

## STAFF PAPER

July 2018

## IASB Meeting

Project	Disclosure Initiative: Definition of Material		
Paper topic	Amendments to IAS 1 and IAS 8: due process steps and balloting		
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**Objective**

1. The purpose of this meeting is for the Board to review the due process steps taken in the Definition of Material project and decide whether the staff can begin the balloting process for the final amendments to IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and consequential amendments.
2. This paper covers all amendments proposed in the *Definition of Material—Proposed amendments to IAS 1 and IAS 8 Exposure Draft* (‘the Exposure Draft’).
3. This paper is structured as follows:
  - (a) Background (paragraphs 4-6);
  - (b) Effects analysis (paragraphs 7-13);
  - (c) Staff analysis and recommendations (paragraphs 14-21);
  - (d) Questions for the Board;
  - (e) Appendix A—Due process requirements.

## Background

4. The Board published the Exposure Draft in September 2017. The Exposure Draft proposed amendments to refine and clarify the definition of material by improving understanding of the existing requirements. The proposed amendments aligned the definition of material within the IFRS Standards and the *Conceptual Framework*.
5. The Exposure Draft had a 120-day comment period, which ended 15 January 2018. 71 comment letters were received.
6. At the April 2018 Board meeting, the staff presented a summary of the feedback received from respondents to the Exposure Draft.

## Effects analysis

7. Most respondents supported the proposals in the Exposure Draft.
8. The proposed amendments were intended to improve the understanding of the definition of material by:
  - (a) aligning the wording of the definition in IFRS Standards and the *Conceptual Framework* to avoid the potential confusion arising from different definitions;
  - (b) incorporating some of the supporting requirements of IAS 1 into the definition to give them more prominence. In particular, the Exposure Draft proposed:
    - (i) including the concept of ‘obscuring information’ in the definition of material; and
    - (ii) replacing the threshold ‘could influence’ with ‘could reasonably be expected to influence’;
  - (c) providing all explanatory paragraphs on the definition of material in one place, together with the definition.
9. The proposals did not constitute substantive changes to the definition of material. Consequently, the Board did not expect the proposed amendments to significantly

affect how materiality judgements are made in practice or to significantly affect entities' financial statements.

10. The feedback from stakeholders did not highlight significant cost or reporting burden as a result of these proposals. However, many respondents questioned how to interpret, apply and assess the concept of 'obscuring information' in relation to the application of materiality.
11. Consequently, in the June 2018 Board meeting the Board decided to provide a clearer explanation of 'obscuring information' and examples of what might constitute 'obscuring information' within the explanatory paragraphs to IAS 1.
12. On the basis of the feedback, we think that the practical consequence of including 'obscuring information' in the definition of material is to give more prominence to this concept when entities are deciding how to communicate material information. However, paragraph 30A of IAS 1 already requires an entity not to reduce the understandability of its financial statements by obscuring material information with immaterial information. Consequently, staff do not think there should be any significant additional costs for preparers or users of financial statements as a result of the proposed amendments relating to 'obscuring information'.
13. Similarly, we do not think that replacing the threshold 'could influence' with 'could reasonably be expected to influence' will give rise to additional costs for preparers. This is because paragraph 7 of IAS 1 already requires an entity to consider how users 'could reasonably be expected to be influenced in making economic decisions'. Consequently, the proposed amendment gives more prominence to an existing requirement, but does not constitute a substantive change.

## **Staff analysis and recommendations**

### ***Re-exposure***

14. In its June 2018 meeting, the Board decided on the following amendments to the proposals in the Exposure Draft:
  - (a) to provide a clearer explanation of 'obscuring information' in the explanatory paragraphs in IAS 1 (see paragraph 11); and

- (b) to avoid repetition by replacing the definition of material in IAS 8 with a reference to the definition of material in IAS 1.
15. The staff believe that the subsequent amendments to the proposals in the Exposure Draft are consistent with the broad amendments proposed and do not include fundamental changes. Instead, these changes further clarify the proposals and directly respond to the feedback received. Consequently, we believe that there are no substantive changes being made on which respondents have not had the opportunity to comment. Because it is unlikely that re-exposure would reveal any new concerns, the staff recommend that the Board should not re-expose the amendments.

### ***Permission to ballot and confirmation of due process steps***

16. The staff believe that the Board has undertaken all of the due process activities identified as being required in the *Due Process Handbook* and hence are able to finalise the amendments (see Appendix A).
17. In Appendix A, staff have summarised the due process steps taken in developing the proposed amendments to IAS 1 and IAS 8 and consequential amendments. We note that the due process steps required to issue the proposed amendments have been completed.
18. If the Board is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation, to support issuing the amendments, the staff request permission to start the balloting process.

### ***Dissents***

19. No Board member dissented from the Exposure Draft. Any Board members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

***Proposed timetable for balloting and issuing***

20. The balloting process of *Definition of Material—Amendments to IAS 1 and IAS 8* will commence in July 2018, with the final amendments planned to be issued in November 2018.

***Effective date***

21. The Board discussed the effective date of the amendments at its June 2018 Board meeting. The Board decided that the effective date should be for annual reporting periods beginning on or after 1 January 2020, with early application permitted.

**Questions for the Board**

1. Re-exposure: does the Board agree with the staff recommendation not to re-expose the amendments?
2. Is the Board satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?
3. Dissents: do any members of the Board plan to dissent from issuing the amendments?
4. Proposed timetable: do the Board members agree with the proposed timetable and give permission to ballot the amendments?

