AASB Exposure Draft

ED 285
April 2018

Accounting Policy Changes

Proposed amendments to AASB 108

Comments to the AASB by 27 June 2018

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 27 June 2018. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 27 July 2018.

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRSs) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

    (a) not-for-profit entities; and

    (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

March 2018

IFRS® Standards
Exposure Draft ED/2018/1

Accounting Policy Changes

Proposed amendments to IAS 8

Comments to be received by 27 July 2018

IASB®

Accounting Policy Changes

(Proposed amendments to IAS 8)

Comments to be received by 27 July 2018

Exposure Draft ED/2018/1 *Accounting Policy Changes* (Proposed amendments to IAS 8) is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 27 July 2018 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment' page at: http://go.ifrs.org/open-for-comment.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board expects these amendments to facilitate the application of particular voluntary changes in accounting policy, improving the overall quality of financial reporting.

Background

Applying IAS 8, an entity changes an accounting policy only if the change is required by an IFRS Standard or results in improving the usefulness of information provided to users of its financial statements. A common reason why an entity voluntarily changes an accounting policy is to reflect explanatory material included in agenda decisions published by the IFRS Interpretations Committee (agenda decisions). The objective of including explanatory material in agenda decisions is to facilitate greater consistency in the application of IFRS Standards. An agenda decision is non-authoritative and, therefore, any resulting change is not required by IFRS Standards.

Applying a voluntary change in accounting policy that results from an agenda decision can be challenging in some situations. This is because IAS 8 requires an entity to apply a voluntary change in accounting policy retrospectively as if it had always applied the new policy, except to the extent it is impracticable to do so.

To facilitate voluntary changes in accounting policy that result from an agenda decision, the Board proposes amending IAS 8 to lower the impracticability threshold for retrospective application of such changes. The proposed threshold would include consideration of the expected benefits to users of financial statements of applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.

Invitation to comment

The Board invites comments on Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8), particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1
The Board proposes to amend IAS 8 to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. Do you agree with the proposed amendments? Why or why not? If not, is there any particular aspect of the proposed amendments you do or do not agree with? Please also explain any alternatives you would propose, and why.

Question 2
The Board decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee. Paragraphs BC18–BC22 of the Basis for Conclusions on the proposed amendments set out the Board's considerations in this respect. Do you think the explanation provided in paragraphs BC18–BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not? If not, what do you propose, and why? Would you propose either of the alternatives considered by the Board as outlined in paragraph BC20? Why or why not?

Deadline

All comments must be received on or before 27 July 2018.

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How to comment

We would prefer to receive your comments electronically; however, comments can be submitted using any of the following methods:

Electronically	Visit the 'Open for comment' page at: http://go.ifrs.org/open-for-comment
By email	Email comments can be sent to: commentletters@ifrs.org
By post	IFRS Foundation 30 Cannon Street London EC4M 6XH United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

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

Paragraphs 5, 23, 24, 25, 26, 27, 28, 29 and 47 are amended and paragraphs 25A, 25B, 27A and 54G are added. The heading above paragraph 54 is amended. New text is underlined and deleted text is struck through. Paragraphs 19 and 22 have not been amended but are included for ease of reference.

Appendix A and paragraphs A1 and A6–A10 have been added. These paragraphs have not been underlined for ease of readability. Paragraphs 50–53 are deleted. The requirements in paragraphs 50–53 are not deleted but have been moved, without amendment, to paragraphs A2–A5.

Definitions

...

5 **...**

An *agenda decision* is a decision published by the IFRS Interpretations Committee explaining its rationale for not adding a particular matter to its standard-setting agenda.

An agenda decision may result in a voluntary change in accounting policy, a change in accounting estimate or the correction of a prior period error. An entity shall apply the requirements of this Standard to determine the nature of, and the required accounting for, any change that results from an agenda decision.

...

Accounting policies

...

Applying changes in accounting policies

19 **Subject to paragraph 23:**

(a) an entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and

(b) when an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

...

Retrospective application

22 **Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the**

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earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

23 **When retrospective application is required by paragraph 19(a) or (b), an entity shall apply a change in accounting policy ~~shall be applied~~ retrospectively except:**

(a) to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change; or

(b) if the change in accounting policy results from an agenda decision, to the extent that the cost to the entity of determining either the period-specific effects or the cumulative effect of the change exceeds the expected benefits to users. Paragraphs A6–A10 provide guidance on assessing the expected benefits and cost.

