

IASB's Exposure Draft ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

Feedback to constituents – EFRAG Final Comment Letter

January 2018

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on ED /2017/6 *Definition of Material - Proposed amendments to IAS 1 and IAS 8* (‘the ED’) on 23 January 2018. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

Background to the ED

On 14 September 2017, the IASB published *ED/2017/6 Definition of Material - Proposed Amendments to IAS 1 and IAS 8*, (the ‘ED’) with comments due by 15 January 2018. The ED is essentially aiming at:

- aligning the wording of the definition in IFRS Standards and the definition in the Conceptual Framework for Financial Reporting (the Conceptual Framework) — the wording is currently similar but not identical — and make some minor improvements to that wording;
- incorporating some of the existing supporting requirements in IAS 1 into the definition to give them additional prominence; and
- improving the clarity of the explanation accompanying the definition of material.

Further details are available on the EFRAG [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 2 October 2017. In the letter, EFRAG:

- supported the objective to remove the existing inconsistencies in the definition of “material” in the Conceptual Framework for Financial Reporting and in IFRS Standards;
- supported replacing the threshold ‘could influence’ with ‘could reasonably be expected to influence; and
- did not support the inclusion of the concept of ‘obscuring’ into the definition and suggested removing altogether the references to ‘omitting’ and ‘misstating’ from the definition of ‘material’ because these matters relate to principles of fair presentation or communication and should be addressed in the supporting guidance to the definition.
- Lastly, EFRAG suggested defining material information more simply and directly as information that can reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of financial statements make on the basis of those financial statements.

Comments received from constituents

EFRAG has received and considered thirteen comment letters from constituents. These comment letters are available on the EFRAG [website](#).

The comment letters received came from national standard setters, a regulator and accounting and professional organisations.

Almost all respondents:

- Agreed, like EFRAG, with the IASB’s objective to remove the existing inconsistencies in the definition of material in the *Conceptual Framework for Financial Reporting* and in IFRS Standards.
- Supported, like EFRAG, replacing the threshold “could influence” with “could reasonably be expected to influence”.

In relation to the inclusion of obscuring in the definition of materiality:

- A majority of respondents disapproved, like EFRAG, the inclusion of the concept of ‘obscuring’ into the definition.
- A majority of respondents also supported EFRAG’s recommendation to remove the concepts of ‘omitting’ and ‘misstating’ from the definition.

Fewer respondents commented on the transition requirements and on other issues but those who commented generally supported EFRAG’s initial view. In particular several respondents suggested like EFRAG that IASB should include the definition of material in one Standard only and, if needed, use cross-references from other Standards to that definition and explanation.

EFRAG’s final comment letter

Considering the input received from constituents, EFRAG retained the preliminary assessments contained in its Draft Comment Letter with limited drafting improvements.

Detailed analysis of issues, comments received, and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Amendments to the definition of “Material”

Proposals in the ED

The ED proposes to change the definition of *materiality* that is contained in *paragraph 7 of IAS 1 Presentation of Financial Statements* and *paragraph 5 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to:

~~“Information is Omissions or misstatements of items are material if they could reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of a specific reporting entity’s general purpose financial statements make on the basis of those the financial statements.~~

“Information is omitting, misstating or obscuring it they could reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of a specific reporting entity’s general purpose financial statements make on the basis of those the financial statements.

EFRAG’s tentative position

EFRAG supported the IASB’s initiative to refine the definition of materiality and clarify its application. However, EFRAG suggested removing the references to ‘omitting’, ‘misstating’ and ‘obscuring’ from the definition of ‘material’ and defining material information clearer as information that can reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of financial statements make on the basis of those the financial statements.

Finally, EFRAG recommended that the concepts of omitting, misstating or obscuring information would be retained outside the definition, in the accompanying guidance, by stating that material information should not be omitted, misstated or obscured and by providing additional guidance.

EFRAG final position

Considering the feedback received, EFRAG essentially retained its initial views, with only limited drafting improvements to:

- Report, in the cover letter, the recommendation contained in paragraph 8 of its Comment Letter to clarify the concept of ‘obscuring’ and the interactions with the other streams of the Better Communication project.
- Better emphasise the interactions between material information and material misstatement.
- Clarify EFRAG’s recommendation that the terms ‘individually or collectively’ should be reinstated in the IASB’s definition of Material

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Constituents’ comments

Almost all respondents supported, like EFRAG, the IASB’s initiative to align the wording of the definitions in the Standards in the Conceptual Framework and include the threshold ‘could reasonably be expected’. One respondent, while agreeing with changing the threshold, suggested using the terms ‘would reasonably be expected’ (instead of ‘could’).

