Republic of the Philippines
Professional Regulation Commission
Manila

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PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY
Resolution No. 06
Series of 2019

WHEREAS, the Financial Reporting Standards Council (FRSC) has approved and submitted hereunder pronouncements to the Board for approval;

1. *Definition of a Business (Amendments to PFRS 3)*
2. *Definition of Material (Amendments to PAS 1 and PAS 8)*

WHEREAS, after study and review of the provisions of the aboved-stated pronouncements as adopted by the FRSC, the Board finds them to be well taken and instructive for compliance by practicing Certified Public Accountants;

WHEREFORE, the Board **RESOLVES,** as it is hereby **RESOLVED,** to adopt the aboved-stated pronouncements as part of the Philippine Accounting Standards;

RESOLVED FURTHER, that this Resolution and the aboved-stated pronouncements shall take effect after fifteen (15) days following its publication in the Official Gazette or in any newspaper of general circulation.

Done in the City of Manila, this 13th day of February, 2019.

NOE G. QUIÑANOLA
Chairman

MARKO ROMEO L. FUENTES
Vice-Chairman

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Member

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ATTY. LOVELIKA T. BAUTISTA
Chief, PRB Secretariat Division

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TEOFILO S. PILANDO, JR.
Chairman

YOLANDA D. REYES
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Commisioner

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TSP/YDR/JYC/NGQ/ERII/LTB/gnet

DATE OF PUBLICATION IN THE
OFFICIAL GAZETTE : AUG. 5, 2019
DATE OF EFFECTIVITY: AUG. 21, 2019

Financial Reporting Standards Council

Definition of a Business
(Amendments to PFRS 3)

Definition of a Business (Amendments to PFRS 3)

Contents

FRSC PREFACE TO *DEFINITION OF A BUSINESS* (AMENDMENTS TO PFRS 3)

1. The Financial Reporting Standards Council (FRSC) has approved on November 14, 2018 the adoption of amendments to IFRS 3 *Business Combinations*, *Definition of a Business*, issued by the International Accounting Standards Board (IASB) in October 2018 as amendments to PFRS 3, *Business Combinations*, *Definition of a Business.*

2. The amendments improve the definition of a business in response to the feedback from the post-implementation review of IFRS 3. The new definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Supplementary guidance were also provided.

3. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application of these amendments is permitted.

* * * * * * *

FRSC Members

Josephine Adrienne A. Abarca, Chairman

Jane Cheryl A. Cabal-Revilla	**Ester F. Ledesma**
Antonieta F. Ibe	**Michael D. Roxas**
Leonardo D. Cuaresma, Jr.	**Lyn I. Javier**
Samuel B. Padilla	**Carmelita O. Antasuda**

DEFINITION OF A BUSINESS (AMENDMENTS TO IFRS 3)

