



February 26, 2016

International Accounting Standards Board

30 Cannon Street
London EC4M 6XH
United Kingdom

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

Dear Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS¹ welcomes the opportunity to comment on the **Exposure Draft ED/2015/8 – IFRS Practice Statement - Application of Materiality to Financial Statements** (the “ED”).

Due Process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in December 2015. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall comments

GLASS believes it is appropriate that the practice statement on the application of materiality be issued as a non-mandatory guide and that it be issued in the format of a practice statement. We also believe it would be useful to specifically indicate that the guide also applies to entities that do not have a public reporting responsibility (SMEs), both in their consolidated and separate financial statements.

GLASS also believes that the guidance should be more concise, and therefore we recommend omitting the transcription of entire paragraphs of IFRS standards and only make footnote references.

GLASS recommends including more examples, ideally for several industries, and expanding the examples on qualitative disclosures that would be relevant for user evaluations. In addition to examples that refer to

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Vice Chairman), Chile, Colombia (Board), Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (Chairman), Panama, Paraguay, Peru, Uruguay (Board) and Venezuela (Board).



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material items, the guidance should also address not omitting items that are relevant for user decision making. We also believe some examples of acceptable exclusion of certain disclosures required by IFRS standards that would otherwise obscure information and distract the reader from information that is important would be useful.

Finally, GLASS recommends that the structure of the practice statement simulate the decision-making process of preparers and users when evaluating materiality, in such a way that the preparers of the financial statements understand what type of information is useful for users, which information required by IFRS standards is most relevant, and what information could be excluded. The guidance should also identify other types of information that could be useful for the decision making of users in evaluating the process of aggregating and disaggregating information in the financial statements.

Specific comments

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Felipe Pérez Cervantes", written over a horizontal line.

Felipe Pérez Cervantes

Chairman

Group of Latin American Accounting Standard Setters (GLASS)

**GLASS' Comment Letter on the IASB Exposure Draft on the IFRS Practice Statement –
Application of Materiality to Financial Statements (the ED)**

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?

The majority of the countries that participated in the TWG consider:

- a) it appropriate that the guidance be issued as non-mandatory guidance, since each jurisdiction and each entity may define the limitations on the scope and application of the guidance; and
- b) that a practice statement is the appropriate form for non-mandatory guidance on applying the concept of materiality, since the non-mandatory guidance clearly communicates that the Practice Statement provides overall guidance and makes it clear that the entity must apply professional judgment to reach its final conclusions.

One country-member expressed doubts on the usefulness of the document, since it believes it represents a deeper analysis of the judgments and uncertainties already addressed in IAS 1 and IAS 8. That country-member believes it would be better to include additional paragraphs in part A or B of those standards and dispense with the guidelines. For someone with knowledge of the requirements of financial reporting standards, the guidance in the practice statement is similar to what is already included in the standards and, therefore, the document does not contribute additional elements to guide in the application of the materiality principle.

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.

All country-members that participated in the TWG believe the examples are useful to understand the way in which the materiality restriction should be applied by the preparers of the financial statements of an entity. Notwithstanding, they recommend the inclusion of additional examples on the following topics:

- a. Although the TWG understands that the practice statement is geared to the preparers of the financial statements of a reporting entity that has a public reporting responsibility (listed entities), the TWG recommends that the guidelines expressly indicate that this also apply to entities that have no such



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responsibility (non-listed entities, or SMEs) both in their consolidated and separate financial statements. This is particularly important for those Latin American countries in which general purpose separate financial statements are required or where the IFRS for SME is used.

- b. In addition to referring to the inclusion of material items in the financial statements or in the notes, the examples should also address not omitting those items about which relevant judgments are required that could affect the decisions of users. Also, there are no examples of when to exclude disclosures required by IFRS standards in those cases where such disclosures would provide irrelevant information that could distract the reader from information that is relevant.
- c. The guidance should include more examples of qualitative factors that would be relevant for the decisions of users. With respect to quantitative factors, we recommend including examples similar to those found in ISA 320, taking into account the differences between materiality as evaluated by an auditor and materiality as evaluated by the preparers of general purpose financial reports.

