

8 February 2018

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

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – DEFINITION OF MATERIAL (PROPOSED AMENDMENTS TO IAS 1 AND IAS 8) (“ED”)

ISCA sought views from its members on the above ED through a two-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We support the Board’s efforts to clarify the definition of ‘material’ when preparing and presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs). This is an improvement to the existing definition and supports the Board’s objective of ‘cutting the clutter’ and better communication in financial reporting.

The Basis for Conclusion (BC) shared that entities experience difficulties in making materiality judgements when preparing financial statements. These difficulties are generally behavioral rather than related to the definition of material, whereby some entities, auditors and regulators treat financial statements primarily as compliance documents rather than as a means of communication with users of the financial statements.

We note that the Board thinks that the behavioral difficulties described above can best be addressed by providing guidance to help entities make materiality judgements, rather than by making substantive changes to the definition of material. We agree with this.

However, we wish to highlight that the inclusion of ‘obscuring’ into the definition of material constitutes a significant modification to the existing definition of material and requires further in-depth study.

The inclusion of ‘obscuring’ into the definition of material information

The proposed definition introduces the concept of ‘obscuring’ into the definition of material information. The ED’s explanatory paragraph that ‘material information might be obscured if it is not communicated clearly – for example, if it is obscured by immaterial information’ is vague and does little to explain the concept of ‘obscuring’. There is general confusion around the concept of ‘obscuring’. The example in the ED is not helpful. IFRS Practice

Statement 2 *Making Material Judgements* currently does not contain any guidance or examples on 'obscuring'.

Should the concept of 'obscuring' be adopted into the definition of material information, we propose the following for the Board's consideration:

- a) To define 'obscuring'. Although the concept of 'obscuring' exists in IAS 1.30A "an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information...", this concept is not defined in the accounting standards and there are no guidance on its application.
- b) To provide guidance on the application of the concept of 'obscuring', especially in the following situations:
 - Where material information regarding a material event is disclosed in the financial statements but the language is unclear or vague.
 - Where material information regarding a material event is presented piecemeal in various notes in the financial statements.
 - Where material information such as a breach in bank covenant is presented (without any emphasis) together with all other terms and conditions of numerous other bank loans regardless whether those information are material or not.

We also wish to highlight that incorporating 'obscuring' into the definition of material has serious implications in light of the Board's observation that obscuring material information can have similar effect to omitting it. Incorporating the concept of 'obscuring' into the definition of material without finalising IASB's Principles of Disclosure makes it very difficult to apply in practice.

We understand that the inclusion of 'obscuring' is intended by the Board to discourage entities from disclosing immaterial information in their financial statements. This is a step in the right direction albeit the collective efforts of everyone in the financial reporting ecosystem – preparers, auditors and regulators. However, unless the concept of 'obscuring' is significantly enhanced, there would not be a mindset change by preparers of financial statements.

Should you require any further clarification, please feel free to contact Ms Felicia Tay, Manager, Corporate Reporting & Ethics (CoRE), from ISCA via email at felicia.tay@isca.org.sg.

Yours faithfully,



Ju May LIM
Deputy Director
Corporate Reporting & Ethics (CoRE)