

October 2018

IFRS[®] Standards
Project Summary and Feedback Statement

Definition of Material

Amendments to IAS 1 and IAS 8

At a glance

The International Accounting Standards Board (Board) issued *Definition of Material (Amendments to IAS 1 and IAS 8)* in October 2018. The amendments refine the definition of material in IAS 1 *Presentation of Financial Statements* and align the definitions used across IFRS Standards and other publications.

The amended definition of material states:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective from 1 January 2020 and are required to be applied prospectively. Early application is permitted.

The amendments clarify the definition of material and its application by:

- (a) aligning the wording of the definition of material across IFRS Standards and other publications and making minor improvements to that wording;
- (b) including some of the supporting requirements in IAS 1 *Presentation of Financial Statements* in the definition to give them more prominence; and
- (c) clarifying the explanation accompanying the definition of material.

The Board expects the amendments will help entities make better materiality judgements without substantively changing existing requirements.

Why amend the definition of material?

The definition of material helps a company¹ determine whether information about an item, transaction or other event should be provided to users of its financial statements. However, companies sometimes experienced difficulties using the previous definition of material when making materiality judgements in the preparation of financial statements.

Addressing concerns about the previous definition of material

Although many stakeholders told the Board that substantive changes to the definition were unnecessary, some stakeholders were concerned that the previous definition of material might encourage entities to disclose immaterial information in their financial statements. Stakeholders highlighted:

(a) the use of the phrase ‘could influence decisions of users’ to describe whether information is material. Some were concerned that this phrase may be understood as requiring too much information because almost anything ‘could’ influence the decisions of some users of the financial statements.

(b) the concepts of ‘omitting’ and ‘misstating’ information which focus only on information that cannot be omitted (material information). Some were of the view that the definition of material should also explain why it is unhelpful to include immaterial information.

(c) the reference to users without a description of their characteristics. Some were concerned that the term ‘users’ may be interpreted too widely.

The amendments were also drafted to address concerns that the wording in the definition of material was different in the *Conceptual Framework for Financial Reporting*, *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendments address these concerns by:

(a) replacing the term ‘could influence’ with ‘could reasonably be expected to influence’;

(b) including the concept of ‘obscuring information’ alongside the concepts of ‘omitting’ and ‘misstating’ information in the definition of material;

(c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the *Conceptual Framework*; and

(d) aligning the definition of material across IFRS Standards and other publications.

¹ In this document, the term ‘company’ refers to an entity that prepares financial statements applying IFRS Standards.

Feedback Statement

The Board received feedback on the Exposure Draft *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) published in September 2017.

The feedback indicated broad support for the proposed changes to the definition of material. However, stakeholders expressed concerns about:

- (a) some of the specific terminology used in the proposals; and
- (b) the inclusion of the concept of ‘obscuring information’ in the definition of material.

In response to the feedback, the Board has modified its original proposal.

The following pages outline how the Board responded to the most significant concerns raised in the feedback.

Project proposals	Feedback	The Board's response
<p>The Board observed that obscuring material information can have a similar effect on primary users of financial statements as omitting or misstating such information. Consequently, one project proposal was to include 'obscuring information' in the definition of material to make more prominent an existing requirement in paragraph 30A of IAS 1 <i>Presentation of Financial Statements</i>.</p>	<p>Many stakeholders agreed with this proposal. However, many stakeholders also said that the proposed definition and explanatory paragraphs did not provide sufficient guidance for them to interpret, apply and assess the extent to which material information can be obscured by immaterial information.</p> <p>Further, some stakeholders thought that 'obscuring', 'misstating' and 'omitting' information are all concepts that relate to the presentation of material information and not to whether that information is material.</p>	<p>The Board acknowledged concerns that the explanatory paragraph proposed in the Exposure Draft was not sufficiently helpful to provide operational guidance for stakeholders on when material information would be obscured. Consequently, the Board included a clearer definition of 'obscuring' in the explanatory paragraphs to the definition of material. The Board also included examples of circumstances in which material information might be obscured.</p> <p>The Board considered an alternative approach—removing the concepts of 'omitting' and 'misstating' from the definition of material and instead including them, together with the concept of 'obscuring', in the explanatory paragraphs. However, the Board concluded that this would constitute a substantive change to the definition of material. Such a change would be outside the scope of the project, which was to refine the definition of material and clarify its application.</p>

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Project proposals	Feedback	The Board's response
<p>The Board proposed to replace the phrase 'could influence' in the definition of material with 'could reasonably be expected to influence'. This proposed amendment would incorporate into the definition an existing clarification, in paragraph 7 of IAS 1, of when information is material.</p>	<p>Many stakeholders agreed with this clarification, saying they believed it would address concerns raised by some stakeholders that the phrase 'could influence' in the existing definition of material could be perceived as requiring too much information. However, a few expressed concerns that the term 'reasonably' may not be understood and applied consistently.</p> <p>Further, a few said that the Board should raise the threshold at which information becomes material by replacing 'could' with 'would' in the definition.</p>	<p>The Board confirmed the revised wording.</p> <p>The Board did not raise the threshold at which information becomes material to 'would'. The Board concluded that using 'would' would be a substantive change that might have unintended consequences.</p> <p>In addition, the Board observed that the clarification in the definition of material reflected, and made more prominent, requirements that already exist elsewhere in IAS 1. Consequently, the Board decided that additional guidance on how to interpret 'reasonably' is unnecessary.</p>
<p>Another project proposal was to align the wording of the definition of material and explanatory paragraphs across all Board publications. The revised wording was based on the wording in the <i>Conceptual Framework for Financial Reporting</i>.</p>	<p>Most stakeholders agreed with the proposed wording in the Exposure Draft; however, some expressed concerns about some terminology used in the <i>Conceptual Framework</i>, for example:</p> <ul style="list-style-type: none"> • the use of the term 'general purpose financial report'; • the scope of the term 'primary users'; • the use of the terms 'economic decisions' and 'decisions'; • the use of the term 'specific reporting entity' as opposed to 'reporting entity'; and • the interpretation of the term 'information'. 	<p>The Board confirmed that the use of terminology in the definition of material is consistent with its use in the <i>Conceptual Framework</i>.</p> <p>Concerns raised about the terminology were considered as part of the Conceptual Framework project and during the development of the Exposure Draft.</p> <p>No changes to the terminology within the definition of material were considered necessary.</p>

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Project proposals	Feedback	The Board's response
<p>The Exposure Draft included a proposal to retain the definition of material and explanatory paragraphs in two locations, namely, in IAS 1 and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>Many stakeholders recommended that the Board locate the definition of material and explanatory paragraphs in a single IFRS Standard, and that other IFRS Standards make reference to it as required. These stakeholders thought this would avoid repetition and reduce the risk of possible inconsistencies as IFRS Standards are revised.</p>	<p>The Board agreed with stakeholder feedback. Consequently, the Board replaced the definition of material and explanatory paragraphs across IFRS Standards with a reference to the definition of material and explanatory paragraphs in IAS 1.</p>



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