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## IASB<sup>®</sup> meeting

Date	<b>November 2024</b>
Project	<b>Management Commentary</b>
Topic	<b>Targeted refinements—Material information</b>
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## Purpose

1. This paper discusses targeted refinements to the definition of 'material' proposed in the Exposure Draft *Management Commentary* (Exposure Draft) and asks the International Accounting Standards Board (IASB) to make decisions.
2. This paper does not consider the use of the term 'investors and creditors' in the proposed definition and whether that term should be replaced with the term 'primary users of general purpose financial reports'. The staff plan to ask the IASB to consider this topic at a future meeting in discussing whether the terminology in the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement) should be aligned with the terminology in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

## Structure of the paper

3. The paper is structured as follows:
  - (a) background (paragraphs 4–16);
  - (b) staff analysis (paragraphs 17–27);

- (c) staff recommendation and question for the IASB (paragraphs 28–30); and
- (d) Appendix A—Alignment of descriptions of materiality in IFRS literature.

## Background

### *The proposed definition in the Exposure Draft*

4. Paragraph 3.2 of the Exposure Draft proposed that information required to meet the objective of management commentary should be provided if it is material, which was defined as follows:

In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of the management commentary and of the related financial statements.

5. The IASB derived the proposed definition of ‘material’ from the definition of ‘material information’ in the context of general purpose financial reports in the *Conceptual Framework* and the definition of ‘material’ in the context of the financial statements in IAS 1 *Presentation of Financial Statements*:

<b>Definitions of ‘material’ and ‘material information’</b>	
<b>The <i>Conceptual Framework</i></b>	<b>IAS 1</b>
Information is material if omitting, 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.	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.

6. The definition in IAS 1 is accompanied by the following description:

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.

*The basis on which decisions are made*

7. In developing the proposed definition of ‘material’ in the context of management commentary, the IASB considered whether to refer to the decisions made by investors and creditors on the basis of management commentary only, or on the basis of management commentary and the related financial statements. Agenda Paper 15B [\*Sweep issues—Definition of material information\*](#) for the February 2021 IASB meeting discussed the advantages and disadvantages of these two options. The IASB decided to refer to the decisions investors and creditors make on the basis of management commentary and the related financial statements. Paragraph BC106 of the Basis for Conclusions on the Exposure Draft explained that:
- (a) referring only to management commentary could imply that investors and creditors can make appropriate decisions on the basis of the management commentary alone, without also reading the financial statements. Making decisions on the basis of management commentary alone would not be appropriate because management commentary is designed to complement financial statements.
  - (b) management commentary and financial statements contribute to the same objective (the objective of general purpose financial reporting set out in the *Conceptual Framework*) and provide information to support the same assessments (assessments of an entity’s prospects for future cash flows and of management’s stewardship of the entity’s resources). These assessments would be based on both management commentary and the related financial statements.

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*Information about a specific reporting entity*

8. Agenda Paper 15B for the February 2021 IASB meeting also argued that it was unnecessary to include in the proposed definition the words ‘which provide information about a specific reporting entity’. The paper observed that those words in the *Conceptual Framework* help explain how materiality relates to the qualitative characteristic of relevance. However, the paper suggested that there is no need to explain that relationship in the Practice Statement. It argued that although it is important that management commentary provides entity-specific information, this message would be communicated by the disclosure objectives, other requirements and supporting guidance in the Practice Statement. The IASB agreed with this approach.

*Defined term*

9. The Exposure Draft proposed a definition of the term ‘material’ which is consistent with the defined term in IAS 1, rather than ‘material information’, which is the defined term in the *Conceptual Framework*.