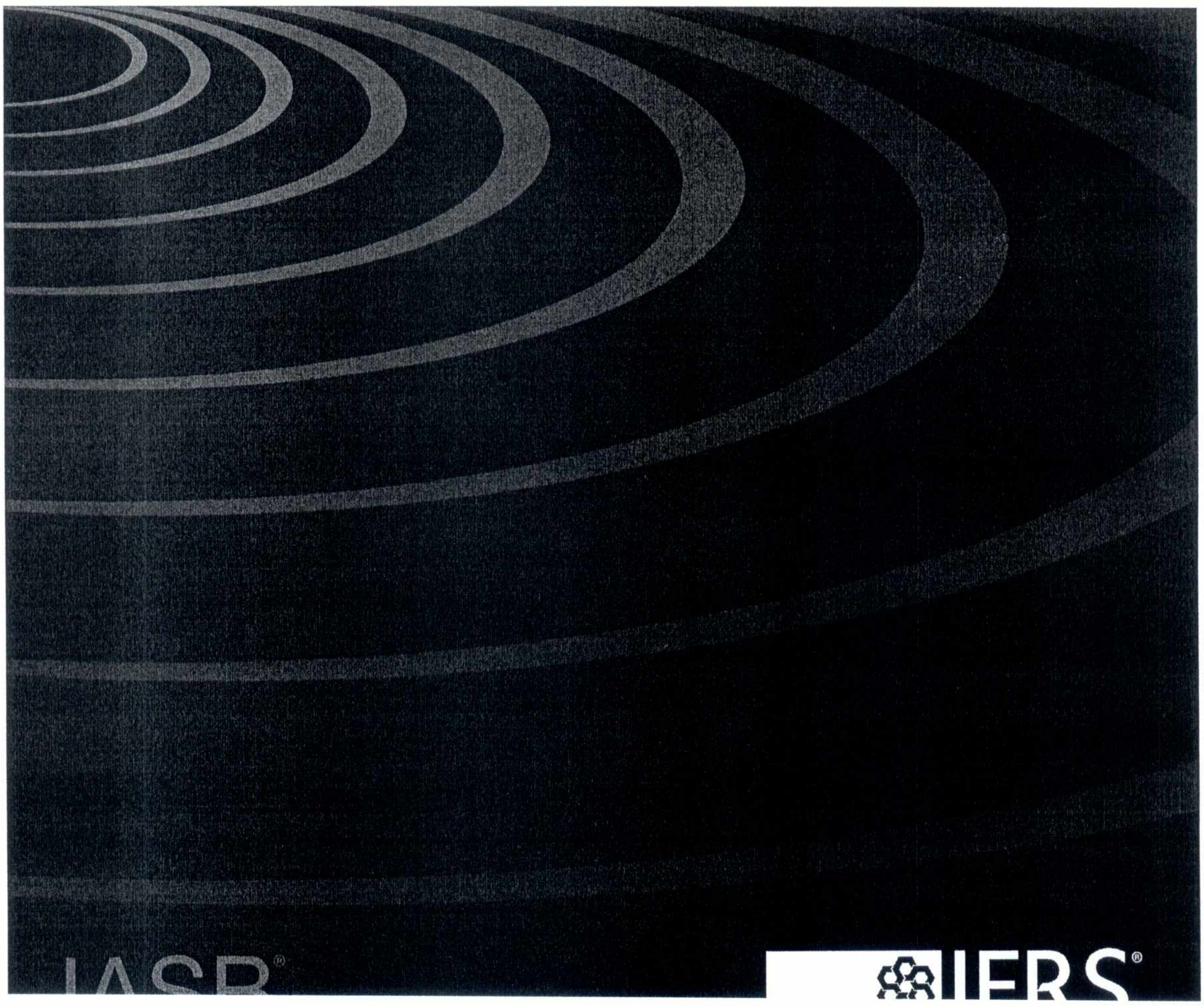
CONTENTS

October 2018

IFRS® Standards

Definition of a Business

Amendments to IFRS 3



Definition of a Business (Amendments to IFRS 3) is issued by the International Accounting Standards Board (Board).

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Introduction

This document sets out amendments made by the International Accounting Standards Board (Board) to IFRS 3 *Business Combinations*. The Board developed these amendments after considering feedback received in its Post-implementation Review (PIR) of IFRS 3.

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

(a) clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

(b) remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;

(c) add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

(d) narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and

(e) add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

IFRS 3 was the result of a joint project between the Board and the US Financial Accounting Standards Board (FASB) and it contained the same definition of a business as the definition in US Generally Accepted Accounting Principles (US GAAP). However, subsequent PIRs of IFRS 3 and of this aspect of US GAAP indicated that the definition of a business was, in practice, viewed as capturing a broader range of transactions under US GAAP than under IFRS 3. The amendments to IFRS 3 are based on conclusions similar to those reached by the FASB in amendments it made to its requirements in 2017, although the two sets of amendments differ in some respects. The Board expects that the amendments will lead to more consistency in applying the definition of a business across entities applying IFRS Standards and entities applying US GAAP.

Entities are required to apply the amendments to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted.

Amendments to IFRS 3 *Business Combinations*

Paragraph 3, the definition of the term 'business' in Appendix A and paragraphs B7–B9, B11 and B12 are amended. Paragraphs 64P, B7A–B7C, B8A and B12A–B12D, and headings above paragraphs B7A, B8 and B12, are added. Paragraph B10 is deleted. New text is underlined and deleted text is struck through.