24 **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall:**

(a) apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period~~,~~; and

(b) ~~shall~~ make a corresponding adjustment to the opening balance of each affected component of equity for that period.

25 **When it is impracticable to determine ~~the cumulative effect~~, at the beginning of the current period, the cumulative effect of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

25A **Applying paragraph 23(b), the cost to the entity of determining the period-specific effects on comparative information for one or more prior periods presented might be determined to exceed the expected benefits to users of applying the change retrospectively. In this situation, the entity shall:**

(a) apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which the expected benefits to users of applying the change retrospectively exceed the cost to the entity of determining the effects of the change; and

(b) make a corresponding adjustment to the opening balance of each affected component of equity for that period.

25B **Applying paragraph 23(b), the cost to the entity of determining, at the beginning of the current period, the cumulative effect of applying a new accounting policy to all prior periods might be determined to exceed the**

expected benefits to users of applying the change retrospectively. In this situation, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date for which the expected benefits to users of applying the change prospectively exceed the cost to the entity of determining the effects of the change.

26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable or, when paragraph 23(b) applies, as far back as the expected benefits to users of retrospective application exceed the cost to the entity of determining the effects of the change. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. Similarly, when paragraph 23(b) applies, the expected benefits to users of retrospective application to a prior period exceed the cost to the entity of determining the cumulative effect of the change only if those benefits exceed the cost of determining the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an IFRS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable or, when paragraph 23(b) applies, as far back as the expected benefits to users exceed the cost to the entity of making those adjustments.

27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs ~~50–53~~ A2–A5 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

27A When applying paragraph 25B, an entity disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before the earliest date for which the expected benefits to users of applying the change prospectively exceed the cost to the entity of determining the effects of the change. Changing an accounting policy is permitted even if the expected benefits to users do not exceed the cost to the entity of determining the effect of applying the policy prospectively for any prior period.

Disclosure

28 When an entity changes an accounting policy upon initial application of an IFRS ~~has an effect on the current period or any prior period, would~~

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~~have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an,~~ the entity shall disclose:

...

29 **When ~~a voluntary change in~~ an entity changes an accounting policy voluntarily ~~has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an~~, the entity shall disclose:**

- **(a) the nature of the change in accounting policy;**
- **(b) the reasons why applying the new accounting policy provides reliable and more relevant information;**
- **(c) for the current period and each prior period presented, to the extent practicable or, if paragraph 23(b) applies, to the extent the expected benefits to users exceed the cost to the entity, the amount of the adjustment:**
  - **(i) for each financial statement line item affected; and**
  - **(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;**
- **(d) the amount of the adjustment relating to periods before those presented, to the extent practicable or, if paragraph 23(b) applies, to the extent the expected benefits to users exceed the cost to the entity; and**
- **(e) if retrospective application is impracticable or, if paragraph 23(b) applies, to the extent the cost to the entity exceeds the expected benefits to users for a particular prior period, or for periods before those presented, the circumstances that led to ~~the existence of that condition~~ either the impracticability or the cost to the entity exceeding the expected benefits to users, and a description of how and from when the change in accounting policy has been applied.**

...

Errors

...

Limitations on retrospective restatement

...

47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative

restatement of assets, liabilities and equity arising before that date. Paragraphs ~~50–53~~ A2–A5 provide guidance on when it is impracticable to correct an error for one or more prior periods.

...

~~Impracticability in respect of retrospective application and retrospective restatement~~[1]

50 [Deleted] ~~In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51–53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.~~

51 [Deleted] ~~It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.~~

52 [Deleted] ~~Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that~~

~~(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and~~

~~(b) would have been available when the financial statements for that prior period were authorised for issue~~

~~from other information. For some types of estimates (eg a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.~~

53 [Deleted] ~~Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or~~

1 Paragraphs 50–53 are deleted. The requirements in paragraphs 50–53 are not deleted but have been moved, without amendment, to paragraphs A2–A5.

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~~estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.~~

Transition and ~~Effective~~ effective date

...

