



ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

ICAEW welcomes the opportunity to comment on the *ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8* published by the IASB on 14 September 2017, a copy of which is available from this [link](#).

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MAJOR POINTS

1. We agree with the overall objective of aligning the definition of material in the *Conceptual Framework* with that in the Standards, and ensuring it is consistent wherever it appears. We also support a number of the key proposed amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, namely replacing the threshold 'could influence' with 'could reasonably be expected to influence' and specifying that the users to whom the definition refers are the primary users as defined in the *Conceptual Framework*.
2. However, overall, we think the proposals need significant improvement before they can be regarded as helpful to preparers. In particular, we consider that changing the subject of the assessment of materiality from the 'error' (the omission, misstatement or degree to which information is obscured) to the information itself is highly problematic in relation to misstatements. In addition, while we agree with the inclusion of the concept of obscuring, we consider that it needs much clearer explanation before it is to be helpful.
3. We also have concerns over the inclusion of some of the material in the accompanying explanation and suggest certain improvements to the wording and terminology used in the Exposure Draft. These are discussed further in our responses to the specific questions below.
4. We have attached our proposed alternative definition and accompanying explanation as an appendix to this letter.

RESPONSES TO SPECIFIC QUESTIONS

Q1: The Board proposes amendments to IAS 1 and IAS 8 to align the definition of material between IFRS Standards and the *Conceptual Framework*, and to include in the definition some of the existing requirements in IAS 1. The Board also proposes to clarify the explanation accompanying the definition using existing guidance in IAS 1 and the *Conceptual Framework*.

- (a) Do you agree that the definition of material and the accompanying explanation should be clarified as proposed in this Exposure Draft? If you do not agree, what changes do you suggest and why?
- (b) Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Aligning the definition

5. In general we agree with the Board's proposal to align the definition of material in the *Conceptual Framework* with that in IFRS. It is important that there is consistency across all authoritative statements to minimise the risk of confusion and inconsistency in application.
6. However, in our view consideration should be given to including the definition and accompanying explanation in only one Standard. Other Standards could simply use the word 'material', with no requirement for definition or further explanation.
7. In addition, we consider that the part of the accompanying explanation dealing with the characteristics of users and identifying the primary users should be included only in the *Conceptual Framework*.

Primary users

8. We agree with the proposal to specify that the users to whom the definition refers are the primary users as defined in the *Conceptual Framework*.

The threshold for determination of material

9. We agree with replacing 'could influence' with 'could reasonably be expected to influence' for the reasons set out in the ED's Basis of Conclusions.

Obscuring

10. We understand that the concept of obscuring has been given greater prominence in order to assist with decisions in respect of aggregation and disaggregation, and to encourage more targeted disclosures. While we support this objective, we consider that the added emphasis may cause concerns for preparers trying to find the appropriate balance between the risks of omitting and obscuring information if the accompanying explanation and any related guidance are insufficiently clear.
11. We do not consider that the proposed explanatory sentence adds significantly to an understanding of the concept. The explanation seems somewhat circular ("... information might be obscured ... if it is obscured..") and we consider that more extensive explanations should be provided. For instance, examples could cover:
- inappropriate aggregation of dissimilar items;
 - inappropriate disaggregation of similar items;
 - presenting material information together with a large volume of immaterial information so that the material information is not presented clearly; or
 - simply using ambiguous or unspecific language.

Misstatements

12. The proposed revised definition changes the subject of the assessment of materiality from the error (the omission, misstatement or degree to which information is obscured) to the information itself. We agree with this change in focus for omissions and obscuring information as we consider that it supports the wider *Disclosure Initiative*. However, we do not think it works in the context of misstating. Any information could be material if the misstatement were sufficiently large. Equally, information might be inherently material but if it is misstated to only a very small extent, then the misstatement could not reasonably be expected to influence the decisions of primary users. In other words, material information could be misstated without that being material. The critical issue in this context is whether the misstatement is material, not whether the information itself is material. We note that the same issue applies to the wording in the revised *Conceptual Framework* as currently drafted.
13. The first paragraph in the proposed accompanying explanation to the IAS 1 and IAS 8 definitions contains the following sentence: "A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users." This sentence appears to address the issue highlighted in the previous paragraph, but in our view it would be preferable to ensure the core definition worked in all circumstances.

