



IFRS Foundation  
30 Cannon Street  
London  
EC4M 6XH

15 January 2018

Dear Sir/Madam

**Exposure Draft ED/2017/6 *Definition of Material***

We are responding to your invitation to comment on the Exposure Draft ED/2017/6 *Definition of Material* on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft (ED). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**Proposed definition of material**

We support the IASB's efforts to improve and clarify the definition of material in the context of general purpose financial statements. We agree that the definition of material in the IFRS standards should be aligned with the definitions in the *Conceptual Framework* and the *Materiality Practice Statement*, and used consistently throughout IFRS.

We believe some of the amendments to the definition proposed in the ED are helpful, however, we have concerns in three areas and believe that further improvement and clarification should be made.

*I. Definition of material*

The definition states that information is material if 'omitting, misstating or obscuring it' could influence decisions made by users. "Omitting, misstating or obscuring" refer to the notion of fair presentation rather than the definition of material information. It is not clear whether the definition is intended to define material information or material misstatements or omissions. We therefore believe that material information should be defined and the explanatory text in the following paragraphs should address misstatements and omissions.

*II. Obscuring material information.*

The notion that material information might be obscured by immaterial information is not clear and should be clarified. The inclusion in financial statements of immaterial information does not by itself obscure material information or result in a misstatement. There is a misstatement only when the presentation of immaterial information has an impact similar to omitting material information, as described in paragraph 9(b)(ii) of the Basis for Conclusions. The standard should be revised to be consistent with the Basis for Conclusions.

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### *III. Decisions made by primary users*

The proposed definition states that an item is material if it could 'reasonably be expected to influence decisions that the primary users' make on the basis of the entity's financial statements. There is also a description of the characteristics of the primary users. We support the additional guidance, which provides helpful clarity. We suggest that the guidance at the end of the fourth paragraph of the explanatory text under the definition of Material in IAS 1 and at the end of the proposed paragraph 6A in IAS 8, is further enhanced by explaining that the users are considered as a group. The needs of specific individual users, which may vary widely, are not considered in the definition of material.

The users of financial statements make many decisions, but the objective of general purpose financial statements is only to inform the economic decisions made by users. We understand that the Conceptual Framework uses the term 'decisions' and 'economic decisions' interchangeably, but we believe the definition would be clearer if it retained the reference to 'economic decisions'.

#### **The proposed definition and guidance should be amended as follows:**

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

Materiality depends on the nature or magnitude of quantitative information and the nature of qualitative information ~~or both~~. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements. ~~Material information might be obscured if it is not communicated clearly—for example, if it is obscured by immaterial information.~~

Misstaterments and omissions are material if they could reasonably be expected to influence economic decisions made by the primary users. Obscuring material information with immaterial information might have the same effect in some circumstances as omitting that material information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

#### **Consequential amendments to the materiality practice statement and Conceptual Framework**

We agree that the materiality practice statements and the revised Conceptual Framework should be revised to update the definition of material. We consider that an efficient way to make those amendments could be through the annual improvements cycle.



If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting Chief Accountant (+44(0)20 780 42160), or Tony Debell (+ 44(0)20 721 35336).

Yours sincerely,

A handwritten signature in black ink, which appears to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers