

## Question 1

*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?*

## Response

We generally agree with the Board's intention to align and refine the definition of material (definition) in IFRS Standards and the Conceptual Framework for Financial Reporting (Conceptual Framework). As acknowledged in BC 2, though difficulties in materiality judgments are often behavioral, it is imperative to make the definition as unambiguous as possible.

The proposed amendments are intended to make the existing definition of material information easier to understand and therefore do not alter the underlying concept of materiality. On the issue of non-material information 'obscuring' material information, there could be difference of opinion between the preparers and auditors. This may lead to the question as to whether the introduction of the word 'obscuring' increases the already existing duty of care on preparers and auditors.

However, we do not think that the introduction of the word 'obscuring' significantly increases the scope of due diligence required by preparers and auditors. It is possible to view non-material information 'obscuring' material information by applying ABC analysis where 'A' category information should not be obscured by 'C' category information.

We wish, however, to draw attention to the following points:

1. The definition should be stated in one place, such as in the Conceptual Framework, and cross reference should be used wherever the definition is used. Repeating the same definition in different IFRS Standards would create unnecessary duplication and might imply that there are subtle differences in its wording or application depending on the Standard where the definition is located.
2. Though the Board does not expect significant impact on how materiality judgments are made, the change in definition could by some stakeholders be seen as a significant change and result in unnecessarily burdening the process of preparation and auditing of financial statements. To avoid such unintended consequences, the Board may consider issuing a clarification that the change in definition is explanatory and does not introduce any new aspect to the definition.
3. BC 19B of the ED states that "definition of material is important in the accounting standard as there may not be a legal definition for this" – so indirectly this becomes the legal definition. Therefore, the definition of 'material' could have a wide ramification and this again highlights that the statement "The Board does not expect them to significantly affect how materiality judgements are made in practice" may not be entirely true. To circumvent such unintended consequences, the suggestions given in para 2 above may be considered by the Board.
4. Para 7 of ED states: "Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose

*financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed." The words "Other Creditors" could turn out to be a broad category. For example, could tax authorities be considered as 'other creditors' or will 'other creditors' will follow the accounting principle that provision is not equal to creditors. Therefore, primary users should be defined differently.*

*(b) Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?*

The proposed amendments have used common words and therefore, we do not believe any wording or terminology would be difficult to understand. Moreover, the amendment is suitably accompanied by explanatory paragraphs.

However, the amendments might require application of increased judgement. For example, the introduction of 'reasonably be expected' in the definition may involve significant judgement in implementing the same and require careful study of the explanations and BCs.

#### *Question 2*

*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?*

#### **Response**

We believe, as stated in our response to question 1(a) that definition of material should be stated in one place, such as in the Conceptual Framework, and cross reference should be used wherever the definition is used. However, if that is not possible, we suggest that the Materiality Practice Statement, the forthcoming revised Conceptual Framework and all future changes in the Standards need to use same words in the definition of 'material'.

Further, the Conceptual Framework in para 10 states, "While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy." The conceptual framework refers to 'users' vis-a vis the ED which mentions 'primary users'. If the word 'users' in the conceptual framework and the word 'primary users' in para 7 of the ED mean the same, it should be clarified.