STATUTORY BOARD FINANCIAL REPORTING STANDARD PRACTICE STATEMENT

SB-FRS Practice Statement 2
Making Materiality Judgements

This Guidance is applicable for annual reporting periods beginning on or after 1 January 2024.

CONTENTS

The SB-FRS Practice Statement 2 *Making Materiality Judgement*s (Practice Statement) is set out in paragraphs 1–89. This Practice Statement should be read in the context of its objective, the *Preface to Statutory Board Financial Reporting Standards*, the SB-FRS Conceptual Framework *for Financial Reporting* and SB-FRS Standards.

SB-FRS Practice Statement 2 *Making Materiality Judgements*

Introduction

IN1 The objective of general purpose financial statements is to provide financial information about a reporting Statutory Board that is relevant and faithfully represents what it purports to represent, so as to be useful to the Parliament, Government, existing and potential lenders, other creditors, and the general public in:

(a) making resource allocation, economic and policy decisions;
(b) buying, selling or holding debt instruments;
(c) providing or settling loans and other forms of credit; or
(d) assessing management's stewardship of the Statutory Board's economic resources.

The Statutory Board identifies the information necessary to meet that objective by making appropriate materiality judgements.

IN2 The aim of this SB-FRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) is to provide reporting Statutory Boards with guidance on making materiality judgements when preparing general purpose financial statements in accordance with SB-FRS Standards.

IN3 The need for materiality judgements is pervasive in the preparation of financial statements. A Statutory Board makes materiality judgements when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in SB-FRS only need to be applied if their effect is material to the complete set of financial statements.

IN4 This Practice Statement:

(a) provides an overview of the general characteristics of materiality.

(b) presents a four-step process a Statutory Board may follow in making materiality judgements when preparing its financial statements (materiality process). The description of the materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the Statutory Board should consider when making materiality judgements.

(c) provides guidance on how to make materiality judgements in specific circumstances, namely, how to make materiality judgements about prior-period information, errors and covenants, and in the context of interim reporting.

IN5 Whether information is material is a matter of judgement and depends on the facts involved and the circumstances of a specific Statutory Board. This Practice Statement illustrates the types of factors that the Statutory Board should consider when judging whether information is material.

IN6 A Practice Statement is a non-mandatory guidance. It is not a Standard. Therefore, its application is not required to state compliance with SB-FRS Standards.

IN7 This Practice Statement includes examples illustrating how a Statutory Board might apply some of the guidance in the Practice Statement based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the guidance could be applied.

Objective

1 This SB-FRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) provides reporting entities with non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with SB-FRS Standards.

2 The guidance may also help other parties involved in financial reporting to understand how a Statutory Board makes materiality judgements when preparing such financial statements.

Scope

3 The Practice Statement is applicable when preparing financial statements in accordance with SB-FRS Standards.

4 The Practice Statement provides non-mandatory guidance; therefore, its application is not required to state compliance with SB-FRS Standards.

General characteristics of materiality

Definition of material

5 The *SB-FRS Conceptual Framework for Financial Reporting* (*SB-FRS Conceptual Framework)* provides the following definition of material information (paragraph 7 of SB-FRS 1 *Presentation of Financial Statements* provides a similar definition[1]):

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting Statutory Board. In other words, materiality is a Statutory Board-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 Statutory Board's financial report.[2]

6 When making materiality judgements, a Statutory Board needs to take into account how information could reasonably be expected to influence the primary users of its financial statements—its primary users—when they make decisions[3] on the basis of those statements (see paragraphs 13–23).[4]

7 The objective of financial statements is to provide financial information about a reporting Statutory Board that is useful to the Parliament, Government, existing and potential lenders, other creditors, and the general public in making resource allocation, economic and policy decisions.[5] The Statutory Board identifies the information necessary to meet that objective by making appropriate materiality judgements.

---

[1] See paragraph 7 of SB-FRS 1 *Presentation of Financial Statements*.

[2] Paragraph 2.11 of the *SB-FRS Conceptual Framework for Financial Reporting* (*SB-FRS Conceptual Framework*).

[3] Throughout this Practice Statement, the term 'decisions' refers to decisions about providing resources to the Statutory Board, unless specifically indicated otherwise.

[4] See paragraph 7 of SB-FRS 1.

[5] See paragraph 1.3 of the *SB-FRS Conceptual Framework* .

Materiality judgements are pervasive

8 The need for materiality judgements is pervasive in the preparation of financial statements. A Statutory Board makes materiality judgements when making decisions about recognition, measurement, presentation and disclosure. Requirements in SB-FRS Standards only need to be applied if their effect is material to the complete set of financial statements,[6] which includes the primary financial statements[7] and the notes. However, it is inappropriate for the Statutory Board to make, or leave uncorrected, immaterial departures from SB-FRS Standards to achieve a particular presentation of its financial position, financial performance or cash flows.[8]

Recognition and measurement

9 SB-FRS Standards set out reporting requirements that will lead to financial statements that provide information about the financial position, financial performance and cash flows of a Statutory Board that is useful to the primary users of those statements. The Statutory Board is only required to apply recognition and measurement requirements when the effect of applying them is material.

Example A—materiality judgements on the application of accounting policies

Background

A Statutory Board has a policy of capitalising expenditures on items of property, plant and equipment (PP&E) in excess of a specified threshold and recognising any smaller amounts as an expense.

Application

SB-FRS 16 *Property, Plant and Equipment* requires that the cost of an item of PP&E is recognised as an asset when the criteria in paragraph 7 of SB-FRS 16 are met.

The Statutory Board has assessed that its accounting policy—not capitalising expenditure below a specific threshold—will not have a material effect on the current-period financial statements or on future financial statements, because information reflecting the capitalisation and amortisation of such expenditure could not reasonably be expected to influence decisions made by the primary users of the Statutory Board's financial statements.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the Statutory Board's financial position, financial performance or cash flows, the Statutory Board's financial statements comply with SB-FRS 16. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the Statutory Board's financial statements remains immaterial.

Presentation and disclosure

10 A Statutory Board need not provide a disclosure specified by a SB-FRS Standard if the information resulting from that disclosure is not material. This is the case even if the Standard contains a list of specific disclosure requirements or describes them as 'minimum requirements'. Conversely, the Statutory Board must consider whether to provide information not specified by SB-FRS Standards if that information is necessary for primary users to understand the impact of particular transactions, other events and conditions on the Statutory Board's financial position, financial performance and cash flows.[9]

---

[6] In this Practice Statement the phrases 'complete set of financial statements' and 'financial statements as a whole' are used interchangeably.

[7] For the purposes of this Practice Statement, the primary financial statements comprise the statement of financial position, statement(s) of financial performance, statement of changes in equity and statement of cash flows.

[8] See paragraph 8 of SB-FRS 8.

[9] See paragraphs 17(c) and 31 of SB-FRS 1.

Example B—materiality judgements on disclosures specified by SB-FRS Standards

Background

A Statutory Board presents property, plant and equipment (PP&E) as a separate line item in its statement of financial position.

Application

SB-FRS 16 *Property, Plant and Equipment* sets out specific disclosure requirements for PP&E, including the disclosure of the amount of contractual commitments for the acquisition of PP&E (paragraph 74(c) of SB-FRS 16).

When preparing its financial statements, the Statutory Board assesses whether disclosures specified in SB-FRS 16 are material information. Even if PP&E is presented as a separate line item in the statement of financial position, not all disclosures specified in SB-FRS 16 will automatically be required. In the absence of any qualitative considerations (see paragraphs 46–51), if the amount of contractual commitments for the acquisition of PP&E is not material, the Statutory Board is not required to disclose this information.

Example C—materiality judgements that lead to the disclosure of information in addition to the specific disclosure requirements in SB-FRS Standards

Background

A Statutory Board recorded an impairment loss on its a capital asset, reducing the carrying amount of the asset to its recoverable amount. No goodwill or intangible assets with an indefinite useful life were included in the cash-generating unit.

