



Financial Reporting Committee

Hans Hoogervorst Esq
Chairman
International Accounting Standards Board
IFRS Foundation
30 Cannon Street
London
EC4M 6XH

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Dear Hans

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

We welcome the opportunity to comment on the above consultation.

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Our views

We welcome the draft Practice Statement on the application of materiality as this is an area of debate between management, investors and regulators that continues to evolve. Materiality is also an area of focus for the UK FRC's Clear and Concise reporting initiative, an initiative we strongly support. One of the aims of the Clear & Concise initiative is to change the behaviour relating to financial reporting - "The FRC calls for action by all those involved in the financial reporting process to focus on: Communication; Placement of information; and Materiality".

In order to create a behavioural change in management towards materiality, we believe any guidance on materiality needs to create 'tension' between the requirements to disclose everything prescribed within IFRS and the duty on management to exercise judgement on materiality (as described in the Exposure Draft). We acknowledge that the draft Practice Statement brings together current materiality application concepts and that it provides management with guidance all in one place. However, we believe the Practice Statement as drafted will not make a significant impact to the materiality debate, and does not go far enough to change the behaviour of management. Specifically, we believe:

- issuing the guidance as a non-mandatory Practice Statement suggests it is something that management can regard or disregard as they choose, and therefore fails to create the desired tension.
- the guidance should be drafted in a more concise and practical way. For example, we believe management would find a framework that contains a flexible list of factors to

consider when making a materiality judgement more useful. The framework could then be supported by examples that illustrate a decision to include or leave out information, for those situations where judgement is most difficult to exercise.

Please feel free to contact me through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Russ Houlden". The signature is fluid and cursive, with a large initial 'R' and 'H'.

Russ Houlden

Chairman

Financial Reporting Committee

The 100 Group of Finance Directors

Appendix

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?

We believe the guidance should be issued as mandatory guidance. This is because issuing the guidance as a non-mandatory suggests it is something that management can regard or disregard as they choose, and therefore fails to create the desired tension that will lead to behavioural change. We acknowledge the IASB's reasoning for issuing the guidance in the form of a non-mandatory Practice Statement, however we believe these reasons can still be met if the content of the guidance is drafted in a more concise and practical way (see response to question 3).

If the preference is to keep the guidance as non-mandatory, then we believe the appropriate form of the guidance is the Conceptual Framework.

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.

The examples in the Practice Statement should illustrate decisions to include or leave out information by identifying the factors that were considered and how a conclusion was reached.

The examples should represent those situations where judgement is most difficult to exercise. We would be willing to discuss challenging materiality judgements we have seen practice with you, which you may then want to refer to as examples.

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 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?

We believe the guidance could be drafted in a more concise and practical way. For example:

- Removing the reiterations from existing literature and replacing with cross-referencing would make the guidance more concise.
- Developing a framework that contains a flexible list of factors to consider when making a materiality judgement would be more practical.

Question 4—Timing

The IASB plans to issue the 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 in 2016). Nevertheless, the IASB thinks 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 its Principles of 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?

We welcome the IASB's decision to consider reviewing the disclosure requirements and objectives in existing Standards as part of its wider Disclosure Initiative project.

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.

We do not have any further comments.