

4 March 2016

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

**AOSSG comments on IASB Exposure Draft ED/2015/8 ‘IFRS Practice Statement:
Application of Materiality to Financial Statements’**

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB’s ED/2015/8 ‘IFRS Practice Statement: *Application of Materiality to Financial Statements* (the “ED”)¹. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Financial Statement Presentation and Disclosure Working Group.

The AOSSG overall supports providing guidance on the application of materiality in the form of a non-mandatory Practice Statement.

However, the AOSSG is concerned whether the examples in the Practice Statement are sufficiently helpful for preparers in addressing the real-life practical challenges that they are actually facing in their financial reporting practice because most of the descriptions in the Practice Statement are merely a repetition of the existing accounting requirements or codification of the current practice. In addition, the Practice Statement could be restructured to be more concise.

AOSSG members have mixed views for the timing of issue of the Practice Statement.

For our detailed comments, please see Appendix.

The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jee In Jang', is centered on the page.

Jee In Jang
AOSSG Chair
AOSSG Financial Statement Presentation and Disclosure Working Group Leader

APPENDIX – Detailed comments from the AOSSG on IASB ED/2015/8 ‘IFRS Practice Statement: *Application of Materiality to Financial Statements*’

Question 1—Form of the guidance

A Practice Statement is not a Standard. The IASB’s reasoning for issuing guidance on applying the concept of materiality in the financial statements in the form of a non-mandatory Practice Statement is set out in paragraphs BC10–BC15.

- (a) **Do you think that the guidance should be issued as non-mandatory guidance? Why or why not?**
- (b) **Do you think that a Practice Statement is the appropriate form for non-mandatory guidance on applying the concept of materiality? Why or why not? If not, what alternative(s) do you propose and why?**

1. The AOSSG overall supports the issue of guidance in the form of a non-mandatory practice statement because mandatory guidance may have the potential to cause conflict with regulations in jurisdictions.
2. However, at least one member does not support the proposal to issue the guidance of materiality in the form of a Practice Statement, but considers educational material to be a more appropriate form of guidance. They are of the view that many of the descriptions in the ED do not provide practical guidance that could address real-life practical challenges, but may be helpful to ‘educate’ others about what the application of materiality concept to financial statements is all about. They also suggest that some of the descriptions in the ED (e.g. paragraphs 30, 32 and 43 which the IASB seems to expect financial statements preparers and auditors to comply with) be instead included in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or a planned general disclosure standard as part of the authoritative guidance.

Question 2—Illustrative example

Do you find the examples helpful in the [draft] Practice Statement? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those example(s) would be helpful to entities.

3. Although additional practical examples would provide useful guidance, these examples should not be too specific or prescriptive because it would hinder preparers from using their judgement in applying the concept of materiality. The IASB could provide examples and guidance focussing on areas that require critical judgements and where judgement is most difficult to exercise regarding the application of materiality, as follows:
 - Whether, and if so, how to present or disclose information in the financial statement or in the notes;
 - Whether, and if so, how to disaggregate information;
 - Illustrating the decisions to omit immaterial information from the financial statements so as not to over-emphasise the need to provide disclosures;

- Whether, and if so, how to disclose information for the purpose of the interim financial reporting. For example, whether an item that is material during the interim period, but immaterial to the annual financial statements, should be disclosed only in the interim financial statements or in both interim and annual financial statements and whether an item that is immaterial during the interim period, but expected to be material to the annual financial statements, should be disclosed only in the annual financial statements or in both;
- Related party transactions conducted on ‘market terms’, involving small sums;
- Exercising judgement when preparing qualitative disclosures. For example, financial risk management objectives and policies, and the various risk analyses under IFRS 7 *Financial Instruments: Disclosures*; objectives, policies and processes for capital management as required by IAS 1 *Presentation of financial Statements*; and significant judgements and major sources of estimation uncertainty under IAS 1; and
- How the materiality of obscured material information is evaluated when management assesses whether misstatements obscure material information or not.

Question 3—Content of the [draft] Practice Statement

The [draft] Practice Statement proposes guidance in three main areas:

- characteristics of materiality;
- how to apply the concept of materiality in practice when presenting and disclosing information in the financial statements; and
- how to assess whether omissions and misstatements of information are material to the financial statements.

It also contains a short section on applying materiality when applying recognition and measurement requirements.