Application

Paragraph 132 of SB-FRS 36 Impairment of Assets does not require a Statutory Board to disclose the assumptions used to determine the recoverable amount of a tangible asset, unless goodwill or intangible assets with an indefinite useful life are included in the carrying amount of the cash-generating unit.

Nevertheless, the Statutory Board has concluded that the assumptions about its operating environment could reasonably be expected to influence decisions primary users make on the basis of the Statutory Board's financial statements. Hence, information about those assumptions is necessary for primary users to understand the impact of the impairment on the Statutory Board's financial position, financial performance and cash flows. Therefore, even though not specifically required by SB-FRS 36, the Statutory Board concludes that its assumptions about its operating environment constitute material information and discloses those assumptions in its financial statements.

Judgement

11 When assessing whether information is material to the financial statements, a Statutory Board applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. When applying such judgement, the Statutory Board considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.

12 Because a Statutory Board's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.

Primary users and their information needs

13 When making materiality judgements, a Statutory Board needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements. Those primary users are the Parliament, Government, existing and potential lenders, other creditors, and the general public — some of those users cannot require Statutory Boards to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need.[10] In addition to those primary users, other parties, such as the Statutory Board's management, and regulators, may be interested in financial information about the Statutory Board and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.[11]

14 Because primary users include the Parliament, Government, existing and potential lenders, and other creditors and the general public, it would be inappropriate for a Statutory Board to narrow the information provided in its financial statements by focusing only on the information of the Parliament, Government, existing lenders and other creditors.

Example D—existing and potential lenders and other creditors
Background A Statutory Board is entirely financed by the Government. The current users of the Statutory Board's financial statements include the Government and the Statutory Board's creditors (mainly local suppliers). **Application** The Statutory Board refers to the *SB-FRS Conceptual Framework for Financial Reporting* to identify the primary users of its financial statements—the Parliament, Government, existing and potential lenders and other creditors, and the general public. Some of these users cannot require the Statutory Board to provide information directly to them and must rely on general purpose financial statements. When making materiality judgements in the preparation of its financial statements, the Statutory Board does not reduce its disclosures to only those of interest to the Government or its existing creditors. The Statutory Board also considers the information needs of other users when making those judgements.

15 When making materiality judgements, a Statutory Board also considers that primary users are expected to have a reasonable knowledge of business and economic activities and to review and analyse the information included in the financial statements diligently.[12]

Decisions made by primary users

16 A Statutory Board needs to consider what type of decisions its primary users make on the basis of the financial statements and, consequently, what information they need to make those decisions.

17 The primary users of a Statutory Board's financial statements make resource allocation, economic and policy decisions, as well as decisions which involve buying, selling or holding debt instruments, providing or settling loans and other forms of credit[13] And assessing management's stewardship of the Statutory Board's economic resources. Such decisions depend on the returns that primary users expect from an investment in those instruments.

18 The expectations the Parliament, Government, existing and potential lenders, other creditors, and the general public have about returns, in turn, depend on their assessment of the amount,

[10] See paragraph 1.11 of the *SB-FRS Conceptual Framework* .

[11] See paragraphs 1.15 and 1.16 of the *SB-FRS Conceptual Framework* .

[12] See paragraph 2.36 of the *SB-FRS Conceptual Framework* .

[13] See paragraph 1.3 of the *SB-FRS Conceptual Framework* .

timing and uncertainty of the future net cash inflows to a Statutory Board,[14] together with their assessment of management's stewardship of the Statutory Board's resources.[15]

19 Consequently, a Statutory Board's primary users need information about:

(a) the resources of the Statutory Board (assets), claims against the Statutory Board (liabilities and equity) and changes in those resources and claims (income and expenses); and

(b) how efficiently and effectively the Statutory Board's management and governing board have discharged their responsibility to use the Statutory Board's resources.[16]

20 Financial information can make a difference in decisions if it has predictive value, confirmatory value or both.[17] When making materiality judgements, a Statutory Board needs to assess whether information could reasonably be expected to influence primary users' decisions, rather than assessing whether that information alone could reasonably be expected to change their decisions.

Meeting primary users' information needs

21 The objective of financial statements is to provide primary users with financial information that is useful to them in making decisions about providing resources to a Statutory Board. However, general purpose financial statements do not, and cannot, provide all the information that primary users need.[18] Therefore, the Statutory Board aims to meet the common information needs of its primary users. It does not aim to address specialised information needs—information needs that are unique to particular users.

Example E—primary users' unique or individual information requests

Background

Twenty bond-holders each hold 5 per cent of a Statutory Board's bonds. One of these bond-holders is particularly interested in information about the Statutory Board's expenditure in a specific location because that bond-holder operates another business in that location. Such information could not reasonably be expected to influence decisions that other primary users make on the basis of the Statutory Board's financial statements.

Application

In making its materiality judgements, the Statutory Board does not need to consider the specific information needs of that single bond-holder. The Statutory Board concludes that information about its expenditure in the specific location is immaterial information for its primary users as a group and therefore decides not to provide it in its financial statements.

22 To meet the common information needs of its primary users, a Statutory Board first separately identifies the information needs that are shared by users within one of its categories of primary users defined in the *SB-FRS Conceptual Framework* —for example Members of Parliament (existing and potential)—then repeats the assessment for the remaining categories—lenders (existing and potential), other creditors (existing and potential) and so on. The total of the information needs identified is the set of common information needs the Statutory Board aims to meet.

[14] See paragraph 1.9 of the *SB-FRS Conceptual Framework* .

[15] See paragraph 1.3 of the *SB-FRS Conceptual Framework.*

[16] See paragraph 1.28 and 1.29 of the *SB-FRS Conceptual Framework* .

[17] See paragraph 2.7 of the *SB-FRS Conceptual Framework* .

[18] See paragraph 1.12 of the *SB-FRS Conceptual Framework* .

23 In other words, the assessment of common information needs does not require identifying information needs shared across all existing and potential primary users. Some of the identified information needs will be common to all categories, but others may be specific to only one or two of those categories. If a Statutory Board were to focus only on those information needs that are common to all categories of primary users, it might exclude information that meets the needs of only one category.

Impact of publicly available information

24 The primary users of financial statements generally consider information from sources other than just the financial statements. For example, they might also consider other sections of the annual report, information about the sector a Statutory Board operates in, the Statutory Board's press releases as well as other documents the Statutory Board has published.

25 However, the financial statements are required to be a comprehensive document that provides information about the financial position, financial performance and cash flows of a Statutory Board that is useful to primary users in making resource allocation, economic and policy decisions. Consequently, the Statutory Board assesses whether information is material to the financial statements, regardless of whether such information is also publicly available from another source.

26 Moreover, public availability of information does not relieve a Statutory Board of the obligation to provide material information in its financial statements.

Interaction with Singapore laws and regulations

27 A Statutory Board's financial statements must comply with the requirements in SB-FRS Standards, including requirements related to materiality (materiality requirements), for the Statutory Board to state its compliance with those Standards. Hence, a Statutory Board that wishes to state compliance with SB-FRS Standards cannot provide less information than the information required by the Standards, even if Singapore laws and regulations permit otherwise.

28 Nevertheless, Singapore laws and regulations may specify requirements that affect what information is provided in the financial statements. In such circumstances, providing information to meet Singapore legal or regulatory requirements is permitted by SB-FRS Standards, even if that information is not material according to the materiality requirements in the Standards. However, such information must not obscure information that is material according to SB-FRS Standards.[19]

Example F—information that is immaterial according to SB-FRS Standards but required to be disclosed by Singapore laws and regulations

Background

The Ministry of Finance requires all non-charitable Statutory Boards that are generating and retaining surpluses to pay cash contributions to the Consolidated Fund, if they generate accounting surpluses. Statutory Boards are required to disclose, in their financial statements, details on the computation of the contributions during the period.

When preparing its financial statements, the Statutory Board assessed the disclosure of detailed information about the contributions incurred during the period as immaterial, for SB-FRS purposes.

[19] See paragraph 30A of SB-FRS 1.

Application

SB-FRS Standards permit the Statutory Board to disclose that information in its financial statements, but the Statutory Board needs to organise its disclosures to ensure that material information is not obscured.