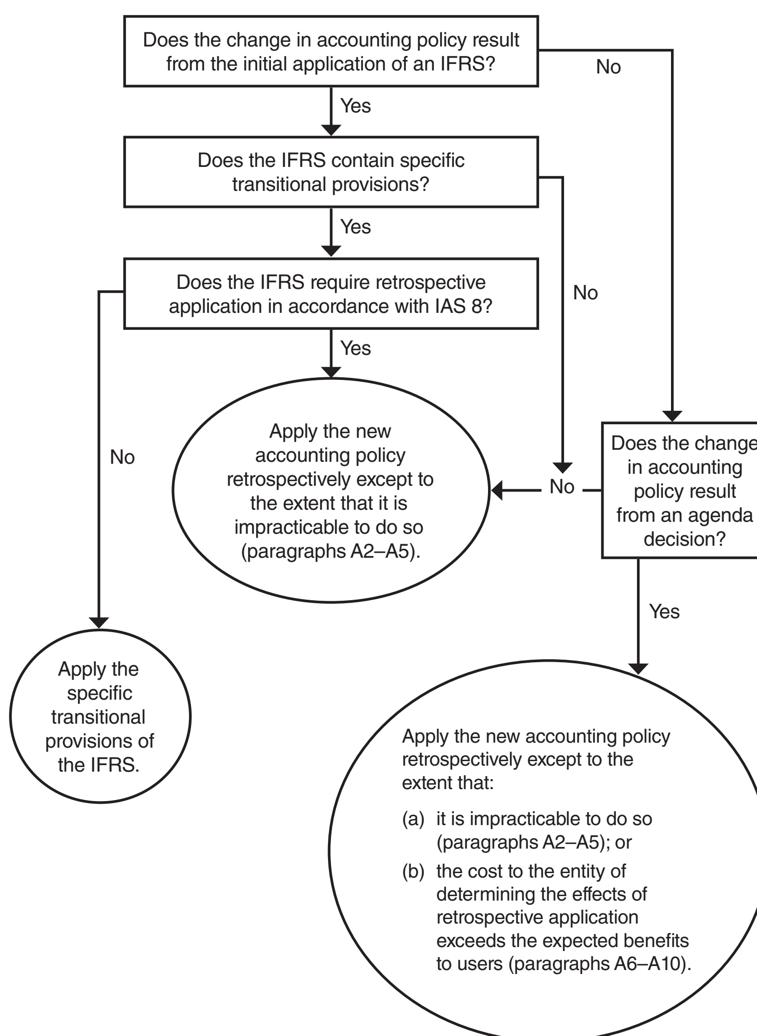
54G *[Draft] Accounting Policy Changes* (Amendments to IAS 8) issued in [date] amended paragraphs 5, 23, 24, 25, 26, 27, 28, 29 and 47; added paragraphs 25A, 25B, 27A and 54G; added Appendix A and paragraphs A1–A10 and deleted paragraphs 50–53. An entity shall apply the amendments to changes in accounting policy on or after [date to be decided after exposure].

Appendix A
Application guidance

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Applying changes in accounting policy (paragraphs 14–27A)

A1 The following flow chart may assist an entity in applying a change in accounting policy:



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Impracticability in respect of retrospective application and retrospective restatement[2]

A2 In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs A3–A5, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

A3 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

A4 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

(b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (eg a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

A5 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits,* it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior

2 Paragraphs 50–53 are deleted. The requirements in paragraphs 50–53 are not deleted but have been moved, without amendment, to paragraphs A2–A5.

period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Expected benefits and cost of retrospectively applying a voluntary change in accounting policy that results from an agenda decision

A6 For a voluntary change in accounting policy that results from an agenda decision, an entity applies the new accounting policy to comparative information from the earliest date practicable, or, when paragraph 23(b) applies, from the earliest date for which the expected benefits to users exceed the cost to the entity of determining the effects of the change.

A7 An entity applies judgement when assessing whether the expected benefits to users exceed the cost to the entity of determining the effects of the change. An entity makes this assessment by considering all relevant facts and circumstances (see paragraphs A8–A10).

Expected benefits to users

A8 Assessing the expected benefits to users is an entity-specific consideration. When assessing the expected benefits to users of its financial statements, an entity considers how the absence of information that would be provided by applying a new accounting policy retrospectively could affect the decisions users make on the basis of the entity's financial statements. Examples of factors to consider include, but are not limited to:

(a) the nature of the change—the more significant the effect of the change in accounting policy because of its nature, the greater the likelihood that a user's decision-making could be affected by an entity not applying the change retrospectively. For example:

(i) users are likely to benefit more from retrospective application of a new accounting policy that would result in the initial recognition or derecognition of an asset or liability. Users are likely to benefit less from retrospective application of a new accounting policy that would affect only one aspect of a particular cost-based measurement of an asset or liability.

