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19 February 2016

By email: commentletters@ifrs.org

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst

**IASB Exposure Draft on Exposure Draft on Application of Materiality to
Financial Statements**

We refer to the International Accounting Standards Board's Exposure Draft on Exposure Draft on Application of Materiality to Financial Statements. Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact Ms. Emily Ngan of the Secretariat at 2526 6080.

Yours sincerely

Doris Ma
Secretary

Enc.

c.c. Ms. Christina Ng, Head of Financial Reporting, Standard Setting,
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Responses of the Hong Kong Association of Banks (“HKAB”) to the International Accounting Standards Board’s Exposure Draft on Application of Materiality to Financial Statements

Question 1

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 support the development of the proposed guidance on the application of materiality to financial statements. The guidance will serve to enhance consistency in how the concept is interpreted in practice.

Materiality is a concept in the Conceptual Framework. In the Conceptual Framework, materiality is described as ‘an entity-specific aspect of relevance based on the nature or magnitude or both, of the items to which the information relates in the context of an individual entity’s financial report’. It is a concept that comprises relevance and is used pervasively throughout IFRS. This proposed Practice Statement does not set out additional IFRS requirements. We agree with this position.

We consider that the relationship of the proposed guidance with the Conceptual Framework could be considered to be akin to that of “Implementation Guidance” (IG) that is issued with an IFRS. An IG elaborates IFRS requirements and how they should be put into practice. An IG accompanies but is not part of an IFRS. The development of an IG is subject to the IASB due process. Similarly, the proposed guidance elaborates on a concept within the Conceptual Framework and how it should be put into practice. So, it might be considered appropriate for the proposed guidance to accompany the Conceptual Framework rather than being a separate standalone Practice Statement. The Conceptual Framework is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nor does the Conceptual Framework override any specific IFRS.

Question 2

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.

In general we consider that the examples are helpful. We believe additional examples would be helpful in guiding preparers, such as:

- Illustrating how decisions are made to omit information due to qualitative immateriality.
- Applying of differing measures (qualitative and quantitative) of materiality for the primary financial statements as compared with the notes.
- Providing guidance on when it is appropriate to make additional disclosures in the notes where there is no specific disclosure requirements provided under the applicable IFRS

In some cases, however, it is not entirely clear how an example illustrates the text preceding it.

- For example, paragraphs 45-48 discuss what should be included in the notes, as opposed to the primary financial statements. The example set out in paragraph 47 correctly points out that the total revenue and its components should appropriately be presented on the face of the financial statements and in the notes respectively. This presentation is appropriate. However, it is not illustrating the text immediately preceding the example, i.e. the circumstances under which disclosing information in the notes instead of the primary financial statements would be considered insufficient when applying the materiality concept and how it would influence the decisions that users would make on the basis of the 'insufficient' information.
- We suggest that there could be a stronger linkage between the text and the example that follows. In addition, the examples that are illustrating the text should focus on areas where it is difficult to exercise judgement in applying the materiality concept and/or where the materiality concept is often, or likely to be, misinterpreted. It would be useful to illustrate the effect of applying the notion of materiality inappropriately so that readers can visualise the differences between appropriate and inappropriate application of the concept.

Question 3

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) We believe additional examples addressing the following would be helpful:
 - Application or determination of materiality in interim financial statements.
 - Application of materiality in making estimates and uncertainties.
 - How materiality is applied in determination of whether to aggregate information in the primary statements, or include in the notes.
- (b) We believe the following paragraphs are unclear and further explanation could be provided:
 - Paragraph 22(a) on the interaction of materiality and stewardship.
 - Paragraph 28(a) regarding regulatory compliance or loan covenants.
 - Paragraph 34 on immaterial information. Further discussion and guidance as to determining when immaterial disclosures start to “obscure” material information.
- (c)&(d) We note that certain paragraphs are drafted in line with the IASB’s initial thinking during its Principles of Disclosure project (see footnote 15 on page 19). This includes, inter alia, a discussion on the definition of materiality. We also note that the IASB envisages that the discussion about the definition may substantively affect the general content of the proposed Practice Statement (see BC21).

We are concerned that certain discussions in the proposed Practice Statement may be controversial and the inclusion of which should be carefully considered by the Board. For example, in paragraph 41(d), it is stated that the role of the primary financial statement in meeting the objective of financial statements is to provide information that gives an overview of the financial position and performance of an entity and that an overview may be useful for the primary users in, amongst others, identifying areas of particular interest for which the user could expect to find additional information in the notes. This effectively demands the preparers of financial statements to have insight into users' minds. As the expectations of users of financial information can be very diverse, we suggest that the Board should reconsider how this element is framed in the Practice Statement until a thorough consultation of the definition of materiality is undertaken in the Principles of Disclosure project.

- (e) We are not aware of any aspects of the guidance that will conflict with legal requirements in our jurisdiction.

Question 4

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 agree with the approach. It would be useful to have more clarity on materiality with the issuance of the proposed Practice Statement while the Principles of Disclosure project is in progress. However, the Board should be cautious about bringing into the proposed guidance potentially controversial concepts that rely on an as yet untested definition of materiality (an example of which is set out in our response to questions 3 (c) & (d) above).

It would not, however, be considered unreasonable if the forthcoming Discussion Paper leads to consequential amendments to or re-consideration of certain aspects of this (proposed) Practice Statement.

Question 5

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 believe that it would be useful for the proposed Discussion Paper to contain a discussion about the definition of materiality, and also to explain how this might lead to changes in this (proposed) Practice Statement.