

February 18, 2016

[commentletters@ifrs.org](mailto:commentletters@ifrs.org)

**IFRS Foundation**  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Reference: ED/2015/8 - Practice Statement - Application of Materiality to Financial Statements**

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)<sup>1</sup> welcomes the opportunity to respond to this exposure draft.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We would like to congratulate the Board for its efforts to maintain principles-based standards of high quality. However, in our opinion this document should be more concise in order to better achieves its goal.

May we please suggest that despite the chosen form for this non-mandatory guidance on application of materiality, the document be available on a free subscription on the IASB website in order to be more accessible, as well as the others Standards and Interpretations (IAS, IFRS, SIC, IFRIC).

Our detailed responses to the specific questions posed in the ED are set forth in the following pages.

If you have any questions about our comments, please do not hesitate to contact us at [operacoes@cpc.org.br](mailto:operacoes@cpc.org.br).

Yours sincerely,



Silvio Takahashi  
Chair of International Affairs  
Comitê de Pronunciamentos Contábeis (CPC)

---

<sup>1</sup>The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



**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?

**Answer to question 1:**

The Brazilian Accounting Pronouncements Committee agrees with the issuance of a non-mandatory Practice Statement from IASB. In November, 2014, the CPC published an orientation that is highly alike in regards of the main objective to the [draft] Practice Statement - Application of Materiality to Financial Statements. This document has been approved by the Brazilian Securities Commission and has been adopted in our companies’ financial statements. A translation of that document was sent to the Board as soon as it became official in our jurisdiction [See the attachment to this letter].

Therefore, we believe that the issuance of a non-mandatory guidance is the most appropriate way. We suggest that despite the chosen form for this guidance on application of materiality, the document be available on a free subscription on the IASB website in order to be more accessible to the users and preparers, as well as all the other Standards and Interpretations (IAS, IFRS, SIC, IFRIC).

**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.

**Answer to question 2:**

We agree with the use of examples in the Practice Statement. However, we have the following comment:

*“[Recognition and measurement > Practical expedients]*

*65 It is also conventional for entities to select a monetary unit, for example CU1,00021, and to round to the nearest unit when preparing the financial statements. The chosen unit is set sufficiently low to ensure that the resulting loss of precision and detail is immaterial.”*

We believe that this example should be relocated to the section on how the companies should disclose information. We believe that this example is important and the dissemination of materiality policy for disclosure of financial statements should be encouraged by the Board.



### Additional practical examples:

In our jurisdiction we give further examples on how disclose information in accordance to IAS 1, such as:

*“Rather than being kept as usual on a “stand alone basis”, the notes on accounting policies could be dispersed along with the notes relating to the items of the financial statements to which they relate.”*

These examples are in accordance to qualitative assessment to the financial statements, specifically to paragraph 27 (a).

### 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?

### Answer to question 3:

- (a) In Brazil we are required to disclose the reporting entity consolidated financial statement side by side with the individual financial statement. We believe that the [draft] Practice Statement - Application of Materiality to Financial Statements should consider the reporting entity financial statement materiality in accordance to each statement separately.
- (b) We believe that this document will be helpful to preparers and to our regulators. Our only concern is the length of the document. Brazilian orientation has one third of pages in comparison to IASB issue [draft] Practice Statement - Application of Materiality to Financial Statements. Therefore, we highlight our concern on the tendency of the Board issuing additional standards or practice statements in the sense that the issuance of a new document should be focused in objectivity and relevance, avoiding repetition of concepts already contained in other standards.



- (c) On paragraph 21, there is an overview of how management should evaluate the trade-off of the ratio cost-benefit of the financial information. The document states that “the cost of applying the requirements in IFRS is not a factor for management to consider when assessing whether information is material”. We would appreciate if the Board could provide additional detail on this sentence, as we believe that the cost should be considered in assessing whether an item should be disclosed or not in the financial statements.
- (d) CPC has issued an orientation that has been adopted by the companies in our jurisdiction and we have faced no legal conflicts so far.

**Question 4—Timing**

The IASB plans to issue the Practice Statement before the finalization 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?

**Answer to question 4:**

We agree with this approach.

**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.

**Answer to question 5:**

We have no further comments.