List of Submissions to ED 243 *Withdrawal of AASB 1031 Materiality*

1	Group of 100
2	KPMG
3	HoTARAC
4	Australasian Council of Auditors-General
5	PricewaterhouseCoopers
6	Representatives of the Australian Accounting Profession (CPA Australia and The Institute of Chartered Accountants in Australia)
7	Ernst & Young
8	Macquarie University

ED243 sub 1

GROUP OF 100

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7 August 2013

Mr K Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Kevin

ED 243 'Withdrawal of AASB 1031 Materiality'

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to support the withdrawal of AASB 1031 for the reasons stated in ED 243.

We do not believe that withdrawal of AASB 1031 would result in the omission of disclosures that might otherwise be made because the application of materiality is well-entrenched and is applied by directors and managers in exercising their judgment whether or not to disclose a particular item or group of items.

Approaches to addressing issues relating to the volume, complexity and detail of disclosures in accounting standards and other regulatory requirements emphasize the importance of providing information to users of financial reports that is both relevant and material while at the same time avoiding disclosures of immaterial items. These responses rely heavily on the application of materiality and directors and managers exercising their professional judgment in relation to the disclosures made. It is suggested that given the extent of judgment required it is preferable that the application of materiality is best achieved through the issue of guidance rather than in an accounting standard.

From a G100 perspective the proposals which reflect the adoption of application guidance or educational material developed by the IASB for use internationally are in the best long term interests of the Australian economy.

Yours sincerely
Group of 100 Inc

Terry Bowen
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The Chairman
Australian Accounting Standards Board
PO Box 204
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Our ref Submission – ED 243

14 August 2013

Dear Sir

Submission – ED 243 – Withdrawal of AASB 1031 Materiality

We are pleased to have the opportunity to comment on the ED 243 – Withdrawal of AASB 1031 *Materiality*.

KPMG agrees with the AASB proposal to withdraw AASB 1031 *Materiality*, as it reduces the risk of inadvertent non-compliance with IFRS. We agree that it is unlikely to change practice regarding the application of materiality in financial reporting.

Internationally, KPMG has supported the provision of additional guidance regarding the application of materiality, specifically in relation to disclosures, in-line with the IASB Discussion Paper (DP/2013/1) *A Review of the Conceptual Framework for Financial Reporting*.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Adi Galimidi on (02) 9335 7380, or Kris Peach on (03) 9288 5297.

Yours faithfully

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Partner in charge, Department of Professional Practice

Department of Treasury and Finance

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Mr Kevin Stevenson
Chairman
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PO Box 204
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Dear Mr ~~Stevenson~~ Kevin

ED 243 Withdrawal of AASB 1031 *Materiality*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the Australian Accounting Standards Board's Exposure Draft (ED) 243 Withdrawal of AASB 1031 *Materiality*.

HoTARAC believes that the AASB should retain AASB 1031, as the removal of this significant guidance is likely to impact on the reliability of financial information reported, and heighten the risk of inconsistent materiality judgements across reporting entities.

The Attachment to this letter sets out HoTARAC's views on this Exposure Draft. Any queries regarding HoTARAC's views and recommendations should be directed to Ms Alison Cuthbert from Queensland Treasury and Trade on (07) 3035 1431 or by email to alison.cuthbert@treasury.qld.gov.au.

Yours sincerely

Grant Hehir

CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

20 August 2013

State Government Victoria

ATTACHMENT

DETAILED COMMENTS ON EXPOSURE DRAFT
ED 243 Withdrawal of AASB 1031 *Materiality*

HoTARAC offers the following comments and suggestions in response to the questions in the ED and related matters.

Question 1 Support for withdrawal of AASB 1031

Whether the proposal to withdraw AASB 1031 is supported?

HoTARAC does not support the withdrawal of AASB 1031.

HoTARAC believes that the implementation of the standard has fulfilled a significant function in the practical and quantitative application of materiality since its introduction in 1986 as AAS 5 *Materiality in Financial Statements*. HoTARAC believes that AASB 1031 is effectively a low maintenance standard which provides significant widespread benefit in the consideration of materiality.

When the IFRSs were first incorporated into the Australian Accounting Standards, the Board, as explained in the ED, had decided to retain AASB 1031:

> "to ensure that the meaning of materiality remained well explained".

