IASB
30 Cannon Street
London EC4M 6XH
UK

February 18, 2016

Dear Mr Hoogervorst,

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

In the current context of a collective awareness of the need for rationalisation of the information provided in financial reporting and more specifically in the notes, we welcome the idea of practical guidance on applying the materiality concept. Although, materiality is a key element in the preparation of high quality financial reporting, there are many difficulties with its application. We agree that applying the principle of materiality is mainly a matter of behaviour of preparers, auditors and regulators, who have as common ground a risk aversion which has led to the thinking that there can never be too much information. We therefore believe that a guide, such as the proposed non-binding practice statement, would have the merit of better explaining how the materiality concept should be applied in order to produce useful and relevant financial reporting and to help management to feel more confident in exercising its judgement.

Nevertheless, we think that the IASB could have produced a simpler and more structured resource to achieve this objective. The essential elements of the approach should be the following:

- A brief reminder of the definition and the pervasive use of the concept of materiality throughout IFRS.

- A reminder that the concept of materiality requires the application of judgement and consideration of the entity's specific circumstances, and that it is not only a quantitative assessment but also, and above all, a qualitative analysis.

- The focus of the guidance should be on issues for which there is a real tension and where there are difficulties in applying the concept of materiality (in the notes, the use of judgement in circumstances of uncertainty, estimation, interim reporting…) and it should avoid developing boiler-plate descriptions about issues which are commonly well understood (such as aggregation and disaggregation of information). The guide should also provide more illustrative examples.

- A better distinction should be drawn between information that should be disclosed in financial reporting and information that could be disclosed elsewhere (such as in the management report, for example). This is particularly important when discussing stewardship.

Finally, we think that even though this Practice Statement is intended to be non-mandatory guidance, it is evident that entities will be under strong pressure to follow the examples and practices that are presented in it. Indeed, the Basis for Conclusions clearly incites relevant authorities and jurisdictions to make it mandatory in its application – we note three exhortations to jurisdictions to do this in paragraphs BC10 to BC15 alone! The document will almost certainly become, at the very least, representative of "best practice" and very likely mandatory, and therefore should be subject to the same quality of IFRS Due Process as if it were a standard. This aspect should also be taken into account by the IASB in its drafting of the Practice Statement: it should focus on the principles involved and how judgement should be applied, and the examples used should be illustrative but not be presented as approaches that should be adopted on a mandatory basis.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

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Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs

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 support the issue of non-mandatory guidance in the form of a practice statement. We agree that because the concept of materiality is pervasive, the guidance should not be attached to a specific standard and that mandatory guidance would be too prescriptive, thereby undermining the emphasis on management applying its judgment. Furthermore, we think that the overall concept of the application of the concept of materiality is already clearly stated in IFRS and that the guidance should be aimed at promoting a better understanding of this across all constituents. We would be concerned that making this guidance mandatory would probably lead to an increased focus on the procedural mechanisms for the application of materiality and stifle the use of judgement.

However, as stated in our cover letter, we think that even though the guidance may be non-mandatory in principle, there is a high probability that it will be seen as best practice by auditors or regulatory authorities and be thus imposed on entities. The document should therefore be developed using the normal Due Process used for IFRSs and it should be borne in mind that the contents could be considered as enforceable in some jurisdictions.

We note that, as mentioned in paragraph BC13 (as well as BC10 and BC15(b) of the Basis for Conclusions, jurisdictions could choose to mandate the guidance in their national framework if they wish to do so. We firmly support EFRAG's opinion that the guidance should remain non-mandatory in Europe.

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

We agree that the Practice Statement should provide examples in order to make it a useful and practical tool. However, the term "example" is mentioned 69 times in the draft and it is not always easy to identify the examples since they are often lost in long paragraphs.

Moreover, bearing in mind the possibility that the document could become mandatory in practice, we would encourage the Board to make it very clear in the text that examples are neither mandatory nor to be reproduced systematically in all financial statements. It is important, in our view, to avoid the risk that the document be transformed into another checklist to be followed. This would be contrary to the objectives of the Disclosure Initiative.

