independent of any particular accounting framework. The *Statement of Principles* was developed from the IASB's *Framework*, which in turn drew on work carried out by the US Financial Accounting Standards Board (FASB) in relation to its conceptual framework project. The principles underlying the *Statement* and *Framework* are therefore consistent. The IASB and FASB are currently working on a joint project to develop a common conceptual framework. The guidance in this Technical Release may ultimately need to be revisited in the light of the IASB/FASB project.

Paragraphs 29 and 30 of the *Framework* deal with materiality in the context of relevance (see footnote 13 below). Paragraph 11 of IAS 1 *Presentation of Financial Statements* / paragraph 7 of IAS 1 (Revised) states in relation to materiality that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken / 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.

for example, considering how the item affects the evaluation of trends and similar considerations.

(b) *Consideration is given to the item's nature in relation to:*

- (i) *the transactions or other events giving rise to it;*
- (ii) *the legality, sensitivity, normality and potential consequences of the event or transaction;*
- (iii) *the identity of the parties involved; and*
- (iv) *the particular headings and disclosures that are affected.*

If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

General considerations

6. Materiality depends on an item's size, nature and circumstances. Dependence on size means that materiality is quantifiable in financial terms. However, the nature and circumstances of an item are qualitative matters and so materiality is not capable of general mathematical definition. Because judgement is required to determine materiality, different people may have different views about whether an item is material. Materiality will often be indicated by a range of potential values with the eventual treatment of a particular item depending upon a full consideration of the information involved and how it will be used.

7. Judgements about materiality ultimately depend on how information could influence the economic decisions of users of financial statements or other information ('users')⁴. According to Chapter One of the *Statement of Principles*:

The objective of financial statements is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship⁵ of the entity's management and for making economic decisions.⁶

8. There is a role for guidelines in reaching consistent and properly considered conclusions. Nevertheless, if preparers are to be responsive to users, they should not substitute the mechanical application of rules and formulae for careful consideration of how information could influence or enhance users' economic decisions, such as whether to hold or sell investments or whether to reappoint or replace management. Preparers should also appreciate that

⁴ The US Supreme Court has stated that an omitted fact is generally considered to be material if there is a substantial likelihood that a reasonable investor would have viewed its disclosure as significantly altering the 'total mix' of available information (TSC Industries, Inc. v. Northway, Inc., 426 US 438 [1976]).

⁵ Stewardship is discussed in paragraph 22 below.

⁶ This is expressed in paragraph 12 of the *Framework* as: 'The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.'

information often has economic effects without changing economic decisions. For example, in preparing financial statements to be used to value a business for an acquisition, a relatively minor adjustment may alter the purchase price without changing the decision to proceed with the acquisition.

Applications of materiality

9. In financial reporting, the concept of materiality is applied to, inter alia, tolerances, uncertainties, differences and errors, in relation to:
 - (a) classes of transaction;
 - (b) account balances;
 - (c) disclosures; and
 - (d) the financial statements as a whole.
10. In maintaining accounting records relating to individual transactions with other parties, accuracy and precision are essential and therefore the concept of materiality does not apply.⁷ Other items are recorded in accounting records based on best estimates of the outcomes of future events, fair values and the appropriate allocation of costs and revenues to different activities and periods. Such estimates are subjective and the concept of materiality is applied in determining appropriate precision tolerances that reflect the nature of the items involved.
11. The application of materiality thresholds and tolerances is fundamental to the internal and external reporting that underpins corporate governance, the management of commercial risk and business decision-making. Managements require internal reports which highlight relevant matters and omit irrelevant detail and they supplement basic accounting records with management systems and controls which, amongst other things:
 - (a) summarise information from the accounting records which might be material in aggregate; and
 - (b) prevent and detect material misstatement of that information.
12. For internal and external financial reporting purposes it is conventional to apply low thresholds for accumulating information so that similar items can be considered in aggregate against a chosen level of materiality as the time for reporting approaches. The use of lower thresholds helps ensure that cumulative omissions (including those accumulating over more than one year) and other errors do not lead to an overall material misstatement. It is also conventional to select a monetary unit, such as a pound or a thousand pounds, and to round to the nearest unit. The chosen unit is set sufficiently low to ensure that the resulting loss of precision and detail is clearly immaterial, trivial or inconsequential.