(ii) users are likely to benefit more from retrospective application of a new accounting policy that affects transactions reported in the financial statements over several periods.

(b) the magnitude of the change—the more significant the effect of the change in accounting policy relative to an entity's financial position, financial performance or reporting of cash flows, the greater the likelihood that a user's decision-making could be affected by the entity not applying the change retrospectively. For example, users are likely to benefit more from retrospective application of a new accounting policy that would result in a large increase in an entity's liabilities than from one that would result only in a small increase in the entity's liabilities.

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(c) the pervasiveness of the change across the financial statements—the more pervasive the effect of the change in accounting policy across an entity's financial statements, the greater the likelihood that a user's decision-making could be affected by an entity not applying the change retrospectively. For example, users are likely to benefit more from retrospective application of a new accounting policy that would result in consolidating a subsidiary the entity had not previously consolidated because this could affect the statements of financial position, profit or loss and other comprehensive income, and cash flows. Users are likely to benefit less from the retrospective application of a new accounting policy that affects only amounts reported within different components of equity.

(d) the effect of the change on trend information—the more significant the effect of the change in accounting policy on information used for trend analysis, the greater the likelihood that a user's decision-making could be affected by an entity not applying the change retrospectively. For example, users are likely to benefit more from the retrospective application of a new accounting policy that affects frequent or recurring transactions that are similar in nature. Users are likely to benefit less from the retrospective application of a new accounting policy that affects only transactions or events that happen infrequently or ad hoc.

(e) the extent of departure from retrospective application—the greater an entity's departure from retrospective application, the greater the likelihood that a user's decision-making could be affected by an entity not applying the change in accounting policy retrospectively. For example, users are likely to benefit less from an entity applying a new accounting policy prospectively (as described in paragraph 25B) than they would from the entity applying the new policy retrospectively by adjusting opening retained earnings of the current period but without restating comparative information for one or more prior periods presented (as described in paragraph 25A).

Cost to the entity of determining the effects of retrospective application

A9 When assessing the cost to the entity of determining the effects of retrospective application, an entity considers the additional cost it would reasonably expect to incur and the additional effort it would reasonably expect to make to determine the period-specific effects or the cumulative effect of the change. Additional cost is any cost an entity reasonably expects to incur to obtain the information necessary to determine the period-specific effects or the cumulative effect of the change over and above the cost already incurred. Similarly, additional effort is any effort an entity reasonably expects to make to obtain the information necessary to determine the period-specific effects or the cumulative effect of the change over and above the effort already made.

A10 In making this assessment, an entity considers, among other things:

(a) whether the information necessary to apply the new accounting policy retrospectively and/or restate prior period information is reasonably available without undue cost and effort. If an entity already has or could obtain or develop without significant additional cost and effort information necessary to apply the new accounting policy retrospectively, the expected benefits to users of retrospective application are likely to exceed the cost to the entity of determining the effects of the change.

(b) the extent of the departure from retrospective application. The greater the extent of an entity's departure from retrospective application, the greater the extent of the analysis an entity must undertake to assess whether the cost to the entity of determining the effects of retrospective application exceed the expected benefits to users of applying the change retrospectively.

For example, an entity initially assesses whether the cost to the entity of determining the period-specific effects on comparative information for one or more prior periods presented exceeds the expected benefits to users of applying the change retrospectively. In situations in which the cost exceeds the expected benefits, the entity then assesses the cost and benefits of applying the new accounting policy retrospectively but without restating comparative information (as described in paragraph 25A). The point at which no further assessment is required is the point at which the entity concludes that the expected benefits to users exceed the cost to the entity.

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Approval by the Board of Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8) issued in March 2018

The Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8) was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

BC1 Applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity changes an accounting policy only if the change is required by an IFRS Standard or results in the financial statements providing more useful information. IAS 8 requires an entity to apply a voluntary change in accounting policy retrospectively (ie as if it had always applied the new accounting policy), except to the extent that it is impracticable to determine the effects of the change. IAS 8 sets a high threshold for impracticability—paragraph 5 states that 'applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'. Consequently, the requirements in IAS 8 could dissuade an entity from adopting an accounting policy that would improve the usefulness of information provided to users of its financial statements.