Like EFRAG, we also note that there are many examples which may unintentionally extend the scope of the guidance to information outside the financial statements:

- Paragraph 22 (a) of the draft Practice Statement, in suggesting that an entity should consider how users "think the entity should be managed". Not only is this a topic which does not have its place in financial statements, but obtaining such knowledge is quite difficult to implement without the establishment of a dedicated committee. We do not see how the expectations of users in respect of the management of the entity could have an effect on the financial statements. The financial statements should provide information about how the entity is actually managed but should not be required to justify how the way it is managed might or might not differ from the users' expectations. We therefore think that this example should be amended or removed.

- Paragraph 28(a) of the draft Practice Statement, in suggesting that an entity considers items «that could trigger non-compliance with regulatory requirements". In our view, only those instances of non-compliance that explain the financial statement contents should be disclosed in the notes. Thus, for example, the breaking of a covenant which would explain the reclassification of a debt should be disclosed in the notes, whereas an infringement of a regulation which has no immediate impact on the financial position of the entity would be better communicated in a management report or other vehicle of financial communication.

- Paragraph 28 (b), in describing matters of strategic orientation and decisions that should be placed in the management report rather than in the notes to financial statements

We also have concerns about the following examples:

- Paragraph 27 (a) which may mean that an accounting policy should be disclosed even if its application has little impact on the reporting, since an awareness of all accounting policies is necessary to understand financial statements. The French regulator, the AMF, has focused its requirements in this area by specifying that only applicable <u>and</u> significant accounting policies should be disclosed. We think that the IASB's Practice Statement should do the same

- Paragraph 36 which may encourage entities (or users) to disclose (or require) too much information and which illustrates how carefully the Board should be in using the notion of stewardship within the boundary of financial reporting. As a general rule, we are opposed to the idea that the financial statements should justify the non-applicability or absence of certain elements. Having said that, if an individual entity is exceptionally not exposed to a certain risk that affects all or most of the entities of its sector or location, then it is clear that it should communicate this fact. This information should be provided in the management report or other element of financial communication, but not in the financial statements.

Question 3—Content of the [draft] Practice Statement

The [draft] Practice Statement aims to propose 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?

Guidance about interim reporting deserves to be developed further. The document merely reiterates the guidance of IAS 34 whereas we know that it can sometimes be very difficult to assess materiality in the context of interim statements. The guidance should insist and elaborate on the fact that materiality has to be judged in relation to the figures of the period under review and not by comparison with annual amounts. Furthermore, the relevant period should be understood to be the year to date (on a cumulative basis) and not on an isolated period (such as, for example, the 2nd quarter).

To assist in making this clear and applicable in practice, the use of examples would be helpful.

(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?

The guidance should be better articulated by highlighting examples illustrating each concept developed.

(c) Are there any paragraphs/sections with which you do not agree? If so, which paragraphs/sections are they and why?

We are not convinced that the section about omissions and misstatements has its place in this practice statement dealing with materiality. Rather than focus on a clear explanation of how the concept of materiality should be applied in the case of errors or omissions, the text also seems to deal with how these elements should be corrected. We think that if the IASB believes that there is a need for complementary guidance on these matters then this would be best dealt with in IAS 8.

Our response to Question 2 also lists paragraphs which should in our opinion either be amended significantly or removed.

(d) Do you think any paragraphs/sections are unnecessary? If so, which paragraphs/sections are they and why?

We feel that the guidance should be made more concise by eliminating those sections which only repeat the guidance that already exists in IFRS.

(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 support EFRAG's proposals that "the draft Practice Statement should primarily aim at providing guidance on areas where existing difficulties, reluctance or inability to use an appropriate level of judgement in applying the concept of materiality have been identified. We identify the following areas that we consider to be the primary focus for guidance on applying materiality: (a) the qualitative aspect of materiality rather than the quantitative one, which is generally better understood; (b) the application of materiality to disclosures (which require a greater level of judgement) rather than the aggregation/ disaggregation on the face of the primary financial statements; (c) how materiality applies in the determination of the prominence to be given to information (should information be presented on the face of the primary financial, separately or in aggregation, in the notes or in both?); (d) how the consideration of stewardship affects materiality; (e) how materiality is applied in interim financial reporting; (f) how the concept of 'obscuring' material information with immaterial information applies; and (g) the application of materiality in relation to significant assumptions, estimates and uncertainties" .