AMENDMENTS TO IAS 1 AND IAS 8 - DEFINITION OF MATERIAL

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2018/08

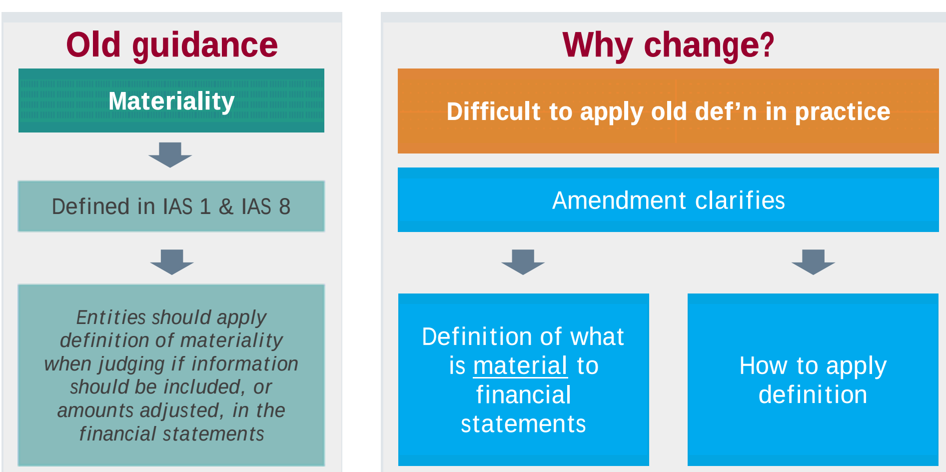
Summary

In October 2018, the IASB issued amendments to IAS 1 *Financial Statement Presentation* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of 'material' in the context of applying IFRS. As the concept of what is and is not material is crucial in preparing financial statements in accordance with IFRS, a change in the definition may fundamentally affect how preparers make judgments in preparing financial statements.

Materiality decisions are common in determining the level of precision in applying accounting policies in practice (e.g. capitalisation thresholds for property and equipment), determining what disclosures are most meaningful to users and the level of aggregation of information throughout financial statements (e.g. portfolios of financial assets subject to expected credit losses).

These amendments are a component of the IASB's 'Disclosure Initiative' project, which is intended to simplify financial statements and increase their usability.

A summary of the amendments are as follows:



STATUS

Final – issued in October 2018

EFFECTIVE DATE

Periods beginning on or after 1 January 2020. Early application is permitted.

ACCOUNTING IMPACT

More clarity in applying the concept of materiality in the preparation of financial statements

A comparison of the old definition to the new definition is as follows:

Old Definition (IAS 1 and IAS 8)	New Definition (IAS 1 only)
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.	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 new definition changes the "bar" at which the definition is applied. The previous definition used the term "could" in the context of whether users are potentially affected, which has been interpreted broadly. The revised definition adjusts this to use the terminology "could reasonably be expected", which adds the element of reasonability, rather than any potential effect on users.

The revised definition also narrows the definition of those who may be affected from the previous term of "users" to "primary users", which further narrows the view of what may be material in a given circumstance.

Finally, the revised definition adds the concept that obscuring information may also be relevant in determining whether an element is material to primary users. For example, disclosure of a significant subsequent event would generally receive more prominence in the order in which it is presented in financial statements than insignificant disclosures.

Additional guidance has also been provided to accompany the revised definition, including:

Materiality depends on nature or magnitude of information (or both)

Information in financial statements can be obscured if it has a similar effect for primary users to omitting or misstating information

Assess whether information is material on its own or when combined with other information

Financial statements are prepared for economically literate users

This guidance provides further context for users in assessing whether policies, presentation and disclosure decisions would be material in the context of IFRS.

Potential practical impacts of the revised definition of material may include:

Disclosure

Preparers may be able to reduce the sheer size of financial statements by more easily justifying that certain disclosures are immaterial to users of financial statements. More meaningful disclosures may need to be re-ordered or presented in a more prominent manner due to the additional guidance on the effects of obscuring information.

Presentation

Immaterial classes of balances and transactions may be presented together in aggregate, while more meaningful and significant items may require distinct and separate presentation in the financial statements.

Measurement

Simplifications and practical application of standards to immaterial balances and transactions may be more easily applied in practice.

This bulletin summarises the main points of the revision. For more information, the IASB's project site relating to changes in the definition of material can be found here.