A majority of respondents disapproved, like EFRAG, the inclusion of the concept of ‘obscuring’ into the definition. Conversely, only two respondents explicitly approved that inclusion and did not consider that the proposed definition would create interpretation or translation issues.

A majority also supported EFRAG’s recommendation to remove the concepts of ‘omitting’ and ‘misstating’ from the definition. Two respondents were not convinced about the usefulness of introducing the term but did not express strong views and asked more investigations about the possible consequences and more clarification on the concept of obscuring. One respondent considered that the link between materiality and misstatement was essential and suggested that both ‘material information’ and ‘material misstatement’ should be defined.

Other comments received included the following:

- two respondents suggested that the expression ‘either individually or collectively’ should not be removed from the definition.
- one respondent suggested that guidance on the nature of the ‘economic decisions’ made by users should be included in IAS 1 (based on the guidance contained in the Revised Conceptual Framework) and one respondent suggested that the term ‘decisions’ (rather than ‘economic decisions’) throughout IFRS Standards.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Consequential amendments to other pronouncements

Proposals in the ED

The ED proposes that the only consequential amendments that are necessary to update the definition of material in the forthcoming revised *Conceptual Framework for Financial Reporting*; the IFRS Practice Statement 2 *Making Materiality Judgements*; and a number of IFRS Standards where the definition is quoted in full or in part.

EFRAG's tentative position

EFRAG agreed with the proposed consequential amendments. However, EFRAG noted that both IAS 1 and the Materiality Practice Statement currently use the terms 'immaterial' (e.g. paragraphs 29 and 30A of IAS 1 and paragraphs 8 and 48 of the Materiality Practice Statement) and 'not material' (e.g. paragraphs 31 and 121 of IAS 1 and paragraphs 74 and 83 of the Materiality Practice Statement). Therefore, EFRAG recommended that the IASB reviews the use of the terms 'immaterial' and 'not material' in both IAS 1 and the Materiality Practice Statement and clarifies their meaning.

Finally, EFRAG observed that the definition of material in IFRS Standards and in the *Conceptual Framework for Financial Reporting* will still differ in one respect as the latter refers to financial reports rather than to financial statements. As a consequence, the definition of material in the forthcoming revised *Conceptual Framework for Financial Reporting* applies to the whole financial report.

Constituents' comments

Fewer respondents commented on the transition requirements but those who commented generally supported EFRAG's initial view.

EFRAG's response to constituents' comments

EFRAG final position

Considering the feedback received, EFRAG retained its initial views.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Other Issues

Proposals in the ED

Not applicable

EFRAG’s tentative position

EFRAG considered that, once the Disclosure Initiative will be finalised, the IASB should include the definition of “material” only in a single general standard such as IAS 1. This would prevent any risk of possible inconsistencies arising in the future as IFRS Standards are revised.

Constituents’ comments

Fewer respondents commented on other issues but those who commented generally supported EFRAG’s initial view. Those respondents agreed, like EFRAG, with the consideration above and, in particular, one respondent suggested in that case, when needed, to use cross-references.

One respondent suggested a retrospective application of the proposed amendments.

EFRAG final position

Considering the feedback received, EFRAG retained its initial views.

Appendix 1: List of respondents

Table 1: List of respondents

Name of constituent	Country	Type / Category
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	Standard Setter
Dutch Accounting Standard Board (DASB)	The Netherlands	Standard Setter
Danish Accounting Standards Committee (DASC)	Denmark	Standard Setter
Accounting Standards Committee of Germany (DRSC)	German	Standard Setter
Comissao de Normalizacao Contabilistica (CNC)	Portugal	Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	Standard Setter
The European Securities and Markets Authority (ESMA)	Europe	Regulator
Swedish Enterprise Accounting Group (SEAG)	Sweden	Professional Organisation
The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Accounting organisation
ACTEO	France	Professional Organisation
UK Financial Reporting Council (UK FRC)	UK	Standard Setter
Polish accounting standards committee (PASC – KSR)	Poland	Standard Setter
Autorité des Normes Comptables (ANC)	France	Standard Setter