AASB 1031 assists in facilitating consistent quantitative assessments of materiality across Australian jurisdictions and is a major reference point for preparers and users of financial statements. It significantly supplements the qualitative assessment of materiality while still maintaining the need for professional judgement and accountability.

The importance of assessing materiality is a fundamental concept under Relevance in the *Framework for the Preparation and Presentation of Financial Statements* which states:

> "Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement."

Withdrawal of AASB 1031 would remove the indicative quantitative thresholds which clarify whether an item or aggregate of items is material (refer paragraphs 12 – 15), and guidance on the practical application of materiality.

HoTARAC does not support the AASB analysis of the removal of the above paragraphs as those:

> "… that could be omitted without a loss of meaning".

BC5 of the ED states that the withdrawal of AASB 1031 is:

> "... to achieve consistency with its policy of not providing unnecessary local guidance on matters covered by IFRSs".

HoTARAC disagrees that the quantitative content of AASB 1031 is unnecessary and is satisfactorily covered within the IFRSs e.g. the IASB *Conceptual Framework for Financial Reporting* (Conceptual Framework), IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* whereby somewhat limited quantitative guidance has been provided at a high level. AASB 1031 contains much more comprehensive guidance in paragraph 9-19, and in particular, for the Not-For-Profit sector, paragraph 17-19. In essence, this withdrawal could potentially leave a gap before the completion of the IASB's educational material on materiality is issued.

The European Securities and Markets Authority (ESMA) in its initial *Consultation Paper*[1] found:

> "... apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers."

Furthermore, the ESMA in its *Feedback Statement*[2] considered that:

> "... a greater focus on education to improve the consistency of understanding and application of the materiality concept in financial reporting would be a useful initiative."

This is further supported by the Financial Reporting Council's (FRC)[3] *Managing Complexity Report*. The FRC noted that there has been an increase to complexity in financial reporting resulting from the accumulation of accounting rules, and accompanying disclosures, since the introduction of IFRS. This led to a call for reductions in and simplification of various requirements. A number of international reviews have called for the rationalisation of disclosures in relation to financial reporting. This report noted in particular also:

> "the challenge is to find a mechanism that encourages directors and preparers to properly consider whether or not a disclosure is material, rather than the simpler option of including all disclosures."

HoTARAC believes that given the diversity in the perspective of preparers of financial statements, and without a reasonably consistent quantitative approach to assessing materiality if AASB 1031 was withdrawn, financial statements will have greater potential to vary significantly within sectors and across entities.

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[1]European Securities and Markets Authority, 2011, *Consultation Paper*, Considerations of Materiality in Financial Reporting, p. 4.
[2]European Securities and Markets Authority, 2013, *Feedback Statement*, Considerations of Materiality in Financial Reporting, p. 7.
[3]Australian Government, Financial Reporting Council, 2012, *Managing Complexity in Financial Reporting*, Managing Complexity Task Force, p. 10.

HoTARAC recommends that at a minimum, in the interim, AASB 1031 not be withdrawn until the project to address practical difficulties in applying materiality (as noted in p5 in the ED) under IFRS is completed.

Question 2 Change from current practice

Whether the proposals in this Exposure Draft would result in a change from current practice, including whether the proposal to permit early adoption would result in the omission of disclosures that might otherwise be made, and, if so, why?

In BC 7 of the ED, the Board noted that:

> "... it would not expect the withdrawal to change practice regarding the application of materiality in financial reporting."

HoTARAC, however, believes that the basis of application of materiality will change over time, given that there would be greater flexibility in interpretation of materiality without some form of quantitative guidance being available if AASB 1031 were withdrawn, particularly with respect to different contexts.

Given the diversity in perspectives of preparers, we believe that without a reasonably consistent quantitative approach to assessing materiality, financial statements have the potential to vary significantly within sectors and across entities.

The ESMA in their *Feedback Statement*[4] stated that:

> "Diversity in application was attributed to the exercise of management judgement, the various perspectives of different stakeholder groups as well as challenges to the proper application of the concept of materiality."

The FRC[5] highlighted that where there is a mindset of preparers and auditors of "when in doubt, disclose", the consequences can be:

- "an increase in both the number and volume of additional financial and other disclosures presented;
- the inclusion of immaterial disclosures, which may detract from material disclosures, and confuse and/or deter proper review of these financial reports by targeted users and corporate stakeholders; and
- a lack of understanding by preparers and auditors as to which disclosures are material, with the result that material disclosures may be omitted from financial reports and immaterial disclosures included. ..."

