

Definition of material – proposed amendments to IAS1 and IAS8

An exposure draft issued by the International Accounting Standards Board in September 2017

Comments from ACCA
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About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 200,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and more than 7,200 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

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ACCA welcomes the opportunity to provide views in response to the consultation from the IASB. This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting. They have considered the questions raised and their views are reflected in the following comments.

SPECIFIC QUESTIONS ON WHICH COMMENTS ARE REQUESTED

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?

Our views on the substantive changes in wording to the definition in the proposed new IAS1.7 are as follows.

(a) The addition of "obscuring" to "omitting and misstating"

It is not clear how helpful this will be and so we propose that this change is not made. Of course all are to be avoided, but the misstatement or omission of an item seem to be tests that preparers and auditors make to judge whether that item or error is material or not for recognition and measurement purposes. The idea that material information should not be obscured is already in IAS1.30A and should be in the principles of effective communication if these are incorporated from the Principles of Disclosure paper.

Furthermore "obscuring" may need some clarification because it could mean for example

- Burying material information in other

- Aggregating dissimilar items together
- Using difficult to understand phraseology
- Placing important information in an unexpected part of the financial statements

We suggest that clarification could be by way of a definition of ‘obscuring’ and by way of examples.

(b) *“Economic decisions” to just “decisions”*

This is in line with the draft Conceptual Framework and we support it.

(c) *“Could influence” is replaced by “could reasonably be expected to influence”*

We support this change as bringing a reasonableness test to what currently might be seen to including influence under any circumstances.

(d) *“Users” becomes “primary users”*

We support this change as it aligns with the objective of financial statements in the conceptual framework.

The framework recognises that a key objective of financial statements is to allow users to estimate future cash flows. The development of items that are likely to be more substantial in the future is going to be especially important to those users, so more material than their current magnitude might indicate. The discussion of materiality in IAS1.6 and IAS1.6A needs to reflect this.

We agree with alignment of the definition in IAS1 and IAS8, but think that having two identical paragraphs is neither helpful nor needed. A cross reference in one to the other would suffice.

The materiality issue applies to both those responsible for the preparation of accounts and to those who audit them. Much the same sorts of consideration arise for them and it would be most helpful if the definitions of materiality between the accounting standards and audit standards could be aligned as much as possible.

The Basis for Conclusions refers to the new definition of material from the US Supreme Court. We agree that this should not be used in IAS1, but note that the change to a “reasonably expected” test is common to the two.

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?

We agree that the Conceptual Framework and the Practice Statement on materiality need to include the new definition of material. There are no further changes in our view.

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

We are concerned that these amendments will not resolve all potential inconsistencies in the use of the materiality concept in IFRS.

Specifically IAS8.41 states that “Financial statements do not comply with IFRSs if they contain ... immaterial errors made intentionally to achieve a particular presentation ...”. This would seem to imply that in effect the materiality judgement has to be extended to consider such intentions, and we agree that the intentions behind the value and presentation of an item are a factor which needs to be considered. We would not, however, agree that such intentions make in all cases any resulting errors material. In revising the definition of material the implications of the statement in IAS8.41 needs to be clarified.

