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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

26 February 2016

Re: Exposure Draft ED/2015/8 – IFRS Practice Statement: Application of Materiality to Financial Statements

Dear Mr Hoogervorst,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements* ('the ED').

We welcome the IASB's initiative to provide non-mandatory guidance with the aim of assisting management to use judgement in applying the concept of materiality when preparing financial statements. We consider that such guidance could be helpful, in particular in the context of disclosures, in order to provide a common ground for applying judgement in deciding which information is relevant for users and fostering thinking on how materiality is applied. Accordingly, we believe that such guidance can be useful without waiting for the completion of the IASB's Principles of Disclosure project.

However, we consider that the guidance should be drafted in a more concise and practical way and focus on areas where it is most difficult to exercise judgement on the application of materiality and, in particular, better illustrate how materiality is applied in line with the specific roles of the primary financial statements and of the notes. The inclusion of illustrative examples may be useful if they illustrate both decisions to include and to leave out information.

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board or its staff may have about any of our comments.

Please do not hesitate to contact me or Joelle Moughanni at +44 207 601 1080.

Sincerely,



Robert Dohrer
Global Leader - Quality and Risk
RSM International

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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?**

We do think that guidance on applying the concept of materiality in the financial statements should be issued as non-mandatory, and that a Practice Statement ('PS') appears to be the appropriate form for such non-mandatory guidance. We agree with the IASB's reasoning as set out in paragraphs BC10–BC15 of the ED, in particular that such form of guidance on the concept of materiality would emphasise its pervasiveness in IFRS, foster the exercise of judgement by management when applying it, and avoid creating conflicts with national legal frameworks.

Question 2 - Illustrative examples

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.

We consider that the use of illustrative examples makes the guidance more practical.

However, we believe that the examples currently included in the ED should be improved to focus on those areas where judgement is assessed to be the most difficult to exercise, illustrate the way judgement is exercised and the decision process inherent to the assessment of materiality leading to not only include, but also omit information from the financial statements. See also our response to Question 3 below.

In addition, we have the following comments:

- The example in paragraph 54(a) of the ED will be more helpful if it illustrates which information disclosed about the business combination in the prior year would be or not considered important to understanding the current period financial statements.
- The example in paragraph 54(b) of the ED will be more helpful if it illustrates which information included in the detailed reconciliation of property, plant and equipment in the prior year it would be appropriate to aggregate.
- Given that paragraphs B67(a)(iii) and B67(b) of IFRS 3 require disclosure about the nature and amount of measurement period adjustments recognised in the current year arising from prior year business combinations and changes in contingent consideration balances recognised in the current period arising from prior year business combinations, the example in paragraph 55(a) of the ED should be clarified as to what other information would be necessary for users to evaluate the material effects of adjustments recognised in the current period that relate to prior year business combinations.
- For each of the examples above, explaining also the rationale behind the conclusions reached will assist preparers in understanding the principles the IASB has applied in reaching its conclusions, thus contributing to a better and more consistent application of materiality going forward.

Question 3 - Content of the [draft] Practice Statement

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

- (a) **characteristics of materiality;**
(b) **how to apply the concept of materiality in practice when presenting and disclosing information in the financial statements; and**

(c) 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:

- (a) Do you think that any additional content should be included in the Practice Statement? If so, what additional content should be included and why?**
- (b) 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?**
- (c) Are there any paragraphs/sections with which you do not agree? If so, which paragraphs/sections are they and why?**
- (d) Do you think any paragraphs/sections are unnecessary? If so, which paragraphs/sections are they and why?**
- (e) 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?**

Overall, we are of the view that to be helpful and meet its intended objectives, the guidance should be drafted in a more concise and practical way.

In our view, the guidance would be more useful if it is structured along the key steps of the decision-making process: (i) understand what information is useful for users for their decision making, (ii) assess which information required by Standards should be included and which can be left out in the specific context of the entity, (iii) assess which additional information not specifically required by a Standard would be useful in the specific context of the entity, and (iv) consider what can be aggregated to arrive at an appropriate level of materiality.

We note that many paragraphs of the ED merely quote or reproduce in full guidance that is already contained in existing IFRS literature; such quotes and references could be moved into an appendix and referred to by cross-references.

In our view, guidance in the PS should focus on areas where existing difficulties in using an appropriate level of judgement in applying the concept of materiality have been identified, such as:

- The qualitative aspect of materiality rather than the quantitative one, the latter being generally better understood.
- The application of materiality to disclosures - The ED (paragraph 46 in particular) indicates that although the concept of materiality does not change when applied to the notes, the context in which that concept is applied is different from the primary financial statements' context, due to their different roles in achieving the overall objective of financial statements, and thus might result in different conclusions regarding whether information is material in the different contexts. However, the mere reference to the different roles of the primary financial statements and the notes rightly highlights the difficulty in applying the concept of materiality but does not provide helpful guidance in this respect. We recommend that the IASB articulate how the respective assessments should be made.
- The application of materiality in determining the prominence to be given to information (i.e. should information be presented on the face of the primary financial, separately or in aggregation, in the notes or in both?) - The IASB could consider some form of decision tree to illustrate how the concept of materiality applies to the different levels of the assessment: (a) information or line items that are individually material and warrant separate presentation either in the primary financial statements or in the notes; (b) information or line items that are not individually material, and can be aggregated with other items either in the primary financial statements or in the notes; and (c) information or line items that are not sufficiently material to warrant separate presentation in the primary financial statements, but may warrant separate presentation in the notes.

- Applying materiality in interim financial reporting - The ED simply reproduces guidance in IAS 34. We recommend that the IASB describe the typical hurdles preparers encounter in applying materiality to interim financial reporting and provide guidance to overcome them, possibly through illustrative examples.
- Applying materiality in relation to the disclosure requirements on judgement, assumptions and uncertainties contained in IAS 1 (paragraphs 122 and 125).

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?

We agree with this approach, provided that the IASB closely monitors the outcome of the Principles of Disclosure, the Conceptual Framework, and other ongoing projects to ensure that the PS is updated on a timely basis, if need be.

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.

We have no other comments on the ED.

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