Identifying a business combination

3 **An entity shall determine whether a transaction or other event is a business combination by applying the definition in this IFRS, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs B5–~~B12~~B12D provide guidance on identifying a business combination and the definition of a business.**

Effective date and transition

Effective date

...

64P *Definition of a Business*, issued in October 2018, added paragraphs B7A–B7C, B8A and B12A–B12D, amended the definition of the term 'business' in Appendix A, amended paragraphs 3, B7–B9, B11 and B12 and deleted paragraph B10. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application of these amendments is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Appendix A

Defined terms

...

business An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities~~a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants~~.

Definition of a business (application of paragraph 3)

B7 A business consists of inputs and processes applied to those inputs that have the ability to ~~create~~ contribute to the creation of outputs. ~~Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.~~ The three elements of a business are defined as follows (see paragraphs B8–B12D for guidance on the elements of a business):

(a) **Input:** Any economic resource that creates outputs, or has the ability to ~~create,~~ contribute to the creation of outputs, when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.

(b) **Process:** Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to ~~create~~ contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

(c) **Output:** The result of inputs and processes applied to those inputs that provide ~~or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants~~ goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities.

Optional test to identify concentration of fair value

B7A Paragraph B7B sets out an optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:

(a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(b) if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in paragraphs B8–B12D.

B7B The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

(a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.

(b) the fair value of the gross assets acquired shall include any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired. The fair value of the gross assets acquired may normally be determined as the total obtained by adding the fair value of the consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) to the fair value of the liabilities assumed (other than deferred tax liabilities), and then excluding the items identified in subparagraph (a). However, if the fair value of the gross assets acquired is more than that total, a more precise calculation may sometimes be needed.

(c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination.

(d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in IFRS 16 *Leases*), without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset.

(e) when assessing whether assets are similar, an entity shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics).

(f) the following shall not be considered similar assets:

   (i) a tangible asset and an intangible asset;

   (ii) tangible assets in different classes (for example, inventory, manufacturing equipment and automobiles) unless they are considered a single identifiable asset in accordance with the criterion in subparagraph (d);

   (iii) identifiable intangible assets in different classes (for example, brand names, licences and intangible assets under development);

   (iv) a financial asset and a non-financial asset;

   (v) financial assets in different classes (for example, accounts receivable and investments in equity instruments); and

   (vi) identifiable assets that are within the same class of asset but have significantly different risk characteristics.

B7C The requirements in paragraph B7B do not modify the guidance on similar assets in IAS 38 *Intangible Assets*; nor do they modify the meaning of the term 'class' in IAS 16 *Property, Plant and Equipment*, IAS 38 and IFRS 7 *Financial Instruments: Disclosures*.

Elements of a business

B8 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the ~~purposes defined~~ purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs~~, which together are or will be used to create outputs~~. ~~However, a~~ A business need not include all of the inputs or processes that the seller used in operating that business~~ if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes~~. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs B12–B12D specify how to assess whether a process is substantive.

B8A If an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired.

B9 The nature of the elements of a business varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs and processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities. Furthermore, an acquired set of activities and assets that is not a business might have liabilities.

B10 ~~An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is a business. Those factors include, but are not limited to, whether the set:~~

~~(a) has begun planned principal activities;~~

~~(b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;~~

~~(c) is pursuing a plan to produce outputs; and~~

~~(d) will be able to obtain access to customers that will purchase the outputs.~~

~~Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.~~ [Deleted]

B11 Determining whether a particular set of activities and assets ~~and activities~~ is a business ~~should~~ shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.

Assessing whether an acquired process is substantive

B12 ~~In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be a business. However, a business need not have goodwill.~~ Paragraphs B12A–B12D explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph B12B) and if it does have outputs (paragraph B12C).

B12A An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquirer.

B12B If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:

(a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and

(b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:

(i) intellectual property that could be used to develop a good or service;

(ii) other economic resources that could be developed to create outputs; or

(iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(i)–(iii) include technology, in-process research and development projects, real estate and mineral interests.