Example G—information that is material according to SB-FRS Standards not required by Singapore laws and regulations

Background

The Government requires the disclosure of the details of property, plant and equipment (PP&E) disposals, but only if their carrying amounts exceed a specified percentage of total assets.

In the current reporting period, the Statutory Board disposed of PP&E below the threshold specified in the local regulation. This transaction was with another Statutory Board, which paid less than the fair value of the item disposed.

When preparing its financial statements, the Statutory Board applied judgement and concluded that information about the details of the disposal was material, mainly because of the terms of the transaction and the fact it was with a related party.

Application

To comply with SB-FRS Standards, the Statutory Board discloses details of that disposal even though local regulations require disclosure of PP&E disposals only if their carrying amount exceeds a specified percentage of total assets.

Making materiality judgements

Overview of the materiality process

29 A Statutory Board may find it helpful to follow a systematic process in making materiality judgements when preparing its financial statements. The four-step process described in the following paragraphs is an example of such a process. This description provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the Statutory Board should consider when making materiality judgements. In this Practice Statement, this four-step process is called the 'materiality process'.

30 The materiality process describes how a Statutory Board could assess whether information is material for the purposes of presentation and disclosure, as well as for recognition and measurement. The process illustrates one possible way to make materiality judgements, but it incorporates the materiality requirements a Statutory Board must apply to state compliance with SB-FRS Standards. The materiality process considers potential omission and potential misstatement of information, as well as unnecessary inclusion of immaterial information and whether immaterial information obscures material information. In all cases, the Statutory Board needs to focus on how the information could reasonably be expected to influence decisions of the primary users of its financial statements.

31 Judgement is involved in assessing materiality when preparing financial statements. The materiality process is designed as a practice guide to help a Statutory Board apply judgement in an efficient and effective way.

32 The materiality process is not intended to describe the assessment of materiality for Singapore legal and regulatory purposes. A Statutory Board refers to Singapore requirements to assess whether it is compliant with Singapore laws and regulations.

A four-step materiality process

33 The steps identified as a possible approach to the assessment of materiality in the preparation of the financial statements are, in summary:

(a) Step 1—identify. Identify information that has the potential to be material.

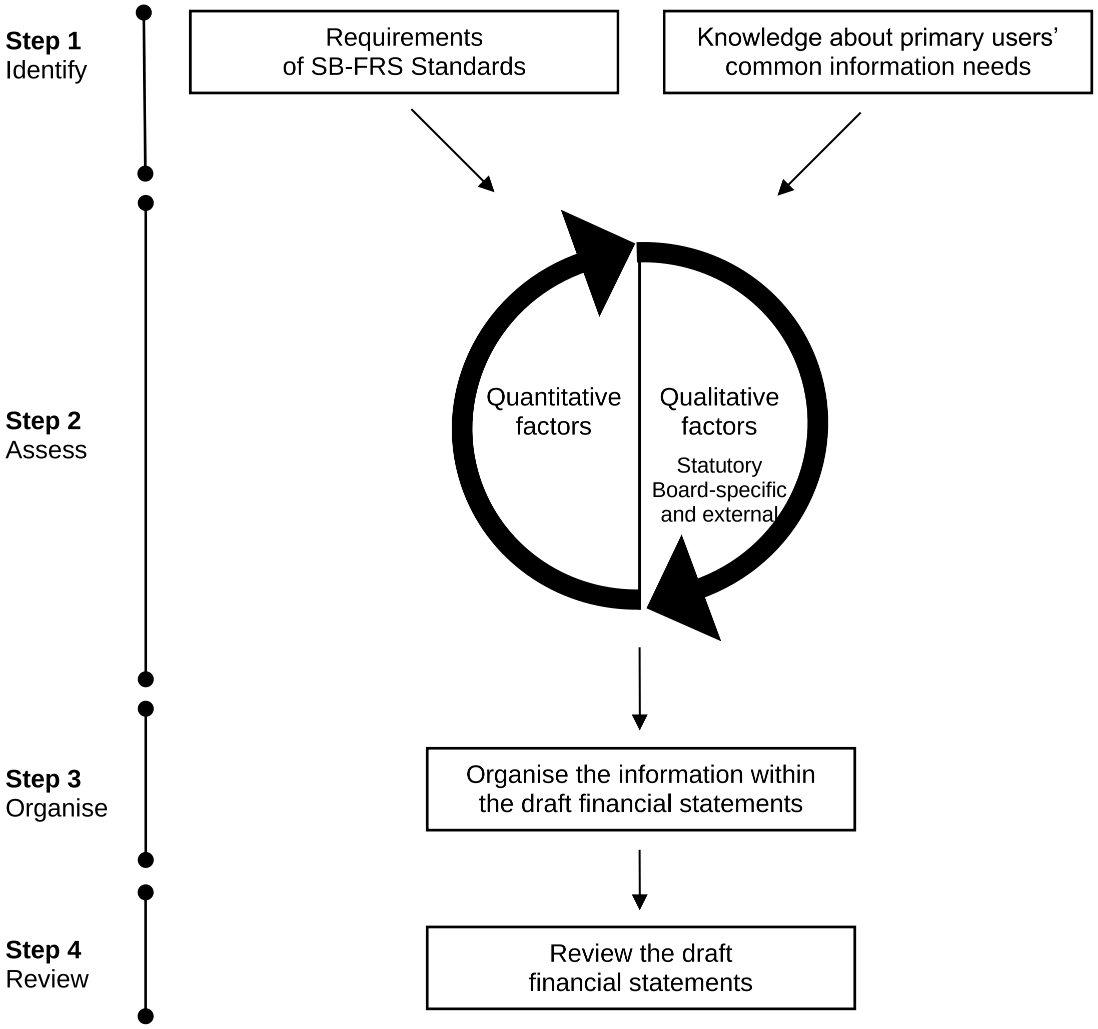
(b) Step 2—assess. Assess whether the information identified in Step 1 is, in fact, material.

(c) Step 3—organise. Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.

(d) Step 4—review. 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.

34 When preparing its financial statements, a Statutory Board may rely on materiality assessments from prior periods, provided that it reconsiders them in the light of any change in circumstances and of any new or updated information.

Diagram 1—the four-step materiality process



Step 1—identify

35 A Statutory Board identifies information about its transactions, other events and conditions that primary users might need to understand to make decisions about providing resources to the Statutory Board.

36 In identifying this information, a Statutory Board considers, as a starting point, the requirements of the SB-FRS Standards applicable to its transactions, other events and conditions. This is the starting point because, when developing a Standard, the information that is expected to meet the needs of a broad range of primary users for Statutory Boards in a range of circumstances is identified.[20]

37 When developing a Standard, the balance between the benefits of providing information and the costs of complying with the requirements in that Standard is also considered. However, the cost of applying the requirements in the Standards is not a factor for a Statutory Board to consider when making materiality judgements—the Statutory Board should not consider the cost of complying with requirements in SB-FRS Standards, unless there is explicit permission in the Standards.

[20] See paragraph 1.14 of the *SB-FRS Conceptual Framework* .

38 A Statutory Board also considers its primary users' common information needs (as explained in paragraphs 21–23) to identify any information—in addition to that specified in SB-FRS Standards—necessary to enable primary users to understand the impact of the Statutory Board's transactions, other events and conditions on the Statutory Board's financial position, financial performance and cash flows (see paragraph 10). The Parliament, Government, existing and potential lenders, other creditors, and the general public need information about the resources of the Statutory Board (assets), claims against the Statutory Board (liabilities and equity) and changes in those resources and claims (income and expenses), and information that will help them assess how efficiently and effectively the Statutory Board's management and governing board have discharged their responsibility to use the Statutory Board's resources.[21]

39 The output of Step 1 is a set of potentially material information.

Step 2—assess

40 A Statutory Board assesses whether the potentially material information identified in Step 1 is, in fact, material. In making this assessment, the Statutory Board needs to consider whether its primary users could reasonably be expected to be influenced by the information when making decisions about providing resources to the Statutory Board on the basis of the financial statements. The Statutory Board performs this assessment in the context of the financial statements as a whole.

