

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG CFSS and EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

ED/2017/6 Definition of Material **Cover Note**

Objective

- 1 The objective of this session is to seek initial views and comments from EFRAG CFSS and EFRAG TEG on the Exposure Draft 'Definition of Material' (ED/2017/6) in preparation for the December 2017 ASAF meeting.

Background

- 2 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:
 - (a) Aligning the wording of the definition of materiality in IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and the Conceptual Framework for Financial Reporting;
 - (b) Incorporating some of the existing supporting requirements in IAS 1 into the definition to give them additional prominence (including 'obscuring information', 'could reasonably be expected to influence'); and
 - (c) Improving the clarity of the explanation accompanying the definition of materiality.
- 3 The ED s proposing to amend the definition of material as follows:

Current IAS 1/IAS 8	ED-Conceptual Framework	ED - Definition of material
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statement.	Information is material if omitting it or misstating it could influence decisions that the <u>primary</u> users of <u>general purpose</u> financial reports make on the basis of financial information about a specific reporting entity.	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements

Definition of Material Cover Note

- 4 On 2 October, EFRAG published its Draft comment letter in response to the ED and seeks constituents' views by 5 January 2018. In its draft comment EFRAG:
 - (a) supported the objective to remove the existing inconsistencies in the definition of "material" in the Conceptual Framework for Financial Reporting and in IFRS Standards;
 - (b) supported replacing the threshold 'could influence' with 'could reasonably be expected to influence'; and
 - (c) 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.
- 5 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.

Questions for EFRAG CFSS and EFRAG TEG

- 6 What are your initial views on the proposed amendments and on EFRAG's draft comment letter?
- 7 Would any wording or terminology introduced by the proposed amendments be difficult to understand or to translate?

Agenda Papers

- 8 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 07-02 ASAF Paper 03 Definition of Material
 - (b) Agenda paper 07-03 EFRAG's Draft Comment Letter