⁷ The legal requirement to maintain accounting records is in Companies Act 2006 s386 and Companies Act 1985 s221.

13. In assessing the materiality of errors, account should be taken of the effect on both the balance sheet and the profit and loss account, including the effect of uncorrected errors in past years and the effect on trends.⁸
14. In the context of external reporting, legislation and regulations for different types of organisation contain requirements to report particular accounting and other information. Legislation and regulations usually specifically describe such requirements as applying only when a materiality condition is satisfied: for example, the need to include a line item shown in the accounts formats in companies legislation.
15. Application of the concept of materiality is also explicitly permitted under financial reporting standards of the ASB and the IASB and their respective interpretations ('financial reporting standards') and companies legislation in a variety of circumstances.
16. Many materiality decisions are called for in the application of financial reporting standards. Even where preparers decide to apply an individual provision of a standard - eg, in relation to measurement - they are not necessarily committed to apply all the other provisions of the standard: eg, to make specified disclosures which are immaterial⁹. The importance of such decisions is clear from paragraph 20 of the ASB's *Foreword to Accounting Standards* which states that the Financial Reporting Review Panel (FRRP) is concerned with material departures from financial reporting standards or the accounting provisions of companies legislation where such a departure results in the financial statements in question not giving a true and fair view. (The FRRP considers financial statements prepared both under UK GAAP and IFRS.)
17. In respect of other disclosures required by legislation rather than by standards (for example, directors' emoluments, auditor remuneration, staff costs), application of the concept of materiality is neither specifically permitted nor forbidden by the relevant legislation. These disclosures are required principally for accountability purposes and materiality should be assessed in that light (see also paragraph 27 below).

Users

18. The primary focus of the *Statement of Principles* is on those financial statements that are intended to give a true and fair view of the reporting entity's financial performance and financial position. For most entities, those statements will be their full annual financial statements to be laid before the members as a body.

⁸ Correction of errors is dealt with in FRS 3 *Reporting Financial Performance* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

⁹ Paragraph 31 of IAS 1 states that, 'Applying the concept of materiality means that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material.' This is rephrased in paragraph 31 of IAS 1 (Revised) as 'An entity need not provide a specific disclosure required by an IFRS if the information is not material'.

19. The *Statement of Principles* regards financial statements as providing information that is useful to a wide range of external users.¹⁰ It notes a rebuttable presumption that ‘...financial statements that focus on the interest that investors have in the reporting entity’s financial performance and financial position will, in effect, also be focusing on the common interest that all users have in that entity’s financial performance and financial position.’ Such users include actual and potential investors, employees, lenders, suppliers and other trade creditors, governments and their agencies, and members of the public with access to financial statements. In making judgements on materiality, preparers should therefore be concerned with identifying relevant users. Identifying groups of users for the purpose of making reporting decisions does not itself involve acknowledging a legal duty of care to such groups.
20. The expectation that preparers will address the needs of a wide range of users is mitigated by the Boards’ assertions in the *Statement of Principles* and the *Framework* that:
- (a) not all the information needs of all users can be met by financial statements (*Statement of Principles* paragraph 1.8 and *Framework* paragraph 10);
 - (b) financial statements that focus on the interest that investors have in the reporting entity’s financial performance and financial position will, in effect, be focusing on the interest that all users have (*Statement of Principles* paragraph 1.11 and, in different terms, *Framework* paragraph 10);
 - (c) users can be assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study information with reasonable diligence (*Statement of Principles* paragraph 3.27(c) and *Framework* paragraph 25).
21. It is therefore envisaged that judgements about materiality can generally be made on the basis of the needs of classes of knowledgeable and diligent users who are reasonable in their use of and reliance on financial statements and other information. Such users recognise the inherent limitations of financial statements and other information requiring the use of estimates and the consideration of future events. It is also important when there are large numbers of users in a group to consider representative users. Preparers should not seek to address a single hypothetical user, especially one on the brink of making a decision to buy or sell, whose decision might be changed by even a small change in a reported number or disclosure.
22. The ASB (and IASB) identify providers of risk capital as the primary users of financial statements. Consequently, in considering materiality, preparers are expected to focus on the relevance of information to the assessment of financial performance, position and adaptability and management’s discharge of its stewardship responsibilities (referred to generally in this guidance as ‘accountability’). In entities where the provision of risk capital is of reduced

