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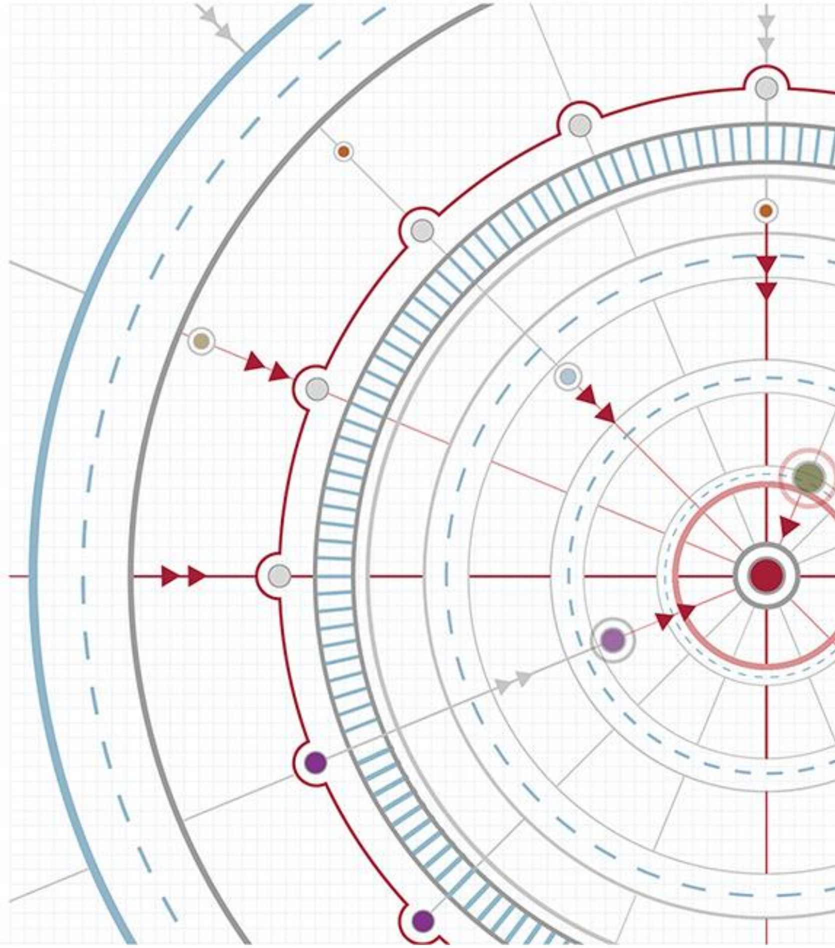

GPF meeting, 4 October 2017

Agenda Paper 4

Disclosure Initiative
Definition of Material project

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Agenda

- Overview of the proposals
- Expected project timetable
- Questions for the GPF members
- Appendix: proposed amendments in IFRS

Overview—Definition of ‘material’ in ED

‘take into account how users … could *reasonably* be expected to be influenced’
(IAS 1.7)

‘An entity shall not reduce understandability … by obscuring material information’
(IAS 1.30A)

‘Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information’
(*Conceptual Framework* QC11)

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

Expected project timetable

14 September 2017
Exposure Draft published

15 January 2018
Comments due

2018
Board redeliberations

Questions

Questions

- What are your views on the proposed clarification of the definition of material proposed in the Exposure Draft?
- Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?—see proposed amendments in the Appendix.[(1)]

(1): The appendix includes only the amendments to IAS 1 *Presentation of Financial Statements*. The Exposure Draft proposes equivalent amendments to the definition of material in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix—Proposed amendments

[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.

Appendix—Proposed amendments—
continued

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.[2]

Appendix—Proposed amendments—

continued

~~The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25[2] 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.~~

[2] ~~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*.~~ <u>This paragraph is based on paragraphs OB5 and QC32 of the *Conceptual Framework for Financial Reporting (2010)*.</u>

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