



## leadership beyond finance

February 26, 2016

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

### **RE: Exposure Draft IFRS Practice Statement Application of Materiality to Financial Statements**

Dear Sirs:

**Financial Executives International Canada (FEI Canada)** is the all industry professional membership association for senior financial executives. With eleven chapters across Canada and approximately 1,600 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations. [www.feicanada.org](http://www.feicanada.org)

FEI Canada is pleased to provide its comments on the draft IFRS Practice Statement: *Application of Materiality to Financial Statements*. FEI Canada commends the International Accounting Standards Board (IASB or the Board) on its disclosure initiative, of which this is one part, as we believe it will reduce the cost and complexity of financial reporting processes in organizations using International Financial Reporting Standards (IFRS). We believe this draft Practice Statement, when final, will clarify significantly how preparers should exercise judgement when considering the requirements for financial statement disclosures.

#### **Question 1**

**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?**

FEI Canada agrees that the guidance should be issued as non-mandatory guidance for the reasons expressed by the Board in BC 10 to BC14. The guidance is intended for management. The interpretation and application of materiality in the financial statements should be left to management's judgement without consideration of other definitions of materiality in auditing standards or securities legislation, recognizing that those definitions would play a part in management's judgements about disclosures. By issuing a Practice Statement, rather than mandatory guidance, the IASB can influence management's thinking about disclosures without having to consider conflicts with other authoritative literature with respect to the definition of materiality.

#### **(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 strongly support the use of a Practice Statement versus educational material, if the Board believes those are the only two choices available. Preparers may not search educational material for guidance, while a Practice Statement is a more formal document that will garner more



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attention from the intended audience. Another alternative is to attach this to IAS 1, which is where the existing discussion of materiality resides, as a non-authoritative appendix, similar to ones containing illustrative examples. This alternative would give the material more visibility than a Practice Statement.

### **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?**

The examples in the draft Practice Statement are very helpful. In particular, the examples in paragraphs 39, 52/53, and 54 demonstrate how management's judgement should be applied in determining whether disclosures are material in the context of the financial statements as a whole. Those same examples also are helpful in showing how the more conceptual examples in paragraphs 22, 27 and 28 are applied.

Consideration could be given to including other examples that demonstrate how qualitative factors may override quantitative assessments and an example where the final decision was that the information was not material to disclose.

### **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 any additional content should be included in the Practice Statement? If so, what additional content should be included and why?**

We believe the Practice Statement is generally complete.

- (b) Do you think the guidance will be understandable by, and helpful to, preparers of financial statement who have a reasonable level of business/accounting knowledge and IFRS? If not, which paragraphs/sections are unclear or unhelpful and why?**

FEI believes that the guidance is understandable and helpful. The observations in the draft Practice Statement that are the most helpful are:

- materiality should be reassessed at each reporting period;
- the notion that materiality is a filter for disclosure decisions;
- that materiality may be different for some disclosures than for others;
- IFRS disclosure requirements are not a checklist; and
- that non-specified or non-material disclosures may be required.



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We are unclear as to why the content on omissions and misstatements is included in the draft Practice Statement. In our view, this content is a separate issue from those matters related to reducing disclosure overload, which is the fundamental reason for issuing the Practice Statement. We recommend that paragraphs 67 through 79 be deleted from the final Practice Statement.

**(c) Are there any paragraphs with which you do not agree? If so, which paragraphs/sections are they and why?**

We generally agree with the material included in the Practice Statement. However, we did note at least one instance where the language used was too prescriptive for guidance that is not mandatory. As an example, in paragraph 52 the guidance states “An entity must also provide information...” (emphasis added). While this specific wording appears to be copied from existing guidance, we recommend that the Practice Statement be carefully reviewed to ensure the verbs used are those that provide guidance and are not prescriptive.

**(d) Do you think that any paragraphs/sections are unnecessary? If so, which paragraphs/sections are they and why?**

Please see our response to (b) above.

**(e) Do you think any aspects of the guidance will conflict with any legal requirements related to material within your jurisdiction, or a jurisdiction in which you file financial statements?**

No.

### Question 4 – Timing

**The IASB plans to issue the Practice Statement before the finalization 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. 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?**

FEI Canada agrees with the IASB’s approach. The Practice Statement is an important document that will guide preparers in reducing or changing disclosures and, thus, contributes to the solution for disclosure overload. That being said, we think it is unlikely that changes to the definition of materiality will impact the root causes of disclosure overload that are present today. In short, issuing the guidance sooner rather than later is more important than waiting for the Principles of Disclosure project to be completed.



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### 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.**

Paragraph 34 focuses on the fact that immaterial disclosures may make it “harder to find” material/relevant information. The guidance also should recognize that providing immaterial information may effectively dilute the significance of the material information.

The discussion in paragraph 43 is confusing and we are unsure as to what the last sentence means. We suggest a rewrite of this paragraph so that its meaning and intent are clear.

Finally, the discussion in paragraph 45 uses the words “because of their structure” which could be viewed as suggesting that more detailed information may be omitted simply on the basis that there is no space for it, rather than based on a materiality assessment. Further the difference between a) and b) is not entirely clear. An example illustrating the difference would be helpful.

Thank you for the opportunity to respond to this draft Practice Statement.

Yours truly,

A handwritten signature in black ink, appearing to read "Neil W. Robertson".

Neil W. Robertson  
Chair – Committee on Corporate Reporting