¹⁰ The *Framework* states that ‘The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.’ (paragraph 12)

importance (eg, charities, pension schemes and government bodies), the same broad financial and accountability issues are still likely to be of most interest to the relevant primary user groups.

Determinants of materiality

23. The determinants of the materiality of an item are its size and nature as judged in the 'particular circumstances of the case' (see the *Statement of Principles*) or 'surrounding circumstances' (see paragraph 11 of IAS 1).¹¹ The tests are both quantitative and qualitative, and where the nature and circumstances are of sufficient importance it is these qualitative aspects, rather than considerations of the relative size of an item alone, that determines whether an item falls to be separately disclosed. Judgements are applied consistently within the period and from one period to the next.
24. It may be that an item should be brought to the attention of users due to its nature or the circumstances of its arising, notwithstanding that the amount might not otherwise be regarded as material. Criteria that might apply when deciding whether separate disclosure of an item is needed include the assessment of an item's nature in relation to the matters set out in paragraph 28 below.
25. Examples of such items include unlawful transactions, fines¹², penalties and illegal dividends. Further examples of qualitative items would include the inadequate or improper description of an accounting policy when it is likely that a user of the financial statements would be misled by the description, and failure to disclose a breach of regulatory requirements when it is likely that the consequent imposition of regulatory restrictions will significantly impair operating capability.

Size

26. The size of an item recognised in primary financial statements can only be expressed in terms of monetary value. In considering the materiality of uncertainties and contingencies, preparers therefore have to make best estimates of the potential monetary amounts involved, taking into account the likelihood of crystallisation. In considering the materiality of related party transactions for which no price is charged, preparers should have regard to the potential monetary amounts involved.
27. Whilst the quantification of materiality is fundamental and unavoidable, materiality can never be judged purely on the basis of absolute size.
 - £1 million is a large amount but in relation to a potential misstatement of sales by a large multinational, it is likely to be immaterial.

¹¹ The *Framework* judges the 'relevance' of an item by reference to its materiality and, separately, its nature: 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.' (paragraph 30) The *Statement of Principles* does not subsume 'nature' within relevance; it states that 'information is relevant if it has the ability to influence the economic decisions of users and is provided in time to influence those decisions.' (paragraph 3.2)

¹² See FRRP Press Notice 51 dated 12 May 1998 (<http://www.frc.org.uk/frfp/press/pub0110.html>).

- Conversely, in some cases the nature and circumstances of an item can be of such importance to users that a size threshold is of little practical significance in determining materiality. For example, £10,000 is a comparatively small amount but it might be seen as material, even for a large multinational, if it relates to a benefit-in-kind which has been wrongly omitted from the disclosure of directors' remuneration.

The latter point may be particularly relevant where management accountability or corporate governance are at issue or in the context of disclosures in financial statements required by legislation (see paragraph 17 above).

