IFRS

STAFF PAPER

June 2020

IASB meeting

Project	**Accounting Policy Changes (Proposed amendments to IAS 8)**		
Paper topic	Feedback summary		
CONTACT(S)	Chalani Mohotti	cmohotti@ifrs.org	+44 (0)20 7246 6436
	Jawaid Dossani	jdossani@ifrs.org	+44 (0)20 7332 2742

This paper reproduces Agenda Paper 12C for the Board's December 2018 meeting, with the exception of Appendix B (Appendix B had included excerpts from the Exposure Draft that are either reproduced or summarised in Agenda Paper 12C for the June 2020 meeting). We have also removed the question for the Board that had been included in the December 2018 paper.

Introduction

1. The International Accounting Standard Board (Board) published Exposure Draft *Accounting Policy Changes*—Proposed amendments to IAS 8 (Exposure Draft) in March 2018. Agenda Paper 12A of this meeting provides (a) further information on the objectives of this paper, and (b) a summary of the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

2. Question 1 of the Invitation to Comment accompanying the Exposure Draft asked:

> 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.

3. This paper summarises feedback on Question 1. We welcome any questions or comments Board members may have on matters included in this paper but are not asking the Board to make any decisions on those matters at this meeting.

Structure of the paper

4. This paper includes:
   (a) feedback overview; and
   (b) summary of main comments.
5. There are two appendices to this paper:
   (a) Appendix A—summary of other comments; and
   (b) Appendix B—excerpts from the Exposure Draft [removed from the June 2020 paper].

Feedback overview

6. One hundred and five respondents commented on the Exposure Draft. Responses were received from national standard-setters, regulators, accounting bodies/firms, preparers and organisations representing groups of preparers.
7. Respondents expressed mixed views on the proposed amendments. Some respondents agreed, some disagreed, and some said they would agree with the proposed amendments if the Board were to expand the scope of the proposed cost-benefit threshold (proposed threshold). The expanded scope suggested would include all voluntary changes in accounting policy and not just those that result from an Agenda Decision.

8. Regulators expressed concerns about the proposed amendments while responses from other stakeholder groups were generally mixed. Many respondents raised concerns about particular aspects of the proposed amendments.

9. Respondents who generally agreed with the proposed amendments did so because they said the proposed amendments would:

   (a) lead to greater consistency in the application of IFRS Standards—the proposed amendments would reduce the burden on entities and eliminate part of the challenge entities face when changing an accounting policy as a result of an Agenda Decision; and

   (b) be a practical way of encouraging entities to align their accounting policies with explanatory material in an Agenda Decision (explanatory material).

10. Respondents who disagreed with, or expressed concerns about, the proposed amendments said they:

   (a) *do not address the root cause of the matter* ie the status of Agenda Decisions and the timing of application of an accounting policy change resulting from an Agenda Decision—discussed in Agenda Paper 12B of this meeting.

   (b) *are unnecessary because the existing requirements in IAS 8 are adequate*
   Some respondents said:

      - IAS 8 already provides relief from retrospective application of an accounting policy change to the extent it is impracticable to do so. In their view, further relief is not necessary.
      - when considering the impracticability threshold in IAS 8 and the general materiality requirements, entities already consider the expected benefits to users of financial statements[1] and the cost of applying a change retrospectively.

   (c) *result in a fundamental change that could lead to unintended consequences for users of financial statements*
   A few respondents said, applying the proposed amendments, some entities might not apply some accounting policy changes retrospectively and different

[1] For ease of reference, throughout this paper we have referred to expected benefits to users of financial statements as expected benefits.

entities might apply the same change differently depending on the facts and circumstances. One respondent[2] said the principle of retrospective application 'remains a cornerstone to ensure that comparable information is provided between [entities] and across different reporting periods and to promote enforceability of IFRS.' In their view, the proposed amendments could result in a lack of (a) trend information for users and (b) comparability between entities in respect of prior period information.

11. Respondents also raised concerns about specific aspects of the proposed amendments. The main matters identified relate to:

(a) the scope of the proposed amendments (Issue I);

(b) application of the proposed threshold (Issue II); and

(c) the Board's decision not to amend IAS 8 to provide guidance on determining the nature of a change that results from an Agenda Decision (Issue III).

12. The next section of this paper discusses these matters. Appendix A summarises other matters raised by respondents.

Summary of main comments

Scope of proposed amendments [Issue I]

13. Of those who commented on the scope of the proposed amendments, two respondents[3] explicitly supported the scope—ie that the proposed amendments would apply only to accounting policy changes that result from an Agenda Decision. They did so for the reasons outlined in paragraph BC8 of the Exposure Draft (reproduced in Appendix B to this paper).

