

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of 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.

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

Cover Note and Summary of Feedback

Objective

- 1 The objectives of the session are to:
 - (a) consider the feedback received in response to EFRAG's draft comment letter on *ED/2017/6 Definition of Material (Proposed amendments to IAS 1 and IAS 8)*;
 - (b) discuss and recommend to the EFRAG Board a final comment letter on the ED; and
 - (c) discuss and approve a feedback statement.

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.

EFRAG's Draft Comment Letter

- 3 On 2 October, EFRAG published its Draft comment letter in response to the ED. 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

Definition of Material – Cover Note

- (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.
- 4 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.
- 5 EFRAG also observed that:
 - (a) the definition of material in the forthcoming revised Conceptual Framework for Financial Reporting will still differ from the one in the amended IFRS Standards. This is because the latter one refers to information contained in the general purpose financial statements, rather than the ‘financial report’.
 - (b) the definition of material is currently repeated in several places (IAS 1 Presentation of financial statement, IAS 8 Accounting policies, Changes in Accounting Estimates and Errors, and the Conceptual Framework for Financial Reporting). Therefore, the IASB could reconsider whether having the definition of material repeated in so many places is the most effective way of achieving consistent application.

Comment letters received

- 6 Almost all of respondents agreed, like EFRAG, with aligning the definitions of materiality in the IFRS Standards and in the Conceptual Framework and changing the threshold into ‘could reasonably be expected to influence’. One respondent raised concerns about the divergences with the definition of ‘materiality’ in the Accounting Directive.
- 7 A majority of respondents (6 out of 10) disapproved, like EFRAG, the inclusion of the concept of ‘obscuring’ into the definition.
- 8 A relative majority also supported EFRAG’s recommendation to also remove the concepts of ‘omitting’ and ‘misstating’ from the definition (5 out of 10 with 4 opposed and one with no explicit view expressed).
- 9 In addition, two respondents did not express strong views on including the term obscuring into the definition but asked that the concept should be more carefully investigated and clarified.
- 10 Fewer respondents commented on the transition requirements and on the other issues (Questions 2 and 3 of the consultation) but those who commented generally supported EFRAG’s initial views.

EFRAG Secretariat proposed responses/recommendation

- 11 Considering the input received from constituents, the EFRAG Secretariat is proposing to retain the preliminary views with only limited drafting improvement to report, in the cover letter, the recommendation contained in paragraph 8 of its Comment Letter to clarify the concept of ‘obscuring’ (outside the definition) and the interactions with the other streams of the Better Communication.

Questions for EFRAG TEG

- 12 Does EFRAG TEG agreed to recommend the final comment letter, contained in Agenda paper 05-02, to the EFRAG Board?

Agenda Papers

- 13 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – Proposed Final Comment Letter; and
 - (b) Agenda paper 05-03 – Feedback Statement.