



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

Our Ref: T/11

12 January 2018

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam

**EXPOSURE DRAFT ED/2017/6 DEFINITION OF MATERIAL - PROPOSED AMENDMENTS
TO IAS 1 AND IAS 8**

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to Exposure Draft ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

We are grateful for the opportunity to provide comments on the above subject.

Our comments are provided in the attached appendix.

We hope you will find our comments helpful.

Yours sincerely,

CPA Mark Omona
Technical Manager

Institute Of Certified Public Accountants Of Uganda

Appendix: Exposure Draft ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

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Exposure Draft ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

- 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?

Response: ICPAU agrees with the IASB's objective to remove existing inconsistencies in the definition of material between the Conceptual Framework and IFRS Standards with particular reference to IFRS 2, IFRS 4, IAS 10, IAS 34 and IAS 37.

ICPAU further supports the IASB's initiative to:

- Clarify the term 'users' in the definition of material as the term was too wide in application;
- Drop the term 'economic decision' and resorting to 'decision' which is wider enough to cater for interests of a number of primary users whose intentions may not necessarily be economic;
- Update the requirement to judge materiality 'in the context of the financial statements' which allows more specificity, than 'in the surrounding circumstances' as surrounding circumstances could be interpreted variously.
- Update the term 'size' to a more commonly used term 'magnitude'.

However, the confusion arising from the usage of the term 'economic decision' and 'decision' seems not to have been settled. Para. BC15 of the Exposure Draft's Basis for Conclusions seems to imply that the terms have the same meaning and are used interchangeably in the draft conceptual framework exposure draft. There is need to enrich the explanatory information in relation to the term '*decision*' now being adopted to ensure that the expected wider application of the term is used.

The explanatory paragraph to the definition of the term material (para. 6A) further introduces a requirement for primary users of the financial statements to have a reasonable knowledge of business and economic activities The term is not defined anywhere nor are any characteristics specified to guide

accountants and auditors in assessing reasonable knowledge. This may create room for interpretation which may not be in tandem with the intentions of the standard setters.

Further, the comments by the Board on the basis for conclusions on the proposed amendments indicate in paragraph BC5 (a) that 'the use of the phrase 'could influence decisions of users' to describe the threshold for deciding whether the information is material may be understood as requiring too much information'. It is thus proposed to amend this to 'could reasonably be expected to influence' to incorporate the existing clarification in paragraph 7 of IAS 1.

Whilst it is understood that this phrasing seeks to discourage an excessively broad or low application of the definition, there is no significant difference between the existing and proposed phrasing particularly because the term 'reasonable' is still open to judgment and interpretation as to the extent of reasonability. Thus, the intended result of this rewording to enhance clarity may not be achieved.

It may be of value to include additional wording, similar to that applied in paragraph 11 of the Materiality Practice Statement, which includes the statement 'When applying such judgment, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.'

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

Response: The IASB made an effort by introducing the term 'obscuring' to match the provisions in IAS 1, however, there is no clear definition given for this term. A mere reference to the fact that the term 'is consistent with the English language' (See paragraph BC12 (b)) may trigger definitions of terms based on English dictionaries which may not serve the intended purpose per se. In addition the explanatory paragraphs of the definition seem to give limited illustrations for obscuring that is "obscuring amounting to providing too much immaterial information so that it obscures the material information and makes it less visible." There are other illustrations that would have also been considered as a way of ensuring clarity for example; excessive aggregation of items (which is a common practice), using excessively technical language among others may all obscure information.

- 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 Conceptual Framework?

Response: We believe that the Materiality Practice Statement, as well as the forthcoming revised *Conceptual Framework* are consistent with respect to this new definition and its use.

However, the use of '*financial report*' in the conceptual framework and '*financial statements*' in IAS 1 creates a difference which may result into mixed interpretation hence the need to harmonise the terminology between the Conceptual framework and the Standards.

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

Response: No