BC2 The IFRS Interpretations Committee (Committee) discusses application questions submitted by stakeholders to assess whether any change is needed to IFRS Standards. When the Committee concludes that the principles and requirements in the Standards provide an adequate basis for an entity to determine the appropriate accounting, the Committee publishes an agenda decision[3]. In these situations, the agenda decision often includes explanatory material outlining the Committee's view on how to apply the applicable principles and requirements. All agenda decisions are subject to due process, including exposure for comment. Explanatory material in an agenda decision does not change or add to the requirements in a Standard. Paragraph 5.22 of the IFRS Foundation's *Due Process Handbook* states that agenda decisions[4] 'do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive'. The Committee includes explanatory material in agenda decisions to facilitate greater consistency in the application of the Standards. Entities might therefore change, or be expected to change, an accounting policy to reflect that explanatory material. Because an agenda decision is non-authoritative, any change that results from an agenda decision is not a change that is required by IFRS Standards. Accordingly, unless it is the correction of an error, the entity accounts for that change as a voluntary change in accounting policy or a change in accounting estimate applying IAS 8 (see paragraphs BC15—BC17).

3 There may be other reasons why the Committee publishes an agenda decision, for example when the question submitted by a stakeholder does not have widespread effect.

4 Paragraph 5.22 of the *Due Process Handbook* uses the term 'rejection notice' to describe agenda decisions.

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BC3 Because an agenda decision is non-authoritative, neither the Board nor the Committee specifies transition requirements for a change in accounting policy that results from an agenda decision. This can be problematic in some situations because:

(a) the expected benefits to users of financial statements from applying a voluntary change in accounting policy retrospectively may not outweigh the cost to the entity of determining the effects of the change, even though the change might result in financial statements providing more useful information overall.

(b) explanatory material in an agenda decision might be viewed as being effective immediately upon publication, because the Committee often addresses the application of IFRS Standards that are already effective. However, entities may find it difficult to obtain the necessary information to determine the effects of retrospective application—particularly entities with interim or annual reporting dates close to the date of publication of an agenda decision.

BC4 The problems noted in paragraph BC3 might dissuade entities from making the related change in accounting policy, or from submitting questions to the Committee for consideration. In addition, the Committee might recommend undertaking standard-setting solely because of concerns about transition, rather than because of a need to change or add to the principles and requirements in IFRS Standards. Frequent changes to the Standards could be a burden to stakeholders and create unnecessary disruption.

The proposed threshold

BC5 The Board observed that one of the main causes of the problems identified in paragraph BC3 is that IAS 8 sets a high threshold—one of impracticability—for the use of anything other than retrospective application. However, when the Board or Committee develops new requirements, they consider transition and often provide entities with relief from some aspects of retrospective application—mainly for cost-benefit reasons. This same relief is not available to an entity that voluntarily changes an accounting policy. Accordingly, for a voluntary change in accounting policy that results from an agenda decision, the Board proposes lowering the impracticability threshold to one based on entity-specific cost-benefit considerations. In the Board's view, the proposed amendment could resolve some of the problems outlined in paragraph BC3, and make it easier for an entity to make voluntary changes in accounting policy that improve the usefulness of information provided to users of financial statements. The proposed amendment would also encourage greater consistency in the application of IFRS Standards in line with the Committee's objective in including explanatory material in agenda decisions.

Scope of the proposed threshold

BC6 The Board considered whether the proposed threshold should apply to all voluntary changes in accounting policy or only those that result from an agenda decision.

BC7 Some Board members suggested application of the proposed threshold to all voluntary changes in accounting policy. This is because, in their view:

(a) applying the threshold to all voluntary changes in accounting policy would make it easier for an entity to voluntarily apply any accounting policy that improves the usefulness of information provided to users of financial statements.

(b) narrowing the application of the proposed threshold only to voluntary changes in accounting policy that result from an agenda decision might:

(i) create what some would view as an arbitrary distinction between these voluntary changes and other voluntary changes in accounting policy. This is because such a distinction would make it easier for entities to apply voluntary changes in accounting policy that result from an agenda decision.

(ii) be viewed as giving authoritative status to an agenda decision.

