



Cover Memo

Project:	Disclosure Initiative - Materiality Practice Statement	Meeting	AASB February 2016 (M150)
Topic:	Consider draft AASB submission on ED/2015/8	Agenda Item:	17.0
Contact(s):	Ahmad Hamidi ahamidi@asb.gov.au (03) 9617 7643	Date:	9 February 2016
		Project Priority:	High
		Decision-Making:	High
		Project Status:	Form Board views on ED proposals

Introduction and objective of this paper

- 1 The objective of this paper is to:
 - (a) seek the Board's view on the draft AASB submission to IASB Exposure Draft ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements* (incorporated into AASB Exposure Draft ED 271 *IFRS Practice Statement: Application of Materiality to Financial Statements*); and
 - (b) agree the process for finalising the AASB submission.

Link to ED 271 and to project summary

ED 271: http://www.aasb.gov.au/admin/file/content105/c9/ACCED271_10-15.pdf

Project summary:

http://www.aasb.gov.au/ADMIN/file/content102/c3/Disclosure_Initiative_Materiality_Practice_Statement_Project_Summary.pdf

Attachments

- Agenda Paper 17.1: Draft submission on IASB ED/2015/8
- Agenda Paper 17.2: Comment letters on ED 271
- Agenda Paper 17.3: Staff Paper: Feedback from other outreach activity

Overview of Agenda Papers

Comment letters and other feedback on ED 271 (Agenda Papers 17.2 and 17.3)

- 2 Comments to the AASB were requested by **25 January 2016**. Comments to the IASB close **26 February 2016**. Comment letters received on ED 271 are included as

Agenda Paper 17.2. Any further comment letters received will be included in a second mail out or tabled.

- 3 Because of the limited number of comment letters received (four submissions)¹, staff have not prepared a separate analysis of those letters. Overall:
- (a) Respondents generally were supportive of developing guidance on materiality. However, respondents expressed mixed views on the form proposed. One respondent considered that a Practice Statement did not give the guidance sufficient prominence.² Another respondent considered that the content was presently in the form of ‘education material’ rather than content appropriate for a Practice Statement.³ Other respondents considered that the guidance needed to include more practical guidance on the application of materiality⁴, one noting that the proposals “will fall short in achieving the desired objective of a change in behaviour amongst those who have an insufficient grasp of how to apply materiality in practice”⁵.
 - (b) Respondents suggested inclusion of examples demonstrating the application of materiality relating to management stewardship (for example, related party disclosures), uncertainties and contingencies, interim financial reporting, excluding immaterial information that may obscure material information, and of potential circumstances requiring inclusion of disclosures additional to that required by IFRS. One respondent suggested also the inclusion of examples relating to recognition and measurement.
 - (c) Respondents did not identify any conflict between the draft Practice Statement and Australian legal requirements.
- 4 Feedback from the AASB Disclosure Initiative Project Advisory Panel, and from targeted outreach activity is included as **Agenda Paper 17.3**. Staff conducted targeted outreach in the main to obtain a SME’s perspective on ED 271; staff received feedback from practitioners with small-medium size enterprises (SME) clients, and informal feedback from a professional body. Staff also conducted outreach with practitioners performing due diligence engagements to seek their views on the implications of a Materiality Practice Statement for the work of due diligence committees. This outreach was conducted pursuant to comments received in outreach with APESB staff that there may be some implications for the Materiality Letter issued as part of the due diligence engagement.
- 5 Overall, the Disclosure Initiative Project Advisory Panel agreed with the ED’s proposals, including issue of the proposed guidance as a Practice Statement. Panel members generally agreed that the draft Practice Statement was understandable and helpful, and did not suggest any specific further examples for inclusion. Panel

1 The AASB has received submissions from CPA Australia, Westworth Kemp, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) and Pitcher Partners. These are included as Agenda Paper 17.2.

2 Westworth Kemp

3 Pitcher Partners

4 CPA Australia and HoTARAC

5 CPA Australia

members did not think there would be a conflict between the draft Practice Statement and Australian regulatory requirements.

- 6 **SME/NFP feedback.** Overall, the feedback from outreach conducted is that for SMEs (for-profit/NFP), practical guidance matters and that the proposed guidance is not sufficiently useful in this regard. Accordingly, additional examples would be useful. In addition, providing some measure of quantitative thresholds for materiality (such as the 5%-10% thresholds previously included in AASB 1031 *Materiality*) would benefit SMEs in the application of materiality to financial statements.
- 7 **Due diligence committee feedback.** Overall, the feedback from outreach conducted with practitioners undertaking due diligence engagements is that it would be useful for any guidance issued by the IASB in this regard to include some measure of quantitative thresholds for materiality. Respondents also noted that it may be necessary for APESB to update the 'Materiality Letter' under which due diligence engagements are performed following the issue of any guidance.
- 8 **Australian specific matters for comment.** Overall:
 - (a) Respondents did not identify any regulatory issues, and noted that the Practice Statement is consistent with current reporting requirements. It was also commented that the Practice Statement has no conflict with provisions of *Corporations Act 2001*.
 - (b) Some respondents suggested that it may be useful to include public sector or NFP specific examples.
 - (c) Some opined the Practice Statement was unlikely to result in additional costs, nor cost savings, for entities already involved in de-cluttering exercise. Others noted the costs are increased preparatory work to distinguish between material and immaterial transactions and benefits are more concise, readable financial statements.

About the draft submission (Agenda Paper 17.1)

- 9 Staff considered the feedback received in developing the draft submission. The staff recommendations are reflected in the draft AASB submission attached as **Agenda Paper 17.1**. The draft submission has been prepared to facilitate the Board's discussion on the positions it expects to take in response to the specific matters for comment in ED/2015/8.

Question 1 to the Board

Do Board members agree with the draft submission? If not, what aspects of the submission would Board members like to be amended or further developed?

Next steps: Finalising the AASB submission to the IASB

- 10 Staff will update the draft submission to reflect Board members comments following the Board meeting. Given that there is no further Board meeting before close of the IASB comment period, staff recommend that the AASB comment letter be finalised out-of-session with the Chair.

Question 2 to the Board

Do Board members agree with the staff recommendation for the AASB submission to be finalised out- of-session by the Chair?