

September 2017

IFRS® Standards

Exposure Draft ED/2017/6

# Definition of Material

Proposed amendments to IAS 1 and IAS 8

Comments to be received by 15 January 2018

IASB®

 IFRS®

## **Definition of Material**

(Proposed amendments to IAS 1 and IAS 8)

*Comments to be received by 15 January 2018*

Exposure Draft ED/2017/6 *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **15 January 2018** and should be submitted in writing to the address below by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or electronically using our 'Open for comment' page at: [go.ifrs.org/comment](http://go.ifrs.org/comment).

All comments will be on the public record and posted on our website at [www.ifrs.org](http://www.ifrs.org) unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

**Disclaimer:** To the extent permitted by applicable law, the Board and the IFRS Foundation (Foundation) expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

ISBN: 978-1-911040-62-0

**Copyright © 2017 IFRS Foundation**

All rights reserved. Reproduction and use rights are strictly limited. Please contact the Foundation for further details at [licences@ifrs.org](mailto:licences@ifrs.org).

Copies of IASB® publications may be obtained from the Foundation's Publications Department. Please address publication and copyright matters to [publications@ifrs.org](mailto:publications@ifrs.org) or visit our webshop at <https://shop.ifrs.org>.



The Foundation has trade marks registered around the world (Marks) including 'IAS®', 'IASB®', the 'IASB® logo', 'IFRIC®', 'IFRS®', the IFRS® logo, 'IFRS for SMEs®', IFRS for SMEs® logo, the 'Hexagon Device', 'International Accounting Standards®', 'International Financial Reporting Standards®', 'IFRS Taxonomy®' and 'SIC®'. Further details of the Foundation's Marks are available from the Foundation on request.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office at 30 Cannon Street, London, EC4M 6XH.

## CONTENTS

	<i>from page</i>
<b>INTRODUCTION</b>	<b>4</b>
<b>INVITATION TO COMMENT</b>	<b>5</b>
<b>[DRAFT] AMENDMENTS TO IAS 1 <i>PRESENTATION OF FINANCIAL STATEMENTS</i></b>	<b>7</b>
<b>[DRAFT] AMENDMENTS TO IAS 8 <i>ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS</i></b>	<b>9</b>
<b>[DRAFT] AMENDMENTS TO OTHER IFRS STANDARDS</b>	<b>11</b>
<b>[DRAFT] AMENDMENTS TO IFRS PRACTICE STATEMENT <i>MAKING MATERIALITY JUDGEMENTS</i></b>	<b>12</b>
<b>APPROVAL BY THE BOARD OF EXPOSURE DRAFT <i>DEFINITION OF MATERIAL</i> (PROPOSED AMENDMENTS TO IAS 1 AND IAS 8) PUBLISHED IN SEPTEMBER 2017</b>	<b>13</b>
<b>BASIS FOR CONCLUSIONS ON THE PROPOSED AMENDMENTS TO IAS 1 AND IAS 8</b>	<b>14</b>

## Introduction

---

In this Exposure Draft, the International Accounting Standards Board (Board) proposes to make minor amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of ‘material’.

The proposed amendments refine the definition of material and clarify its application to:

- align the wording of the definition in IFRS Standards and the definition in the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*)—the wording is currently similar but not identical—and make some minor improvements to that wording;
- incorporate some of the existing supporting requirements in IAS 1 into the definition to give them additional prominence; and
- improve the clarity of the explanation accompanying the definition of material.

The Board expects that the proposed amendments in this Exposure Draft will improve understanding of the existing requirements. However, because these proposed amendments are based on existing guidance, the Board does not expect them to significantly affect how materiality judgements are made in practice or to significantly affect entities’ financial statements.

The Board recently finalised a separate project to provide entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards (the Materiality Practice Statement project). The Board issued IFRS Practice Statement *Making Materiality Judgements* (the Materiality Practice Statement) in September 2017.

The definition of material has been discussed by the Board in several projects, including the Conceptual Framework project, the Principles of Disclosure project and the Materiality Practice Statement project. The Board has discussed a number of similar, but not identical, versions of the definition in these projects. To avoid confusion about the definition of material, the Board is publishing its proposed amendments to the definition in IAS 1 and IAS 8 separately in this Exposure Draft.

If any changes are made to the definition of material in IAS 1 and IAS 8 as a result of the proposals in this Exposure Draft, the Board will make amendments to the Materiality Practice Statement and the forthcoming revised *Conceptual Framework*. The proposed amendments are described in this Exposure Draft.

## Invitation to comment

---

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph or paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative(s) the Board could consider, if applicable.

The Board is not requesting comments on matters that are not addressed in this Exposure Draft.

Comments should be submitted in writing no later than **15 January 2018**.

## Questions for respondents

### 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?

### 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*?

<b>Question 3</b>
-------------------

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

## How to comment

Comments should be submitted using one of the following methods.

**Electronically** Visit the 'Open for comment' page, which can be found at:  
(our preferred method) [go.ifrs.org/comment](http://go.ifrs.org/comment)

**Email** Email comments can be sent to: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

**Postal** IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

## [Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended, and paragraph 139R is added. New text is underlined, and deleted text is struck through.

### Definitions

---

7 ...

**Material:**

Information is~~Omissions or misstatements of items are material if omitting, misstating or obscuring it~~ they could reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those~~the~~ financial statements.

Materiality depends on the ~~size and nature~~ or magnitude of information, ~~or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements.~~ the omission or misstatement judged in the surrounding circumstances. ~~The size or nature of the item, or a combination of both, could be the determining factor.~~ Material information might be obscured if it is not communicated clearly—for example, if it is obscured by immaterial information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence economic decisions of the primary users of general purpose financial statements, ~~and so be material~~, requires consideration of the characteristics of those users judged in the entity's circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.<sup>2</sup>

The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25<sup>2</sup> that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.



<sup>2</sup> ~~In September 2010 the IASB replaced the Framework with the Conceptual Framework for Financial Reporting. Paragraph 25 was superseded by Chapter 3 of the Conceptual Framework. This paragraph is based on paragraphs OB5 and QC32 of the Conceptual Framework for Financial Reporting (2010).~~

...

## Effective date

---

...

139R [Draft] Definition of Material (amendments to IAS 1 and IAS 8), issued in [date to be decided after exposure], amended paragraph 7. An entity shall apply those amendments prospectively to materiality judgements made in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

**[Draft] Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

Paragraphs 5 and 6 are amended and paragraphs 6A and 54G are added. New text is underlined, and deleted text is struck through.

**Definitions**

---

5 ...

**Material:**

~~Information is~~Omissions or misstatements of items are material if omitting, misstating or obscuring it they could reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

...

6 Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements. Material information might be obscured if it is not communicated clearly—for example, if it is obscured by immaterial information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

6A Assessing whether information an omission or misstatement could reasonably be expected to influence economic decisions of the primary users of general purpose financial statements, and so be material, requires consideration of the characteristics of those users judged in the entity's circumstances. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.<sup>2</sup>

~~The Framework for the Preparation and Presentation of Financial Statements states in paragraphs 25<sup>2</sup> that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take~~

into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

<sup>2</sup> IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework with the Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*. This paragraph is based on paragraphs OB5 and QC32 of the *Conceptual Framework for Financial Reporting (2010)*.

...

## Effective date

---

...

54G [Draft] Definition of Material (amendments to IAS 1 and IAS 8), issued in [date to be decided after exposure], amended paragraphs 5 and 6 and added paragraph 6A. An entity shall apply those amendments prospectively to materiality judgements made in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

**[Draft] Amendments to other IFRS Standards**

The table shows where the definition of material is quoted in other IFRS Standards, and the changes that would be necessary to update these paragraphs for the revised definition.

<b>Reference</b>	<b>Explanation of proposed amendments</b>
IFRS 2.IG17 (IG Example 11)	Update definition of material that is quoted in this paragraph.
IFRS 4.IG15-16	Update definition of material that is quoted in these two paragraphs.
IAS 10.21	In the explanation of material non-adjusting events, amend the wording 'could influence the economic decisions that users make on the basis of the financial statements' to 'could reasonably be expected to influence decisions that the primary users of an entity's financial statements make on the basis of those financial statements'.
IAS 34.24	Update definition of material that is quoted in this paragraph.
IAS 37.75	In the requirements for disclosure of restructuring plans, amend the wording 'could influence the economic decisions that users make on the basis of the financial statements' to 'could reasonably be expected to influence decisions that the primary users of the entity's financial statements make on the basis of those financial statements'.
Glossary: definition of material	Update definition of material.

## **[Draft] Amendments to IFRS Practice Statement *Making Materiality Judgements***

Paragraph 5 would be amended. New text is underlined, and deleted text is struck through. (We would also update the extracts from paragraph 7 of IAS 1 and paragraph 5 of IAS 8 in the Appendix to the Practice Statement.)

### **Definition of material**

- 5 ~~The Conceptual Framework for Financial Reporting (Conceptual Framework) provides the following definition of material information (Paragraph 7 of IAS 1 *Presentation of Financial Statements*, and paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide similar definitions) the following definition of material:~~

Information is material if omitting, ~~it, or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements.~~financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.~~

**Approval by the Board of Exposure Draft *Definition of Material* (Proposed amendments to IAS 1 and IAS 8) published in September 2017**

---

The Exposure Draft *Definition of Material* was approved for publication by the 12 members of the International Accounting Standards Board.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Stephen Cooper

Martin Edelmann

Françoise Flores

Amaro Luiz De Oliveira Gomes

Gary Kabureck

Takatsugu Ochi

Darrel Scott

Chungwoo Suh

Mary Tokar

Wei-Guo Zhang

## Basis for Conclusions on the proposed amendments to IAS 1 and IAS 8

*This Basis for Conclusions accompanies, but is not part of, the proposed amendments. This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.*

### Background

---

- BC1 The Board was informed at the Discussion Forum on Financial Reporting Disclosure, which it hosted in January 2013,<sup>1</sup> through feedback on the 2014 Exposure Draft *Disclosure Initiative* (proposed amendments to IAS 1), and from other sources that entities experience difficulties in making materiality judgements when preparing financial statements.
- BC2 The feedback indicated that difficulties in making materiality judgements are generally behavioural rather than related to the definition of material. The feedback indicated that some entities, auditors and regulators treat financial statements primarily as compliance documents rather than as a means of communication with users of the financial statements. They also sometimes apply the disclosure requirements in IFRS Standards mechanically, using them as a checklist for disclosures in the financial statements rather than applying their judgement to determine what information is material. Some entities have said that it is easier to use a checklist approach than to apply judgement because of management resource constraints, and because following a mechanical approach means that their judgement is less likely to be challenged by auditors, regulators or users of their financial statements. Similarly, some entities say that they prefer to be cautious when deciding whether to omit disclosures to avoid the risk of being challenged by these parties.
- BC3 The Board also heard that many stakeholders support the existing definition of material and that those stakeholders think that substantive changes to the definition are unnecessary because they would be unlikely to alter how the definition is applied in practice.
- BC4 The Board thinks that the behavioural difficulties described above can best be addressed by providing guidance to help entities make materiality judgements, rather than by making substantive changes to the definition of material. In September 2017, the Board issued IFRS Practice Statement *Making Materiality Judgements* (the Materiality Practice Statement), which provides this guidance.
- BC5 Nevertheless, the Board received some feedback from stakeholders that the existing definition of material might encourage entities to disclose immaterial information in their financial statements. Feedback suggested that the Board should address the following points:

---

<sup>1</sup> A Feedback Statement summarising the feedback from that forum and from the Board's related survey on financial reporting disclosure is available on the IFRS Foundation website: <http://www.ifrs.org/-/media/project/disclosure-initiative/feedback-statement-discussion-forum-financial-reporting-disclosure-may-2013.pdf>.

## DEFINITION OF MATERIAL (PROPOSED AMENDMENTS TO IAS 1 AND IAS 8)

- (a) the use of the phrase 'could influence decisions of users' to describe the threshold for deciding whether information is material may be understood as requiring too much information, because almost anything 'could' influence the decisions of some users of the financial statements even if the possibility is remote;
- (b) the phrase 'information is material if omitting it or misstating it' focuses only on information that cannot be omitted (material information) and does not also consider the effect of including information that can be omitted (immaterial information); and
- (c) the definition refers to 'users' but does not specify their characteristics, which is interpreted by some as implying that an entity is required to consider all possible users of its financial statements when deciding what information to disclose.

BC6 In addition, the Board observes that the wording of the definition of material in the existing *Conceptual Framework for Financial Reporting (Conceptual Framework (2010))* and the slightly revised definition proposed in the Exposure Draft *Conceptual Framework for Financial Reporting* (the *Conceptual Framework Exposure Draft*) both differ from the wording used in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board believes that the substance of the definitions is the same because these definitions all cover the omission or misstatement of information that could influence the decisions of users of financial statements. Nevertheless, the existence of more than one definition of material could be confusing and could imply that the Board intended for these definitions to have different meanings and be applied differently in practice.

BC7 For the reasons described in paragraphs BC5 and BC6, the Board is proposing refinements to the definition of material. 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. The Board initially intended to include these proposed amendments in the Discussion Paper *Principles of Disclosure*. However, the definition of material has also been discussed by the Board in other projects, including the Conceptual Framework project and the Materiality Practice Statement project. Hence, the Board is publishing its proposed amendments separately in this Exposure Draft to avoid confusion about the proposed definition.

## Proposed amendments

---

### Refinements to the definition of material

BC8 The Board proposes to include the following revised definition of material in IAS 1 and IAS 8:

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

BC9 The Board developed this proposed definition as follows:



- (a) using the proposed wording of the definition of material in the *Conceptual Framework* Exposure Draft.<sup>2</sup> The Board views this wording as clearer than the existing definition in IAS 1 and IAS 8. However, the Board proposes referring to ‘financial statements’ rather than ‘financial reports’ in the proposed amendments to IAS 1 and IAS 8, consistent with the scope of these Standards. The *Conceptual Framework* Exposure Draft definition also clarifies that the users to whom the definition refers are the primary users of an entity’s financial reports/statements.<sup>3</sup> Referring to the primary users in the definition of material used in IAS 1 and IAS 8 may help to respond to concerns that the term ‘users’ may be interpreted too widely (paragraph BC5(c)).
- (b) incorporating the following existing requirements in IAS 1 to give them more prominence:
- (i) replacing the threshold ‘could influence’ with ‘could reasonably be expected to influence’ to incorporate the existing clarification in paragraph 7 of IAS 1 which states: ‘Therefore, the assessment needs to take into account how users with such attributes *could reasonably be expected to be influenced* in making economic decisions’ [emphasis added]. This wording helps to address concerns raised by some parties that the threshold ‘could influence’ in the existing definition of material is too low and might be applied too broadly (paragraph BC5(a)).
  - (ii) including ‘obscuring information’ in the definition to incorporate an existing requirement in paragraph 30A of IAS 1 which states: ‘An entity shall not reduce the understandability of its financial statements by *obscuring material information* with immaterial information ...’ [emphasis added]. The Board observes that obscuring material information can have a similar effect to omitting it. This clarification may also help to address the concern raised in paragraph BC5(b) that the existing definition is sometimes perceived by stakeholders to focus only on information that cannot be omitted (material information), and not also on why it is unhelpful to include immaterial information.
- (c) relocating the description of material misstatements, and other wording that explains rather than defines material, from the definition into the explanatory paragraphs accompanying the definition. This reorganisation is intended to clarify which requirements are part of the definition and which requirements explain the definition.

BC10 Some parties have said that the Board should raise the threshold at which information becomes material by replacing ‘could’ with ‘would’ in the

<sup>2</sup> The proposed wording in paragraph 2.11 of the *Conceptual Framework* Exposure Draft is: ‘Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of financial information about a specific reporting entity’. Similar wording to the proposed wording in paragraph 2.11 is expected to be used in the revised *Conceptual Framework* once finalised.

<sup>3</sup> Financial statements are a type of financial report.

definition. In paragraphs BC3–BC4 the Board explains why it does not propose to make substantive changes to the definition. The Board thinks using ‘would’ would be a substantive change that might have unintended consequences. For example, ‘would influence decisions’ might be interpreted as a presumption that information is not material unless it can be proved otherwise, ie for information to be seen as material it would be necessary to prove that the information would influence the decisions of users of the financial statements.

### **Clarification accompanying definition of material**

BC11 The Board received some feedback from respondents to the October 2015 Exposure Draft: IFRS Practice Statement *Application of Materiality to Financial Statements* that it would be helpful to improve the clarity of the explanation accompanying the definition of material.