41 A Statutory Board might conclude that an item of information is material for various reasons. Those reasons include the item's nature or magnitude, or a combination of both, judged in relation to the particular circumstances of the Statutory Board.[22] Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the Statutory Board to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 53–55).

42 The following paragraphs describe some common 'materiality factors' that a Statutory Board should use to help identify when an item of information is material. These factors are organised into the following categories:

(a) quantitative; and

(b) qualitative—either Statutory Board-specific or external.

43 The output of Step 2 is a preliminary set of material information. For presentation and disclosure, this involves decisions about what information a Statutory Board needs to provide in its financial statements, and in how much detail[23] (including identifying appropriate levels of aggregation a Statutory Board provides in the financial statements). For recognition and measurement, the output of Step 2 involves the identification of information that, if not recognised or otherwise misstated, could reasonably be expected to influence primary users' decisions.

Quantitative factors

---

[21] See paragraph 1.28 and 1.29 of the *SB-FRS Conceptual Framework* .

[22] See paragraph 7 of SB-FRS 1.

[23] See paragraph 29 of SB-FRS 1.

44 A Statutory Board ordinarily assesses whether information is quantitatively material by considering the size of the impact of the transaction, other event or condition against measures of the Statutory Board's financial position, financial performance and cash flows. The Statutory Board makes this assessment by considering not only the size of the impact it recognises in its primary financial statements but also any unrecognised items that could ultimately affect primary users' overall perception of the Statutory Board's financial position, financial performance and cash flows (e.g. contingent liabilities or contingent assets). The Statutory Board needs to assess whether the impact is of such a size that information about the transaction, other event or condition could reasonably be expected to influence its primary users' decisions about providing resources to the Statutory Board.

45 Identifying the measures against which a Statutory Board makes this quantitative assessment is a matter of judgement. That judgement depends on which measures are of great interest to the primary users of the Statutory Board's financial statements. Examples include measures of the Statutory Board's surplus or deficit financial position ratios and cash flow measures.

Qualitative factors

46 For the purposes of this Practice Statement, qualitative factors are characteristics of a Statutory Board's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the Statutory Board's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.

47 In making materiality judgements, a Statutory Board considers both Statutory Board-specific and external qualitative factors. These factors are described separately in the following paragraphs. However, in practice, the Statutory Board may need to consider them together.

48 A Statutory Board-specific qualitative factor is a characteristic of the Statutory Board's transaction, other event or condition. Examples of such factors include, but are not limited to:

(a) involvement of a related party of the Statutory Board;

(b) uncommon, or non-standard, features of a transaction or other event or condition; or

(c) unexpected variation or unexpected changes in trends. In some circumstances, the Statutory Board might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.

49 The relevance of information to the primary users of a Statutory Board's financial statements can also be affected by the context in which the Statutory Board operates. An external qualitative factor is a characteristic of the context in which the Statutory Board's transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions. Characteristics of the Statutory Board's context that might represent external qualitative factors include, but are not limited to, the Statutory Board's geographical location, its sector, or the state of the economy or economies in which the Statutory Board operates.

50 Due to the nature of external qualitative factors, Statutory Boards operating in the same context might share a number of external qualitative factors. Moreover, external qualitative factors could remain constant over time or could vary.

51 In some circumstances, if a Statutory Board is not exposed to a risk to which other entities in its sector are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

Interaction of qualitative and quantitative factors

52 A Statutory Board could identify an item of information as material on the basis of one or more materiality factors. In general, the more factors that apply to a particular item, or the more significant those factors are, the more likely it is that the item is material.

53 Although there is no hierarchy among materiality factors, assessing an item of information from a quantitative perspective first could be an efficient approach to assessing materiality. If a Statutory Board identifies an item of information as material solely on the basis of the size of the impact of the transaction, other event or condition, the Statutory Board does not need to assess that item of information further against other materiality factors. In these circumstances, a quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—can be a helpful tool in making a materiality judgement. However, a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. The Statutory Board should further assess the presence of qualitative factors.

54 The presence of a qualitative factor lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be. However, in some cases a Statutory Board might decide that, despite the presence of qualitative factors, an item of information is not material because its effect on the financial statements is so small that it could not reasonably be expected to influence primary users' decisions.

55 In some other circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could even reduce to zero. This might happen when information about a transaction, other event or condition is highly scrutinised by the primary users of a Statutory Board's financial statements. Moreover, a quantitative assessment is not always possible: non-numeric information might only be assessed from a qualitative perspective.

Example H—information about a related party transaction assessed as material

Background

In the current reporting period, a Statutory Board signed a five-year contract with company ABC. Company ABC will provide the Statutory Board with maintenance services for the Statutory Board's offices for an annual fee. Company ABC is controlled by a member of the Statutory Board's key management personnel. Hence, company ABC is a related party of the Statutory Board.

Application

SB-FRS 24 *Related Party Disclosures* requires a Statutory Board to disclose, for each related party transaction that occurred during the period, the nature of the related party relationship as well as information about the transaction and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

When preparing its financial statements, the Statutory Board assessed whether information about the transaction with company ABC was material.

The Statutory Board started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the Statutory Board's net surplus or deficit. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the Statutory Board further assessed the presence of any qualitative factors.

In developing SB-FRS 24, it was noted that related parties may enter into transactions that unrelated parties would not enter into, and the transactions may be priced at amounts that differ from the price for transactions between unrelated parties.

The Statutory Board identified the fact that the maintenance agreement was concluded with a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The Statutory Board further assessed the transaction from a quantitative perspective to determine whether the impact of the transaction could reasonably be expected to influence primary users' decisions when considered with the fact that the transaction was with a related party (ie the presence of a qualitative factor lowers the quantitative threshold). Having considered that the transaction was with a related party, the Statutory Board concluded that the impact was large enough to reasonably be expected to influence primary users' decisions. Hence, the Statutory Board assessed information about the transaction with company ABC as material and disclosed that information in its financial statements.

Example I—information about a related party transaction assessed as immaterial

Background

A Statutory Board owns a large fleet of vehicles. In the current reporting period, the Statutory Board sold an almost fully depreciated vehicle to company DEF. The Statutory Board transferred the vehicle for total consideration consistent with its market value and its carrying amount. Company DEF is controlled by a member of the Statutory Board's key management personnel. Hence, company DEF is a related party of the Statutory Board.

Application

When preparing its financial statements, the Statutory Board assessed whether information about the transaction with company DEF was material.

As in **Example H**, the Statutory Board started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the Statutory Board's surplus or deficit. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the Statutory Board further assessed the presence of any qualitative factors.

The Statutory Board transferred the vehicle for a total consideration consistent with its market value and its carrying amount. However, the Statutory Board identified the fact that the vehicle was sold to a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The Statutory Board further assessed the transaction from a quantitative perspective but concluded that its impact was too small to reasonably be expected to influence primary users' decisions, even when considered with the fact that the transaction was with a related party. Information about the transaction with company DEF was consequently assessed as immaterial and not disclosed in the Statutory Board's financial statements.

Example J—influence of external qualitative factors on materiality judgements

Background

A Statutory Board holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other Statutory Boards hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

Application

Paragraph 31 of SB-FRS 107 *Financial Instruments: Disclosures* requires a Statutory Board to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the Statutory Board is exposed at the end of the reporting period.

When preparing its financial statements, the Statutory Board assessed whether the fact that it holds a very small amount of debt originating from that country was material information.

In making that assessment, the Statutory Board considered the exposure to that particular debt faced by other Statutory Boards (external qualitative factor).