[4]European Securities and Markets Authority, *Feedback Statement*, op. cit., p. 3.
[5] Financial Reporting Council, op cit., p. 6.

As staff and management change in entities, and if there is a lack of documentation of treatment of the application of materiality in that sector, reliance on the limited information available within the Conceptual Framework , IAS 1 and IAS 8 will impact on the assessment of materiality and its application in the disclosure process. As a result, there would be a significant degree of subjectivity in assessing materiality.

In the longer term, HoTARAC believes this would result in inconsistencies in practice of how materiality is understood and applied.

HoTARAC does not believe early adoption would necessarily result in the omission of disclosures that might otherwise be made.

Question 3 Regulatory issues

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) not-for-profit entities; and (b) public sector entities, including GAAP/GFS implications?

HoTARAC is not aware of any regulatory issues that may affect implementation of the proposals.

However, as highlighted in the ED's Attachment to the Basis for Conclusions table, paragraph 14 is directly relevant to not-for-profit entities given that they "are primarily concerned with achievement of objectives other than the generation of profit …". Reference is also made to guidance in paragraphs 17 – 19 as being "… more appropriate to consider". Withdrawal of the standard would therefore remove the specific guidance on materiality for not-for-profit entities.

Question 4 Usefulness to users

Whether, overall, the proposals would result in financial statements that would be useful to users?

HoTARAC believes that the withdrawal of AASB 1031 will result in a significant degree of subjectivity in assessing materiality and in the longer term, result in reduced consistency and reliability in financial reporting and hence, will reduce the usefulness of financial statements for users.

HoTARAC considers that the proposals would result in different interpretations of the inclusion of immaterial items or exclusion of material items within financial statements. Accordingly, these differences in interpretation would impact on the usefulness of financial statements to users. This may result in the manipulation of operating results which would not be in the best interests of stakeholders.

While both qualitative and quantitative aspects are required in the assessment of materiality, without appropriate quantitative guidance, there is a reasonable concern that materiality may be applied on different quantitative bases across entities and sectors.

Question 5 The Australian economy

Whether the proposals are in the best interests of the Australian economy?

HoTARAC considers that the proposals are not in the best interests of the Australian economy for all of the reasons detailed above, particularly in regard to a probable lack of consistency and reliability in financial reporting for stakeholders.

Question 6 Costs and benefits

Unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

HoTARAC believes there may be more difficulty for preparers in assessing the consistent application of materiality in the preparation of financial statements. The time taken to determine materiality and assess consistency is also considered to contribute to outweighing the benefits of the removal of the standard.

Other comments

Recommendations if AASB 1031 was withdrawn

HoTARAC recommends that:

- since the IFRSs are principles-based, HoTARAC would support the provision of supplementary guidance of the significant components of AASB 1031, in particular paragraphs 12 to 19 within, say, the *Framework for the Preparation and Presentation of Financial Statements*; and
- a AASB review of materiality practice be undertaken after three years,

if AASB 1031 was withdrawn.

Observation

HoTARAC queries why Interpretation 21 *Levies* (AUS 14.4) has been excluded from Appendix A of the ED.

HoTARAC also encourages AASB to include into its work plan a review of similar but not standardised terminology used across various standards, involving the rationalisation of the terms "major", "significant", "key" and "main" (as alluded to in BC 9 of the ED).

AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

22 August 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Mr Stevenson

AASB Exposure Draft ED 243
Withdrawal of AASB 1031 Materiality

Please find attached the Australasian Council of Auditors-General (ACAG) response to AASB Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality*.

The Australian members of ACAG have differing views regarding the proposals contained in ED 243.

Four member Audit Offices support the withdrawal of AASB 1031 for the reasons expressed by the AASB.

Three member Audit Offices have expressed an alternative view. Those member offices believe the proposal to withdraw AASB 103 is premature and they do not support the withdrawal of the standard at this time. The attachment to this letter outlines the alternative view of these Audit Offices.

The opportunity to comment is appreciated and I trust you will find the comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

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Attachment

General Comment

The three member Audit Offices who do not support the withdrawal of AASB 1031 at this time, consider that the withdrawal should be assessed as part of the process of adopting the IASB Framework for Financial Reporting following the completion of further work by the IASB in developing guidance regarding materiality.