B12C If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:

(a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process (or group of processes); or

(b) significantly contributes to the ability to continue producing outputs and:

(i) is considered unique or scarce; or

(ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

B12D The following additional discussion supports both paragraphs B12B and B12C:

(a) an acquired contract is an input and not a substantive process. Nevertheless, an acquired contract, for example, a contract for outsourced property management or outsourced asset management, may give access to an organised workforce. An entity shall assess whether an organised workforce accessed through such a contract performs a substantive process that the entity controls, and thus has acquired. Factors to be considered in making that assessment include the duration of the contract and its renewal terms.

(b) difficulties in replacing an acquired organised workforce may indicate that the acquired organised workforce performs a process that is critical to the ability to create outputs.

(c) a process (or group of processes) is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs.

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Financial Reporting Standards Council

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

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

Contents

FRSC PREFACE TO *DEFINITION OF MATERIAL* (AMENDMENTS TO PAS 1 AND PAS 8)

1. The Financial Reporting Standards Council (FRSC) has approved on November 14, 2018 the adoption of amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*, issued by the International Accounting Standards Board (IASB) in October 2018 as amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material.*

2. The amendments refine the definition of material in PAS 1 and align the definitions used across PFRS Standards and other pronouncements. The amended definition of material states:

   Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

3. An entity shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

* * * * * * *

FRSC Members

Josephine Adrienne A. Abarca, Chairman

June Cheryl A. Cabal-Revilla	**Ester F. Ledesma**
Antonieta F. Ibe	**Michael D. Roxas**
Leonardo D. Cuaresma, Jr.	**Lyn I. Javier**
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DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8)