BC8 Nonetheless, the Board proposes limiting the application of the proposed threshold to voluntary changes in accounting policy that result from an agenda decision because:

(a) the proposed threshold would apply to a smaller and known population of changes in accounting policy than if it were to apply to all voluntary changes. Applying the new threshold to a wider population might, for example, result in a loss of comparability between entities and a loss of information for users of financial statements if voluntary changes in accounting policy (other than those that result from an agenda decision) were to occur frequently.

(b) the distinction created between a voluntary change in accounting policy that results from an agenda decision and other voluntary changes would not be arbitrary given the process for developing and publishing agenda decisions[5].

(c) doing so would not change the non-authoritative status of agenda decisions; instead, it would simply identify agenda decisions as a source of voluntary changes in accounting policy.

Assessing benefits and cost

BC9 There are different ways the Board might have determined the proposed new threshold. In particular, the Board considered whether the new threshold should include consideration of only the cost to the entity of determining the effects of retrospective application or, instead, should also include consideration of the expected benefits to users of financial statements. Some Board members asked how practical it might be for entities to assess expected benefits from a user's perspective. These Board members also noted that when the Board or Committee provides relief from retrospective application of new requirements, it is the Board or Committee, not an entity itself, that assesses the expected benefits and cost.

5 The Committee first publishes a tentative agenda decision, which is open for comment for 60 days, before it considers comments and decides whether to finalise the agenda decision.

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BC10 The Board proposes including consideration of the expected benefits to users of financial statements as well as the cost to an entity for the following reasons:

(a) for almost all recent IFRS Standards or amendments for which the Board did or did not provide relief from retrospective application, its main consideration was the expected benefits to users of financial statements. Accordingly, the Board decided that considering the expected benefits to users should be part of the new threshold.

(b) requiring entities to assess the expected benefits and cost would not be entirely new. Other IFRS Standards already include requirements based on benefits and cost or other similar thresholds. For example, in applying the expected credit loss impairment model, IFRS 9 *Financial Instruments* requires an entity to consider all reasonable and supportable information that is available without undue cost or effort.

(c) considering a user's perspective when making decisions about financial reporting would not be new for entities. For example, an entity considers a user's perspective when assessing materiality.

(d) the assessment of the expected benefits to users of financial statements and cost to the entity would require judgement depending on the particular facts and circumstances. However, applying judgement is an essential part of a principle-based framework—it does not, in itself, lead to inconsistent application or inappropriate accounting.

BC11 Application of the proposed threshold could result in some voluntary changes that result from an agenda decision not being applied on a fully retrospective basis, resulting in some loss of information for users of financial statements. Accordingly, the Board decided that:

(a) an entity would depart from retrospective application only to the extent that the cost of determining the effects would exceed the expected benefits to users of financial statements. An entity would apply a framework similar to that in paragraphs 23–27 of IAS 8 (with respect to the impracticability threshold) when assessing the extent to which it can depart from retrospective application.

(b) it would be important to provide a framework to support entities in applying the judgement required to assess the expected benefits to users of financial statements and the cost to the entity. Accordingly, the Board developed application guidance on expected benefits and cost. The Board has also proposed including the requirements formerly contained in paragraphs 50–53 of IAS 8 on impracticability as application guidance, without changing those requirements. This is because the nature of those requirements is similar to the requirements proposed on expected benefits and cost.

BC12 The Board has used the term 'additional' to describe the cost and effort an entity considers when assessing the cost of determining the effects of retrospective application. This is because the Board concluded that an entity should not consider cost already incurred, and effort already made, in assessing the new threshold. The focus of the assessment is on the additional cost and effort that

an entity would expect to incur or make, which may differ from the total cost and effort required to obtain the information necessary to determine the effects of retrospective application.

Disclosure

BC13 Paragraph 29 of IAS 8 requires an entity to provide particular disclosures when it applies a voluntary change in accounting policy. The Board proposes to amend this paragraph to reflect the consequences of introducing the proposed threshold for a voluntary change in accounting policy that results from an agenda decision. The Board has also proposed editorial amendments to the introduction to paragraph 28 of IAS 8; these amendments do not change the requirements in that paragraph.

Transition

BC14 The Board proposes that entities apply the amendments to changes made on or after the effective date of the amendments. The Board concluded that there was no reason to either allow or require an entity to change its accounting for changes in accounting policy made before that date.