## Appendix A—Due process requirements

A1. This appendix shows how the Board has complied with the due process requirements for final amendments to Standards as set out in the *Due Process Handbook* published in June 2016.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Examples of evidence that could be provided to the DPOC</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>				
<b>The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.</b>	Required if request issued.	Letter posted on the project pages.	The Board has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	<p>Comment letters on the ED have been posted on the <a href="#">project page</a> of the IFRS Foundation website.</p> <p>A <a href="#">feedback summary</a> was presented to the Board at its April 2018 meeting and is available on the project page of the IFRS Foundation website.</p> <p>Progress has been reported in the quarterly report at Trustee meetings.</p>
<b>Round table meetings between external participants and members of the Board.</b>	Optional.	Extent of meetings held.	The DPOC has received a report of outreach activities.	No formal round table meetings were hosted by the Board because this is a limited-scope project which intends to make only clarifying amendments.
<b>The Board meetings are held in public, with papers being available for observers. All decisions are made in public sessions.</b>	Required.	<p>Meetings held.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers posted in a timely fashion.</p> <p>Meetings with consultative groups held and confirmation that</p>	<p>The Board and the DPOC have discussed progress on major projects in relation to the due process being conducted.</p> <p>The IASB and the DPOC have reviewed the due process over the project life-cycle, and how any issues about the due process</p>	<p>The Board held public meetings in November 2014, April 2015, December 2016, April 2018 and May 2018 where the Board discussed the proposed amendments to IAS 1 and IAS 8.</p> <p>A project page on the IFRS Foundation website has been in place (<a href="#">Definition of Material</a>) over the course of the Definition of Material project. The project page</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Examples of evidence that could be provided to the DPOC</i>	<i>Actions</i>
		critical issues have been reviewed with them.	<p>have been/are being addressed.</p> <p>The DPOC has met with the Advisory Council to understand stakeholders' perspectives.</p> <p>The DPOC has reviewed and responded to comments on due process as appropriate.</p>	<p>contains a full description of the project with meeting papers and decision summaries (all posted on a timely basis).</p> <p>The DPOC has been updated on the status of the Definition of Material amendments in January 2017, May 2017, November 2017, January 2018 and June 2018 as part of the update on the Board's technical activities.</p>
<b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.</b>	Required.	Publication of the Effects Analysis.	<p>The Board and the DPOC have revised the results of the Effects Analysis and how it has considered such findings in the proposed Standard.</p> <p>The Board has provided a copy of the Effects Analysis to the DPOC at the point of the Standard's publication.</p>	These are narrow-focus amendments and not a new Standard or major amendments to an existing Standard. Consequently, a brief analysis of likely effects is included in paragraphs 7-13 of this paper, and relevant points will be included in the Basis for Conclusions to the amendment.
<b>E-mail alerts are issued to registered recipients.</b>	Optional.	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	Subscribers to news about the <a href="#">Definition of Material</a> project have been notified when key documents, eg the Exposure Draft and IASB Update newsletters, are issued. Subscribers have also received periodic updates on the project.
<b>Outreach meetings to promote debate and hear views</b>	Optional.	Extent of meetings held, including	The DPOC has received a report of outreach activities.	For the proposed amendments to IAS 1 and IAS 8, the staff undertook two outreach meetings

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<b>on proposals that are published for public comment.</b>		efforts aimed at investors.		during the comment period. Staff have also performed outreach with the Board’s advisory bodies the Global Preparers Forum (GPF) & Accounting Standards Advisory Forum (ASAF) during the project.  No further outreach meetings, including engaging a consultative committee group, were deemed necessary because of the narrow-focus of these amendments.
<b>Regional discussion forums are organised with national standard-setters and the Board.</b>	Optional.	Extent of meetings held.	The DPOC has received a report of outreach activities.	Regional discussion forums were not considered necessary because of the narrow-focus of these amendments.
<b>Finalisation</b>				
<b>Due process steps are revised by the Board.</b>	Required.	Summary of all due process steps have been discussed by the Board before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Standard is issued.	This agenda paper provides a summary of all due process steps and is to be discussed by the Board at this July 2018 meeting.
<b>Need for re-exposure of a Standard is considered.</b>	Required.	An analysis of the need to re-expose is considered at a public meeting, using the agreed criteria.	The Board has discussed its thinking on the issue of re-exposure with the DPOC.	Paragraphs 14-15 of this Agenda Paper provides a summary of why the staff recommend that the Board should not re-expose the proposed amendments.
<b>The Board sets an effective date for the</b>	Required.	Effective date set, with full consideration of the	The Board has discussed any proposed shortening	The Board considered the effective date of the



<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Examples of evidence that could be provided to the DPOC</i>	<i>Actions</i>
<p><b>Standard, considering the need for effective implementation, generally providing at least a year.</b></p>		<p>implementation challenges.</p>	<p>of the period for effective application with the DPOC.</p>	<p>amendments in its June 2018 meeting.</p> <p>The Board does not expect these amendments to result in the reassessment of the judgements about materiality, presentation and disclosure made in periods prior to the application of these amendments. Consequently, the staff do not think there is a need to provide additional implementation lead time. The effective date of 1 January 2020 decided upon by the Board will provide over a year between expected issue (see paragraph 20) and the effective date.</p>