

To: Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street – London EC4M 6XH

From: Economics & Finance department

Date: 19 February 2016

Reference: ECO-FRG-15-031

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

Dear Mr Hoogervorst,

We appreciate the opportunity to comment on the Exposure Draft *IFRS Practice Statement: Application of Materiality to Financial Statements*. This letter has been drafted by Insurance Europe, the European insurance and reinsurance federation.

In general, we are supportive of the actions the IASB undertakes to address the disclosure overload in IFRS financial reports. Materiality is a heavily relied upon principle on a global scale and we are appreciative of the IASB's efforts to provide further clarity on its application as the most suitable organisation to fulfil this task. We believe it is important that beyond preparers (paragraph 1) also users, auditors, regulators and all other stakeholders to the financial reports have the same common understanding of materiality. Hence, the objective of the publication needs reconsideration.

We believe that stakeholders involved in understanding the financial statements drawn up by preparers could benefit from better understanding of the inherent need for professional judgment in complex accounting situations, such as when accounting for insurance activities. We consider that the future insurance contracts Standard (IFRS 4 Phase II) will require even more judgment and estimates. Hence improved clarity via the IFRS Practice Statement regarding the indispensable disclosures, based on specific provisions in IFRS 4 Phase II and on a general materiality assessment, will be very useful.

Although we fully support the finalisation of the draft Practice Statement as a useful measure, we recommend the IASB to await the outcome of the consultation on the related IASB's Disclosure of Principle project.

Our comments to the specific questions in the consultation are noted below. Please do not hesitate to contact us if you would like to discuss any aspect of our comments in more detail.

Yours sincerely,



Olav Jones  
Deputy Director General / Director Economics & Finance

Annex

**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?

**Insurance Europe supports non-mandatory guidance on application of materiality; and we agree that a Practice Statement would be the most suitable publication method.**

We agree particularly with the reason given in BC13 that making such guidance mandatory might undermine the emphasis on judgment that is so central to the application of materiality. In addition, we share the view that the final publication might significantly benefit of the full due process, including the current public consultation.

**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.

**Insurance Europe considers that examples could be helpful to assess materiality but they are less relevant for complex activities such as insurance which requires more judgment.**

We believe the IASB's intention to develop examples could be useful but caution that they might be interpreted by auditors and regulators out of the intended context. If examples are developed they should take into account situations that would lead to decisions to include information, to leave out information, or that require more professional judgment. We consider that in more complex situations, such as defining the level of technical reserves in the insurance industry, examples for the purpose of the proposed practice statement are probable not helpful. Overall, we believe it would be prudent for the IASB to include a caution in the final practice statement to explain that the examples are simplified, intend to illustrate the principles of materiality only, and may not be adequate for more complex situations.

**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?

**Insurance Europe supports the guidance generally but suggest the inclusion of a decision tree.**

We support the guidance generally and do not suggest that further detail be added. Nevertheless, we suggest that preparers and users of financial statements might benefit from the inclusion of a decision tree to help structure their application of the guidance. However, it needs to be clarified in the practice statement that such a tree is just a first guidance that is a part of a comprehensive judgement process. In addition, appropriate reference to the guidance on immaterial information in particular might help to avoid excessive disclosures.

**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?

**Insurance Europe recommends the issuance of the Practice Statement after the finalisation of the IASB's Principles of Disclosures project.**

We acknowledge that the IASB's Disclosure Initiative is a continuous effort to enhance the effectivity and quality of disclosures. We believe the Materiality Practice Statement is a mere logical outcome that flows from the work and discussions regarding the disclosures project.

However, while we understand that the Principles of Disclosures project is reaching the IASB's due process stage of a Discussion Paper, we would prefer to avoid any revisions of the Practice Statement in a short succession. Therefore, we recommend to postpone the publishing of the useful guidance around the judgement of Materiality to take advantage of the outcome of the consultation of the Principles of Disclosures project. Especially, when taking into account the Board's decision to include the definition of materiality into the latter project and the intention to deliberate a revised approach for disclosures in the notes.

**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 have observed that IASB is using deferent terms at different occasions, e.g. significant (IAS 7.48) or predominant (ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts). It is essential that the meaning is always clearly distinguishable to the term 'material'.