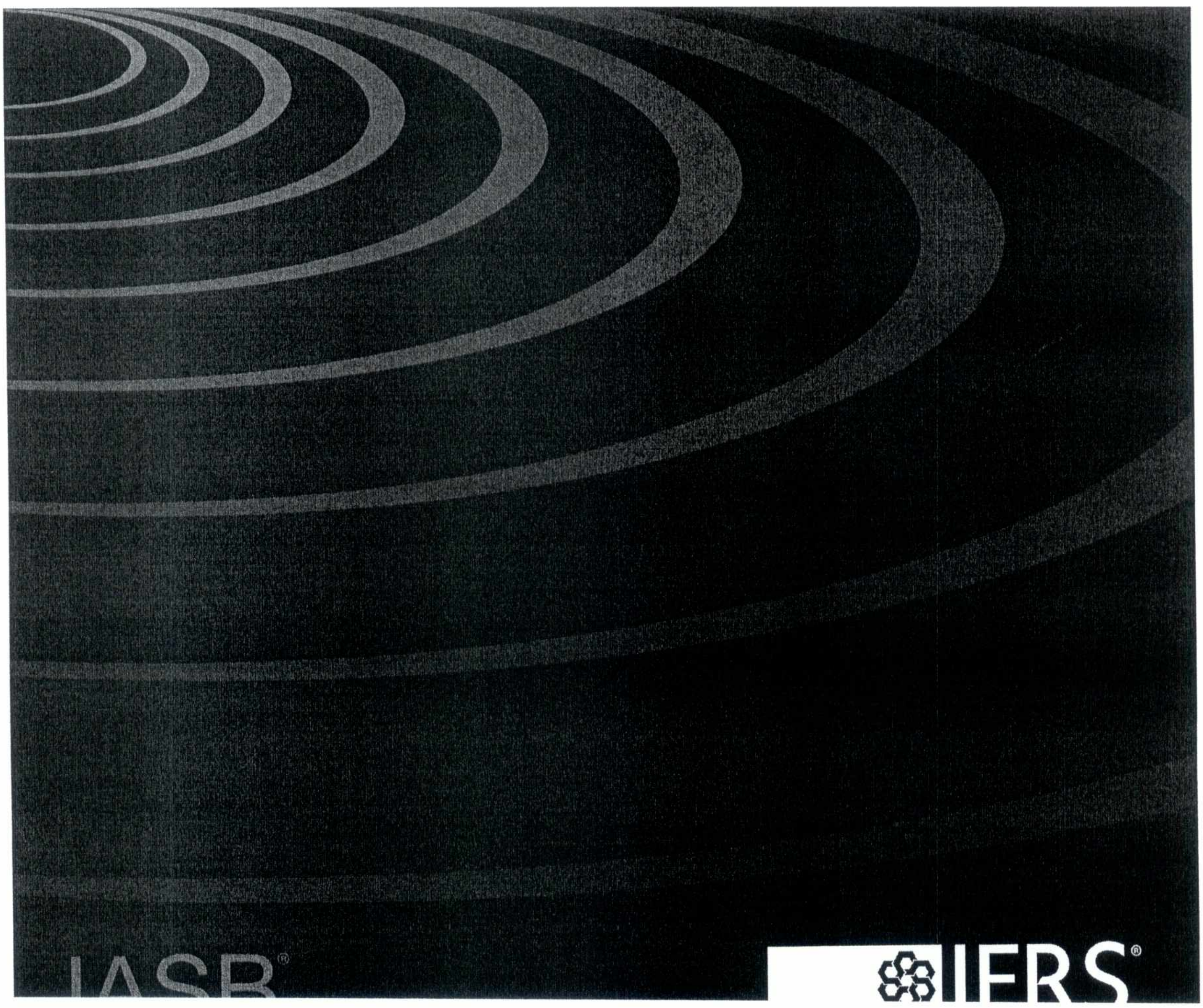
CONTENTS

October 2018

IFRS® Standards

Definition of Material

Amendments to IAS 1 and IAS 8



Definition of Material

Amendments to IAS 1 and IAS 8

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Amendments to IAS 1 *Presentation of Financial Statements*

The Board is issuing two versions of its amendments to the definition of material in IAS 1 to allow early adoption of this amendment independent of the adoption of the Amendments to References to the Conceptual Framework in IFRS Standards. *References to the* Conceptual Framework for Financial Reporting (Conceptual Framework) *in the Basis for Conclusions are to the version of the* Conceptual Framework *issued in 2018 unless stated otherwise. However, the conclusions reached would be the same if the 2010 version of the* Conceptual Framework *were applied.*

Paragraph 7 is amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards*, and paragraph 139T is added. New text is underlined and deleted text is struck through.

Definitions

7 ...

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.~~

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

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.

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 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.

~~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*.~~

...

Effective date

...

139T *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 7 of IAS 1 and paragraph 5 of IAS 8, and deleted paragraph 6 of IAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Paragraph 7 is amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards*, and paragraph 139T is added. New text is underlined and deleted text is struck through.

Definitions

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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.~~

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

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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. ~~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.~~

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 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.

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Effective date

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139T *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 7 of IAS 1 and paragraph 5 of IAS 8, and deleted paragraph 6 of IAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The Board is issuing two versions of its amendments to the definition of material in IAS 8 to allow early adoption of this amendment independent of the adoption of the Amendments to References to the Conceptual Framework in IFRS Standards. *References to the* Conceptual Framework for Financial Reporting (Conceptual Framework) *in the Basis for Conclusions are to the version of the* Conceptual Framework *issued in 2018 unless stated otherwise. However, the conclusions reached would be the same if the 2010 version of the* Conceptual Framework *were applied.*

Paragraph 5 is amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards.* Paragraph 6 is deleted and paragraph 54H is added. New text is underlined and deleted text is struck through.

Definitions

5 ...

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.~~is defined in paragraph 7 of IAS 1 and is used in this Standard with the same meaning.

...

6 ~~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[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.~~ [Deleted]

~~2 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*.~~

...

Effective date

...

54H *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 7 of IAS 1 and paragraph 5 of IAS 8, and deleted paragraph

6 of IAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Paragraph 5 is amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards*. Paragraph 6 is deleted and paragraph 54H is added. New text is underlined and deleted text is struck through.

Definitions

5 ...

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.**~~**is defined in paragraph 7 of IAS 1 and is used in this Standard with the same meaning.**

...