> In these circumstances, the fact that the Statutory Board is holding a very small amount of debt (or even no debt at all) originating from that country, while other Statutory Boards have significant holdings, provides the Statutory Board's primary users with useful information about how effective management has been at protecting the Statutory Board's resources from unfavourable effects of the economic conditions in that country.
>
> The Statutory Board assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Step 3—organise

56 Classifying, characterising and presenting information clearly and concisely makes it understandable.[24] A Statutory Board exercises judgement when deciding how to communicate information clearly and concisely. For example, the Statutory Board is more likely to clearly and concisely communicate the material information identified in Step 2 by organising it to:

(a) emphasise material matters;

(b) tailor information to the Statutory Board's own circumstances;

(c) describe the Statutory Board's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;

(d) highlight relationships between different pieces of information;

(e) provide information in a format that is appropriate for its type, eg tabular or narrative;

(f) provide information in a way that maximises, to the extent possible, comparability among entities and across reporting periods;

(g) avoid or minimise duplication of information in different parts of the financial statements; and

(h) ensure material information is not obscured by immaterial information.

57 Financial statements are less understandable for primary users if information is organised in an unclear manner. Similarly, financial statements are less understandable if a Statutory Board aggregates material items that have different natures or functions, or if material information is obscured,[25] for example, by an excessive amount of immaterial information.

58 Furthermore, a Statutory Board considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.

59 The output of Step 3 is the draft financial statements.

Step 4—review

60 A Statutory Board needs to assess whether information is material both individually and in combination with other information[26] in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

---

[24] See paragraph 2.34 of the *SB-FRS Conceptual Framework* .

[25] See paragraph 30A of SB-FRS 1.

[26] See paragraph 7 of SB-FRS 1.

61 When reviewing its draft financial statements, a Statutory Board draws on its knowledge and experience of its transactions, other events and conditions to identify whether all material information has been provided in the financial statements, and with appropriate prominence.

62 This review gives a Statutory Board the opportunity to 'step back' and consider the information provided from a wider perspective and in aggregate. This enables the Statutory Board to consider the overall picture of its financial position, financial performance and cash flows. In performing this review, the Statutory Board also considers whether:

(a) all relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time.

(b) items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions.

(c) the information in the financial statements is communicated in an effective and understandable way, and organised to avoid obscuring material information.

(d) the financial statements provide a fair presentation of the Statutory Board's financial position, financial performance and cash flows.[27]

63 The review may lead to:

(a) additional information being provided in the financial statements;

(b) greater disaggregation of information that had already been identified as material;

(c) information that had already been identified as immaterial being removed from the financial statements to avoid obscuring material information; or

(d) information being reorganised within the financial statements.

64 The review in Step 4 may also lead a Statutory Board to question the assessment performed in Step 2 and decide to re-perform that assessment. As a result of re-performing its assessment in Step 2, the Statutory Board might conclude that information previously identified as material is, in fact, immaterial, and remove it from the financial statements.

65 The output of Step 4 is the final financial statements.

Specific topics

Prior-period information

66 A Statutory Board makes materiality judgements on the complete set of financial statements, including prior-period[28] information provided in the financial statements.

67 SB-FRS Standards require a Statutory Board to present information in respect of the preceding period for all amounts reported in the current-period financial statements.[29] Furthermore, the Standards require the Statutory Board to provide prior-period information for narrative and descriptive information if it is relevant to understanding the current-period financial statements.[30] Finally, the Standards require the Statutory Board to present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two statements of profit or loss (if presented separately), two statements of cash flows, two statements of changes in equity, and related notes.[31] These requirements are the minimum comparative information identified by the Standards.[32]

---

27 See paragraph 15 of SB-FRS 1.

28 For this Practice Statement, 'prior-period' should be read as 'prior-periods' if financial statements include amounts and disclosures for more than one prior period.

29 Except when SB-FRS Standards permit or require otherwise. See paragraph 38 of SB-FRS 1.

30 See paragraph 38 of SB-FRS 1.

31 See paragraph 38A of SB-FRS 1.

32 Paragraph 10(f) of SB-FRS 1 also requires a Statutory Board to provide a statement of financial position as at the beginning of the preceding period when the Statutory Board applies an accounting policy retrospectively or makes a retrospective

68 Assessing whether prior-period information is material to the current-period financial statements might lead a Statutory Board to:

(a) provide more prior-period information than was provided in the prior-period financial statements (see paragraph 70); or

(b) provide less prior-period information than was provided in the prior-period financial statements (see paragraph 71).

69 A Statutory Board also needs to consider Singapore laws or regulations, in respect of the prior-period information to be provided in financial statements, when making decisions on what prior-period information to provide in the current-period financial statements. Singapore laws or regulations might require the Statutory Board to provide in the financial statements prior-period information in addition to the minimum comparative information required by the Standards. The Standards permit the inclusion of such additional information, but require that it is prepared in accordance with the Standards[33] and does not obscure material information.[34] However, a Statutory Board that wishes to state compliance with SB-FRS Standards cannot provide less information than required by the Standards, even if Singapore laws and regulations permit otherwise.

Prior-period information not previously provided

70 A Statutory Board must provide prior-period information needed to understand the current-period financial statements,[35] regardless of whether that information was provided in the prior-period financial statements—this requirement is not conditional on whether the prior-period information was provided in the prior-period financial statements. Consequently, the inclusion of prior-period information not previously included would be required if this is necessary for the primary users to understand the current-period financial statements.

Example K—prior-period information not previously provided

Background

In the prior period, a Statutory Board had a very small amount of debt outstanding. Information about this debt was appropriately assessed as immaterial in the prior period, and so the Statutory Board did not disclose any maturity analysis showing the remaining contractual maturities or other information that would otherwise be required by paragraph 39(a) of SB-FRS 107 *Financial Instruments: Disclosures*.

In the current period, the Statutory Board issued a large amount of debt. The Statutory Board concluded that information about debt maturity was material information and disclosed it, in the form of a table, in the current-period financial statements.

Application

The Statutory Board might conclude that including a prior-period debt maturity analysis in the financial statements would be necessary for primary users to understand the current-period financial statements. In these circumstances, a narrative description of the maturity of the prior-period balances of the outstanding debt might be sufficient.

restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of SB-FRS 1.

33 See paragraph 38C of SB-FRS 1.

34 See paragraph 30A of SB-FRS 1.

35 See paragraph 38 of SB-FRS 1.

Summarising prior-period information

71 Except to the extent required to comply with Singapore laws or regulations affecting the preparation of financial statements or their audit, a Statutory Board does not automatically reproduce in the current-period financial statements all the information provided in the prior-period financial statements. Instead, the Statutory Board may summarise prior-period information, retaining the information necessary for primary users to understand the current-period financial statements.

Example L—summarising prior-period information
Background A Statutory Board disclosed, in the prior-period financial statements, details of a legal dispute which led to the recognition, in that period, of a provision. In accordance with SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets,* the Statutory Board disclosed in the prior-period financial statements a detailed description of uncertainties about the amount and timing of possible cash outflows, in respect of the dispute, together with the major assumptions made concerning future events. Most of the uncertainties have been resolved in the current period, and, even though the liability has not been settled, a court pronouncement confirmed the amount already recognised in the financial statements by the Statutory Board. The Statutory Board considered the relevant Singapore laws, regulations and other reporting requirements and concluded that there were no locally prescribed obligations relating to the inclusion of prior-period information in the current-period financial statements. **Application** In these circumstances, on the basis of the requirements in SB-FRS Standards, the Statutory Board may not need to reproduce in the current-period financial statements all of the information about the legal dispute provided in the prior-period financial statements. Because most of the uncertainties have been resolved, users of the financial statements for the current period may no longer need detailed information about those uncertainties. Instead, information about those uncertainties might be summarised and updated to reflect the current-period events and circumstances and the resolution of previously reported uncertainties.

Errors

72 Errors are omissions from and/or misstatements in a Statutory Board's financial statements arising from a failure to use, or misuse of, reliable information that is available, or could reasonably be expected to be obtained.[36] Material errors are errors that individually or collectively could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. Errors may affect narrative descriptions disclosed in the notes as well as amounts reported in the primary financial statements or in the notes.

73 A Statutory Board must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance or cash flows, to ensure compliance with SB-FRS Standards.[37] The Statutory Board should refer to SB-FRS 8 for guidance on how to correct an error.