*Feedback on the proposals*

10. The Exposure Draft did not include a separate question on the proposed definition of ‘material’ in the context of management commentary. However, the question on the proposed objective of management commentary included a reference to the proposed requirement in paragraph 3.2 of the Exposure Draft that information required to meet the objective of management commentary should be provided if it is material.
11. As discussed in Agenda Paper 15C [Feedback summary—Objective of management commentary](#) for the March 2022 IASB meeting, most of the respondents commenting on the proposed objective of management commentary supported that objective. As discussed in Agenda Paper 15C [Feedback Summary—Making materiality judgements](#) for the April 2022 IASB meeting, some respondents commented on the proposal that the objective of management commentary, and hence the definition of ‘material’, should focus on the information needs of investors and creditors. Most of those

respondents agreed with the proposal, but some suggested that the objective should address the information needs of a broader range of stakeholders. There was little feedback on other aspects of the proposed definition of ‘material’.

### ***IFRS Accounting Standards***

12. The existing definition of ‘material’ in IAS 1 goes back to 2018, when the IASB amended IAS 1 to more closely align the definition of ‘material’ in the Standard with the definition of ‘material information’ in the *Conceptual Framework*.
13. In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* to replace IAS 1 for annual reporting periods beginning on or after 1 January 2027. The existing definition was carried forward from IAS 1 to IFRS 18 unchanged, except that the defined term was changed from ‘material’ to ‘material information’.

### ***IFRS Sustainability Disclosure Standards***

14. In June 2023, the International Sustainability Standards Board (ISSB) issued the inaugural IFRS Sustainability Disclosure Standards. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as ‘sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects’). IFRS S1 defines ‘material information’ as follows:

In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

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15. Paragraph BC68 of the Basis for Conclusions on IFRS S1 explains that the ISSB based its definition on the definitions of ‘material information’ and ‘material’ in the *Conceptual Framework* and IAS 1, respectively. It further explains:

All the definitions highlight that materiality judgements are made in relation to a specific reporting entity and focus on information that could reasonably be expected to influence decisions of users of general purpose financial reports. The definition in IFRS S1 is specific to sustainability-related financial disclosures and states that materiality judgements are made in the context of an entity’s sustainability-related financial disclosures. This approach is consistent with how the definitions of ‘material information’ in IAS 1 and in the IASB’s Exposure Draft *Management Commentary* are specific to financial statements and management commentary, respectively. The definition in IFRS S1 also acknowledges that users do not make their decisions on the basis of just one form of general purpose financial reports published by the entity. Using conceptually aligned definitions facilitates connectivity across an entity’s general purpose financial report prepared applying IFRS Standards.

16. Paragraph BC69 of the Basis for Conclusions on IFRS S1 also highlights the role of the context in which materiality judgements are made. It explains that materiality judgements will inevitably differ for different types of general purpose financial reports—specifically, for financial statements and sustainability-related financial disclosures—because those reports serve their specified objectives and provide different types of information about a reporting entity.

## Staff analysis

17. As noted in paragraph 11, there was broad support for the proposed objective of management commentary, including the focus on investor information needs. There was little feedback on the other aspects of the proposed definition of ‘material’ in the context of management commentary.
18. However, in the light of subsequent developments, the staff think that the IASB should consider refining the proposed definition to align it more closely with the definitions in the *Conceptual Framework* and IFRS Standards in relation to:

- (a) the basis on which decisions are made;
- (b) information about a specific reporting entity; and
- (c) the defined term.

***The basis on which decisions are made***

19. In the Exposure Draft, the IASB proposed to refer to decisions made on the basis of the management commentary and the related financial statements because investors and creditors do not make decisions based on the management commentary alone. The ISSB adopted a similar approach in IFRS S1 by referring to decisions made on the basis of general purpose financial reports, which include financial statements and sustainability-related financial disclosures. Both definitions acknowledge that investment decisions are made on the basis of a package of information. The Basis for Conclusions on IFRS S1 explains role of the context of a particular general purpose financial report in identifying information that is material for that type of report.
20. In September 2024, the IASB tentatively decided to acknowledge the role of management commentary in complementing not only the related financial statements but also other information in general purpose financial reports. Agenda Paper 15B [\*Targeted refinements to proposals in Chapters 1–3 of the Exposure Draft\*](#) for the September 2024 IASB meeting suggested that such an approach supports a comprehensive and connected package of information for primary users.
21. Including a reference to general purpose financial reports in the definition in the Practice Statement—as illustrated below in mark-up relative to the proposed definition—would further align that definition with the definition in IFRS S1:

In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of general purpose financial reports, which include the management commentary and ~~of~~ the related financial statements.

