

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)



NZ ACCOUNTING  
STANDARDS  
BOARD

## **Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8)**

**Issued December 2018**

This Standard was issued on 20 December 2018 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 January 2019.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part F.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on amendments issued by the International Accounting Standards Board to clarify the definition of material in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

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(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

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The following is available within New Zealand on the XRB website as additional material

**APPROVAL BY THE IASB OF *DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8)* ISSUED IN OCTOBER 2018**

**AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IAS 1 *PRESENTATION OF FINANCIAL STATEMENTS***

**AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IAS 8 *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS***

**AMENDMENTS TO OTHER IFRS STANDARDS AND PUBLICATIONS**

**AMENDMENTS TO IFRS PRACTICE STATEMENT 2 *MAKING MATERIALITY JUDGEMENTS***

**AMENDMENTS TO IFRS 2 *SHARE-BASED PAYMENT IMPLEMENTATION GUIDANCE***

**AMENDMENTS TO IFRS 4 *INSURANCE CONTRACTS IMPLEMENTATION GUIDANCE***

**AMENDMENTS TO THE BASES FOR CONCLUSIONS ON OTHER IFRS STANDARDS AND PUBLICATIONS**

**IFRS 17 *INSURANCE***

**2018 *CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING***

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

## Part A – Introduction

This Standard sets out amendments to clarify the requirements for the definition of material in NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Tier 2 entities are required to comply with all the requirements in this Standard.

## Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

## Part C – Amendments to NZ IAS 1 *Presentation of Financial Statements*

The NZASB is issuing two versions of its amendments to the definition of material in NZ IAS 1 to allow early adoption of the amended definition independent of the adoption of the Amendments to References to the Conceptual Framework in NZ IFRS.

Paragraph 7 is amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in NZ IFRS*, 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;
- (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.

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

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 New Zealand Equivalent to the International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements (NZ Framework)* states in paragraph 25<sup>2</sup> 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.~~

<sup>2</sup> ~~In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *NZ Framework*.~~

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## Transition and effective date

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139T *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 2018, amended paragraph 7 of NZ IAS 1 and paragraph 5 of NZ IAS 8, and deleted paragraph 6 of NZ 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.

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

Paragraph 7 is amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in NZ IFRS*, 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;
- (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. 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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DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

## Transition and effective date

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139T Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 2018, amended paragraph 7 of NZ IAS 1 and paragraph 5 of NZ IAS 8, and deleted paragraph 6 of NZ 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.

## Part D – Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors of Financial Statements*

The NZASB is issuing two versions of its amendments to the definition of material in NZ IAS 8 to allow early adoption of this amendment independent of the adoption of the Amendments to References to the Conceptual Framework in NZ IFRS.

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

### Definitions

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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 NZ IAS 1 and is used in this Standard with the same meaning.

6 ~~[Deleted by IASB]~~ ~~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 *NZ Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25<sup>2</sup> 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.~~

<sup>2</sup> IASB’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 *NZ Framework*.

### Effective date

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54H *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 2018, amended paragraph 7 of NZ IAS 1 and paragraph 5 of NZ IAS 8, and deleted paragraph 6 of NZ 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.

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

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

## Definitions

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- 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 NZ IAS 1 and is used in this Standard with the same meaning.
- 6        ~~[Deleted by IASB]~~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.
- ...

## Effective date and transition

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- 54H     *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 2018, amended paragraph 7 of NZ IAS 1 and paragraph 5 of NZ IAS 8, and deleted paragraph 6 of NZ 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.

## Part E – Amendments to Other NZ IFRS

### Amendments to NZ 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 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 NZ IAS 1 and NZ IAS 8), issued in December 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 NZ IAS 1 and paragraphs 5 and 6 of NZ IAS 8.

## Amendments to NZ IAS 34 *Interim Financial Reporting*

Paragraph 24 is amended and paragraph 59 is added. New text is underlined and deleted text is struck through.

### Materiality

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- 24 ~~NZ IAS 1 and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define~~ defines an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. ~~IAS 1 information and~~ requires separate disclosure of material items, including (for example) discontinued operations, and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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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- ...
- 59 *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 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 NZ IAS 1 and paragraphs 5 and 6 of NZ IAS 8.

## Amendments to NZ 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

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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 NZ IAS 10 *Events after the Reporting Period*, if the restructuring is material and 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.

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### Effective date

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104 Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 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 NZ IAS 1 and paragraphs 5 and 6 of NZ IAS 8.

DEFINITION OF MATERIAL  
(AMENDMENTS TO NZ IAS 1 AND NZ IAS 8)

**Part F – Effective Date**

This Standard shall be applied prospectively for financial statements covering annual periods beginning on or after 1 January 2020. Earlier application is permitted.