74 Immaterial errors, if not made intentionally to achieve a particular presentation, do not need to be corrected to ensure compliance with SB-FRS Standards. However, correcting all errors (including those that are not material) in the preparation of the financial statements lowers the risk that immaterial errors will accumulate over reporting periods and become material.

[36] See paragraph 5 of SB-FRS 8 (derived from the definition of prior-period errors).

[37] See paragraph 41 of SB-FRS 8.

75 A Statutory Board assesses whether an error is material by applying the same considerations as outlined in the description of the materiality process. Making materiality judgements about errors involves both quantitative and qualitative considerations. The Statutory Board identifies information that, if misstated or omitted, could reasonably be expected to influence primary users' decisions (as described in Step 1 and Step 2 of the materiality process). The Statutory Board also considers whether any identified errors are material on a collective basis (as described in Step 4 of the materiality process).

76 If an error is judged not to be material on its own, it might be regarded as material when considered in combination with other information. However, in general, if an error is individually assessed as material to a Statutory Board's financial statements, the existence of other errors that affect the Statutory Board's financial position, financial performance or cash flows in the opposite way, does not make the error immaterial, nor does it eliminate the need to correct the error.

Example M—individual and collective assessment of errors

Background

A Statutory Board has identified measures of its expenses as the measures of great interest to the primary users of its financial statements. During the current reporting period, the Statutory Board recognised:

(a) an expense accrual of $100 that should not have been recognised. The accrual affected the line item 'cost of services'.

(b) the reversal of a provision of $80 recognised in the previous period that should not have been reversed. The reversal affected the line item 'other operating income (expense)'.

Application

In assessing whether these errors are material to its financial statements, the Statutory Board did not identify the presence of any qualitative factors and thus made its materiality judgement solely from a quantitative perspective. The Statutory Board concluded that both errors were individually material because of their impact on its profit.

In these circumstances, it would be inappropriate to consider the quantitative effect of the errors on a net basis, ie as a $20 overstatement of expenses, thereby concluding that the identified errors do not need to be corrected. If an error is individually assessed as material to the Statutory Board's financial statements, the existence of other errors that affect the Statutory Board's financial position, financial performance or cash flows in an opposite way, does not eliminate the need to correct it, or make the error immaterial.

Cumulative errors

77 A Statutory Board may, over a number of reporting periods, accumulate errors that were immaterial, both in individual prior periods and cumulatively over all prior periods. Uncorrected errors that have accumulated over more than one period are sometimes called 'cumulative errors'.

78 Materiality judgements about cumulative errors in prior-period financial statements that a Statutory Board made at the time those statements were authorised for issue need not be revisited in subsequent periods unless the Statutory Board failed to use, or misused, information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation of those financial statements.[38]

79 To assess whether a cumulative error has become material to the current-period financial statements, a Statutory Board considers whether, in the current period:

(a) the Statutory Board's circumstances have changed, leading to a different materiality assessment for the current period; or

(b) further accumulation of a current-period error onto the cumulative error has occurred.

80 A Statutory Board must correct cumulative errors if they have become material to the current-period financial statements.

Example N—current-period assessment of cumulative errors

Background

A Statutory Board, three years ago, purchased a plant. The plant has a useful life of 50 years and a residual value amounting to 20 per cent of the plant cost. The Statutory Board started to use the plant three years ago, but has not recognised any depreciation for it (cumulative error). In each prior period, the Statutory Board assessed the error of not depreciating its plant as being individually and cumulatively immaterial to the financial statements for that period. There is no indication that the materiality judgements of prior periods were wrong.

In the current period, the Statutory Board started depreciating the plant.

In the same period, the Statutory Board experienced a significant reduction in profitability (the type of circumstance referred to in paragraph 79(a) of the Practice Statement).

Application

When making its materiality judgements in the preparation of the current-period financial statements, the Statutory Board concluded that the cumulative error was material to the current-period financial statements.

In this scenario, the Statutory Board does not need to revisit the materiality assessments it made in prior periods. However, because in the current period the cumulative error has become material to the current-period financial statements, the Statutory Board must apply the requirements in SB-FRS 8 to correct it.

Information about covenants

81 A Statutory Board assesses the materiality of information about the existence and terms of a loan agreement clause (covenant), or of a covenant breach, to decide whether to provide information related to the covenant in the financial statements. This assessment is made in the same way as for other information, that is, by considering whether that information could reasonably be expected to influence decisions that its primary users make on the basis of the Statutory Board's financial statements (see 'A four-step materiality process', from paragraph 33).

82 In particular, when a covenant exists, a Statutory Board considers both:

[38] See paragraph 5 of SB-FRS 8.

(a) the consequences of a breach occurring, that is, the impact a covenant breach would have on the Statutory Board's financial position, financial performance and cash flows. If those consequences would affect the Statutory Board's financial position, financial performance or cash flows in a way that could reasonably be expected to influence primary users' decisions, then the information about the existence of the covenant and its terms is likely to be material. Conversely, if the consequences of a covenant breach would not affect the Statutory Board's financial position, financial performance or cash flows in such a way, then disclosures about the covenant might not be needed.

(b) the likelihood of a covenant breach occurring. The more likely it is that a covenant breach would occur, the more likely it is that information about the existence and terms of the covenant would be material.

83 In assessing whether information about a covenant is material, a combination of the considerations in paragraph 82(a)–82(b) applies. Information about a covenant for which the consequences of a breach would affect a Statutory Board's financial position, financial performance or cash flows in a way that could reasonably be expected to influence primary users' decisions, but for which there is only a remote likelihood of the breach occurring, is not material.

Example O—assessing whether information about covenants is material

Background

A Statutory Board has rapidly grown over the past five years and recently suffered some liquidity problems. A long-term loan was granted to the Statutory Board in the current reporting period. The loan agreement includes a clause that requires the Statutory Board to maintain a ratio of debt to equity below a specified threshold, to be measured at each reporting date (the covenant). According to the loan agreement, the debt-to-equity ratio has to be calculated on the basis of debt and equity figures as presented in the Statutory Board's SB-FRS financial statements. If the Statutory Board breaches the covenant, the entire loan becomes payable on demand. The disclosure of covenant terms in a Statutory Board's financial statements is not required by any local laws or regulations.

Application

Paragraph 31 of SB-FRS 107 *Financial Instruments: Disclosures* requires a Statutory Board to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the Statutory Board is exposed at the end of the reporting period.

Paragraph 76ZA of SB-FRS 1 requires an entity to disclose, in specified circumstances, information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

In the preparation of its financial statements, the Statutory Board assesses whether information about the existence of the covenant and its terms is material information, considering both the consequences and the likelihood of a breach occurring.

In these circumstances, the Statutory Board concluded that, considering its recent liquidity problem, any acceleration of the long-term loan repayment plan (the consequence of the covenant breach occurring) would affect the Statutory Board's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions.

The Statutory Board also considered the likelihood of a breach occurring.

Scenario 1—the lender defined the covenant threshold on the basis of the three-year business plan prepared by the Statutory Board, adding a 10 per cent tolerance to the forecast figures

In this scenario, even though the Statutory Board has historically met its past business plans, it assessed the likelihood of a breach occurring as higher than remote. Therefore, information about the existence of the covenant and its terms was assessed as material and disclosed in the Statutory Board's financial statements.

Scenario 2—the lender defined the covenant threshold on the basis of the three-year business plan prepared by the Statutory Board, adding a 200 per cent tolerance to the forecast figures

In this scenario, the Statutory Board assessed the likelihood of a breach occurring as remote, on the basis of its historical track record of meeting its past business plans and the magnitude of the tolerance included in the covenant threshold. Therefore, although the consequences of the covenant breach would affect the Statutory Board's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions, the Statutory Board concluded that information about the existence of the covenant and its terms was not material.

Materiality judgements for interim reporting

84 A Statutory Board makes materiality judgements in preparing both annual financial statements and interim financial reports prepared in accordance with SB-FRS 34 *Interim Financial Reporting*. In either case, the Statutory Board could apply the materiality process described in paragraphs 29–65. For its interim financial report, the Statutory Board considers the same materiality factors as in its annual assessment. However, it takes into consideration that the time period and the purpose of an interim financial report differ from those of the annual financial statements.