14. However, many respondents disagreed with, or expressed concerns about, the scope. Those respondents suggested that the Board extend the scope to all voluntary changes in accounting policy. Two respondents went further and suggested extending the scope to also include corrections of a prior period error.

[2] European Securities and Markets Authority [CL18].

[3] The New Zealand Accounting Standards Board [CL2] and the Australian Accounting Standards Board [CL81].

15. Respondents suggesting that the Board extend the scope to all voluntary changes in accounting policy mentioned, in particular, that:

(a) there is no basis for distinguishing between different types of voluntary changes in accounting policy (Issue I-1);

(b) they disagree with the Board's rationale in the Exposure Draft (Issue I-2);

(c) the proposed amendments would elevate the status of Agenda Decisions (Issue I- 3);

(d) the proposed amendments could create practical challenges (Issue I-4); and

(e) the Board should revise the impracticability threshold in IAS 8 (Issue I-5).

16. The following paragraphs provide further detail on each of these matters.

No basis for distinguishing voluntary changes in accounting policy [Issue I-1]

17. Many respondents said there is no basis for distinguishing between an accounting policy change that results from an Agenda Decision and any other voluntary change in accounting policy. In their view, the resulting distinction would be arbitrary. They said:

(a) explanatory material does not add or change requirements in IFRS Standards—this is similar to other materials that could also prompt entities to change their accounting policies such as educational material published by the Board, or material published by regulators, national standard-setters or others.

(b) entities make voluntary changes in accounting policy (that do not result from an Agenda Decision) to improve the relevance of their financial statements. If the existing requirement to apply an accounting policy change resulting from an Agenda Decision retrospectively is a hindrance to better accounting, it is also likely to be a hindrance to implementing any other voluntary change in accounting policy.

(c) having different requirements for different types of voluntary changes in accounting policy would add unnecessary complexity, be inappropriate, and thus not benefit users of financial statements.

Disagreement with the Board's rationale [Issue I-2]

18. Some respondents disagree with the Board's rationale as explained in paragraph BC8 of the Exposure Draft. In particular, these respondents said:

Extending the scope would not result in a loss of comparability

19. Paragraph BC8(a) of the Exposure Draft said applying the proposed threshold to all voluntary changes in accounting policy might result in a loss of comparability between entities and a loss of information for users of financial statements. Some respondents disagreed with the Board's view and said:

(a) a loss of comparability between entities would not be relevant for other voluntary changes in accounting policy—this is because the accounting between entities might already be different in situations in which IFRS Standards provide an explicit accounting policy choice.

(b) the range of voluntary changes in accounting policy permissible within the confines of IFRS Standards is limited. This inherent limitation, together with the requirement in IAS 8 for a voluntary change in accounting policy to result in reliable and more relevant information[4], provides a natural limit on the number of voluntary changes in accounting policy that might be subject to the proposed threshold. In addition, the proposed threshold is not a low hurdle and will be subject to governance, audit and other controls.

(c) regardless of the scope, comparability between entities is inevitably compromised because of the subjectivity involved in applying voluntary changes in accounting policy.

(d) limiting the scope of the proposed amendments for the reasons in BC8(a) of the Exposure Draft has no conceptual underpinning; it would appear to be an

---

[4] Paragraph 14 of IAS 8 states:

'An entity shall change an accounting policy only if the change:

(a) …; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

attempt to mitigate potentially undesirable effects of applying the proposed threshold.

Process for Agenda Decisions does not justify a distinction

20. A few respondents disagreed with the Board's rationale in paragraph BC8(b) of the Exposure Draft. They said the process for Agenda Decisions does not justify distinguishing between voluntary changes in accounting policy. Respondents said:

    (a) any difference in requirements should arise because of the consequences of an accounting policy change; it should not arise because of the source of such a change (and the process related to that source).

    (b) sources other than an Agenda Decision could result in voluntary changes in accounting policy and be subject to a rigorous process (for example, pronouncements of other standard-setting bodies, publications by regulators and others).

Elevating the status of Agenda Decisions [Issue I-3]

21. Many respondents said the proposed amendments would elevate the status of Agenda Decisions. This is because they would result in specific requirements for changes that result from an Agenda Decision and, thus, Agenda Decisions might be viewed as having the same status as IFRS Standards. Some said it is contradictory to say an Agenda Decision does not have the same status as IFRS Standards and yet provide specific requirements for accounting policy changes resulting from an Agenda Decision.

22. Other respondents said:

    (a) the Board is implicitly trying to elevate the status of Agenda Decisions to a level similar to that of IFRS Standards. The Board is encouraging the application of Agenda Decisions by lowering the threshold for retrospective application of accounting policy changes resulting from them.

