

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2016:02

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Board members,

Re: Exposure Draft ED/2015/8: IFRS Practice Statement: Application of Materiality to Financial Statements

The Swedish Financial Reporting Board is responding to your invitation to comment on the Exposure Draft: IFRS Practice Statement: Application of Materiality to Financial Statements.

We welcome a discussion on materiality. In our experience the behaviour of various parties involved in financial reporting, such as preparers, auditors and supervisory authorities, in recent years has been characterized by a fear of being criticized for not providing enough information, which has led to information overload, making relevant information less accessible.

However, a discussion of materiality will always be a challenge. It is a broad concept, which doesn't lend itself easily to definitions that are both precise and general. The fact that materiality is used in different ways for different purposes, e.g. in financial market regulation or in auditing, is a source of uncertainty. So is the fact that the interpretation of materiality also in a financial reporting context varies across jurisdictions. A discussion of materiality would help to distinguish the meaning of materiality in IFRS from how the concept might be used in other contexts.

We are of the opinion that the outcome of such a discussion shouldn't be in the form of a mandatory statement, not primarily because such a statement could be in conflict with national legal or regulatory requirements, but because of the difficulties involved in developing such a statement of sufficient precision and generality. In the Basis for conclusions (BC 13) the Board notes that issuing mandatory guidance could appear prescriptive. We share that concern – after all the idea that guidance is mandatory is a bit of a contradiction. The meaning of materiality must be consistent with the need and room for professional judgement characteristic of IFRS.

For the same reason we don't think that a mandatory adoption of such guidance in individual countries would be a good idea, but since this is not for the IASB to decide, the fact that this might be a consequence is something that the Board must take into account before issuing such guidance. Acknowledging this, we still believe that there's an advantage for the Board to develop the concept of materiality itself rather than having the meaning of materiality in an IFRS context imposed on preparers (and users) by other parties, e.g. supervisory authorities.



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Having pointed to some potential consequences of issuing guidance, we are of the opinion that doing this in the form of a Practice Statement is superior to providing the same information as educational material, not because a Practice Statement would be more formal and easier to adopt as a formal document by other parties in some jurisdictions, but because it will be subject to due process and thus influenced by opinions of a wide range of stakeholders.

Regarding the content, the exposure draft to a large extent rests upon a collection and compilation from the framework of information directly concerning materiality or indirectly related to materiality e.g. through statements of objectives of financial reporting. We support this approach. Putting together the information in one place has a value in itself and would be useful for discussions of the meaning of materiality. Such discussions could concern various parties, not only preparers but also auditors and supervisory authorities. Consequently, we believe that the current objective (p. 1), to assist management in applying the concept of materiality, is too narrow.

It is quite difficult to give concrete examples on a detailed level. The examples in the current version illustrate the difficulties. We think that the Board should be restrictive with that kind of illustrations in the practice statement. Simplified illustrations are often not useful, to reach a conclusion in a specific case, the whole context is required.

Most of the content of the Practice Statement focusses on providing guidance on the application of materiality when preparing and disclosing information in the financial statements. We think that this is a reasonable approach. However, it is also stated (p. 61) that similar considerations also apply to recognition and measurement issues. We do not think that such broad statements are useful without a deeper and more precise analysis of these issues. In general, we believe that an approach starting with the identification of problems related to the application of materiality in current practice is more fruitful than an approach deducting statements from higher level principles. However, we do not think that the analysis has come that far and suggest that p. 61 should be deleted.

We see merit in publishing a Practice Statement, with the above comments in consideration, in the near future. We believe that such a statement could be of help in the selection of information to be published in financial reports by rejecting information, which although not immaterial, is not sufficiently material to justify a separate disclosure in the notes, and give users a better idea of what information is to be expected, and not to be expected, in financial reports.

If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: claes.janzon@radetforfinansiellrapportering.se.

Stockholm, 3 March 2016

Yours sincerely



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Chairman

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