Those offices acknowledge guidance in relation to materiality will remain in the AASB Conceptual Framework, AASB 101 Presentation of Financial Statements, and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, however they believe this guidance is limited and the withdrawal of AASB 1031 prior to additional guidance being developed could lead to greater divergence in practice.

Specific Matters for Comment

1. Whether the proposal to withdraw AASB 1031 is supported

The ACAG members that do not support the proposal to withdraw AASB 1031 *Materiality* at this time ('those ACAG members') believe that the current proposal to withdraw the Standard is premature. Those ACAG members believe its withdrawal should be considered at the time of, and in the context of, adopting the IASB's *Conceptual Framework for Financial Reporting* (IASB Framework).

Those ACAG members understand that the IASB has significantly amended the materiality discussion in its revisions to the IASB Framework. In paragraph QC11 the IASB has stated that "... materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation."

The new discussion on materiality is significantly different from that contained in paragraphs 29-30 of the current *Framework for the Preparation and Presentation of Financial Statements* (the Framework). We note the content of the current Framework is consistent with, and complimentary to, AASB 1031.

Therefore, those ACAG members believe that the possible withdrawal of AASB 1031 and the incorporation of the updated elements of the IASB Framework for for-profit entities are intrinsically linked and should be considered jointly rather than as separate projects.

Although those ACAG members note that the concept of 'materiality' is covered briefly in AASB 101 and AASB 108, albeit in definition form, those ACAG members believe the pre-emptive withdrawal of AASB 1031 will leave a vacuum in terms of guidance available for preparers, auditors and users of the financial statements.

As a result of an IASB discussion forum earlier this year on financial reporting disclosure, they have committed to "start a project in the second half of 2013 to consider developing educational material or guidance on materiality, working with securities regulators, auditors, preparers and users". This was briefly noted in the 'Reasons for issuing this Exposure Draft' section of ED 243. AASB 1031 currently provides this form of guidance in Australia and the withdrawal of such guidance prior to replacement guidance having been developed is not supported at this time. We recommend the AASB await the finalisation of the IASB project to provide guidance prior to the withdrawal of AASB 1031.

Those ACAG members share the view expressed in paragraph 11 of AASB 1031 that "...the notion of materiality guides the margin of error that is acceptable in the amount attributed to an item or an aggregate of items and the degree of precision required in estimating the amount of an item or an aggregate of items". Accordingly, those ACAG members are of the view that the guidance provided in paragraph 15 provides a common basis for preparers and auditors of financial statements to work with when applying professional judgement in determining whether an item, or aggregate of items, is material.

The removal of AASB 1031 will place sole reliance on the conceptual framework, AASB 101 and AASB 108. The financial reporting framework for fair presentation will consequentially be weakened and, in those ACAG members view, more open to subjective application of the materiality concept by preparers.

Those ACAG members believe that it is sufficiently clear from the content of paragraph 15 that materiality is a matter of professional judgement and that the application of the 5% and 10% levels specified in paragraphs 15(a) and 15(b) needs to be considered within that overall context. As such, it is already clear items need to be considered in terms of their qualitative materiality as well being considered against the quantitative guidance provided. The inclusion of this quantitative guidance in paragraph 15, in those ACAG members view, adds to the general understanding of the concept, rather than being a prescriptive restriction.

2. Whether the proposals in this Exposure Draft would result in a change from current practice, including whether the proposal to permit early adoption would result in the omission of disclosures that might otherwise be made, and, if so, why?

Those ACAG members believe that the withdrawal of AASB 1031, particularly in the absence of further guidance yet to be developed, may result in some preparers omitting information from the financial statements that would otherwise be included.

Further it may result in greater divergent interpretations of materiality amongst preparers, and between preparers and auditors. Differences of this nature are likely to result in disruptions to the financial statement preparation and audit process.

3. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and
(b) public sector entities, including GAAP/GFS implications;

Those ACAG members provide no further comment on this matter.

4. Whether, overall, the proposals would result in financial statements that would be useful to users?

Those ACAG members believe that the withdrawal of AASB 1031, particularly in the absence of further guidance yet to be developed, has the potential to introduce further subjectivity in the preparation of financial statements.

5. Whether the proposals are in the best interest of the Australian economy?

Those ACAG members provide no further comment on this matter.

6. Unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Paragraph BC5 of ED 243 states that "The Board decided to propose the withdrawal of AASB 1031 to achieve consistency with its policy of not providing unnecessary local guidance on matters covered by IFRSs". We are concerned that little or no diligence is evident in ED 243 to substantiate the costs and benefits of the withdrawal of AASB 1031. Given that AASB 1031 has been effective since July 2004, entities and auditors have potentially become heavily reliant on this standard. We believe that the AASB should consult further to determine if materiality is adequately addressed in the forthcoming AASB Framework or whether AASB 1031 should be retained in some form due to the limited guidance available in AASBs 101 and 108.

Other Matters

In the context of the views expressed above we would not support the AASB's adoption of paragraph QC11 of the IASB Framework in its current form. We recommend the existing guidance provided in paragraphs 29 and 30 of the existing Framework be substantially retained.

In addition, we do not consider the interim approach outlined in BC17 to only apply changes to the Framework in relation to for-profit entities is consistent with the Board's approach regarding sector neutral standard setting processes. As the Framework underpins the standards, it would seem conceptually unsupported to adopt two versions of a Framework to support a single, in many cases, version of the standards.

pwc

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

23 August 2013

Dear Kevin

Re: AASB ED 243 *Withdrawal of AASB 1031* Materiality

We are responding to your request for comment on the Exposure Draft (ED) 243 *Withdrawal of AASB 1031* Materiality.

We support the Board's proposal to withdraw the standard on the basis that this is consistent with the Board's policy that domestic guidance should not be provided on matters that are covered by International Financial Reporting Standards (IFRS). The issue of materiality is not unique to Australia and we agree that the existing guidance in other standards is adequate.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely

Margot Le Bars
Partner, PricewaterhouseCoopers

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23 August 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
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Via email: standard@aasb.gov.au

Dear Kevin

ED 243 Withdrawal of AASB 1031 *Materiality*

Thank you for the opportunity to comment on ED 243 Withdrawal of AASB 1031 *Materiality* (the ED). CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

With Australia's on-going commitment to the adoption of International Financial Reporting Standards (IFRS), we welcome these proposals to withdraw AASB 1031 *Materiality*. We note that at the time IFRSs were first incorporated into the Australian Accounting Standards the Board decided to retain a revised version of AASB 1031. This was retained to help ensure that the meaning of materiality remained well explained as the IASB conceptual framework at the time included only limited guidance. We believe the reasons for the retention of AASB 1031 no longer exist as Australia has had nearly a decade of experience with IFRS. Further, we consider its removal will minimise the remaining differences between the 'for profit' Australian Accounting Standards and IFRS; confining those to the additional disclosures contained in AASB 1054 *Australian Additional Disclosures.*

We do appreciate the numerous calls internationally to address financial statement complexity issues, with one of the proposed actions being more guidance on materiality. We support this call for additional guidance. However, we believe this is best developed at the international level within the context of the IASB's Conceptual Framework project.

Our responses to your specific questions can be found in the Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely

Alex Malley
Chief Executive
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

APPENDIX

1. **Do you support the proposal to withdraw AASB 1031?**

   Yes, we support the proposal to withdraw AASB 1031 *Materiality* as its removal will minimise the remaining differences from IFRS in relation to for-profit entities.

2. **Would the proposals in this Exposure Draft result in a change from current practice, including whether the proposal to permit early adoption would result in the omission of disclosures that might otherwise be made, and, if so, why?**

   No, we would not expect the withdrawal of AASB 1031, including the proposal to permit early adoption, to result in any change from current practice.

3. **Are there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
   (a) not-for-profit entities; and
   (b) public sector entities, including GAAP/GFS implications?

   No, we are not aware of any regulatory issues or other issues that would arise from the withdrawal of AASB 1031.

4. **Overall, do you believe the proposals would result in financial statements that would be useful to users?**

   As we would not expect the withdrawal of AASB 1031 to change current practice we anticipate the usefulness of financial statements to users to be unaffected.

5. **Do you believe the proposals are in the best interests of the Australian economy?**

   Yes, we believe the proposals are in the best interests of the Australian economy as they will remove any perceived non-compliance with IFRS for the for-profit sector from the perspective of the international community.

