

July 4, 2014

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

Re: Comments on IASB's Exposure Draft, *Proposed amendments to IAS 1*

I am pleased to provide comments on the International Accounting Standards Board (IASB)'s Exposure Draft (ED), *Proposed amendments to IAS 1*, published in March 2014. These comments have been developed by the International Auditing and Assurance Standards Board (IAASB)'s IASB Liaison Working Group (the Working Group), with a particular focus on auditability or verifiability, and reviewed by the IAASB Steering Committee.

The Working Group appreciates the IASB's decision to undertake the Disclosure Initiative in responding to the comments received on its *Agenda Consultation 2011*. The Working Group is of the view that this initiative will contribute greatly to improving the quality of financial reporting through clarifying important concepts and facilitating consistent judgments by both management and auditors.

Of the various topics in the ED, the Working Group has a particular interest in the proposed requirements relating to application of the concept of "materiality". This is because the IAASB published its ED, *Proposed Changes to the International Standards on Auditing—Addressing Disclosures in the Audit of Financial Statements*, dealing with the same issue in May 2014, in part responding to concerns expressed that the volume of note disclosures has, in some cases, resulted in information that may obscure useful or relevant information. Accordingly, the IAASB continues to support the IASB's broader consideration of materiality as part of its Disclosure Initiative, and would be pleased to make contributions from an auditing perspective.

The Working Group provides comments on this matter in the Appendix to this letter.

I hope that you will find the comments helpful. If you require any clarification or would like to discuss this letter further, please do not hesitate to contact me or Mr. Tomo Sekiguchi, the Chair of the Working Group (t.sekiguchi@asb.or.jp).

Yours sincerely,



Prof. Arnold Schilder
Chairman, IAASB

Cc. Ms. Mary Tokar, Member and Liaison Representative, IASB

Appendix

IASB EXPOSURE DRAFT - DISCLOSURE INITIATIVE PROPOSED AMENDMENTS TO IAS 1 Comments of the IAASB's Working Group

QUESTION 1: DISCLOSURE INITIATIVE AMENDMENTS—MATERIALITY

The Working Group generally agrees with the proposed amendments regarding the application of “materiality” in paragraphs 29–31 of the ED, which are designed to help management exercise sound judgment as to whether and how information should be presented or disclosed in an entity’s financial statements. The Working Group is of the view that the proposed amendments would help address the concerns that useful information is obscured by too much immaterial information and assist management in disclosing useful information.

At the same time, the Working Group believes that making judgments as to whether and, if so, how information should be presented or disclosed would be challenging for both management and auditors. Thus, additional guidance or educational material that explains how the concept of materiality can be applied to different types of information would be very welcome. Accordingly, the Working Group appreciates the IASB’s planned initiative that could result in development of additional guidance or educational material for the application of the concept of materiality.¹

Also, paragraph 31 of the ED proposes to require an entity to consider whether information about matters addressed by an IFRS needs to be presented or disclosed so as to meet the needs of financial statement users, even if that information is not included in the specific disclosure requirements of the IFRS. Given that users’ needs are quite diverse (for example, depending on whether they are equity investors or debt holders, or whether they intend to hold an interest in the entity over a short term or longer term), the Working Group questions whether it is ever possible for management to fully understand and consider the needs of wide range of users. In the Working Group’s view, auditors would face the same challenge when auditing financial statements. Accordingly, the Working Group recommends that the IASB consider clarifying the intent of this proposed requirement and how preparers would demonstrate their consideration of user needs in determining whether certain information should be disclosed.

In addition, the Working Group believes that the changes proposed by the ED would not be sufficient in the absence of other changes to the IFRSs or additional guidance to address concerns that immaterial disclosures undermine the effective communication between an entity and users. Accordingly, the Working Group encourages the IASB to undertake the review of disclosure requirements in individual standards of IFRSs as soon as practicable.

¹ Paragraph BC 8 of the ED