

8 June 2022

Call for Research Proposals — Making materiality judgements

Investigating the effects of the following IASB announcements: *Definition of Material* (Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), IFRS Practice Statement 2 *Making Materiality Judgements* and *Better Communication in Financial Disclosures— Making disclosures more meaningful*

The New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) together with the International Accounting Standards Board (IASB) invites academic proposals for research projects relating to how the IASB's requirements and guidance on materiality are applied to improve disclosures in general purpose financial statements. This call is supported by a research grant of NZ\$5,000.

The objective of the research is to provide information to enable the IASB to assess the effects the guidance on making materiality judgments in the following IASB documents have had on preparers, investors, auditors, and regulators:

- [Definition of Material \(Amendments to IAS 1 and IAS 8\)](#);¹
- [IFRS Practice Statement 2 — Making Materiality Judgements](#);² and
- [Disclosure Initiative Case Studies: Better Communication in Financial Reporting — Making disclosures more meaningful](#).³

New Zealand has a long history in encouraging better disclosures in general purpose financial statements, including the NZICA and ICAS 2011 report: '[Losing the excess baggage – reducing disclosures in financial statements to what's important](#)' and the FMA's 2014 publication on '[Quality Financial Reporting: How To Improve Financial Statements](#)'.

The NZASB supports entities disclosing the most relevant and meaningful information for their stakeholders and is interested in how standard setters can encourage these efforts. The research will contribute to the work of the IASB by providing evidence that is relevant to future standard setting work in relation to its disclosure initiative project – which is focused on supporting better communication in financial reporting.

Further information on the required focus of the research is outlined in **Section A**.

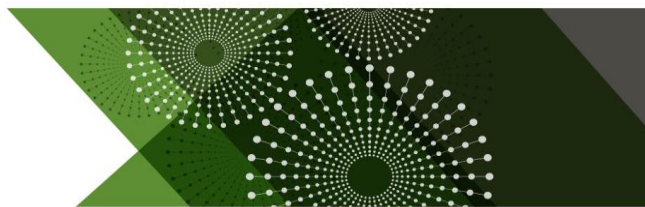
The requirements for the research proposals are provided in **Section B**.

Proposals should be submitted by email to Anthony.Heffernan@xrb.govt.nz by 15 July 2022.

¹ <https://www.ifrs.org/projects/completed-projects/2018/definition-of-material/#final-stage>

² <https://www.ifrs.org/content/dam/ifrs/publications/amendments/english/2017/ifrs-practice-statement-2-making-materiality-judgements.pdf>

³ <https://www.ifrs.org/content/dam/ifrs/project/disclosure-initiative/better-communication-making-disclosures-more-meaningful.pdf>



Section A: Required focus of a research proposal

A1 Objective of the research

The objective of the research is to assess:

- how entities have used the issued documents to inform their disclosure practices;
- whether the issued documents have improved the provision of information that is useful to users of general purpose financial statements; and
- the interplay of the benefits of preparing, auditing, enforcing, or using the resulting information and the costs of preparing it.

The evidence from the research will help the IASB determine what, if any, action it might take relating to the new requirements and guidance for entity disclosures. The findings should provide useful input for the IASB's future work.

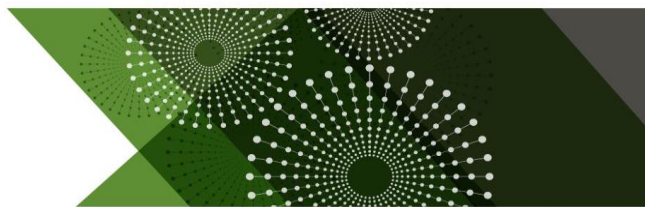
A2 Background

The IASB was informed, through feedback on the 2014 Exposure Draft of proposed amendments to IAS 1 and from other sources, that entities experienced difficulties making materiality judgements when preparing financial statements. Some entities used disclosure requirements in IFRS Accounting Standards as if they were a checklist and provided too much irrelevant information and not enough relevant information in their financial statements.

