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Training and Technical

Understanding the amendments to the definition of IFRS **Materiality**

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Effective for annual periods beginning on or after **1 January 2020** – earlier application is permitted

In October 2018, the IASB amended the definition of "material" in IAS 1 Financial Statement Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to applicable through all IFRS Standards to make it easier for entities to make material judgements.

Practice Statement 2 and the TIP issued March 2017 provides further guidance in applying materiality

The definition of materiality is an important concept to help entities decide whether to include information in financial statements or not.

Previous definition: 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

The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 *Presentation of Financial Statements*. The definition of material in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* has been replaced with a reference to IAS 1.

Obscuring information

Five ways material information can be obscured:

- if the **language** regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is **scattered** in different places in the financial statements;
- if **dissimilar items**, transactions or other events are inappropriately **aggregated**;
- if **similar items**, transactions or other events are inappropriately **disaggregated**; and
- if material information is **hidden by immaterial information** to the extent that it becomes unclear what information is material.

Obscuring

The previous definition only focused on omitting or misstating information. Obscuring material information with superfluous information that can be omitted may distract the primary users from the ability to differentiate between what information is material and what is not. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

Could reasonably be expected to influence

The previous definition referred to 'could influence' which might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.

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.

Primary users

The existing definition referred only to 'users' which again might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Primary users include shareholders, investors , creditors, lenders and government

Decisions

Replacing the term 'economic decisions' with 'decisions': decisions may have a wider application than only economic decisions as primary users do not only make decisions about their investments when they interpret financial statements