IFRS

STAFF PAPER

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IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Transition requirements and effective date

CONTACT(S)	Frank Fan	ffan@ifrs.org	+44 (0) 20 7246 6442
	Aida Vatrenjak	avatrenjak@ifrs.org	+44 (0) 20 7246 6456
	Rachel Knubley	rknubley@ifrs.org	+44 (0) 20 7246 6904

Background

1. The Board has largely completed is discussions on the Primary Financial Statements project[1] and is planning to publish an exposure draft of its proposals by the end of the year. That exposure draft will include proposals regarding the transition requirements and effective date of any new IFRS requirements.

2. The purpose of this paper is to discuss the proposed transition requirements and effective date of any new IFRS requirements.

Summary of staff recommendations

3. The staff recommend that the Board:

   (a) require entities to apply the general requirements of IAS 8 for a change in accounting policy to any new requirements (ie retrospective application); and

   (b) provide an implementation period of at least two years after the publication of any new requirements.

[1] See the appendix of this month's cover note for a summary of the Board's tentative decisions to date.

Structure of the paper

4. This paper is structured as follows:

   (a) existing requirements and general approach to transition (paragraphs 5–13);

   (b) proposed transition requirements (paragraphs 14–19);

   (c) effective date (paragraphs 20–24);

   (d) question for the Board.

Existing requirements and general approach to transition

Existing requirements

5. If an entity changes the presentation or classification of items in its financial statements, paragraph 41 of IAS 1 *Presentation of Financial Statements* requires the entity to reclassify comparative amounts unless reclassification is impracticable. Reclassification of comparative amounts may be impracticable if, for example, the information needed to reclassify comparatives has not been collected and it is impracticable to recreate the information.

6. Unless a new IFRS Standard or amendment to a Standard includes specific transitional provisions, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires[2] retrospective application of a change in an accounting policy to the extent practicable.

7. Retrospective application of an accounting policy requires an entity to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each period presented as if the new accounting policy had always been applied.[3]

8. Paragraphs 50–53 of IAS 8 provide guidance on when retrospective application is deemed impracticable. This may be the case, for example, when information

[2] See paragraphs 19–27 of IAS 8.

[3] See paragraph 22 of IAS 8.

needed to apply the policy retrospectively has not been collected and it is impracticable to recreate the information.

9. For changes that affect presentation and disclosure only, there is little practical difference between treating the change as a change in presentation or classification applying IAS 1 or retrospective application of a new accounting policy applying IAS 8.[4]

General approach to transition

10. The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) identifies comparability as an enhancing qualitative characteristic. Paragraph 2.24 of the *Conceptual Framework* states that information about an entity is more useful if it can be compared with similar information about the same entity for another period or another date. Requiring retrospective application of new accounting requirements helps achieve period to period comparability.

11. Feedback from users supports the discussion in the *Conceptual Framework*. In general, they prefer retrospective application of new requirements and reclassification of comparative amounts because it results in comparable information that facilitates their analysis of trends.

12. However, requiring entities to apply new accounting requirements retrospectively can be burdensome for preparers. This is because retrospective application requires entities to restate information as if the new accounting requirements had always been applied. In some cases, this could require entities to gather several years of information. This information may not exist and may be difficult to recreate.

13. Consequently, in developing new or revised IFRS Standards, the Board develops specific transitional provisions when the cost of generating information for retrospective application exceeds the incremental benefit.

[4] IAS 1 would not require an entity to restate a comparative if there is no corresponding amount in the current period.

Proposed transition requirements

14. Changes proposed in the Primary Financial Statements project affect presentation and disclosure requirements only. They do not affect recognition and measurement requirements—there is no change in total reported equity. Consequently, when applying the project proposals, entities will not need to consider periods before the start of the earliest comparative period. They will simply restate the comparatives for each item affected by the changes. As a result, retrospective application of the project proposals is likely to be easier than for projects that require changes to recognition and measurement.

15. The staff acknowledge that some of the project proposals will require entities to make classification or disaggregation decisions that are not required by current IFRS Standards. Hence, the information required to make those decisions may not be collected today. For example, entities may be required to:

    (a) classify income and expenses into the operating, investing or financial section of the statement(s) of financial performance.

    (b) classify their equity accounted associates or joint ventures as integral or non-integral.

    (c) identify unusual income or expenses.

    (d) identify their management performance measures and calculate the effect on tax and non-controlling interests of any adjustments.

    (e) identify their main business activities.

    (f) provide greater disaggregation of information than they currently provide. For example, disaggregating large ‘other’ balances or providing a full analysis of expenses by nature.

16. However, the staff think that obtaining the information needed to make these decisions should not, in most cases, be difficult as the entity will only have to look back a limited number of years (ie to the start of the first comparative period). Some of the changes listed in paragraph 15, for example some of the disaggregation requirements, may require systems changes to gather the information. However, we think that if entities are given sufficient time to implement these changes, this should not prevent the Board from requiring

retrospective application of the new requirements (see paragraphs 20–24 for discussion of effective date).

17. The staff believe that restatement of comparatives is particularly important for information presented in the primary financial statements. We are making extensive changes to the statement(s) of financial performance in particular, and if the comparatives are not restated, there is a risk that the information included in that statement could be misleading.

18. However, comparative information may not be as important for some of the proposed new disclosures. For example, if comparatives are not provided in the first year of application for the proposed disclosures about management performance measures or unusual items, users may still find the disclosures useful. Hence, the Board could consider not requiring entities to provide comparative information for the new disclosure requirements in the first year of application. However, comparative information for these disclosures may be useful to users as it may help them to understand trends in management's performance measures or unusual items. In addition, the staff do not think that requiring entities to provide comparative information for these disclosures would result in significant incremental costs for preparers. Consequently, the staff do not recommend providing any relief from providing comparatives for these disclosures.

19. Considering the analysis in paragraphs 14–18, the staff recommend requiring retrospective application of any new requirements (ie the general requirements of IAS 8 for a change in accounting policy should apply and no specific transitional provisions should be provided).

Effective date

20. In setting an effective date for new requirements, the Board needs to consider the amount of time:

    (a) preparers need to implement the new requirements. This would include introducing any systems changes needed to implement the new requirements.

(b) jurisdictions need to incorporate the new requirements into their local laws and regulations.

21. The Board also needs to consider that a long application period would delay the introduction of the improvements to financial reporting proposed in this project.

22. We intend to seek feedback on the factors described in paragraphs 20 and 21 during outreach on the exposure draft. However, to get useful feedback on the effective date, we think that the exposure draft should propose an implementation period for the new requirements.

23. The Board generally allows at least 18 months between publication of a new Standard and its mandatory effective date. However, in the case of major Standards, the Board has allowed longer implementation periods to allow entities time to resolve any operational challenges.

24. Although the proposals in this project may require some new information to be collected (see paragraph 15) we do not think it should present significant operational challenges for most entities. However, if the Board agrees with our proposal to require retrospective application, we think a slightly longer implementation period than 18 months may be appropriate to allow for the collection of information needed to restate comparatives. We therefore recommend an implementation period of at least two years after the publication of any new requirements.

Question for the Board

Question
Does the Board agree: (a) to require entities to apply the general requirements of IAS 8 for a change in accounting policy to any new requirements (ie retrospective application); and (b) to provide an implementation period of at least two years after the publication of any new requirements?