Please comment on the following and provide any suggestions you have for improving the [draft] Practice Statement:

- Do you think that any additional content should be included in the Practice Statement? If so, what additional content should be included and why?
- Do you think the guidance will be understandable by, and helpful to, preparers of financial statements who have a reasonable level of business/accounting knowledge and IFRS? If not, which paragraphs/sections are unclear or unhelpful and why?
- Are there any paragraphs/sections with which you do not agree? If so, which paragraphs/sections are they and why?
- Do you think any paragraphs/sections are unnecessary? If so, which paragraphs/sections are they and why?
- Do you think any aspects of the guidance will conflict with any legal requirements related to materiality within your jurisdiction, or a jurisdiction in which you file financial statements?

(a) Additional contents should be included

- The AOSSG suggests that further examples and additional contents be included in the Practice Statement as follows:

- Guidance on how to determine an appropriate quantitative threshold for materiality. A quantitative threshold should be determined differently, depending on respective contexts in which an entity is situated. Yet, it would be helpful if the proposed document illustrates possible ways as to how to establish a quantitative threshold in respective circumstances that would facilitate judgements as to what level of detail is needed for information (that is, whether, and if so how, to disaggregate or aggregate information).
- Application of materiality to accounting policies: if an item is sufficiently material to warrant separate presentation in the financial statements, whether the disclosure of the related accounting policy is necessarily material.
- Situation where the nature of information on an item itself is sufficiently material such that the information is considered to be material regardless of the size of the item.
- Situation where information on an item was considered to be immaterial for the prior periods, but information on the item has become material for the current period.
- Information about going concern and estimation uncertainties: Such information has an inherent tendency to be material, rather than not. The guidance would be more robust if it were to illustrate situations where such disclosure may not provide useful information.
- Flow chart that shows due process of determining materiality would be helpful for management's judgement.
- Various IFRSs employ terminology such as “major”, “significant”, “key” and “at a minimum”. It would be useful for the Practice Statement to address the interaction between “material” and IFRS terminology that implies materiality.
- The Practice Statement provides guidance mainly with regard to presentation and disclosure rather than recognition and measurement. Therefore, the IASB should make this clear upfront in the document, for example, within the objective of the Practice Statement.
- The IASB should clarify how the proposed guidance would apply to other references to materiality in IFRS that are unrelated to omissions or misstatements (e.g. material adverse change in paragraph B10(d) of IFRS 7 *Financial Instruments: Disclosures*, and material right to customers in paragraph 26(j) of IFRS 15 *Revenue from Contracts with Customers*).

(b) Understandability and helpfulness of the proposed guidance

5. The AOSSG considers that the Practice Statement will be understandable by preparers of financial statements. However, AOSSG members are concerned about whether the examples in the Practice Statement are sufficiently helpful for preparers in addressing the real-life practical challenges that they are actually facing in their financial reporting practice because most of the descriptions in the Practice Statement are merely a repetition of the existing accounting requirements or codification of the current practice.

(c) Paragraphs or sections that should be amended

6. AOSSG members have expressed concerns about the following paragraphs and sections:
 - The IASB is still considering the issue of cross-reference in its Principles of Disclosure project. However, the Practice Statement prematurely generalizes that it applies to information that is incorporated by cross-reference. Therefore, the IASB needs to put a hold on the mention of cross-reference in the Practice Statement, so as not to give rise to misunderstanding in practice.

- The objective of the Practice Statement should include explicit references to other stakeholders who could influence how management would apply materiality in financial statements. The Practice Statement should aim to promote a better understanding of materiality and positive behavioural changes for all parties involved in the issue, use or review of financial statements.
- The last sentence of paragraph 9 should be rephrased to avoid giving the impression that there is a free choice between presenting material information in the primary financial statements or in the accompanying notes.
- Paragraph 22(a) provides an example that an entity should consider information about users' expectations when identifying whether the information is or is not useful to the primary users. Although this is only an example, in practice it would be difficult and onerous, especially in a litigation environment, for an entity to predict what the users' expectations are in view that different users would have different expectations.
- The wording in paragraph 23 is not clear, specifically the focus of the materiality assessment. It would be helpful if the IASB provides further clarity to paragraph 23, i.e. clarifying whether materiality assessment should add predictive value or confirmatory value or both. In addition, it would be helpful if the IASB explains the intention of this paragraph in the Basis for Conclusions.
- Regarding paragraph 39(a), it would be more desirable if the level of granularity of disclosures is specified at the Standard level on this case. Hence, removing the example or replacing the example with a different example is preferable.
- Regarding paragraphs 45-48, in light of recent efforts addressing disclosure-overload, it would be helpful if the IASB further explains what factors could affect the judgements possibly supplemented by additional illustrative examples.
- Paragraph 57 is confusing, because descriptions in the paragraph seem conflicting with each other. The assessment of whether and how information should be disclosed in the financial statements will not change on the basis of the availability of other information from publicly accessible resources, because consideration of other publicly available sources would blur the scope of responsibilities of management and auditors on the financial statements.
- Regarding paragraph 59, it would be helpful if the IASB provides additional descriptions about the difference of the context and objective of applying materiality concept to interim financial reporting and annual financial reporting.
- Regarding paragraphs 63-66, it would be desirable if the IASB explains how to differentiate between practical expedients in recognition and measurement that management can consider in developing its internal record-keeping procedures and practical expedients as simplified accounting treatments for cost-benefit reasons. In addition, the IASB should consider the inclusion of practical expedients in the more recent Standards, such as the 'portfolio approach' in IFRS 15 and IFRS 16 *Leases*, to the extent they do not contradict the concept of materiality. There is no compelling reason why they could not be a practical expedient for the assessment of materiality in IFRS, but merely a practical expedient for specific Standards.