Nature

28. The nature of an item is characterised by:
 - (a) the transactions or other events giving rise to it;
 - (b) the legality, sensitivity, normality and potential consequences of the event or transaction;
 - (c) the identity of the parties involved; and
 - (d) the account captions and disclosure notes affected.
29. Particular care should be taken not to offset items which are different in nature when they might be material if considered separately; eg, an unrecorded sale and the related cost of sale, or an item and its tax effect. Conversely, the materiality of items of a similar nature should be considered in aggregate; eg, if a number of sales have not been recorded, their materiality should be considered in aggregate.
30. The *Statement of Principles* states that, 'In requiring information provided by financial statements to represent faithfully what it purports to represent and to be neutral, there is an implication that the information is complete and free from error - at least within the bounds of materiality. Information that contains a material error *or has been omitted for reasons other than materiality* can cause the financial statements to be false or misleading and thus unreliable and deficient in terms of their relevance' (paragraph 3.16, emphasis in italics added). Creating immaterial errors deliberately or selectively correcting immaterial errors in order to influence a trend is not in accordance with UK GAAP.¹³
31. This is also an issue that has been highlighted in other relevant literature. For example, the APB's *Aggressive Earnings Management*¹⁴ states that 'as a matter of principle the APB believes that directors and management should correct all misstatements identified by the auditors' (paragraph 35); and 'auditors consider whether judgements and decisions made by the directors

¹³ See also paragraph 41 of IAS 8, which makes it clear that 'financial statements do not comply with IFRSs if they contain ... immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.'

¹⁴ <http://www.frc.org.uk/images/uploaded/documents/aggressive.pdf> [sic]

and management ... could be part of a pattern of bias, even though individually they may appear reasonable, to avoid the financial statements reflecting the underlying reality' (paragraph 47).

Circumstances

32. The materiality of information can only be judged in relation to its ultimate impact, or potential impact, on users. Consequently, the materiality of a given item of a given size will depend on the context of the accounting and other information available to users.
33. The immediate context of an item is the entity's financial statements. Some financial reporting standards and related guidance contain explicit references to the appropriate context in which to judge materiality and look beyond the immediate disclosures and captions affected by an item. It might be appropriate to focus on one or more of the following:
 - (a) individual disclosures;
 - (b) primary statement captions and subtotals;
 - (c) the relevant primary financial statement as a whole;
 - (d) the financial statements as a whole; and
 - (e) the entity's financial position or the scale of its operations as indicated by the financial statements.
34. Paragraph 20 of the Explanation of FRS 8 *Related Party Disclosures* provides additional guidance. It indicates that the materiality of related party transactions is to be judged not only in the broader context of the reporting entity but also in relation to an individual related party; eg, where that party is a director, key manager or some other accountable person. (This does not apply in the FRSSE, which is silent on the issue.)¹⁵ If the disclosure of a related party transaction is considered to be sensitive (eg, for tax reasons or the nature of the transaction) this is likely to affect consideration of the transaction's materiality if disclosure might be expected to influence the users of the financial statements.
35. The financial statements of a single period for a single entity are of limited value and users generally consider such information in a wider context. It will therefore often be appropriate for preparers to modify their views on the materiality of an item in the light of:
 - (a) comparative figures and trend information;
 - (b) expectations including, where relevant, projections and forecasts;
 - (c) the financial statements of comparable entities; and

¹⁵ IAS 24 *Related Party Disclosures* is silent on this issue. The ASB has published FRED 41 proposing to replace FRS 8 with an accounting standard based on IAS 24, and is therefore also silent on this issue.

- (d) economic and industry background information.

Half-yearly statements

36. The ASB Statement *Half-Yearly Financial Reports (July 2007)* states that 'materiality should be assessed by reference to the results and financial position for the half-yearly period rather than in relation to expected results and financial position for the full year' (paragraph 28).¹⁶ Interim measurements of financial data may rely on estimates to a greater extent than annual measurements and this may be relevant when making assessments of materiality at half-yearly or other interim dates.

Making decisions about materiality

37. Prescriptive rules which seek to reflect how users make decisions cannot address all situations and relieve preparers of the need to apply judgement. Preparers may wish to develop and maintain guidelines for their own organisation which reflect their consideration of users and the size, nature and circumstances of individual items within the financial statements. Such guidelines provide relatively objective rebuttable presumptions against which subsequent judgements about particular situations can be gauged. Preparers may have regard to the increasing precision with which materiality can be expressed during the course of preparation of financial statements. An important overall test of the appropriateness of decisions about materiality is to consider whether the resulting financial statements give a true and fair view as required by companies legislation and the regulations for many different types of entity.¹⁷
38. Materiality guidelines can be derived from answering the following questions:
- (a) who are the relevant users?
 - (b) what are their decision-making needs?
 - (c) what types of financial information are likely to influence the decisions of the users? (For example, users of financial statements of a non-profit organisation and users of financial statements of a commercial trading entity may focus on different information.)
 - (d) for a given item, what is the appropriate context for assessing its materiality?
 - (e) in what range of values do items become critical in terms of materiality?
 - (f) how should particular items in these critical ranges be decided and reported?
39. Preparers' perceptions of users' needs can be based on:

¹⁶ IAS 34 *Interim Financial Reporting* similarly states that 'materiality shall be assessed in relation to the interim period financial data' (paragraph 23).

¹⁷ The Companies Act 2006 requires a true and fair view for financial statements prepared both under UK GAAP and IAS.

- (a) general discussions with users and other information relating to users' expectations gathered as a result of a company's corporate governance procedures;
 - (b) observing users' responses to information, eg, press or analyst comment on particular disclosures, numbers, ratios or trends and the effects on decisions to hold or sell investments or to reappoint or replace management;
 - (c) the impact on market prices of specific items of news; and
 - (d) their own reactions and attitudes as users of financial information in similar situations.
40. In some cases the approach will be relatively straightforward. Where a company's bank facility is dependent on compliance with covenants based upon financial statements, the users of those statements include investors, bankers and creditors with an interest in knowing whether the covenants are violated.¹⁸ Their decision-making needs will at least cover the figures that are used in the covenant calculations. An item will be judged material if it will make a difference in triggering non-compliance with a covenant or in ensuring that a covenant is satisfied.
41. At certain critical thresholds, an assessment of users' needs will indicate a requirement for very low levels of materiality and potentially unrealistic demands for accuracy; eg, where trends reverse, profits become losses, technical insolvency occurs, or compliance with debt covenants is in doubt. In these circumstances, preparers should:
- (a) adopt an even-handed approach in areas where the required degree of accuracy is difficult to achieve so that there is perceived to be an equal chance of mistakenly falling on either side of a critical divide;
 - (b) be particularly sensitive to the potentially misleading cumulative effect of individually immaterial items or errors (see paragraph 13 above); and
 - (c) consider whether the reliability of the information in relation to its potential use is such that the information should be accompanied by a clear statement of the circumstances of its preparation and its inherent limitations (see paragraph 26 above).¹⁹

¹⁸ Paragraph 18 of FRS 29 (IFRS 7) *Financial Instruments: Disclosures* and IFRS 7 *Financial Instruments: Disclosures* require specified disclosures about defaults that occur during the period. Paragraph 67 of IAS 1 / paragraph 76 of IAS 1 (Revised) and FRS 21 (IAS 10) *Events after the balance sheet date* are relevant for disclosures of defaults that occur between the balance sheet date and the date the financial statements are authorised. (Paragraph 67 of IAS 1 / paragraph 76 of IAS 1 (Revised) sets out specified disclosures regarding the latter.)

¹⁹ See also paragraph 113 of IAS 1 / paragraph 122 of IAS 1 (Revised), which requires disclosure of significant judgements made in applying the entity's accounting policies; and paragraph 116 of IAS 1 / paragraph 125 of IAS 1, which requires disclosure of assumptions about the future and other major sources of estimation uncertainty that have a significant risk of causing material adjustments in the next financial year.

42. On the basis of experience, a preparer might reasonably decide to attach particular importance to the materiality of items in a company's financial statements in the context of the trend of earnings and the margins of other companies in the same sector. Such considerations might be particularly appropriate in situations of marginal or break-even profitability.

Evidencing decisions

43. It may be appropriate for those preparing financial statements, whether as individuals or, collectively, as a body charged with governance, formally to document, for their own purposes, and commensurate with the size and complexity of the entity in the prevailing circumstances, their principles, policies and guidelines with regard to materiality and the main decisions they have taken. Such steps may be useful in appropriate circumstances in dealings with Regulators such as the FRRP.

desmond.wright@icaew.com