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22. Since both these definitions are derivatives from the definition in the *Conceptual Framework* adapted in the context of a general purpose financial report other than financial statements, the staff think it is desirable for these definitions to be further aligned.
23. The staff think that such a refinement would emphasise shared conceptual foundations between IASB and ISSB requirements. Also, as noted in the Basis for Conclusions in IFRS S1, using conceptually aligned definitions would facilitate connections across an entity's general purpose financial reports prepared applying IFRS Standards.
24. From the practical standpoint, the staff do not think that such a refinement would affect materiality judgments made in the context of management commentary. An entity assesses whether information is material to a particular report by considering the specific objective of that report and the applicable reporting requirements.

#### ***Information about a specific reporting entity***

25. The definitions in the *Conceptual Framework*, IAS 1 and IFRS 18 all refer to 'information about a specific reporting entity'. As explained in paragraph 8, the IASB considered it unnecessary to include this wording in the proposed definition in the Exposure Draft. However, following the issuance of IFRS S1, the proposed definition, if confirmed, would be the only definition of material information in IFRS literature that does not refer to 'information about a specific reporting entity'. While the IASB's rationale in developing the Exposure Draft remains valid and such a reference is not strictly necessary, including that reference in the definition in the Practice Statement would support alignment across IFRS literature. Such an alignment would be in keeping with the [IFRS Foundation Constitution](#) that requires the IASB and ISSB to avoid inconsistencies in their respective requirements.<sup>1</sup>

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<sup>1</sup> See paragraph 37(i) and paragraph 58(i) of the [IFRS Foundation's Constitution](#).



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**Defined term**

26. The defined term in the *Conceptual Framework*, IFRS 18 and IFRS S1 is ‘material information’ rather than ‘material’ as was proposed in the Exposure Draft.
27. In addition to improving consistency with the *Conceptual Framework* and IFRS Standards, refining the defined term in the Practice Statement to be ‘material information’ would reinforce the principle articulated in paragraph BC78 of the Basis for Conclusions on the Exposure Draft that materiality is an attribute of information rather than of matters.

**Staff recommendation and question for the IASB**

28. The staff recommend aligning the definition of ‘material’ proposed in the Exposure Draft more closely with the definitions in the *Conceptual Framework* and IFRS Standards by:
  - (a) referring to decisions made on the basis of the entity’s general purpose financial reports, which include the management commentary and the related financial statements;
  - (b) including the observation that those reports provide information about a specific reporting entity; and
  - (c) replacing the defined term ‘material’ with the term ‘material information’.
29. The text below shows a mark-up of the definition proposed in the Exposure Draft to reflect the staff recommendations in paragraph 28.

Material information:

In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of general purpose financial reports, which include the management commentary and ~~of~~ the related financial statements and which provide information about a specific reporting entity.

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30. Appendix A illustrates the resulting alignment between the definitions in the *Conceptual Framework*, IFRS Standards and the Practice Statement.

#### Question for the IASB

Do you agree with the staff recommendation to align the definition of 'material' proposed in the Exposure Draft more closely with the definitions in the *Conceptual Framework* and IFRS Standards by:

- (a) referring to decisions made on the basis of the entity's general purpose financial reports, which include the management commentary and the related financial statements;
- (b) including the observation that those reports provide information about a specific reporting entity; and
- (c) replacing the defined term 'material' with the term 'material information'?

## Appendix A—Alignment of descriptions of materiality in IFRS literature

<i>Conceptual Framework for financial reporting</i>	<i>IAS 1 Presentation of Financial Statements / IFRS 18 Presentation and Disclosure in Financial Statements</i>	<i>IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information</i>	Staff recommendation for refinements to the proposal in the Exposure Draft in mark-up
<p>Information is material if omitting, 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.</p>	<p>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.</p> <p>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.</p>	<p>In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.</p>	<p>In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of general purpose financial reports, which include the management commentary and of the related financial statements and which provide information about a specific reporting entity.</p>