Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

The following amendments are a consequence of the amendments to the definition of material in MFRS 101 and MFRS 108. These amendments are applied prospectively at the same time an entity applies the amendments to the definition of material in MFRS 101 and MFRS 108.

Paragraphs 5, 41 and 60 are amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in MFRS* Standards. Paragraph 7 of MFRS 101 and paragraph 5 of MFRS 108 in the Appendix to the Practice Statement are also amended. New text is underlined and deleted text is struck through.

Definition of material

5 The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) provides the following definition of material information (paragraph 7 of MFRS 101 *Presentation of Financial Statements* ~~and MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provide~~ provides a similar ~~definitions~~definition[1]):

> Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.[2]

[1] See paragraph 7 of MFRS 101 *Presentation of Financial Statements* ~~and paragraph 5 of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.~~

[2] Paragraph QC11 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). ~~However, the Exposure Draft ED/2017/6 *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (Definition of Material ED) proposes to refine the definition of material to '[i]nformation is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'. The Definition of Material ED also identifies consequential~~

~~amendments to other IFRS Standards, including amendments to the definitions of material in the *Conceptual Framework*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. MFRS 101 is equivalent to IAS 1 and MFRS 108 is equivalent to IAS 8.~~

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A four-step materiality process

...

Step 2—assess

...

41 An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or magnitude ~~size~~, or a combination of both, judged in relation to the particular circumstances of the entity.[23] Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 53–55).

[23] See paragraph 7 of MFRS 101~~ and paragraph 5 of MFRS 108~~.

...

Step 4—review

60 An entity needs to assess whether information is material both individually and in combination with other information[27] in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

[27] See paragraph 7 of MFRS 101~~ and paragraph 5 of MFRS 108~~.

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Appendix
References to the *Conceptual Framework for Financial Reporting* and MFRS Standards

Extracts from the *Conceptual Framework for Financial Reporting*[45]

...

Paragraph QC11

Referred to in paragraph 5 of the Practice Statement

> Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

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Extracts from MFRS 101 *Presentation of Financial Statements*

Paragraph 7 ~~(and paragraph 5 of MFRS 108)~~

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

> ***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 general purpose financial statements make on the basis of those ~~the~~ financial statements, which provide financial information about a specific reporting**

entity. ~~**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.**~~

Materiality depends on the 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 taken as a whole.

Paragraph 7

Referred to in paragraph 6 of the Practice Statement

Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence ~~economic~~ decisions ~~of~~ made by the primary users of a specific reporting entity's general purpose financial statements~~, and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances. […] At times, even well informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena. ~~Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

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Extracts from MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

~~Paragraph 5 (and paragraph 7 of MFRS 101)~~

~~Referred to in paragraphs 5, 41 and 60 of the Practice Statement~~

~~***Material*** **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.**~~

...

Paragraphs 5, 41 and 60 are amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in MFRS Standards*. New text is underlined, and deleted text is struck through. Paragraph 7 of MFRS 101 and paragraph 5 of MFRS 108 in the Appendix to the Practice Statement are also amended.

Definition of material

5 The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) provides the following definition of material information (paragraph 7 of MFRS 101 *Presentation of Financial Statements* ~~and MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provide~~ provides a similar ~~definitions~~definition[1]):

> Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.[2]

[1] See paragraph 7 of MFRS 101 *Presentation of Financial Statements* ~~and paragraph 5 of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*~~.

[2] Paragraph 2.11 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). ~~However, the Exposure Draft ED/2017/6 *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (Definition of Material ED) proposes to refine the definition of material to '[i]nformation is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'. The Definition of Material ED also identifies consequential amendments to other IFRS Standards, including amendments to the definitions of material in the *Conceptual Framework*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. MFRS 101 is equivalent to IAS 1 and MFRS 108 is equivalent to IAS 8.~~

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A four-step materiality process

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Step 2—assess

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41 An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or magnitude ~~size~~, or a combination of both, judged in relation to the particular circumstances of the entity.[23] Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 53–55).

[23] See paragraph 7 of MFRS 101 ~~and paragraph 5 of MFRS 108~~.

...

Step 4—review

60 An entity needs to assess whether information is material both individually and in combination with other information[27] in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

[27] See paragraph 7 of MFRS 101 ~~and paragraph 5 of MFRS 108~~.

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Appendix
References to the *Conceptual Framework for Financial Reporting* and MFRS Standards

Extracts from the *Conceptual Framework for Financial Reporting*~~[45]~~

Paragraph 2.11

Referred to in paragraph 5 of the Practice Statement

> Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

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~~45 References to the *Conceptual Framework for Financial Reporting* in this Practice Statement will be updated once the revised *Conceptual Framework* is issued.~~

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Extracts from MFRS 101 *Presentation of Financial Statements*

Paragraph 7 ~~(and paragraph 5 of MFRS 108)~~

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

> ***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 general purpose financial statements make on the basis of those ~~the~~ financial statements, which provide financial information about a specific reporting entity. ~~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.~~

Materiality depends on the 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 taken as a whole.

Paragraph 7

Referred to in paragraph 6 of the Practice Statement

Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence ~~economic~~ decisions ~~of~~ made by the primary users of a specific reporting entity's general purpose financial statements~~, and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances. […] At times, even well informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena ~~Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions~~.

...

Extracts from MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

~~Paragraph 5 (and paragraph 7 of MFRS 101)~~

~~Referred to in paragraphs 5, 41 and 60 of the Practice Statement~~

~~***Material*** **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.~~

...