6. **Unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative?**

   We believe the benefits of the proposal significantly outweigh their costs. At the time IFRSs were first incorporated into the Australian Accounting Standards the Board decided to retain a revised version of AASB 1031. This was retained to help ensure that the meaning of materiality was appropriately defined and remained well explained as the IASB conceptual framework at the time included only limited guidance. We believe the reasons for its retention no longer exist as Australia has had nearly a decade of experience with IFRS. Further, while we do not believe that AASB 1031 has in anyway affected the application of the Australian Accounting Standards that are the adopted IFRS; its removal will eradicate any contrary perception.

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23 August 2013

The Chairman
The Australian Accounting Standards Board
PO Box 204
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By email: standards@aasb.gov.au

Dear Sir

ED 243 Withdrawal of AASB 1031 *Materiality*

EY is pleased to submit its response to the AASB Exposure Draft 243 Withdrawal of AASB 1031 *Materiality* (ED 243) issued in June 2013. Our responses to the specific questions are set out in the appendix to this cover letter. We highlight below some of the broader issues underlying our response to the specific questions raised in the ED.

It is our view that AASB 1031 offers guidance on a central tenet to accounting which is not sufficiently addressed through the current suite of IFRSs. It is unknown at this point what will be included in the proposed changes to the Framework. Accordingly, we believe removal of AASB 1031 at this point would leave a vacuum, and we have concerns as to the implications of this.

In saying this, we do note that:
- We support the reduction of local variances to the IFRSs; and
- The application of the materiality standard is narrow, and in its current form does not necessarily provide assistance relating to the materiality of disclosures – which is considered to be the primary issue identified where additional guidance is required.

While, we do have mixed views on whether AASB 1031 should be withdrawn, on balance, we believe that AASB 1031 plays an important role in financial reporting, and do not support its removal until the IASB has completed producing its own guidance.

Should you wish to discuss any aspects of our submission, please feel free to contact Lynda Tomkins on (02) 9276 9605.

Yours faithfully

Ernst & Young

Ernst & Young

APPENDIX – Responses to the specific matters for comment in the Exposure Draft – Withdrawal of AASB 1031 Materiality

1. Whether the proposal of withdraw AASB 1031 is supported

The concept of materiality is key to preparing financial statements under IFRSs. It is therefore of particular relevance to investors and other users of financial statements, as it impacts what information is considered relevant and thus presented in the financial statements. The application of the concept of materiality requires significant judgement, which is inherently subjective. We believe that preparers, regulators and users hold different views about what material information is, suggesting that potential expectation gap may exist, particularly around financial statement disclosures.

The proposed withdrawal of AASB 1031 (ED 243) is based on the AASB's goal to remove unnecessary local guidance on matters appropriately covered by IFRSs, and predicated on the idea that the concepts relating to materiality will be addressed by:

- The IASB conceptual framework (including changes proposed in the discussion paper[1])
- International Accounting Standard 1: Presentation of Financial Statements (IAS 1)
- International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

In the discussion paper released by the IASB on the Conceptual Framework for Financial Reporting (Framework)[2], the IASB reaffirmed its stance on the description of materiality[3], though noted that the application of this principle has in certain instances led both to the disclosure of too much irrelevant information and not enough relevant information[4]. Consequently, the IASB is considering providing additional material on the application of materiality to address these issues relating to disclosure.

While the proposed changes to the Framework will look to address the materiality issues relating to disclosure, there is no discussion around the types of matters that would be addressed, which currently exist in AASB 1031. For instance:

- The nature of an amount affecting materiality[5];
- The quantitative threshold (i.e. 10%/5% of base amount)[6]; or
- The difference between materiality in absolute and relative terms[7]

We believe AASB 1031 currently assists discussion between preparers, auditors, users and regulators in providing guidance as to the basis of what should and should not be considered material in a financial report. It also provides guidance in other areas of financial reporting, including application of Prudential Standards, by due diligence committees, for assessment of continuous disclosures and enforceable undertakings. See also our response to question 3 below.

Therefore we do not support the withdrawal of AASB 1031 at this time.

[1] Discussion Paper DP/2013/1: A Review of the Conceptual Framework for Financial Reporting
[2] Discussion Paper DP/2013/1: A Review of the Conceptual Framework for Financial Reporting
[3] Ibid, Paragraph 7.45
[4] Ibid, Paragraph 7.46
[5] AASB 1031: Materiality – Paragraph 12
[6] Ibid, Paragraph 15
[7] Ibid, Paragraph 18-19

2. Whether the proposals in the Exposure Draft would result in a change from current practice, including whether the proposal to permit early adopting would result in the omission of disclosures that might otherwise be made, and, if so, why?

The proposals to withdraw AASB 1031 would potentially result in a less clear and well understood application of materiality than currently exists. It is anticipated that would likely lead to diversity in the application of materiality and undermining of the comparability principle of financial accounting.

On 16 August 2012, the European Securities and Markets Authority released a summary of the responses to its consultation paper on materiality[8] in financial reporting released in November of the year before. Some of the major findings from this consultation paper were that[9]:

- The majority of respondents considered that the concept of materiality is well understood, but many respondents expressed the view that there is diversity in application;
- A majority of responses raised concerns about the length of disclosures reaching a point where the entity's financial and performance may be obscured for the users;
- Many respondents highlighted the role of both qualitative and quantitative guidance with respect to materiality; and
- There was widespread agreement from respondents that if further guidance were to provided with respect to the application of materiality, this should be addressed by the IASB.

This diversity was believed to be caused by the exercise of management judgement, the differing perspectives of different stakeholder groups, and challenges to the proper application of materiality. It would be expected that removal of AASB 1031 may have a similar effect in Australia.

Therefore while it may not lead to omission of disclosures that would otherwise be made in financial statements, the widespread use of AASB 1031 as discussed in question 1 may have other consequences.

3. Where they are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to: (a) Not-for-profit entities; and (b) Public sector entities, including GAAP/GFS implications

Yes. In our view, the AASB needs to discuss the interaction of AASB 1031 and APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* with the Accounting Professional & Ethical Standards Board. Under APES 350, an assurance practitioner who participates in a due diligence committee (DDC) is required to comply with applicable Auditing and Assurance Standards when his role includes the provision of a materiality guidance letter to the client and its DDC. The form of the materiality guidance letter included in APES 350 specifically references AASB 1031 with respect to the definition and the determination of materiality. In our view, ED 243 Withdrawal of AASB 1031 *Materiality* fails to consider the materiality guidance gap which may be created in the Australian environment with respect to an assurance practitioner's role in a DDC process.

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[8] Consultation Paper ESMA/2011/373: Considerations of materiality in financial reporting (9 November 2011)
[9] Summary of Responses ESMA/2012/525: Considerations of materiality in financial reporting (16 August 2012)

4.	Whether, overall, the proposals would result in financial statements that would be useful to users;
5.	Whether the proposals are in the best interests of the Australian economy; and

No. The proposed changes would likely detract the utility of the financial statements to users.

6.	Unless already provided in response to specific matters for comment 1-5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

As noted in the question 1 above, the proposal to remove AASB 1031 offers a limited benefit (in the reduction of Australian specific standards), while potentially incurring a cost in the form of increased diversity of application of the standards as a whole.

From: Keith Reilly [mailto:keith.reilly@mq.edu.au]
Sent: Monday, 26 August 2013 12:55 PM
To: AASB Mailbox
Subject: Submission on ED 243 'Withdrawal of AASB 1031 Materiality'.

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204, Collins Street
WEST VICTORIA 8007

By Email: standard@aasb.gov.au

26 August 2013

Dear Kevin

Macquarie University's Department of Accounting and Corporate Governance is pleased to provide the Australian Accounting Standards Board with its comments on ED 243 'Withdrawal of AASB 1031 Materiality'.

Macquarie University's response reflects our position as a leading educator to the Australian and global community. This submission has benefited with input from discussions with key constituents.

We support the withdrawal of AASB 1031, as it reduces the risk of inadvertent non-compliance with IFRS, and we agree that it is unlikely to change practice regarding the application of materiality in financial reporting.

We note that AASB 1031 as with other former Australian accounting standards will remain as historical but non-mandatory guidance as indeed other materiality references available on the internet, are used by those interested in considering materiality issues. We also note that the IASB's work on its Conceptual Framework may provide further non-mandatory guidance on the application of materiality in practice.

We encourage the AASB to work to ensure that International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, are issued in Australia without any significant change, apart from regulatory references if needed, so that Australian for profit reporting entities can remain compliant with best practice global accounting standards (IFRS), but not be burdened by un-necessary compliance costs that other overseas entities do not have to bear.

If you require any further information or comment, please contact me.

Keith Reilly

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