

29 February 2016

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Materiality

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 60 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Exposure Draft.

Our detailed response (in the appendix) has been prepared in conjunction with our member companies.

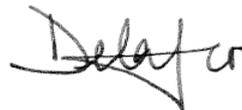
Yours sincerely

SwissHoldings

Federation of Industrial and Service Groups in Switzerland



Christian Stiefel
CEO



Denise Laufer
Senior Policy Manager

cc SH Board

APPENDIX

ANSWERS TO SPECIFIC QUESTION IN INVITATION TO COMMENT

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 agree that this guidance on materiality should be issued as a non-binding Practice Statement which is the appropriate form of document for the reasons given in the Basis of Conclusions.

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?

In our view many of the examples provided in the document are too general and do not provide sufficient information about the specific case to which materiality has been assessed. We suggest that it would be more helpful if more of the examples were linked to specific scenarios and show how the conclusion about materiality has been made.

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?*
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- (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 have the following concerns or disagreements concerning the currently proposed text:

Need for general purpose financial statements to contain all data that is subject to audit

We consider that the external audit process is a key factor in helping preparers to demonstrate the integrity of their general purpose financial statements. It is therefore necessary to have clarity on what is in the scope of the external audit review.

Paragraph 3 of the proposed document appears to imply that financial statements can incorporate cross-references from other documents outside of the actual financial statements.

We suggest that the Practice Statement addresses this scope issue and whether or not all data included in the financial statements, including any cross-referenced data, should be the subject of external audit.

Disagree with the premise that materiality in the financial reporting context is the same as this term used in other contexts

Paragraphs 4 to 6 state that there is an assumption that materiality used in the financial reporting context will be consistent with the use of the term in the context of such areas as legal and stock exchange regulatory requirements.

We disagree with this premise. In the experience of a number of member companies, they consider that “materiality” as used in legal and stock exchange regulatory contexts to be significantly higher than that used for the basis of preparing financial statements or their respective audit by the preparer’s external auditors.

We therefore consider that this whole definitional issue needs a thorough reassessment. One solution to this would be that the term “materiality” is prefaced by the context in which it is intended to be used e.g. “financial reporting materiality”.

Disagree that the guidance contains a suggestion that “negative assurance” can sometimes be appropriate

We note that paragraph 36 contains an example of “negative assurance”. We disagree with the inclusion of this example. Users of financial statements should accept that only data that is material in a financial reporting context has been included in the financial statements. If it is not included then the users need to conclude that it is indeed not material. Making a selective disclosure that a certain topic is indeed not significant by some form of “negative assurance” results in the user wondering why selective negative assurance is given in one area but not, potentially, many other areas.

Need to reassess the importance of certain note disclosures in the context of the review of the Conceptual Framework

Paragraphs 45-48 provide guidance on how financial reporting materiality concepts can be applied to the notes. We consider, in this context that the consequences of the ongoing review of the IFRS Conceptual Framework and its possible implications for certain note disclosures, for example those related to segment data, are taken into account in the guidance on financial reporting materiality.

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 agree that this Practice Statement can be issued prior to the finalisation of the Principles of Disclosure project.

We also agree that this Practice Statement should be reviewed and potentially updated following completion of the Principles of Disclosure project and also, as noted in BC 22, after the update to the Conceptual Framework as this could result in enhancing the importance of certain data currently included in the notes, such as segment data.

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 no further comments.