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?

a) All country-members that participated in the TWG agree that the practice statement has been prepared to provide guidance and help the management of an entity in the application of the materiality principle in the general purpose financial statements of the reporting entity (see paragraph IN1). Notwithstanding, we recommend that when reference is made to those financial statements or to the reporting entity, it should be indicated that the guidance is applicable to both the consolidated and the separate financial statements, whether the reporting entity is a legal entity, a group of entities or a segment of an entity. It would be useful for those responsible for preparing and presenting financial reports that the guidance identify the characteristics of each of the financial statements, as well as the materiality issues associated with each of them, similar to the way the guidance addresses the financial statements for interim periods.

As indicated in point 2c, all country-members agree with recommending that additional examples be included to provide guidance on the qualitative evaluation of matters of high importance for the entity, such as the stewardship of the entity's resources (paragraph 20) or how immaterial information obscures important information (paragraphs 34 to 36).

b) All country-members agree that the Practice Statement is understandable for those with a high knowledge of financial reporting standards, but they also recognize that due to the complexity of the judgments that have to be made, some preparers with a moderate or limited knowledge of financial reporting standards would expect simpler and less extensive guidance.

After analyzing its content, the TWG recommends that to have a Practice Statement that would be shorter and easier to understand, the transcription of the text of IFRS standards should be omitted, or at a minimum be put in footnotes or in an appendix at the end of the document. We identified that a significant portion of the guidance includes a transcription of the text of IFRS standards, which makes the Practice Statement very burdensome and extensive (for example, see paragraphs 7, 13, 15, 20, 37, 49, 60, 74 and 77).

c) All country-members believe that the Practice Statement is an excellent summary of the guidelines on materiality contained in IFRS standards. They have concluded that these are pertinent to evaluate and apply the materiality principle in general purpose financial statements and that it will help both preparers and the users of such reports.

d) The majority of the country-members that participated in the TWG share the belief that the content of the Practice Statement is useful to understand the concept of materiality, particularly in those cases in which the preparers do not have specialized knowledge on the manner in which the principles of IFRS standards should be applied. The members of the TWG agree that the Practice Statement should seek a balance in this issue, so that it will be useful for preparers with or without specialized knowledge, and accordingly they recommend transferring the text of other standards to footnotes.

One country-member believes that the section on omissions and misstatements (paragraphs 67 to 79) is a transcription of the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and therefore recommends eliminating this section and including the related paragraphs in footnotes or an appendix.



e) All country-members that participated in the TWG believe there is no legal conflict for application of the guidance. Issuing a non-mandatory guide will allow each country to independently determine whether to incorporate it in its legal framework or to identify any possible conflict with standards that have already been issued.

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?

The majority of the country-members in the TWG believe that the decision to issue the Practice Statement before finalizing the project of Principles of Disclosure is appropriate; similarly, they agree with including possible modifications that may arise when such project is debated by the Board. Although it would seem logical to first complete the project on the Principles of Disclosure and subsequently issue the Practice Statement, the need for guidance for preparers of general purpose financial reports and the fact that it is a document subject to due process of public consultation (similar to a new standard), gives it a different status that enhances the discussions of the disclosures project and justifies it being issued at this time.

Despite the above, to give more visibility to this document, we recommend that it be included as an appendix to the Conceptual Framework (part A) or in a standard in which materiality issues are more pertinent (for example, in part A of IAS 1). We also recommend that this document, as well as other practice statements, be available for consultation without restriction in the web page, just as it is presently possible to freely consult Part A of the standards and interpretations.

One country-member believes that the Disclosures Initiative project should be completed before issuance of the Practice Statement on materiality.

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.

There is a consensus among country-members of the TWG that the guidance should be structured following the decision-making process of preparers and users when evaluating materiality. Under this approach, the preparers of financial reports would understand what type of information is useful for users, which information required by IFRS is most relevant, and what could be excluded. The guidance should also



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identify other types of information that could be useful for the decision making of users in their evaluation of the way in which information is aggregated and disaggregated in the financial statements. This should be done taking into consideration the specific features of each entity and the differences of the users and the types of financial statements (consolidated, separate or interim).