

IFRS in Focus

IASB amends the definition of material

Contents

Background

The amendments

Effective Date

Further information

Key contacts

This *IFRS in Focus* addresses the recent amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that have been published by the International Accounting Standards Board (IASB). The amendments are titled *Definition of Material—Amendments to IAS 1 and IAS 8*.

- The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.
- The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.
- The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.
- The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term ‘material’ to ensure consistency.
- The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Background

The IASB has responded to concerns that some entities experience difficulties in making materiality judgements when preparing financial statements. Although these difficulties are generally behavioural, rather than related to the definition of material, feedback suggested that a number of areas, such as the wording of the definition differing between IAS 1 and the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, could be addressed by refining the definition.

Observation

The IASB has stated that the refinements are intended to make the definition easier to understand but are not intended to alter the underlying concept of materiality in IFRS Standards.

The amendments

Primarily, the IASB amended the definition of material in IAS 1:7. It has been replaced with the following:

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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 set out that the changes are the same for those that have adopted the 2018 Amendments to References to the *Conceptual Framework* in IFRS Standards, and for those who have not.

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websites:

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IFRS in Focus

The key refinements to the definition include:

- Replacing the threshold 'could influence' with 'could reasonably be expected to influence' as the former may be understood as being too broad, given that almost anything "could" influence the decisions of some users of the financial statements, even if remote.
- Using the wording of the definition of material in the *Conceptual Framework*, which the IASB consider to be clearer. This includes use of the phrase 'primary users' rather than simply referring to 'users' as the unaccompanied term was considered too broad.
- Including 'obscuring' in the definition of material to incorporate the existing concept in IAS 1:30A and address concerns that the effect of including immaterial information should also be considered in addition to 'misstating' and 'omitting'.
- Relocating explanatory wording from the definition to explanatory paragraphs to clarify those requirements that are part of the definition and those that explain the definition.
- Replacing the term 'economic decisions' with 'decisions', which is expected to be interpreted in the same way.

Apart from the definition of material, additional explanatory guidance was added to IAS 1:7.

Observation

With the introduction of the concept of 'obscuring' the IASB did not intend to prevent entities from disclosing immaterial information required by local regulators or to prescribe how entities organise and communicate information in financial statements.

Rather, the IASB intends to support existing requirements in IAS 1:30A and to help entities and other stakeholders to avoid instances in which material information is obscured by immaterial information to the extent that it has a similar effect as omitting or misstating the material information.

In addition, the IASB made consequential amendments to align the definition of 'material' across the following IFRS Standards and other publications:

- 2010 *Conceptual Framework for Financial Reporting*
- 2018 *Conceptual Framework for Financial Reporting*
- IFRS Practice Statement 2 *Making Materiality Judgements*
- IAS 10 *Events after the Reporting Period*
- IAS 34 *Interim Financial Reporting*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IFRS 2 *Share-based Payment [Implementation Guidance only]*
- IFRS 4 *Insurance Contracts [Implementation Guidance only]*
- IFRS 17 *Insurance Contracts [Basis for Conclusions only]*

Observation

The IASB has not changed all instances of 'economic decisions' to 'decisions' or all instances of 'users' to 'primary users' to align with the new definition as these phrases are intended to be interpreted in the same way.

Effective Date

The changes take effect for materiality judgements made in annual periods beginning on or after 1 January 2020, and are applied prospectively. Earlier application is permitted (the entity must disclose that fact).

Further information

If you have any questions about the amendments to the definition of material, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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