6 ~~Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those 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.~~ [Deleted]

...

Effective date

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54H *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 7 of IAS 1 and paragraph 5 of IAS 8, and deleted paragraph 6 of IAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to other IFRS Standards and publications

Amendments to the 2010 *Conceptual Framework for Financial Reporting*

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.

Paragraph QC11 is amended. New text is underlined and deleted text is struck through.

Materiality

QC11 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 (see paragraph OB5) 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.

Amendments to the 2018 *Conceptual Framework for Financial Reporting*

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.

Paragraph 2.11 is amended. New text is underlined and deleted text is struck through.

Materiality

2.11 Information is material if omitting<u>,</u> ~~it or~~ misstating <u>or obscuring</u> it could <u>reasonably be expected to</u> influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) 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.

Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

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 5, 41 and 60 are amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in IFRS Standards*. Paragraph 7 of IAS 1 and paragraph 5 of IAS 8 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 IAS 1 *Presentation of Financial Statements* ~~and IAS 8 *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 IAS 1 *Presentation of Financial Statements* ~~and paragraph 5 of IAS 8 *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 and IAS 8.~~

...

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 IAS 1 ~~and paragraph 5 of IAS 8~~.

...

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 IAS 1 ~~and paragraph 5 of IAS 8~~.

...

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS 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.

...

Extracts from IAS 1 *Presentation of Financial Statements*

Paragraph 7 ~~(and paragraph 5 of IAS 8)~~

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 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

~~**Paragraph 5 (and paragraph 7 of IAS 1)**~~

~~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 IFRS Standards*. New text is underlined, and deleted text is struck through. Paragraph 7 of IAS 1 and paragraph 5 of IAS 8 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 IAS 1 *Presentation of Financial Statements* ~~and IAS 8 *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 IAS 1 *Presentation of Financial Statements* ~~and paragraph 5 of IAS 8 *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 identified consequential amendments to other IFRS Standards, including amendments to the definitions of material in the *Conceptual Framework*, IAS 1 and IAS 8.~~

...

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 IAS 1~~ and paragraph 5 of IAS 8~~.

...

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 IAS 1~~ and paragraph 5 of IAS 8~~.

...

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS 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.

...

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

...

Extracts from IAS 1 *Presentation of Financial Statements*

Paragraph 7 ~~(and paragraph 5 of IAS 8)~~

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 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

~~Paragraph 5 (and paragraph 7 of IAS 1)~~

~~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.~~**

...

Amendments to IAS 10 *Events after the Reporting Period*

Paragraph 21 is amended and paragraph 23C is added. New text is underlined and deleted text is struck through.

Non-adjusting events after the reporting period

21 **If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence ~~the economic~~ decisions that the primary users of general purpose financial statements make on the basis of ~~the~~those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:**

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

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Effective date

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23C *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 21. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of IAS 1 and paragraphs 5 and 6 of IAS 8.

Amendments to IAS 34 *Interim Financial Reporting*

Paragraph 24 is amended and paragraph 58 is added. New text is underlined and deleted text is struck through.

Materiality

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24 IAS 1 ~~and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define~~ <u>defines</u> ~~an item as~~ material ~~if its omission or misstatement could influence the economic decisions of users of the financial statements. IAS 1~~ <u>information and</u> requires separate disclosure of material items, including (for example) discontinued operations, and IAS 8 <u>*Accounting Policies, Changes in Accounting Estimates and Errors*</u> requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

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Effective date

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<u>58</u> <u>*Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 24. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of IAS 1 and paragraphs 5 and 6 of IAS 8.</u>

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 75 is amended and paragraph 104 is added. New text is underlined and deleted text is struck through.

Restructuring

...

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under IAS 10 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could <u>reasonably be expected to </u>influence ~~the economic~~ decisions that <u>the primary </u>users <u>of general purpose financial statements </u>make on the basis of ~~the~~ <u>those</u> financial statements<u>, which provide financial information about a specific reporting entity</u>.

...

Effective date

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<u>104</u> <u>*Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 75. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of IAS 1 and paragraphs 5 and 6 of IAS 8.</u>

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