

c/o KAMMER DER WIRTSCHAFTSTREUHÄNDER  
SCHOENBRUNNER STRASSE 222–228/1/6  
A-1120 VIENNA  
AUSTRIA

TEL +43 (1) 81173 228  
FAX +43 (1) 81173 100  
E-MAIL [office@frac.at](mailto:office@frac.at)  
WEB <http://www.frac.at>

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

22 February 2016

Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the Exposure Draft ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements*.

Principal authors of this comment letter were Klemens Eiter, Erich Kandler, Roland Nessmann, Gerhard Prachner and Robert Reiter.

## **GENERAL REMARKS**

We believe that materiality is one of the basic principles in IFRS. In the ED it is several times called a pervasive concept of IFRSs, and its importance is pointed out in IAS 1 several times, e.g. in paragraph 7, Definitions, and in paragraphs 29-31, Materiality and aggregation. We think this concept is of such significance to all users of IFRS financial statements that we believe it should be defined by the Board in the most authoritative way.

Other considerations to be taken into account when considering how materiality should be addressed are urgency and worldwide application: a solution is needed soon. Being part of the EU, we have to bear in mind that the materiality rules will need to be mandatory in the EU as well. As only standards are adopted as binding in the EU, we strongly prefer a solution within IAS 1, both from a conceptual point of view (see above) and to ensure mandatory application worldwide. If an amendment of IAS 1 with respect to materiality would take too long, we could see a possibility for a solution within the Framework. A solution published in a non-binding practice statement will not, in our view, necessarily lead to worldwide consistent application of the materiality rules.

The rules for materiality in IAS 1 should be principles based and without too many examples: materiality in particular circumstances should be dealt with in illustrative examples in the relevant standards.

**SPECIFIC REMARKS**

**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?**

(a) As explained in the General Remarks, we believe that the concept of materiality is of such significance for general purpose financial statements that it should be dealt with so as to be mandatory worldwide, preferably in IAS 1. A practice statement is not part of the binding IFRS corpus as adopted in most jurisdictions, so that materiality might not be well anchored in practice.

(b): As above.

**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.**

Examples can help to illustrate how to decide to include or omit information in the primary financial statements and the notes. Areas where the decision is most difficult and which should therefore in our view be dealt with in priority include:

- The qualitative aspect of materiality rather than the quantitative one, which is generally better understood
- The application of materiality to disclosures rather than the aggregation/disaggregation on the face of the primary financial statements
- How materiality applies in the determination of the prominence to be given to information (aggregated/disaggregated in the primary financial statements, in the notes, or both)
- How the issue of stewardship affects materiality
- How the problem of obscuring material information with immaterial information affects materiality
- Materiality in relation to significant assumptions, estimates and uncertainties.

In general, we support EFRAG's point of view (draft comment letter of 25 November 2015). Illustrative examples can be helpful to make the regulations more practical and illustrate the way judgement is exercised. The focus should be on areas where judgement is assessed to be most difficult to exercise (paragraph 25 of draft comment letter and the discussion of these topics in paragraphs 27-43).

What could also be included is a simple statement or example explaining under which circumstances the omission of what the management considers immaterial information in the primary financial statements or in the notes may lead to an error (IAS 8) from a regulator's perspective. We believe the ideas on which paragraph 68 - 69 of the ED are based provide a practical and conceptually sound basis for a possible solution, but the possible impact is very burdensome, once enforcers came to any conclusion different from the Board's. Thus we would prefer a more stringent definition of when an omission leads to a material misstatement.

Areas with inconsistent application of materiality issues within special standards should be dealt with by examples there or in the disclosure project.

### **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.**

(a) As already explained, we believe that the characteristics of materiality should preferably be addressed in IAS 1.

(b) See answer to (a) above; as explained in our answer to Q 2, areas with inconsistent application of materiality issues within special standards should be dealt with by examples there or in the disclosure project.

(c) This question is closely connected with IAS 8, which should be taken into account.

**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?**

(a)–(d) See our answers above: in our view, the examples included in the ED are only of limited value for the areas we think to be the decisive ones, as explained in our answer to Q2.

(e) No: as IFRSs are part of EU legislation, we see no possibility of conflict. If the Board's solution is mandatory worldwide, we see no possible conflict for IFRS statements at all.

#### **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?**

As materiality is seen as a pervasive concept of IFRSs, any inconsistent application of the concept should be addressed as soon as possible. Our general view is that these new rules should be implemented in IAS 1 – or at least in the Framework – without waiting for the results of the Disclosure project.

#### **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 further comments.

Kind regards,  
Romuald Bertl (Chairman)