

3 May 2016

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

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – IFRS PRACTICE STATEMENT: APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (“[DRAFT] PRACTICE STATEMENT”)

ISCA sought views from its members on the above [draft] Practice Statement through a two-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

Overall, we agree that the [draft] Practice Statement is helpful to the preparers of the financial statements. We believe that there are certain areas which could be enhanced and our detailed comments and responses to the questions in the [draft] Practice Statement are set out below.

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 welcome and support IASB’s initiative to provide guidance to assist management in applying the concept of materiality to disclosures in the financial statements, and in doing so, help to improve the usefulness and understandability of financial statements.

We agree with IASB on the following:

- the issuance of a mandatory guidance may lead to potential conflicts with national legal frameworks and hence, we agree that a Practice Statement is an appropriate form of guidance to avoid such issues; and

- IASB's intention to update the content of the [draft] Practice Statement, as necessary, following the completion of the Principles of Disclosures and Conceptual Framework projects.

However, the guidance being non-mandatory may result in it being perceived as not that important in the preparation of financial statements. It is thus important for IASB to continue to monitor the use and benefits of the [draft] Practice Statement by preparers and users of the financial statements after the issuance of the [draft] Practice Statement and to enhance the guidance when needed.

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 agree that the illustrative examples within the [draft] Practice Statement have helped in promoting better understanding of the principles.

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, the [draft] Practice Statement contains good and useful principles but they may be scattered throughout the [draft] Practice Statement and are not apparent from reading of the [draft] Practice Statement. Hence, it may be good to present these principles via illustrations such as decision trees.

Basis for Conclusions paragraphs BC19 to BC20 clarify that the scope of this [draft] Practice Statement does not directly cover materiality considerations made by auditors for purposes such as making judgment about the amount of audit work to be performed.

We agree that this clarification in BC19 to BC20 is useful to prevent any misinterpretation by auditors that the [draft] Practice Statement should be used for audit purposes. We propose that this clarification be included in the body of the [draft] Practice Statement instead.

Proposed paragraph 21 requires additional consideration of whether the entity's primary users have any special needs

We are of the view that the above requirement is not in line with the objective of general purpose financial statements. This additional requirement may be onerous and difficult to apply in practice. Conversely, this may also be interpreted as allowing the omission of required disclosures on the basis that the information is not relevant in meeting the primary user's special needs.

We recommend that the word "special" be removed. This would avoid any complications with the interpretation of the word "special" in the context of the "needs of primary users".

Proposed paragraph 55(b) states that a fall in sales of a major product from a material amount in the prior year to an immaterial amount in the current year may be a material change that should be separately disclosed or identified in the current year.

The example in paragraph 55(b) does not provide sufficient clarity on whether comparative information needs to be provided when the information is not material to the financial statements in the current year. This example illustrates a scenario whereby there is a fall in sales of a major product. However entities do not typically disclose sales by products and we recommend that a more appropriate example be used to illustrate the concept in paragraph 55.

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 of the publication of this [draft] Practice Statement and acknowledge that the need to revisit the [draft] Practice Statement may arise when the Principles of Disclosures and Conceptual Framework projects are completed.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Advisory and Professional Standards, or Ms Felicia Tay, Manager, Technical Advisory and Professional Standards, from ISCA via email at jumay.lim@isca.org.sg or felicia.tay@isca.org.sg respectively.

Yours faithfully,



Titus Kuan
Director
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