Other matters considered by the Board

Applying a change that results from an agenda decision

BC15 In proposing amendments that would apply only to a voluntary change in accounting policy that results from an agenda decision, the Board considered whether to provide guidance to help determine whether a change that results from an agenda decision is the correction of a prior period error, a voluntary change in accounting policy or a change in accounting estimate. The Board concluded that no amendment was needed because IAS 8 provides a framework to determine the nature of a change that results from an agenda decision.

BC16 Applying IAS 8, an entity first assesses whether the accounting policy previously applied meets the definition of a prior period error in paragraph 5. In some situations, the accounting previously applied could have resulted from the entity failing to use, or misusing, information that was available or could reasonably be expected to have been obtained. However, in other situations, an entity would appropriately treat a change that results from an agenda decision as either a change in accounting estimate or a voluntary change in accounting policy. The Board noted that the information in an agenda decision may provide new information that is helpful, informative and persuasive. The matters submitted to the Committee are generally complex in nature and have resulted in entities applying different reporting methods. The Committee publishes an agenda decision after research, analysis and discussion of these matters. The Committee first publishes a tentative agenda decision, and then considers comments received before finalising the agenda decision. This process often provides information that would not otherwise be available and could not otherwise reasonably be expected to have been obtained.

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BC17 Accordingly, the Board has not proposed to amend the definition of prior period errors or to provide guidance on how to apply that definition. The Board acknowledged that assessing the nature of a change that results from an agenda decision could require judgement. However, as stated in paragraph BC15, it is the Board's view that the requirements in IAS 8 provide an adequate basis for making that judgement. The Board also noted that it would be inappropriate to characterise all changes that result from an agenda decision as the correction of an error, a voluntary change in accounting policy or a change in accounting estimate in part because the nature of the change is likely to vary by entity.

The timing of application of changes that result from an agenda decision

BC18 As noted in paragraph BC3(b), the new information provided by the explanatory material in agenda decisions might be viewed as being effective immediately upon publication. If so, an entity could find it difficult in some circumstances to change its accounting to reflect this new information. For example, assume the Committee publishes an agenda decision in June of a particular year and an entity with an annual reporting period ending on 31 December is expected to change its accounting policy as a result of the agenda decision. Depending on the change, it could be difficult for the entity to apply that change to its interim financial report(s) of the same year.

BC19 For this reason, the Board considered whether and how it might address when an entity applies a change in accounting policy that results from an agenda decision. The Board noted that there is no obvious way for it to address the matter. This is because agenda decisions are non-authoritative and any resulting change in accounting policy is not one that is required by IFRS Standards. Accordingly, it is difficult for the Board to address the timing of a voluntary change.

BC20 The Board considered amending IAS 8 to require the application of a voluntary change in accounting policy that results from an agenda decision only from the beginning of the next annual reporting period, ie the first annual reporting period beginning after publication of the agenda decision. Some Board members supported this approach because it would provide an entity with some time to implement a change in accounting policy that results from an agenda decision. However, the approach would also have prevented an entity from applying any such change before the next annual reporting period. A variation of this approach would be to require the application of such a voluntary change no later than the beginning of the next annual reporting period, which would permit application of the change from the date of publication of the agenda decision. However, that approach might not have resolved the difficulty faced by an entity that is expected to apply the change immediately, for example, due to local regulations.

BC21 The Board decided not to propose amending IAS 8 to address when an entity applies a change in accounting policy that results from an agenda decision. Instead, the Board decided to outline in the Basis for Conclusions its views on implementing such changes as a means of helping entities apply a change that results from an agenda decision (see paragraph BC22).

BC22 The Board observed that when the Board develops new requirements or amends existing requirements, the *Due Process Handbook* requires it to consider whether those applying IFRS Standards have sufficient time to prepare for the new or amended requirements. Similarly, when an entity voluntarily changes an accounting policy, it would generally plan to have sufficient time to prepare for the new policy. The Board is therefore of the view that an entity should equally be entitled to sufficient time to prepare for a change in accounting policy that results from an agenda decision. Determining what 'sufficient time' to implement a change is requires judgement, and will depend on the nature of the change. However, in the Board's view, it would generally be unreasonable to expect an entity to apply a change in accounting policy that results from an agenda decision immediately upon publication of that agenda decision. For example, depending on the particular facts and circumstances, it would generally be unreasonable to expect an entity with an annual reporting period ending on 31 December to apply in its interim financial report(s) of that year a change that results from an agenda decision published in June of the same year.

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