International Financial Reporting Standard

Definition of Material

October 2018

IMPLEMENTATION GUIDANCE – AMENDMENTS

[IFRS 4]

[Related to AASB 2018-7]

Amendments to IFRS 4 *Insurance Contracts Implementation Guidance*

The following amendments are a consequence of the amendments to the definition of material in IAS 1 and IAS 8. These amendments are applied prospectively at the same time an entity applies the amendments to the definition of material in IAS 1 and IAS 8.

Paragraphs IG15 and IG16 are amended. New text is underlined and deleted text is struck through.

Materiality

IG15 IAS 1 <u>defines materiality and </u>notes that a specific disclosure requirement in an IFRS need not be satisfied if the information is not material. ~~IAS 1 defines materiality 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.~~

IG16 <u>Paragraph 7 of</u> IAS 1 also explains the following:

> Assessing whether <u>information </u>~~an omission or misstatement~~ could <u>reasonably be expected to </u>influence ~~economic~~ decisions~~ of~~ <u>made by the primary </u>users <u>of a specific reporting entity's general purpose financial statements</u>~~, and so be material,~~ requires <u>an entity to consider </u>~~consideration of~~ the characteristics of those users<u> while also considering the entity's own 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 statements for much of the financial information they need. Consequently, they are the primary users at whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable level of knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may seek the aid of an adviser to understand information about complex economic phenomena</u>.~~ The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25[1] 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.~~

~~1~~ ~~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*.~~