(d) Unnecessary paragraphs or sections

7. The AOSSG notes that many paragraphs in the Practice Statement just quote paragraphs in existing IFRS, and suggests alternative ways to make the Practice Statement concise for better structure of it as follows:
- Referring to the relevant IFRS rather than quoting extracts from it (e.g. paragraph 60 could simply make reference to paragraphs 23 and 24 of IAS 34 *Interim Financial Reporting*) and removing repetitive content from the Practice Statement (e.g. paragraph 29 is largely repeated in paragraph 56); and
 - Placing core contents in the body of the Practice Statement in a concise way and placing factors to be considered for judgement and other explanations in the Basis for Conclusions.

(e) Aspects of the guidance that will conflict with legal requirements

8. The AOSSG is not aware of any legal requirements in AOSSG member jurisdictions that would be in conflict with the proposed guidance.

Question 4—Timing

The IASB plans to issue the Practice Statement before the finalisation of its Principles of Disclosure project.

The IASB has tentatively decided to include a discussion on the definition of materiality, and whether there is a need to change or clarify that definition within IFRS, in the Discussion Paper for its Principles of Disclosure project (expected to be issued early in 2016). Nevertheless, the IASB thinks that to address the need for guidance on the application of materiality, it is useful to develop the Practice Statement now.

The IASB does not envisage that the discussion about the definition of materiality or any other topics in its Principles of Disclosure project will significantly affect the content of the Practice Statement. Nevertheless, the IASB will consider whether any consequential amendments to the Practice Statement are necessary following the completion of the Principles of Disclosure project. Do you agree with this approach?

9. AOSSG members have mixed views on the timing of issue of the Practice Statement:
- Support the proposed approach, as the definition of materiality is unlikely to be significantly changed by the forthcoming Discussion Paper for Principles of Disclosure project;
 - Issue the Practice Statement following the issue of a revised Conceptual Framework, to avoid having to consequentially update the Practice Statement soon after its issue to reflect revised Conceptual Framework text; and
 - Issue the proposed document following the completion of other relevant works of the Disclosure Initiative (possibly after the completion of the Principle of Disclosure project), considering the high degree of interaction between what should be stated in the document and other relevant works of the Disclosure Initiative (for example, whether and how to establish disclosure objectives in individual Standards). Delaying the issue of this guidance minimizes the risks of changing the document multiple times in a relatively short period of time.

Question 5—Any other comments

Do you have any other comments on the [draft] Practice Statement? As mentioned in Question 4, a discussion about the definition of materiality will be included in the Discussion Paper in the Principles of Disclosure project, so the IASB is not asking for comments on the definition at this time.

10. A member observes that ambiguity may arise for jurisdictions whereby financial statements are required to assert compliance with IFRS (“IFRS jurisdictions”), specifically about whether its national standard-setter or its respective regulator is required to issue the Practice Statement upon issuance by the IASB based on the provisions of the following clauses:
- Paragraph 2 of the [draft] Practice Statement states that the Practice Statement is intended to be applied in preparing general purpose financial statements in accordance with IFRS. Therefore, this statement could imply that the Practice Statement is required to be issued in those “IFRS jurisdictions” upon its issuance by the IASB so that it could be applied in preparing general purpose financial statements in accordance with IFRS.
 - On the contrary, the introduction paragraph IN6 of the [draft] Practice Statement states that a Practice Statement is not a Standard and its application is not required in order to state compliance with IFRS. This implies that it is not necessary for the “IFRS jurisdictions” to issue the Practice Statement in view that its application is not required in order to state compliance with IFRS.

In order to avoid ambiguity, the IASB should clarify whether the Practice Statement is required to be issued in a jurisdiction whereby the financial statements are mandated to assert compliance with IFRS when this Practice Statement is issued by the IASB.