85 In making materiality judgements on its interim financial report, a Statutory Board focuses on the period covered by that report, that is:

(a) it assesses whether information in the interim financial report is material in relation to the interim period financial data, not annual data.[39]

(b) it applies the materiality factors on the basis of both the current interim period data and also, whenever there is more than one interim period (eg in the case of quarterly reporting), the data for the current financial year to date.[40]

(c) it may consider whether to provide in the interim financial report information that is expected to be material to the annual financial statements. However, information that is expected to be material to the annual financial statements need not be provided in the interim financial report if it is not material to the interim financial report.

[39] See paragraphs 23 and 25 of SB-FRS 34 *Interim Financial Reporting*.

[40] Paragraph 20 of SB-FRS 34 requires a Statutory Board to include in the interim financial report the statements of profit or loss and other comprehensive income for both periods, the current interim period and the current financial year to date.

Example P—information that is expected to be material to the annual financial statements

Background

A Statutory Board provides services to the public. In the first half of the reporting period, 98 per cent of the Statutory Board's revenue was generated by provision of Service X. The remaining revenue was principally derived provision of a new service—Service Y—that the Statutory Board planned to launch in the third quarter of the year. The Statutory Board expects revenue from Service Y to increase significantly by the end of the annual reporting period, so that Service Y will provide approximately 20 per cent of the Statutory Board's revenue for the full annual period.

Application

Paragraph 114 of SB-FRS 115 *Revenue from Contracts with Customers* requires a Statutory Board to disaggregate revenue recognised from contracts into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Statutory Board did not identify any qualitative factors that made the amount of revenues from Service Y material to the interim period.

In these circumstances, the Statutory Board concluded that the information about disaggregation of revenue by service lines was not material to the interim financial report and did not disclose it. In the preparation of the interim financial report, the Statutory Board is not required to disaggregate its revenue by service lines even if a greater level of disaggregation is expected to be required for the subsequent annual financial statements. In other words, although the Statutory Board expects that revenue by service lines will be material information for the annual financial statements, that fact does not influence the materiality assessment in the preparation of the Statutory Board's interim financial report.

86 Similarly, a Statutory Board may consider whether to provide information in the annual financial statements that is only material to the interim financial report. However, if information is material to the interim financial report, it need not be presented or disclosed subsequently in the annual financial statements if it is not material to those statements.

Example Q—information that is only material to the interim financial report

Background

A Statutory Board has identified measures of its income and cash flows as the measures of great interest to the primary users of its financial statements. During the interim period, the Statutory Board constructed a new chemical handling process to enable it to comply with environmental requirements for the production and storage of dangerous chemicals. Such an item of property, plant and equipment (PP&E) qualifies for recognition as an asset in accordance with paragraph 11 of SB-FRS 16 *Property, Plant and Equipment*.

Application

Paragraph 74(b) of SB-FRS 16 requires the disclosure of the expenditure recognised in the carrying amount of an item of PP&E in the course of its construction.

In the preparation of the interim financial report, the Statutory Board assessed, both from a quantitative and qualitative perspective, the information about expenditure recognised in the carrying amount of the chemical handling process, concluded that information was material to the interim financial report and disclosed it.

> The Statutory Board incurred no further expenditure related to the chemical handling process in the second half of the annual reporting period. In the preparation of its annual financial statements, the Statutory Board assessed the expenditure recognised in the carrying amount of the chemical handling process against its annual income and cash flow measures and concluded that this information was not material to the annual financial statements. In reaching that conclusion, the Statutory Board did not identify any qualitative factors leading to a different assessment.
>
> The Statutory Board is not required to disclose information about the expenditure recognised in the carrying amount of its chemical handling process in its annual financial statements.

87 In assessing materiality, a Statutory Board also considers the purpose of interim financial reports, which differs from the purpose of annual financial statements. An interim financial report is intended to provide an update on the latest complete set of annual financial statements.[41] Information that is material to the interim period, but was already provided in the latest annual financial statements, does not need to be reproduced in the interim financial report, unless something new occurs or an update is needed.[42]

Interim reporting estimates

88 When a Statutory Board concludes that information about estimation uncertainty is material, the Statutory Board needs to disclose that information. Measurements included in interim financial reports often rely more on estimates than measurements included in the annual financial statements.[43] That fact does not, in itself, make the estimated measurements material. Nevertheless, relying on estimates for interim financial data to a greater extent than for annual financial data might result in more disclosures about such uncertainties being material, and thus being provided in the interim financial report, compared with the annual financial statements.

Information about accounting policies

88A Paragraph 117 of SB-FRS 1 requires a Statutory Board to disclose material accounting policy information.

88B Accounting policy information relating to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. A Statutory Board is required to disclose accounting policy information relating to material transactions, other events or conditions if that information is material to the financial statements.

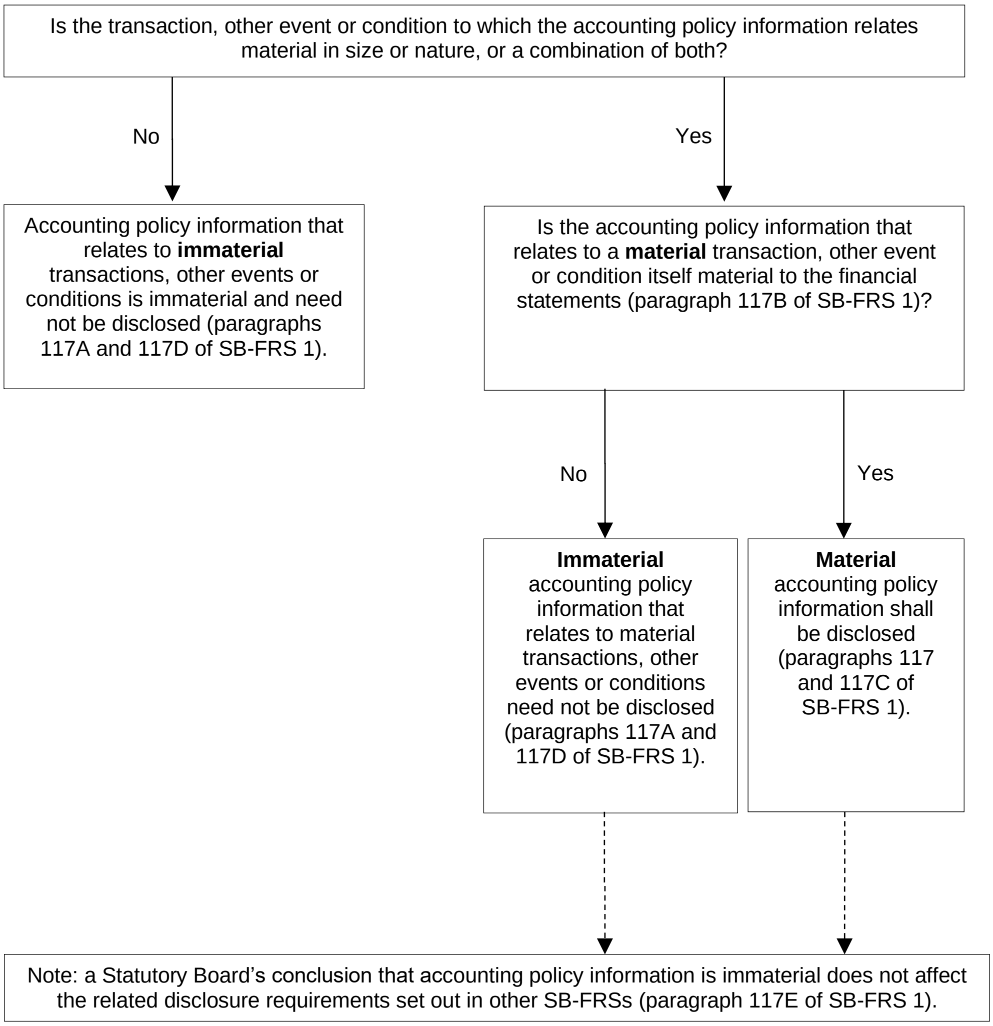
88C In assessing whether accounting policy information is material to its financial statements, a Statutory Board considers whether users of the Statutory Board's financial statements would need that information to understand other material information in the financial statements. A Statutory Board makes this assessment in the same way it assesses other information: by considering qualitative and quantitative factors, as described in paragraphs 44–55. Diagram 2 illustrates how a Statutory Board assesses whether accounting policy information is material and, therefore, shall be disclosed.

