

## Accounting Standards Board of Japan (ASBJ)

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Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
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### **Re: Comments on the Exposure Draft *Definition of Material*** **(Proposed amendments to IAS 1 and IAS 8)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) (the “ED”), issued in September 2017.
2. Based on the feedback we received from our constituents, we will comment on the following two issues:
  - (1) the threshold for the definition of material; and
  - (2) “obscuring information”.

#### **Threshold for the definition of material**

3. Regarding the ED’s proposals to refine the definition of material, the IASB noted that “these refinements are intended to make the existing definition easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards” (paragraph BC7 of the ED). Our understanding is that the changes to the definition of material in accordance with the ED would not affect the threshold for the definition of material in practice and, based on this understanding, we agree with the ED’s proposals.

## **“Obscuring information”**

4. The ED proposes including the phrase ‘obscuring information’, which is already used in the current paragraph 30A of IAS 1, in the definitions of material in the revised *Conceptual Framework*, IAS 1 and IAS 8. We think that materiality should be determined based on whether the piece of information under question, by itself, affects the decisions of investors when such information is omitted or misstated (that is, materiality should be determined based on the assumption that the piece of information under question is not obscured) and, accordingly, we disagree with the proposed additions to the definition. The ED states that information is material if obscuring material information with immaterial information could reasonably be expected to affect decisions, which implies a circular definition.
5. We think material information being obscured with immaterial information is undesirable. However, we believe that this is not a materiality issue (nor a relevance issue, of which materiality is part) but an understandability issue. Understandability is an enhancing qualitative characteristic that, as stated in paragraph QC33 of the *Conceptual Framework*, “should be maximised to the extent possible”. In the context of obscuring information, material information should not be obscured with immaterial information to the extent possible.
6. The concept of understandability mentioned in the previous paragraph is included in IFRS Standards as a requirement in paragraph 30A of IAS 1. On this point, our constituents are concerned that it is difficult for preparers and auditors to make practical judgements regarding whether material information is obscured with immaterial information in the light of specific facts and circumstances. If the IASB decides to retain paragraph 30A of IAS 1 in IFRS Standards, we believe that the IASB needs to develop guidance that would alleviate the practical difficulties. Specifically, we think that the IASB may clarify in IFRS Standards situations where material information would be obscured, and in addition, include examples and the underlying thinking relevant to the determination of obscuring information in the application guidance or the Basis for Conclusions.
7. We hope that our comments will contribute to the IASB’s deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono'.

Yukio Ono

Chairman of the Accounting Standards Board of Japan