The IASB published the revised definition of materiality, the materiality practice statement and the *Better communication in Financial Disclosures—Making disclosures more meaningful* to assist entities in making materiality judgements when preparing general purpose financial statements.

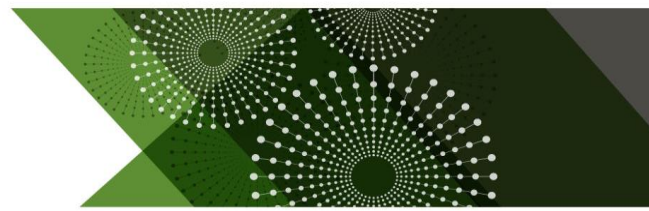
We would like to understand the practical effect of the documents on a reporting entity's assessment of materiality in preparing their general purpose financial statements. As a result of the documents, do entities have a better understanding of how to determine whether information is material? Are they disclosing information that makes financial statements more useful? For example, the IASB and the NZASB are interested to know:

- do entities use the IASB's materiality guidance in making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards;
- how entities use disclosure requirements in IFRS Accounting Standards in preparing their general purpose financial reports;
- did entities change their disclosure practices and the information they disclose in the year the materiality related documents were published and afterwards (2017 onwards) – has this continued or are new disclosures being added?; and
- how can standard setters further discourage immaterial disclosures?



Section B: Requirements for research proposals and research progression

- B1 Proposals should address the topic of materiality relating to one or more of the listed documents. Proposals should be written so they are understandable to academics and non-academics.
- B2 Although quantitative research is welcome, qualitative or mixed method approaches may be better able to provide evidence about the way entities apply materiality judgements. Therefore, the NZASB and IASB are particularly interested in research based on qualitative methods, including, but not limited to, interviews, focus group observations, (critical) discourse analysis, and interpretative content analysis. Researchers may use any other method or combination of quantitative and qualitative methods that they consider suitable to achieve the objectives of the research project.
- B3 The NZASB has formed a steering group to assess proposals and will meet periodically with the successful applicant/s. It will assist researchers to access key target groups, such as investors, financial statement preparers, members of entities' Boards/audit and risk committees, audit partners and regulators. This will be subject to the time and the resource constraints of the NZASB staff and its stakeholders.
- B4 Proposals must not exceed 6 pages (12-point font, 1.5-point line spacing) (excluding team member CVs and reference list) and must contain the following headings and sections:
- **Aim/objective/research question(s)**—explain the aim of the research, the research questions to be explored and why they are important.
 - **Relevant prior literature**—briefly explain the prior literature relevant to the proposal.
 - **Data and method**—outline the method to be used, including descriptions of sample selection, data collection and data analysis.
 - **Expected outcome/contribution to IASB**—explain how the expected findings may be useful for the IASB's standard setting projects.
 - **Reference list** – include a reference list (maximum 2 pages).
- In addition to the 6 pages (maximum), the proposal should include:
- **Research team details**—include a CV for each team member (maximum 2 pages per person; include only research papers relevant to the proposal).
- B5 Successful applicants will be notified by 1 August 2022, following which the successful team will meet with a steering committee comprising NZASB and IASB staff/board members to discuss the proposal and research plan.
- B6 Interim progress reports will be due on 1 November 2022 and 1 March 2023, following which the researcher/s will meet online with the steering committee at a mutually acceptable date/time.
- B7 A final draft report will be due with NZASB and IASB on 1 August 2023. The steering committee will provide feedback to allow further development before the final report is due with the IASB in September 2023.
- B8 The final report must include an executive summary and should be kept up to a maximum of 10,000 words. The researcher/s will also be expected to present to the NZASB a summary of their research findings on a mutually acceptable date following the final report.



The XRB and IFRS Foundation will retain copyright of the Interim and Final reports provided by the researchers. The researchers will be able to use the material contained in these reports in subsequent publications but the copyright of the XRB and IFRS Foundation must be acknowledged and the anonymity of the stakeholders that have participated in the research must be preserved.

The XRB may also choose to publish a summary of the research findings.
