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Definition of Material (Amendments to IAS 1 and IAS 8)

Cover Note

Objective

- 1 The objective of this session is to discuss and approve for recommendation to the EFRAG Board, the draft endorsement advice and invitation to comment on *Definition of Material (Amendments to IAS 1 and IAS 8)* (the 'Amendments').

Background

- 2 The IASB issued the Amendments on 31 October 2018.
- 3 The Amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the Amendments ensure that the definition of material is consistent across all IFRS Standards and the *Conceptual Framework for Financial Reporting*.
- 4 The Amendments are effective from 1 January 2020, but entities can decide to apply them earlier.
- 5 EFRAG issued its comment letter on Exposure Draft ED/2017/6 *Definition of Material – Proposed amendments to IAS 1 and IAS 8* on 23 January 2018, generally supporting the initiative but raising some concerns. Appendix A provides a summary of EFRAG's recommendations and whether and how they were addressed by the IASB.
- 6 The European Commission issued a letter requesting advice on the endorsement of the Amendments on 12 November (agenda paper 04-04). The letter did not identify specific matters to be assessed and asked that EFRAG supports its advice by an impact analysis, including a cost-benefit analysis and an analysis of broader economic impacts.

Interactions with the Amendments to References to the Conceptual Framework in IFRS Standards

- 7 On 29 March 2018, the IASB issued *Amendments to References to the Conceptual Framework in IFRS Standards*. These Amendments are applicable for annual periods beginning on or after 1 January 2020 with early application allowed (provided an entity applies all the amendments). These amendments revised in particular paragraph 7 of IAS 1 and paragraph 6 of IAS 8 as follows:

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25 that 'users. 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.

- ~~* 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.~~
- 8 For entities that have not yet adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards* at the time they adopt the Amendments, the IASB has issued a second version of the Amendments removing references to the old Conceptual Framework quoted in paragraph 7 above. The two versions are similar in all other aspects.
- 9 The EFRAG Secretariat has assessed that the limited differences in the versions of the Amendments do not affect its assessment against the endorsement criteria and therefore Amendments no separate assessments have been made.

Draft endorsement advice

- 10 The EFRAG Secretariat has prepared a draft endorsement advice and an accompanying invitation to comment (in papers 04-02 and 04-03, respectively).
- 11 The EFRAG Secretariat has tentatively concluded that the Amendments:
- (a) meet the qualitative characteristics required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting; and
 - (b) are conducive to the European public good.

Questions for EFRAG TEG

- Does EFRAG TEG agree to recommend the draft endorsement advice (contained in paper 04-02) and the invitation to comment (contained in paper 04-03) for consideration by the EFRAG Board?

Agenda Papers

- 12 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 04-02 – EFRAG’s draft letter to the European Commission regarding endorsement of *Definition of Material (Amendments to IAS 1 and IAS 8)*;
 - (b) Agenda paper 04-03 – Invitation to comment on EFRAG’s Assessment on *Definition of Material (Amendments to IAS 1 and IAS 8)*;
 - (c) Agenda paper 04-04 – Letter from the European Commission requesting endorsement advice– for background only; and
 - (d) Agenda paper 04-05 – *IASB Definition of Material (Amendments to IAS 1 and IAS 8)* – for background only.

Appendix A: Follow-up on EFRAG’s recommendations

- 13 The table below shows how the issues and recommendations in EFRAG’s comment letter have been addressed by the IASB in the Amendments published on 31 October 2018.

EFRAG views and recommendations	Follow-up	Final Amendments
<p>EFRAG did not support the inclusion 'obscuring' into the definition.</p> <p>Suggested instead to remove the references to 'omitting', 'misstating' and 'obscuring' and define material information more simply and directly as 'information that can reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of financial statements make on the basis of those financial statements';</p>	Not Addressed	<p>The IASB considered the suggestion but decided to retain the terms as removing 'omitting', 'misstating' and 'obscuring' from the definition of 'material' would constitute a too substantive change and be outside the scope of the narrow project which was to refine the definition of material and clarify its application.</p>
<p>EFRAG suggested the concept of 'obscuring' should be further clarified as it is unclear in the explanatory notes.</p>	Addressed	<p>The IASB improved the accompanying explanatory paragraphs to the definition of material and included examples of circumstances in which material information might be obscured.</p>
<p>EFRAG observed that the definition of material was repeated in several places and recommended to group the guidance in a single general standard and use cross-references from other IFRS Standards when needed.</p>	Addressed	<p>The definition of 'material' and the explanatory paragraphs are now included in IAS 1 and the Conceptual Framework, and other IFRS Standards include a reference to the definition and explanatory paragraphs in IAS 1.</p>
<p>EFRAG recommended that that the IASB reviews the use of the terms 'immaterial' and 'not material' in IAS 1 and the Materiality Practice Statement and clarifies whether these terms are intended to have the same meaning (or explains the difference in meaning).</p>	Addressed	<p>The Basis for Conclusions to IAS 1 clarify that the terms have the same meaning.</p> <p>Both terms will continue to be used.</p>