CBN

COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Correspondant	Your references	Our references	Date
Ignace Bogaert Tel. +32(0)2 277 76 26		**COR 2016-005**	27.012016

Dear Sir, Madam,

Invitation to comment – IASB ED IFRS Practice Statement: Application of Materiality to Financial Statements

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Application of Materialilty to Financial Statements* issued by the IASB (the "Board") on 28 October 2015 (hereinafter the "ED").

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 not agree with the fact that the guidance with respect to materiality should be presented as non-mandatory guidance. During our deliberations, some members of the BASB were of the opinion that this guidance should be reflected within an IFRIC as an IFRIC also follows the European endorsement process. Other members of the BASB preferred to include the guidance in the disclosure project, given the linkage between materiality and disclosures. Overall, presenting the guidance as non-mandatory guidance was not generally supported by the BASB.

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 believe the examples provided in the ED are helpful. However, the draft guidance would benefit from more illustrations and practical examples of real-life situations.

We suggest that the Board may consider the following examples for inclusion:

1. Paragraph 28(a) - It would be helpful if the Board further clarified whether, in a situation where an entity is close to non-compliance with a regulatory requirement or loan covenant, it would need to not only provide a general disclosure of this fact, but also reassess every previously made materiality assessment because of a decrease in the materiality level.
2. Paragraph 27 - We recommend the Board to include transactions affecting equity as another example in which considering quantitative aspects may be less conclusive when making assessments about materiality.
3. In the context of paragraph 53(c), and as mentioned above, we believe one must consider the equity nature of share-based payment transactions when assessing its materiality. Similarly, the Board may consider highlighting that qualitative factors must be reflected in the materiality assessment (e.g., the materiality assessment of a key management personnel share-based payment arrangement may rely on different quantitative thresholds than another similar arrangement not involving key management personnel).
4. Some may find the requirement in paragraph 35 (IAS 1.30A) contradictory, so it would be helpful if the Board clarified it by providing an example. For instance, if an entity decides to provide some immaterial information and does it in a separate section at the end of financial statements or as an appendix, such presentation would not be prohibited because, in this way, it would not obscure material information in the financial statements.
5. We believe the example provided in paragraph 36 is useful. However, the Board might consider including more common examples. For instance, if after considering the disclosure requirements in paragraph 134(f) of IAS 36 Impairment of

Assets, an entity comes to a conclusion that no reasonably possible changes in key assumptions would lead to impairment, explicitly disclosing this information might be useful to the primary users of financial statements.

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. Do you agree with that proposal? Why or why not? 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?

The BASB generally supports the proposed implementation guidance. Even though some may find the draft generic in nature, we believe implementation guidance in such a judgmental area may be helpful, even if it is not prescriptive.

We agree with the Board that the issue of determining whether information should be presented in the primary financial statements or in the notes is an area of particular difficulty in practice (paragraph BC5(b)). We believe the ED provides helpful guidance in this area, at least as a guide on how an entity should address the

issue. However, we would recommend the Board to further consider whether it is possible to include additional examples in the section on "Primary financial statements versus the notes" to illustrate how the materiality assessments may be different for the purpose of the primary financial statements and the notes.
Paragraphs 61 through 66 address some specific aspects of materiality assessment regarding recognition and measurement. However, the choice of topics to address seems somewhat coincidental. We believe that an example illustrating a situation in which a recognition and/or measurement requirement of a Standard is not complied with in reference to it being immaterial, would be helpful.

In the following section, we summarise our more narrow-scope comments on the specific content of the ED:

- Paragraph 27(b) - The expected financial effect of uncertainties and contingencies is a quantitative factor and, thus, not relevant in illustrating non-quantitative factors.
- Paragraph 33 deals with how information is presented, including prominence given to particular items and highlighting key trends. We do not think this is about application of the concept of materiality, but rather about structuring the financial information to increase the overall disclosure effectiveness, and thus, it falls outside the scope of the ED.
- Paragraph 34 focuses on the fact that immaterial disclosures may make it "harder to find" material/relevant information. We suggest that the guidance should also recognise that providing immaterial information actually can make the material information appear less relevant.
- According to paragraph 43, materiality is to be assessed relative to line items, subtotals and totals on the face of the financial statements, "as well as to each overall individual statement". It is not clear what the latter reference means.
- The discussion in paragraph 43 seems to suggest that only certain lines should signpost the notes where the more detailed information can be found. However, generally, all lines in the primary financial statements require cross-references, if additional information is provided in the notes. The wording should be revised accordingly.
- It is not clear what "because of their structure" in paragraph 45 refers to. It may be read as suggesting that more detailed information may be omitted simply on the basis there is no room/space for it (rather than based on materiality assessment). The difference between a) and b) is not clear. An example illustrating the difference would be helpful.

- We recommend the Board to clarify the introduction to the examples in paragraph 53, as one may read it as illustrating the guidance in paragraph 52, which does not seem to be the case.
- The management should disclose the judgement made in applying the concept of materiality.
- In paragraph 64, second sentence, we suggest "departure from IFRS" is replaced by "policy", as because of the materiality assessment, it is in fact not a departure from IFRS.
- We believe it would be helpful to clarify in paragraph 69 that, with respect to estimates (e.g., provisions), the difficulty that arises on identifying errors, to a great extent, reflects the fact that new information may provide new insights, and the timing of the new information may often be difficult to identify precisely. Therefore, in these circumstances, something may in hindsight appear as a previous error, but, in fact, merely reflects new information obtained after the previous estimate was made.
- On the other hand, as drafted, paragraph 69 may be read as adjustments to estimates cannot reflect misstatements in previous periods. That is not the intention, we believe. We, therefore, recommend the Board to add the following clarification at the end of paragraph 69:
- "... In other circumstances, it might be clear that an adjustment to an estimated value is, in fact, a result of an error made in a previous period, as opposed to new information or new developments. When considering whether an adjustment should be treated as a change in estimate or a correction of an error management should be guided by the requirements in IAS 8."
- Paragraph 70(b) refers to "the preliminary announcement of financial information". Such announcements are outside the scope of IFRS. Therefore, we recommend the Board to remove it.
- It would be helpful if the section "Misstatements made intentionally to mislead" is extended to include factors that might incentivise management to make intentional misstatements (e.g., pressure on management, rationalisation, etc.).
- Paragraph 78 is difficult to read, so we suggest to reword it as follows: "However, if management intentionally misstates items to achieve a particular presentation or result it has done so presumably because it thinks that particular presentation or result could reasonably be expected to influence the decisions of the primary users of the financial statements. Therefore, intentional and such misstatements are always material."

- Should paragraphs BC18-20 on "materiality threshold used by an auditor" rather be a part of the PS, e.g., included in the introduction?

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 support the proposed timing.

We also support the Board in proceeding with the issue of this guidance in spite of the definition of materiality being the subject of discussion in the Principles of Disclosure project.

We agree that, following the completion of its Principles of Disclosure project, the IASB shall consider whether any consequential amendments to the Practice Statement are necessary. However, we also believe that, at that stage, the Board may, in the first instance, want to reconsider whether the form of the proposed guidance on materiality, i.e., a non-mandatory practice statement, is appropriate and whether there is a need for any consequential amendments to IFRS.

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 do not have any further comments.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB