

## IFRS in Focus

### IASB proposes to amend the definition of material in IAS 1 and IAS 8

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The International Accounting Standards Board (the IASB) is proposing to amend the definition of material in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The proposal is set out in a recent Exposure Draft (ED).

- The IASB wants to align the definition of material between IAS 1, IAS 8 and the forthcoming revised Conceptual Framework.
- The proposed changes involve modifying and simplifying the current definition and moving some of the current wording into the accompanying explanatory materials.
- The changes are not intended to change the concept of materiality or to have a significant effect on materiality judgements or on the financial statements.
- The ED was released with the final IFRS Practice Statement *Making Materiality Judgements*.
- The comment period ends on 15 January 2018.

#### Why the amendments are being proposed

The IASB has discussed the definition of material in various projects, including the forthcoming revised Conceptual Framework, the Principles of Disclosures discussion paper and the Materiality Practice Statement. Although the definitions and explanations used in each of these projects are similar, they are not identical. They also vary from the existing definition in IAS 1 and IAS 8.

To promote consistency the Board is proposing to align the definition of material between the different Standards. Consequential changes will also be made to the Materiality Practice Statement and the Conceptual Framework in due course, depending on the feedback on the proposals.

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

### The proposed definition

The current definition of material in IAS 1 and IAS 8 is as follows:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of 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.

The proposed refined definition is as follows:

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.

The proposed definition is based on existing IFRS requirements. No new concepts are being proposed or old ones removed. It is a combination of the wording used in the Conceptual Framework and some of the existing explanatory requirements in IAS 1 regarding how to interpret "material".

### Substantive changes

The IASB is proposing to make three changes to the basic definition.

#### Obscuring information

The addition of "or obscuring" to the definition is intended to clarify that immaterial information could obscure material information, which could have a similar effect to omitting material information.

#### Could reasonably be expected

By changing the threshold from 'could influence' with 'could *reasonably be expected* to influence' the decisions of users, the IASB is trying to address concerns that the original phrase may be interpreted as requiring too much information, as almost anything *could* influence the decisions of some users even if the possibility is remote.

#### Primary users

By referring to 'primary users' rather than 'users' the IASB is trying to emphasise that an entity should consider the primary users of its financial statements, which are its existing and potential investors, lenders and creditors, as opposed to all users, when deciding what information to disclose.

#### Observations

The proposed amendments are intended to promote consistency between the Standards and are not intended to alter the underlying concept of materiality. Accordingly, the Board does not expect the revised definition to affect how materiality judgements are made or entities' financial statements significantly.

The Board also published the Practice Statement *Making Materiality Judgements* in September 2017. That document contains guidance on how to make materiality judgements. Refer to the related IFRS on Focus for details.

### Timing of the proposals

The ED does not specify an effective date for the proposed amendments. The Board will determine the effective date after considering the comments they receive on the ED.

The Board is proposing prospective application of the amendments, with early application permitted.

The comment period ends on 15 January 2018.

### Further information

The Exposure Draft is available free of charge from the IFRS Foundation website, along with information on how to submit your comments on the proposal: <http://www.ifrs.org/projects/open-for-comment/>

If you have any questions about the proposals, please speak to your usual Deloitte contact or get in touch with a member of the Global team.

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