

January 11, 2018

Submitted electronically via www.ifrs.org

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Definition of Material (ED/2017/6)

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Definition of Material (Proposed amendments to IAS 1 and IAS 8)", issued in September 2017.

Our process

As part of our due process for these proposals, we consulted with our [IFRS® Discussion Group](#). We also consulted with our Translation Services Group and a member of L'Ordre des comptables professionnels agréés du Québec regarding any concerns with the ultimate translation of the proposed amendments. We took into account the results of these discussions when developing this letter.

Our views

We agree that the definition of material should be aligned between IFRS® Standards, the *Conceptual Framework* and the Materiality Practice Statement. We think that this alignment will improve the application of the definition and reduce stakeholder confusion.

We also agree that the definition of material should focus on the primary users of the financial statements because we think that general purpose financial reports do not and cannot provide all of the information needed by all possible users. We think that adding the word "primary" helps to make clear the notion,

explained in paragraph BC15 of the Exposure Draft, that the focus should be on those who must rely on general purpose financial reports for much of the financial information they need.

At the same time, we note that the term “material” appears throughout IFRS® Standards and is used in different contexts (for example, in the context of a particular line item, or, in other cases, the financial statements as a whole). Before proceeding to change the definition of material in IAS 1 and IAS 8, we encourage the IASB to assess the possible effects on existing standards-level guidance on materiality, to the extent it has not already done so.

We also think that it is unclear whether the definition of material proposed in the Exposure Draft will improve financial statement disclosure. While we have not identified any issues concerning the understandability of, or ability to translate, the proposed wording or terminology, we do have concerns from another perspective. Specifically, we are concerned with including the term “obscuring” in the definition. We think that this term is subjective in nature, and that IFRS Standards do not explicitly prohibit the inclusion of immaterial information in financial statements. Furthermore, we:

- think it will be difficult for preparers and auditors to operationalize the proposed definition without the IASB providing additional guidance regarding the application of such a subjective term;
- think it will be challenging for preparers and auditors to apply judgment to determine whether some information disclosed in the financial statements obscures more material information; and
- are concerned that a subjective term such as “obscuring” could increase litigation risk associated with financial statement preparation and audit.

For similar reasons, we question the inclusion in the definition of material of terms such as “omitting” and “misstating”. Should the IASB decide to change the definition of material, we suggest that the definition proposed in the Exposure Draft be revised as follows:

“Information is material if ~~omitting, misstating or obscuring~~ it could reasonably be expected to influence decisions that the primary users of a specific reporting entity’s general purpose financial statements make on the basis of those financial statements.”

Rather than using terms such as “omitting”, “misstating” or “obscuring” in its definition of material, we encourage the IASB to find other ways of increasing the likelihood that entities give prominence to important information in their financial statements. To that end, we strongly support the IASB’s efforts, through its Disclosure Initiative, including the Principles of Disclosure project, to assist preparers to apply better judgment, communicate information more effectively and improve the effectiveness of disclosures.

We encourage the IASB to work with the International Auditing and Assurance Standards Board (IAASB) to ensure that the IFRS definition of material aligns with the assurance definition. The proposed definition of material in this Exposure Draft is inconsistent with the current definition used in ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International*

Standards on Auditing, in that the assurance definition does not include the notion of obscuring. We are concerned that different accounting and assurance definitions for the same term may lead to the inconsistent application of the term, or confusion. Finally, we encourage the IASB to monitor the activities of regulators and other standard setters in an effort to enhance global comparability in financial reporting.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@acsbcanada.ca) or Andrew White, Principal, Accounting Standards (+1 416 204-3487 or email awhite@acsbcanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS[®] Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In

In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.