



5 November 2015

**To: Members of the Hong Kong Institute of CPAs
All other interested parties**

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT ED/2015/8
*IFRS Practice Statement: Application of Materiality to Financial Statements***

Comments to be received by 22 January 2016

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

The concept of materiality acts as a filter through which management sifts information to ensure that financial statements include all the financial information that could influence users' investment decisions. It also enables management to present material information in a clear and effective way, excluding information that is not material.

The draft guidance, in the form of a draft Practice Statement, has been developed in response to concerns that management are often uncertain about how to apply the concept of materiality and therefore use the disclosure requirements in the Standards as a checklist. This can result in excessive disclosure of immaterial information that can obscure useful information and also make financial statements cluttered and less understandable. It can also lead to useful information being left out.

Whether information is material or not depends on a range of factors and entity-specific circumstances, and is a matter of judgement. Determining what information is material also requires an understanding of the users of the financial statements and the decisions that they make based on those financial statements.

Improving the quality and quantity of disclosures requires joint efforts by auditors, regulators, companies and standard-setters. The IASB has therefore consulted with the International Auditing and Assurance Standards Board and the International Organization of Securities Commissions during the development of the draft Practice Statement.

The draft guidance on materiality complements an amendment made to IAS 1 *Presentation of Financial Statements* by the IASB in 2014, which clarified that companies do not need to apply the specific disclosure requirements in Standards if the related information is not material. It also specified that a company should consider whether to provide additional disclosures when compliance with the specific requirements would be insufficient in disclosing material information.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

The FRSC invites your comments on the proposals. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered in developing its response to the IASB, the FRSC requests for your comments by **22 January 2016**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.