Clarifying the accompanying explanation

14. We do not consider that the accompanying explanation should include all the additional text included in the Exposure Draft. Specifically, the explanations concerning users and their characteristics appear out of place in a definition in a Standard and we do not consider it necessary to repeat guidance that is contained in the *Conceptual Framework*. If the term 'primary users' is defined and explained in the *Conceptual Framework*, then there is no need to repeat the explanation in Standards.
15. In particular, the last sentence in the proposed accompanying explanation ("At times, even well-informed and diligent users ...") seems wholly out of place in a Standard. It is not clear why this sentence is required or how it is relevant to the definition of material.

Wording and terminology

16. We have some concern that the term ‘obscuring’ may not translate easily into other languages and, as noted above, consider that further explanation would be useful of how material information might be obscured. However, we consider that such clarification would be better placed in the *Conceptual Framework* than in a Standard, and that it would be useful to include examples in the Materiality Practice Statement.
17. We consider that the phrase “judged in the entity’s circumstances” may be difficult to understand in the context of the consideration of the ‘characteristics’ of primary users. In our view it is not clear what this means in practice; that is, how might an entity’s circumstances change the consideration of the characteristics of primary users? We consider that it would be more helpful and understandable to refer to primary users’ information requirements rather than to their ‘characteristics’ and our proposed alternative definition reflects this. Again, any further explanation of this element of the definition would be better placed in the *Conceptual Framework*, with examples in the Materiality Practice Statement.
18. The first sentence of the proposed accompanying explanation reads: “Materiality depends on the nature or magnitude of information, or both.” We do not consider that the phrase ‘magnitude of information’ is wholly clear. First, it is not clear whether the word ‘magnitude’ means size or importance, or possibly both. Second, if intended as a direct replacement of the original word ‘size’, it is not clear that ‘information’ itself can have a size or numerical quantity or value. Rather, it is the items to which the information relates that can have a size or numerical value. In this respect we consider that the wording in the current draft *Conceptual Framework* works better: “materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates.”
19. In the definition itself, it is not clear what the significance is of the word ‘specific’ and we suggest that it be deleted. The use of the word ‘a’ which immediately precedes ‘specific’ already introduces the notion of specificity.
20. We note that in one instance the accompanying explanation uses the term ‘general purpose financial reports’ instead of ‘general purpose financial statements’. We consider that this is unhelpful and suggest using ‘general purpose financial statements’ consistently throughout the definition and accompanying explanation.

Q2: The Board issued the Materiality Practice Statement in September 2017 and expects to issue a revised *Conceptual Framework* in the second half of 2017. If any changes are made to IFRS Standards as a result of the proposals in this Exposure Draft, the Board will make amendments to these two documents.

The Board believes that the guidance in both the Materiality Practice Statement and the forthcoming revised *Conceptual Framework* will not be affected by the proposed amendments in this Exposure Draft, other than to update the definition of material (see paragraphs BC22 – BC24).

Do you have any comments on the proposed amendments to the Materiality Practice Statement or to the forthcoming revised *Conceptual Framework*?

21. We agree with the intention to amend the Materiality Practice Statement and the forthcoming revised *Conceptual Framework* as proposed, to ensure the wording in those documents remains fully consistent with the revised definition of material determined following this Exposure Draft.

Q3: Do you have any other comments about the proposals in this Exposure Draft?

22. The proposed text in respect of the effective date requires an entity to disclose, where applicable, that it has early applied the amended definition of material. This seems an unusual requirement given the Board believes the proposed amendments are not substantive changes and are unlikely to affect how materiality judgements are made; that is, knowledge of early adoption would not be material information. In fact, a statement in financial statements that the revised definition had been early adopted might lead users to think that this had had an impact on judgements made. If an entity decided to change disclosures in the financial statements then presumably the reasons for the change would be disclosed as appropriate in the normal course of events.

APPENDIX

Proposed alternative definition and accompanying explanation

Information is material if it could reasonably be expected to influence decisions that the primary users of a reporting entity's general purpose financial statements make on the basis of those financial statements.

Material information should not be omitted or obscured. A misstatement of information is material if the misstatement could reasonably be expected to influence decisions made by the primary users.

Materiality depends on the nature or magnitude, or both, of the items to which the information relates. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements.

Assessing whether information could reasonably be expected to influence decisions of the primary users of general purpose financial statements requires consideration of their information requirements, judged in the entity's circumstances.