[41] See paragraph 6 of SB-FRS 34.

[42] See paragraphs 15–15A of SB-FRS 34.

[43] See paragraph 41 of SB-FRS 34.

Diagram 2—determining whether accounting policy information is material



88D Paragraph 117B of SB-FRS 1 includes examples of circumstances in which a Statutory Board is likely to consider accounting policy information to be material to its financial statements. The list is not exhaustive, but provides guidance on when a Statutory Board would normally consider accounting policy information to be material.

88E Paragraph 117C of SB-FRS 1 describes the type of material accounting policy information that users of financial statements find most useful. Users of Statutory Boards' financial statements generally find information about the characteristics of a Statutory Board's transactions, other events or conditions—Statutory Board-specific information—more useful than disclosures that only include standardised information, or information that duplicates or summarises the requirements of the SB-FRSs. Statutory Board-specific accounting policy information is particularly useful when that information relates to an area for which a Statutory Board has exercised judgement—for example, when a Statutory Board applies a SB-FRS differently from other Statutory Boards.

88F Although Statutory Board-specific accounting policy information is generally more useful, material accounting policy information could sometimes include information that is standardised, or that duplicates or summarises the requirements of the SB-FRSs. Such information may be material if, for example:

(a) users of the Statutory Board's financial statements need that information to understand other material information provided in the financial statements. Such a scenario might arise when a Statutory Board applying SB-FRS 109 *Financial Instruments* has no choice regarding the classification of its financial instruments. In such scenarios, users of that Statutory Board's financial statements may only be able to understand how the Statutory Board has accounted for its material financial instruments if users also understand how the Statutory Board has applied the requirements of SB-FRS 109 to its financial instruments.

(c) the accounting required by the SB-FRSs is complex, and users of Statutory Boards' financial statements need to understand the required accounting. Such a scenario might arise when a Statutory Board accounts for a material class of transactions, other events or conditions by applying more than one SB-FRS.

88G Paragraph 117D of SB-FRS 1 states that if a Statutory Board discloses immaterial accounting policy information, such information shall not obscure material information. Paragraphs 56–59 provide guidance about how to communicate information clearly and concisely in the financial statements.

Example R—making materiality judgements and focusing on Statutory Board-specific information while avoiding standardised (boilerplate) accounting policy information

Background

A Statutory Board provides services to the public and also collects license fees in return for granting public licenses via two different contracts. The Statutory Board applies SB-FRS 115 *Revenue from Contracts with Customers* and recognises revenue when, or as, the Statutory Board satisfies its performance obligations in line with the terms of the two contracts.

The Statutory Board's performance obligations and related considerations under the two contracts are as follows:

(a) Contract for provision of services to the public—Members of the public pay a fixed monthly charge to use a specific monthly amount of service over three years.

(b) Contract for collection of license fees—Companies make a one-time license fee payment to obtain a public license.

For the contract on provision of services to the public, the Statutory Board concludes that it should recognise revenue as it satisfies the performance obligation over the three year life of the contract.

For the contract on provision of public licenses to companies, the Statutory Board concludes that it should recognise revenue when it satisfies the performance obligation (when it provides the license to the company).

The Statutory Board notes that, in accounting for revenue it has made judgements about the timing of satisfaction of the performance obligations. The Statutory Board has concluded that revenue generated from these contracts is material to the reporting period.

Application

The Statutory Board has identified revenue from the following 2 contracts as material to the financial statements:

(a) the provision of services to the public; and

(b) the provision of public licenses to companies.

The Statutory Board next assesses whether accounting policy information for revenue from these contracts is, in fact, material.

The Statutory Board evaluates the effect of disclosing the accounting policy information by considering the presence of qualitative factors. The Statutory Board noted that its revenue recognition accounting policies:

(a) were unchanged during the reporting period;

(b) were not chosen from accounting policy options available in the SB-FRSs;

(c) were not developed in accordance with SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of a SB-FRS that specifically applies; and

(d) are not so complex that primary users will be unable to understand the related revenue transactions without standardised descriptions of the requirements of SB-FRS 115.

However, some of the Statutory Board's revenue recognition accounting policies relate to an area for which the Statutory Board has made significant judgements in applying its accounting policies—for example, in deciding the timing of revenue recognition.

The Statutory Board considers that, in addition to disclosing the information required by paragraphs 123–126 of SB-FRS 115 about the significant judgements made in applying SB-FRS 115, primary users of its financial statements are likely to need to understand related accounting policy information. Consequently, the Statutory Board concludes that such accounting policy information could reasonably be expected to influence the decisions of the primary users of its financial statements. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue.

The Statutory Board also notes that the judgements it made are specific to the Statutory Board. Consequently, material accounting policy information would include information about how the Statutory Board has applied the requirements of SB-FRS 115 to its specific circumstances.

The Statutory Board, therefore, assesses that accounting policy information about revenue recognition is material and should be disclosed. Such disclosure would include information about how and when the Statutory Board recognises revenue.

Example S—making materiality judgements on accounting policy information that only duplicates requirements in the SB-FRSs

Background

Property, plant and equipment are material to a Statutory Board's financial statements.

The Statutory Board has no intangible assets or goodwill and has not recognised an impairment loss on its property, plant or equipment in either the current or comparative reporting periods.

In previous reporting periods, the Statutory Board disclosed accounting policy information relating to impairment of non-current assets which duplicates the requirements of SB-FRS 36 *Impairment of Assets* and provides no Statutory Board-specific information. The Statutory Board disclosed that:

> The carrying amounts of the group's intangible assets and its property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles with an indefinite useful life, the recoverable amount is estimated at least annually.
>
> An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.
>
> The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
>
> Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.
>
> An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Application

Having identified assets subject to impairment testing as being material to the financial statements, the Statutory Board assesses whether the accounting policy information for impairment is, in fact, material.

As part of its assessment, the Statutory Board considers that an impairment or a reversal of an impairment had not occurred in the current or comparative reporting periods. Consequently, accounting policy information about how the Statutory Board recognises and allocates impairment losses is unlikely to be material to its primary users. Similarly, because the Statutory Board has no intangible assets or goodwill, information about its accounting policy for impairments of intangible assets and goodwill is unlikely to provide its primary users with material information.

However, the Statutory Board's impairment accounting policy relates to an area for which the Statutory Board is required to make significant judgements or assumptions, as described in paragraphs 122 and 125 of SB-FRS 1. Given the Statutory Board's specific circumstances, it concludes that information about its significant judgements and assumptions related to its impairment assessments could reasonably be expected to influence the decisions of the primary users of the Statutory Board's financial statements. The Statutory Board notes that its disclosures about significant judgements and assumptions already include information about the significant judgements and assumptions used in its impairment assessments.

The Statutory Board decides that the primary users of its financial statements would be unlikely to need to understand the recognition and measurement requirements of SB-FRS 36 to understand related information in the financial statements.

Consequently, the Statutory Board concludes that disclosing a summary of the requirements in SB-FRS 36 in a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of its financial statements. Instead, the Statutory Board discloses material accounting policy information related to the significant judgements and assumptions the Statutory Board has applied in its impairment assessments elsewhere in the financial statements.

Although the Statutory Board assesses some accounting policy information for impairments of assets as immaterial, the Statutory Board still assesses whether other disclosure requirements of SB-FRS 36 provide material information that should be disclosed.

Application date

89 This Practice Statement does not change any requirements in SB-FRS Standards or introduce any new requirements. A Statutory Board that chooses to apply the guidance in the Practice Statement is permitted to apply it to financial statements prepared from 2 August 2019.