

Mr. Hans Hoogervorst  
International Accounting Standards Board – IASB  
30 Cannon Street

London EC4M 6XH  
United Kingdom

Weinheim, 08/01/18

Dear Mr. Hoogervorst,

**RE: EXPOSURE DRAFT ED/2017/6**

We appreciate the opportunity to comment on the IASB's exposure draft ED/2017/6 "Definition of Material – Proposed amendments to IAS 1 and IAS 8".

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international financial reporting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter GASC and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

We welcome the IASB's efforts to clarify and align the definition of material in IFRS Standards and the Conceptual Framework. The redrafted wording should emphasize that entities have to use managerial judgement when deciding on whether information is material or not. We are confident of some of the amendments leading to a better understanding between preparers, auditors and regulators regarding the use of

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managerial judgement when applying the materiality requirements. Moreover, we principally agree with the alignment of the definition of material in IFRS Standards and the Conceptual Framework. This should help removing existing inconsistencies and clarify the definition of material.

However, we were hoping for a more courageous and innovative approach to define material than proposed in the exposure draft. Although we agree that clarifying and aligning existing definitions and requirements is helpful for preparers of financial statements when deciding on whether information is material or not, the proposed (amended) definition still does not provide sufficient assistance when discussing materiality within the entity or with regulators and auditors. This again might lead to the development of a safety culture in accounting departments and foster a checklist-mentality when preparing supporting documents for especially auditors and regulators to prove that information is or is not material.

We are aware of the IASB's Practice Statement on making materiality judgements. The Practice Statement should provide companies with guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards. However, this Practice Statement is based on current definitions and as a consequence does not sufficiently address problems related to documentation requirements and the explanatory power of information provided in an entity's financial statement.

With that in mind, the IASB should think about performing a more general review of the definition of material instead of proposing "amendments [that] are not substantive changes and would be unlikely to significantly affect how materiality judgements are made or to significantly affect entities' financial statements" (BC 21 of the ED).

If you have any further questions or like to talk about our answers and suggestions in a personal meeting please do not hesitate to contact us.

Kind regards,

Association for Participation in the Development of  
Accounting Regulations for Family-owned Entities (VMEBF)

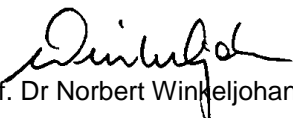
  
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**Appendix:**  
**VMEBF comments on the additional questions**

**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?***

We principally agree with the alignment of the definition of material in IFRS Standards and the Conceptual Framework. This should help removing existing inconsistencies in the definition of material. We also strongly support using the threshold “could reasonably be expected to influence” instead of “could influence”. The redrafted wording should emphasize that it requires a certain degree of managerial judgment to decide on whether information is material or not. We also agree with the clarification on primary users as a distinct definition of key users of information is crucial for any materiality decision.

However, we were hoping for a more courageous and innovative approach to define material than proposed in the exposure draft. Although we agree that clarifying and aligning existing definitions and requirements is helpful for preparers of financial statements when deciding on whether information is material or not, the proposed definition still does not provide sufficient assistance when discussing materiality with regulators and auditors. This again might lead to the development of a safety culture in accounting departments and foster a checklist-mentality when preparing supporting documents for auditors and regulators to prove that information is or is not material. A clear and concise definition of material should also lead to a decrease in documentation requirements of information that is not material. In this context, using phrases like “omitting”, “misstating” and “obscuring” could help clarifying that it would also be problematic to include information that is not material in the financial statements.

**Question 2:**

***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 revised Conceptual Framework?***

Please refer to our answer to question 1 above. The consequential amendments to the Materiality Practice Statement and to the forthcoming revised Conceptual Framework would have to be aligned with our proposals as described in our answer to question 1.

With regard to the current proposals, we would like to suggest a review of the use of the terms “immaterial” and “not material” in IAS 1 and the Materiality Practice Statement. The IASB should think about clarifying both terms.

**Question 3:**

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

Please refer to the cover letter to our comment letter.