BC12 The Board views the Materiality Practice Statement as the primary vehicle for providing guidance on making materiality judgements. However, the Board considers that it would be helpful to clarify the explanation in paragraph 7 of IAS 1 and paragraph 6 of IAS 8 that accompanies the definition of material as follows:

- (a) adding a description of the characteristics of the primary users of financial statements, based on paragraphs OB5 and QC32 of the *Conceptual Framework (2010)*, for the reasons explained in paragraph BC9(a). These paragraphs are expected to remain unchanged in the forthcoming revised Conceptual Framework (see also paragraphs 1.5 and 2.35 of the *Conceptual Framework Exposure Draft*).
- (b) explaining the use of the term ‘obscuring’ in the proposed definition of material by clarifying that material information can be obscured if it is not communicated clearly. The Board observes that this explanation is consistent with the meaning of ‘obscuring’ in the English language and with the requirement in paragraph 17(b) of IAS 1 that a fair presentation requires information to be understandable.
- (c) clarifying how the definition applies to misstatements.
- (d) reordering the existing wording in paragraph 7 of IAS 1 (and paragraph 6 of IAS 8) and making minor improvements to its drafting.

BC13 The Board observes that the clarifications proposed in paragraphs BC12(a)–(c) are based on existing guidance from the *Conceptual Framework (2010)* and IAS 1 and thus do not constitute new guidance. However, including these requirements with the definition may help to improve understanding of how to apply the definition. Further guidance on making materiality judgements when preparing general purpose financial statements is provided in the Materiality Practice Statement.

### **Amendments to other Standards**

BC14 The proposed amendments are based on existing guidance and thus are not substantive changes. The Board is therefore of the view that amendments are not necessary to other requirements in IFRS Standards—other than to update the

definition of material where quoted. In particular, the Board does not propose amendments to the following requirements that contain some similar wording to the definition of material:

- (a) the definition of a prior period error (paragraph 5 of IAS 8); and
- (b) the discussion of information that conflicts with the objective of financial statements (paragraph 24 of IAS 1).

BC15 The Board thinks that it is not necessary to make amendments to change all instances of ‘economic decisions’ to ‘decisions’, and ‘users’ to ‘the primary users of financial statements’ in IFRS Standards. In its Conceptual Framework project, the Board has clarified that these terms are intended to be interpreted in the same way. The *Conceptual Framework* Exposure Draft states that throughout the *Conceptual Framework*, the terms ‘primary users’ and ‘users’ are both used to refer to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need (see footnote to paragraph 1.5 of the *Conceptual Framework* Exposure Draft). The *Conceptual Framework* Exposure Draft also describes the type of decisions that users make (see paragraph 1.3 of the *Conceptual Framework* Exposure Draft) and uses the terms ‘decisions’ and ‘economic decisions’ interchangeably.

## Changes to the definition of materiality in US GAAP

---

BC16 In September 2015 the US Financial Accounting Standards Board (FASB) published an Exposure Draft *Conceptual Framework for Financial Reporting Chapter 3: Qualitative Characteristics of Useful Financial Information* (FASB Exposure Draft). The FASB Exposure Draft proposed replacing the description of materiality in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, with a statement that materiality is a legal concept. It also provides the following description of the FASB’s understanding of the US Supreme Court’s definition of materiality:

... the U.S. Supreme Court’s definition of materiality, in the context of the antifraud provisions of the U.S. securities laws, generally states that information is material if there is a substantial likelihood that the omitted or misstated item would have been viewed by a reasonable resource provider as having significantly altered the total mix of information.

BC17 The description of materiality currently given in FASB Concepts Statement No. 8 and the description in the *Conceptual Framework (2010)* were developed jointly by the FASB and the Board. Consequently, the Board discussed the FASB’s proposed changes and the reasons for them when considering whether to change the definition of material in IFRS Standards.

BC18 The Board decided that it should not adopt the US Supreme Court’s definition for IFRS Standards for the following reasons:

- (a) the Board does not propose making substantive changes to the definition of material in IFRS Standards, as explained in paragraphs BC3–BC4.

- (b) the Board sets Standards for stakeholders globally, and IFRS Standards are applied in a wide variety of legal and regulatory environments. Consequently, it would not be appropriate to use a definition that has been set by the legal system of one jurisdiction and that is subject to change by that legal system.
  - (c) the wording used in the US Supreme Court's definition of materiality is different from the definition of material in IFRS Standards. Using the US Supreme Court's wording might therefore lead to inconsistencies with existing requirements in IFRS Standards.
- BC19 The Board also decided that it would not be appropriate to remove the definition of material from IFRS Standards and to state that materiality is a legal concept, for the following reasons:
- (a) materiality is an important financial reporting concept, as well as a legal concept, because it is an entity-specific aspect of relevance.<sup>4</sup>
  - (b) legal definitions of material may not exist in some jurisdictions, or they may not be appropriate for the preparation of financial statements.
  - (c) the use of different local definitions of material might lead to divergence in the application of IFRS Standards between jurisdictions. This divergence would be inconsistent with the objective of developing IFRS Standards to enhance the international comparability and usefulness of financial information.

