Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

IFRS Technical Committee
Telefon: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 28. November 2017

63. Sitzung IFRS-FA am 11.12.2017
63_03a_IFRS-FA_DM_Entwurf

Dear Hans,

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

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2017/6 *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

Generally, we agree with the nature of proposals. Nonetheless, we think the IASB should reconsider the following issues relating to the ED proposals for which we provide our detailed view in the appendix to this letter as response on the individual questions:

- The distinction between material information and the way material information is presented that could influence the decisions made by primary users;
- the duplication of guidance in IAS 1 and IAS 8;
- the relationship between the meaning of the terms 'immaterial' and 'non material'; and
- the addition to the accompanying explanation regarding the type of decisions

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Answers to the questions of the exposure draft

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

Our response to question 1(a)

While we agree with the nature of the proposed clarification, we do not agree with the proposed changes to the definition of material and with the duplication of definition and additional guidance in two different Standards.

Proposed amendments to the definition of material

We generally support introducing the new threshold terminology 'could reasonably be expected to influence decisions' instead of 'could influence' as a form of clarification for the reasons highlighted in the Basis for Conclusion to the ED. Similarly, we support referring to the term 'primary user' instead of 'user' and providing further clarification that those primary users are existing and potential investors, lenders and other creditors that cannot require the reporting entity to provide information directly to them and must rely on general purpose financial reports for the financial information they need.

We also consider additional guidance about 'obscuring' information to be helpful. However, we do not agree with the way this is proposed in the ED. In our view, the terms 'obscuring', 'omitting', and 'misstating' refer to qualitative criteria regarding the presentation of information in financial statements and are not needed to describe material information. Hence, we think the proposed definition is inadequately comingling the entity-specific aspect of relevance of information with the aspect of the presentation of material information, i.e. omitting, misstating, obscuring, in financial statements.

Therefore, we think it is necessary to make a clear distinction between:

(1) Information that is material if that information could reasonably be expected to influence the decisions made by the primary users; and
(2) The way material information is communicated in financial statements, i.e. misstating material information or obscuring material information with immaterial information, which can also influence the decisions made by the primary users.

Redundancy of definition and accompanying explanation

In our view, creating lengthy duplication of IFRS guidance across different Standards is not desirable. With the current proposed amendments the IASB would duplicate to a large degree identical guidance in IAS 1 and IAS 8. Hence, we think the IASB should include the

definition of material and accompanying explanation in one Standard only and, if needed, use cross-references from other Standards to that definition and explanation.

Our response to question 1(b)

We do not believe that the terminology introduced in the proposed amendments would be difficult to understand or to translate.

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?

We agree with the ED proposal to make the definition of material and accompanied guidance consistent across IFRS Standards, the Conceptual Framework, and the Materiality Practice Statements.

In addition, we noticed that some constituents question whether the IASB is using the terms ‘not material’ and ‘immaterial’ in IFRS guidance interchangeably or with a purpose to indicate different levels of materiality. We agree with those comments and suggest the IASB consider clarifying this issue.

Question 3
Do you have any other comments about the proposals in this Exposure Draft?

Adding the type of decisions

In the ED, the Board proposes replacing the term ‘economic decisions’ by the term ‘decisions’. Given the fact that both terms have the same meaning as stated in paragraph BC15 of the ED’s Basis for Conclusions, it does not seem obvious why the term ‘economic decisions’ must be replaced in the current definition of IAS 1 and IAS 8.

Additionally, it is stated in the Basis for Conclusions of the ED that the revised Conceptual Framework will describe the type of decisions that primary users make. However, we highlight the fact that the revised Conceptual Framework is not a Standard or Interpretation and, therefore, the revised Conceptual Framework is not subject of the EU’s endorsement process.

To overcome any potential confusion regarding the replacement of the term ‘economic decision’ with ‘decision’, we think the amended accompanying explanation to the definition of material in paragraph 7 of IAS 1 should list the type of decisions made by primary users as described in paragraph 17 of the Materiality Practice Statement:

> “The primary users of an entity’s financial statements make decisions about providing resources to the entity. Those decisions involve: buying, selling or holding equity and debt instruments, providing or settling loans and other forms of credit, and exercising rights while holding investments (such as the right to vote on or otherwise influence management’s actions that affect the use of the entity’s economic resources). Such decisions depend on the returns that primary users expect from an investment in those instruments.” [Paragraph 17, Materiality Practice Statement]