

Association of Accounting Technicians response to IASB consultation 'Definition of Material'

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper 'Definition of Material – Proposed amendments to IAS 1 and IAS 8' recently published by the IASB.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving decision-useful information in financial statements, including disclosures.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.

2. Executive summary

- 2.1. **The concept of materiality is critical to the preparation of general purpose financial statements**, namely that they show a true and fair view, in all material respects, of the financial performance, financial position and cash flows of the entity.
- 2.2. **Whilst the 'disclosure problem' has been the subject of a separate consultation the definition of materiality is critical to determining which disclosures need to be included in a set of general purpose financial statements and which may be omitted.** What constitutes materiality can be particularly problematic in the context of disclosures. Many entities have taken a prescriptive approach to the disclosure requirements, in particular IFRS, treating them as a checklist of requirements and therefore including disclosures in the financial statements that are potentially immaterial.
- 2.3. **The concept of materiality is crucial not just to the preparation of financial statements but to the audit of those financial statements.** It is therefore imperative that the definition of what is material is both clear and robust.
- 2.4. **Whilst AAT is generally in agreement with the proposals, AAT does have some concerns about the proposed drafting of the definition. These are explained in more detail below.**

3. AAT response to the consultation paper

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?**
- 3.1. AAT agrees that it is appropriate to align the definitions of materiality in IFRS Standards and the Conceptual Framework.
 - 3.2. AAT agrees that including 'reasonable expectation', i.e. that information is material if it could reasonably be expected to influence the economic decisions of users of the financial statements, is appropriate.

- 3.3. However, AAT is not convinced that the point regarding material information being obscured by immaterial information has been clearly made. The inclusion of immaterial information in financial statements does not automatically result in material information being obscured but as drafted the revised definition could be read as implying that it does. AAT suggests the relevant sentence could be re-worded *'Material information might be obscured if, for example, it is not communicated clearly or if it is deliberately obscured by immaterial information'*.
- 3.4. Whilst the inclusion of a paragraph defining the primary users of financial statements as existing and potential investors, lenders and other creditors provides some context, AAT is not convinced that this is necessary. AAT is also concerned that the sentence *'Consequently, they are the primary users to whom general purpose financial statements are directed'* could be misread by certain users of the financial statements as implying a duty of care, either by preparers or auditors of the financial statements, where one does not currently exist. There may be many users of financial statements but this does not mean that either the entity or its auditors owe them a duty of care or that the financial statements are specifically directed at them.
- 3.5. AAT has no comments to make regarding translation.

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.

Do you have any comments on the proposed amendments to the Materiality Practice Statement or to the forthcoming revised Conceptual Framework?

- 3.6. AAT agrees that the definitions should be aligned between the Standards, the Conceptual Framework and the Materiality Practice Statement. The changes to the definition should not affect the guidance in either the Conceptual Framework or the (non-mandatory) Materiality Practice Statement.

Question 3

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

- 3.7. In the event that the Board progresses the concept of a general disclosure standard then the definition of materiality will need to be reproduced in that Standard, as determining which disclosures are material and which are not, and clarifying that only material disclosures are required is crucial in order to avoid clutter in financial statements. The Board might usefully consider if general disclosure requirements could be incorporated in a separate section of IAS 1, rather than in a completely separate Standard.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Aleem Islan, AAT Technical Consultation Manager, at:

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