## Likely effects

### Likely effects of the proposed amendments to IFRS Standards

- BC20 The Board thinks that the proposed amendments in this Exposure Draft will improve understanding of the definition of material by:
- (a) aligning the wording of the definition in IFRS Standards and the *Conceptual Framework* to avoid the potential for confusion arising from different definitions;
  - (b) incorporating some of the supporting requirements of IAS 1 into the definition to give them more prominence; and
  - (c) providing existing guidance on the definition of material in one place, together with the definition.
- BC21 The Board thinks that the proposed amendments are not substantive changes and would be unlikely to significantly affect how materiality judgements are made or to significantly affect entities' financial statements. This is because:
- (a) the refinements to the definition of material:

<sup>4</sup> Paragraph 2.11 of the *Conceptual Framework* Exposure Draft and paragraph QC11 of the *Conceptual Framework* (2010).

- (i) are based on wording in the *Conceptual Framework* Exposure Draft that is similar to, but clearer than, the existing definition in IAS 1 and IAS 8 (see paragraphs BC6 and BC9(a)); and
  - (ii) incorporate wording that already exists in IAS 1 (see paragraphs BC9(b) and (c)).
- (b) the clarification that the users are the primary users, and the description of their characteristics, have been taken from the *Conceptual Framework (2010)*. The Board expects that this will not change how judgements about whether information is material are made in practice.
- (c) the clarification of ‘obscuring’ and ‘material misstatements’ is based on existing requirements in IAS 1 (see paragraphs BC12(b) and (c)).

### **Likely effects of the proposed amendments on the forthcoming revised *Conceptual Framework* and Materiality Practice Statement**

BC22 If the Board makes changes to the definition of material in IAS 1 and IAS 8 as a result of the proposals in this Exposure Draft, it will at the same time make amendments to the definition of material in the revised *Conceptual Framework*, which is expected to be issued before the proposed amendments are finalised. The definition in the forthcoming revised *Conceptual Framework*, however, will continue to refer to ‘financial reports’ rather than ‘financial statements’. The expected amendments to the revised *Conceptual Framework* would be as follows (based on the wording proposed in the *Conceptual Framework* Exposure Draft):<sup>5</sup>

2.11 Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity’s general purpose financial reports (see paragraph 1.5) make on the basis of financial information about that a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report. Consequently, the ~~Board~~ IASB cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.<sup>6</sup>

BC23 The Board would also make amendments to the Materiality Practice Statement as described on page 12 of this Exposure Draft.

BC24 As explained in paragraph BC21, the proposed amendments incorporate existing guidance from the *Conceptual Framework (2010)* and IAS 1 and are not substantive changes to the existing requirements in IFRS Standards. For this reason, the Board thinks that the guidance in the Materiality Practice Statement and the forthcoming revised *Conceptual Framework* would not be affected by these proposed amendments other than to conform the wording of the definition of

<sup>5</sup> Similar wording to the proposed wording in the *Conceptual Framework* Exposure Draft is expected to be used in the revised *Conceptual Framework* once finalised.

<sup>6</sup> The glossary in the forthcoming revised *Conceptual Framework* would also be updated for the amendments to the definition.

DEFINITION OF MATERIAL (PROPOSED AMENDMENTS TO IAS 1 AND IAS 8)

material in these documents. Consequently, the Board considers it unnecessary to delay issuance of these documents until the proposed amendments to IAS 1 and IAS 8 are finalised.





International Financial Reporting Standards®

IFRS Foundation®

IFRS®

IAS®

IFRIC®

SIC®

IASB®

Contact the IFRS Foundation for details of countries where its trade marks are in use or have been registered.

The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410

Email: [info@ifrs.org](mailto:info@ifrs.org) | Web: [www.ifrs.org](http://www.ifrs.org)

Publications Department

Telephone: +44 (0)20 7332 2730

Email: [publications@ifrs.org](mailto:publications@ifrs.org)

IAS®

ISBN 978-1-911040-62-0



9 781911 040620 >