

26 February 2016

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

Exposure Draft: Practice Statement: Application of Materiality to Financial Statements

The Australian Institute of Company Directors (AICD) is pleased to provide a submission to the International Accounting Standards Board (IASB) in response to its Exposure Draft, *Practice Statement: Application of Materiality to Financial Statements* (Exposure Draft).

The AICD is committed to excellence in corporate governance. We are the nation's leading organisation for directors, dedicated to making a positive impact on society and the economy by promoting professional director education and have a significant and diverse membership of more than 37,000 from across a wide range of industries, commerce, government, the professions, private and not-for-profit sectors.

The AICD is responding to the questions set out in the Exposure Draft:

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?

AICD's Response

The AICD supports the issuance of guidance about materiality and is of the view that the Practice Statement should be non-mandatory in nature. We agree that the Practice Statement provides an appropriate format for such guidance. Depending on the nature of the organisation, it may or may not have developed processes to consider materiality. Larger organisations may have the financial and personnel resources to consider materiality more

broadly. This guidance provides common sense considerations that management may consider when making materiality assessments. This guidance may be of assistance to smaller organisations with limited resources to consider materiality in the context of its financial reporting.

Question 2 – Illustrative examples

Do you find the examples helpful in the [draft] Practice Statement? Do you think additional practical examples should be included? If so, what scenarios should the examples address? Please be specific as possible and explain why those example(s) would be helpful to entities.

AICD's Response

The AICD supports the inclusion of practical examples, as they assist management by providing scenarios that clarify how the materiality determination may happen in practice. We are of the view that the examples provided are helpful and no further scenarios need to be included.

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 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 in your jurisdiction, or a jurisdiction in which you file financial statements?

AICD's Response

The AICD believes that the Practice Statement is sufficiently clear and we have no additional inclusions or amendments. However, in Australia, the application of the Practice Statement may present some legal challenges. Directors in Australia are responsible for the financial report of the entity, which would cover the financial statements that have been prepared in compliance with the accounting standards. This, together with the rather limited nature of Australia's business judgment rule, set out in section 180, *Care and diligence – civil obligation only* of the Australian Corporations Act. The business judgment rule does not include those judgments made by directors in the preparation of the financial report. Judgments about financial reporting matters are not considered to be "business judgments" but merely compliance with the requirements of the Corporations Act. This results in, directors being unable to access the protections provided in section 180(2) for directors' judgments made around materiality assessments and thus may be personally liable for any judgments made in relation to inclusions or exclusions from the financial statements based on a materiality assessment. This may result in directors in Australia electing to not follow this guidance and err on the side of caution and include immaterial disclosures to limit their personal liability.

Further, the AICD is particularly concerned about how this Practice Statement may interact with section 674, *Continuous disclosure – listed disclosing entity bound by a disclosure requirement in the market listing rules* in the Corporations Act. Section 674 sets out the requirements for a listing entity to make disclosures to the market operator on "information that is not generally available and is information that a reasonable person would expect, if it were generally available to have a material effect on the price or value of ED securities of the entity." The ASX Listing Rule 3.1 further provides: "Once an entity becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information."

Despite these concerns, the AICD supports the issuance of the Practice Statement as it may contribute positively to the local debate about judgments made as part of the preparation of the financial statements.

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 (expected to be issued early in 2016). Nevertheless, the IASB think that to address the need for guidance on the application of materiality, it is useful to develop the Practice Statement now.

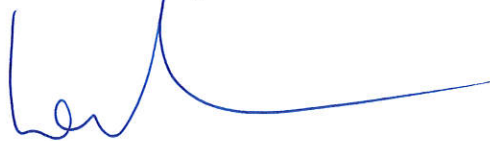
The IASB does not envisage that the discussion about the definition of materiality or any other topics in the Principles for Disclosure project will significantly affect the content of the Practice Statement. Nevertheless, the IASB will consider whether any consequential amendments to the Practice Statement are necessary following the completion of the Principles of Disclosure project. Do you agree with this approach?

AICD's Response

Given the non-mandatory nature of the Practice Statement, the AICD supports the release of the Practice Statement, prior to the finalisation of the Principles of Disclosure project.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of our views, please contact us on +61 2 8248 6600.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Louise', followed by a long horizontal flourish.

LOUISE PETSCHLER
General Manager, Advocacy