

**Mr Jean-Paul Gauzès
President
European Financial
Reporting Advisory Group
(EFRAG)
35 Square de Meeûs
1000 Brussels
Belgium**

Ref: EFRAG's Draft Comment Letter to the IASB's Exposure Draft *Definition of Material – Proposed amendments to IAS 1 and IAS 8*

Dear Mr Gauzès,

Dear Jean-Paul,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's draft comment letter regarding the IASB's Exposure Draft (ED) *Definition of Material – Proposed amendments to IAS 1 and IAS 8*. We are pleased to provide you with the following comments with the aim of improving the transparency and enforceability of financial statements.

Like EFRAG, ESMA generally supports the proposed amendments to the definition of material information and the accompanying explanations. However, unlike EFRAG, we agree with including reference to the terms 'omitting', 'misstating' and 'obscuring' as these terms would help better articulate how material information can be identified. Nevertheless, we believe that additional clarifications and illustrative examples could be provided on how the notion of 'obscuring' material information shall be understood in practice.

Like EFRAG, we would also recommend that the IASB considers how developments in the Principles of Disclosure project, with respect to the principles of effective communication, may need to be taken into account when defining material information.

Please do not hesitate to contact us should you wish to discuss all or any of our comments.

Yours sincerely,


Steven Maijor

Appendix I – ESMA’s detailed answers to the questions in the ED

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?

1. ESMA agrees with the proposed amendments to the definition of ‘material’ and believes that replacing the wording of the threshold to identify material information from the existing ‘could influence’ to ‘could reasonably be expected to influence’ would emphasise the need for a rational and structured process to assess materiality of information as already required in paragraph 7 of IAS 1. We also agree with the proposal to streamline the core definition of material information, by relocating the concept that information is material when considered either individually or collectively to the explanatory text accompanying the core principle and rephrasing it.
2. However, we note that the reference to ‘obscuring’ information may need to be read in the broader context of the current work to improving communication in financial reporting and, particularly, in light of the developments in the Principles of Disclosure project.
3. Notably, ESMA believes that the reference to ‘obscuring’ information may need to be further clarified. For example, the proposed new paragraph 6 in IAS 8 explains that material information might be obscured if not communicated clearly and it states that this would be the case when material information is obscured by immaterial information.
4. We do not believe this explanation will significantly help in clarifying the practical situations in which material information can be obscured and therefore we would suggest the IASB to provide illustrative guidance in this area. For example, it could be clarified how the meaning of ‘obscuring’ shall be understood when several performance measures or subtotals are added in the statement of financial performance and at which point and under which conditions these measures may *obscure* other items presented in the same statement.
5. ESMA believes that it could also be useful to exploring how and whether materiality shall be intended differently depending on whether information is presented in the notes instead of the primary financial statements.
6. Finally, ESMA highlights the importance of considering the potential impacts of discussions relating to other streams of the Better Communication initiative on the amendments to the definition of material. For example, the conclusions on the principles of effective communication could have an impact on how the wording in the explanation accompanying the definition of material is understood and applied in practice.

Question 3

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

7. As already mentioned in our comment letter on the IASB's Exposure Draft *IFRS Practice Statement: Application of materiality to Financial Statements*¹, in ESMA's view, errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows are material. Accordingly, ESMA suggests that the IASB reflects such understanding in paragraph 41 of IAS 8.
8. In addition, we would suggest the IASB to retain the definition of material and the accompanying clarifications in either IAS 1 or IAS 8 rather than in both standards to avoid unnecessary repetition.

¹ ESMA's comment letter is available at: https://www.esma.europa.eu/sites/default/files/library/2016-302_cl_to_ifrs_ps_on_materiality.pdf