

EFRAG
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By e-mail: Commentletters@efrag.org;

12th February 2016

Dear Roger,

**EFRAG Document for Public Consultation regarding IASB Exposure Draft
"Application of Materiality to Financial Statements" ED/2015/8**

The Danish Accounting Standards Committee (DASC) set up by "FSR - danske revisorer" is pleased to submit our comments. Our main comments to the EFRAG DCL are in short the following:

1. DASC supports to have a non-binding practice statement for period to come, but in the long run we would like to see IASB issuing a standard on the subject.
2. DASC believes the practice statement shall be more specific and give more real guidance.
3. We believe materiality is an issue for all players involved in the reporting process, not only preparers.
4. We support examples and particularly to illustrate qualitative materiality.
5. We believe the practice statement should have more guidance on materiality in relation to notes, and in particular, we believe materiality for notes should be based on the complete financial statements.

We would be happy to elaborate further on our comments if requested. Please feel free to contact Stig Enevoldsen.

Kind regards

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Chairman of the Danish
Accounting Standards Committee

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General comments:

- 1 DASC – like EFRAG - welcomes the IASB’s initiative to provide additional guidance on the application of materiality because it could be helpful, in particular in the context of disclosures, to provide a common ground for applying judgement in deciding which information is relevant for users and to foster thinking on how materiality is applied and is to be understood. We believe that if the preparers **and auditors** are given guidance to refer to, they may feel more confident in exercising judgement when applying the concept of materiality.

- 2 However, DASC – like EFRAG - considers that the objective set out in paragraph 1 of the draft Practice Statement is too restrictive because it defines its purpose as being to ‘*assist management in applying the concept of materiality to general purpose financial statements*’. DASC believes that the primary objective of the guidance in the draft Practice Statement is to foster the exercise of judgement by **preparers and auditors** in applying the concept of materiality to general purpose financial statements prepared under IFRS. However, we believe the draft Practice Statement should also aim at promoting a greater understanding of the role of materiality in IFRS by all involved – **users, auditors, enforcers and preparers** - in the issue or use of financial statements and at encouraging a more effective dialogue about materiality.

Response to specific questions

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?

Side 3

DASC's response:

The Danish Accounting Standards Committee, DASC, accepts the IASB to issue a practice statement as non-mandatory guidance. We believe materiality is a very important issue, and there is a strong need to get a consistent way of dealing with the use of materiality in financial reporting. We also see there is no leading guidance on materiality neither in auditing nor in accounting, and therefore someone needs to take the subject on in order to get common understanding and use. We feel IASB would be the right body to take the issue on to get some more concrete substance in the meaning of materiality. It should also prevent others such as enforcers from interpreting the meaning of materiality and issuing their own standards without a proper due process.

We support IASB to issue a practice statement because we trust most involved would read and use the practice statement, but in the long run we would like the IASB to issue a standard on the subject.

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.

DASC response:

DASC - as EFRAG - considers that examples can be useful to illustrate the way judgement on materiality is exercised. However, examples should illustrate both decisions to include and to leave out information and focus on those areas where judgement is the most difficult to exercise.

Generally, DASC agrees with EFRAG on the response to Q2. We also believe examples are particularly important when evaluating qualitative materiality.

Content of the draft Practice Statement

Question 3 – Content of the [draft] Practice Statement

The [draft] Practice Statement aims to propose 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?**

DASC response:

DASC – like EFRAG - considers that the draft Practice Statement should be drafted in a more concise and practical way and focus on the key steps of the process necessary to make decisions and exercise judgement on materiality. In particular, DASC – like EFRAG - recommends that the IASB better illustrates how the

assessments on materiality are applied in line with the specific roles of the primary financial statements and of the notes.

Side 5

Generally, DASC agrees with EFRAG, however, we have in addition the below comments:

We believe the drafting of the Draft PS is very soft and not very concise. The drafting seems to leave too much to the preparers to decide when preparing Financial Statements (FS), whereas we would prefer to have specific guidance to make materiality decisions in practice.

In particular, we agree with EFRAG that IASB needs to develop more guidance on qualitative materiality. It is only mentioned very little in the DPS. We very much support examples to help the understanding of qualitative materiality.

We agree with the text in the EFRAG DCL. However, we would like to see the DCL having more text in relation to materiality for notes. DASC believes it needs to be considered how materiality is decided in relation to notes. We favour materiality in the notes to be based on an overall assessment related to the total FS and not only related to the individual note. For instance, whether to disclose information mentioned specifically in a paragraph in a standard should be based on whether it is material to the FS as a whole and not whether it is material in the particular note. Having said that, we understand that a requirement to disclose remuneration to management or transactions with management (or the like) may be considered based on qualitative materiality and therefore disclosed by itself, but only very few disclosures mentioned in specific standards are qualitative material.

It also has to be considered whether note materiality is based on the size of the amount in the primary financial statements themselves or whether it is based on the entire FS. One might think of a small amount of fixed assets (small in relation to the entire balance sheet amount), and whether all the details are required as mentioned in IAS 16.

IASB should also be encouraged to discuss whether it should or should not be allowed to include immaterial information in the FS. We may accept to have some not so relevant information in Management Commentary, but we are uncertain whether it should continue to be allowed in the FS.

Timing

Question 4 – Timing

The IASB plans to issue the draft 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 next year). Nevertheless, the IASB thinks that to address the need for guidance on the application of materiality, it is useful to develop the draft Practice Statement now, rather than wait until the Principles of Disclosure project has been finalised.

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 draft Practice Statement. Nevertheless, the IASB will make any consequential amendments to the draft Practice Statement as necessary following the completion of the Principles of Disclosure project. Do you agree with this approach?

DASC response:

DASC – like EFRAG - supports the IASB's decision to issue the draft Practice Statement before the finalisation of its Principles of Disclosure. However, EFRAG recommends that the IASB closely monitors the outcome of the Principles of Disclosure and other ongoing projects (such as the Conceptual Framework) to ensure that the Practice Statement is updated on a timely basis, if needed.

Generally, DASC agrees with EFRAG on the response to Q 4.

Any other comments

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.

DASC response:

We have no further comments.