    (b) the proposed amendments would give Agenda Decisions a status that is inconsistent with other material that also does not have the same (mandatory) status as IFRS Standards. They say this could create confusion about whether entities are expected to comply with the explanatory material in an Agenda Decision.

(c) providing requirements regarding changes that result from an Agenda Decision might conflict with the hierarchy in paragraphs 10 and 11 of IAS 8—those paragraphs do not refer to Agenda Decisions.

(d) it would be time consuming and unrealistic for entities to monitor all Agenda Decisions published by the Committee.

Practical challenges [Issue I-4]

23. Some respondents said:

(a) it might not always be clear whether an accounting policy change results from an Agenda Decision, particularly if an entity's fact pattern is similar to (but not the same as) that described in an Agenda Decision. Fact patterns considered in an Agenda Decision are often specific. Respondents said it is unclear whether the proposed threshold would apply only to the fact pattern described in an Agenda Decision or might also apply by analogy to other similar fact patterns. Those respondents suggested that the Board clarify this matter. One respondent said that a lack of clarity on this matter could lead to an increase in the number of submissions to the Committee with slight variations in facts.

(b) it might be difficult for entities to determine the reason for an accounting policy change, particularly if the time between publication of an Agenda Decision and an accounting policy change is long.

Impracticability threshold [Issue I-5]

24. Some respondents said the impracticability threshold in IAS 8 is a very high hurdle and suggested the Board consider revising this threshold. This would reduce the burden on entities seeking to make improvements to their accounting policies and would promote greater consistency in the application of IFRS Standards. It would also apply more generally to all accounting policy changes as well as corrections of a prior period error.

25. Some of these respondents said the impracticability threshold is not aligned with the cost constraint in paragraphs 2.39–2.43 of the *Conceptual Framework for Financial Reporting*. They also noted that the Board has provided relief from retrospective

application—mainly due to cost-benefit considerations—for almost all recently published IFRS Standards and amendments to IFRS Standards. Accordingly, entities should be allowed to apply the same threshold.

Application of proposed threshold [Issue II]

26. Of those who commented on the application of the proposed threshold, one national standard-setter[5] and one respondent[6] (representing three organisations of preparers) agreed with the cost-benefit threshold. They said (a) entities are used to making such assessments, and (b) the proposed application guidance is well developed and can be put into practice.

27. However, many expressed concerns. Those respondents said applying the proposed threshold could be both (a) challenging and costly, and (b) difficult to audit and enforce. The assessment, particularly of expected benefits, would be subjective and would require entities to apply significant judgement. Accordingly, some said entities might not use the proposed threshold as often as the Board might intend.

28. Specific concerns raised on this matter are discussed below.

Practical challenges [Issue II-1]

How far back to go

29. When applying an accounting policy change resulting from an Agenda Decision, the proposed amendments would require an entity to go as far back as the expected benefits exceed the cost. Some respondents said it could be challenging or, in some cases, impracticable to determine the point in time at which the cost exceeds the expected benefits—they suggested the Board provide additional guidance on this matter.

Comparing expected benefits and cost

30. Some respondents said entities might be able to quantify cost, but the assessment of expected benefits would generally be qualitative. Although the proposed amendments

[5] Autorite des Norms Comptables (French national standard-setter) [CL40].

[6] ACTEO/AFEP/MEDEF [CL33].

provide application guidance on determining expected benefits and cost, they do not provide guidance on, or illustrate, how to compare expected benefits and cost. Those respondents suggested providing further application guidance on this matter. Some respondents also suggested that the Board explicitly acknowledge that the assessment of expected benefits and cost can be qualitative.

The timing of application when assessing cost

31. A few respondents said the proposed amendments do not clarify whether and how the timing of publication of an Agenda Decision in relation to an entity's reporting date would affect the assessment of the proposed threshold. For example, an entity might incur more cost if it is expected to apply an accounting policy change resulting from an Agenda Decision close to the date of publication of that Agenda Decision than if it had more time to apply the change.

Magnitude and effects of retrospective application

32. Paragraph A8 of the Exposure Draft provides examples of factors an entity considers when assessing expected benefits—these include the magnitude of the change (paragraph A8(b)) and the effect of the change on trend information (paragraph A8(d)). One respondent[7] said entities would incur costs in determining the magnitude of a change and its effect on trend information before being able to assess its significance. Those costs could themselves be significant in some situations.

Illustrative examples or step-by-step guidance [Issue II-2]

33. Some respondents suggested that the Board provide illustrative examples or step-by-step application guidance to help entities apply the proposed threshold. They said it would be useful to describe the process an entity applies in assessing expected benefits and cost, rather than simply describing the factors an entity would consider in making this assessment. Some suggested that the Board structure this application guidance similarly to the step-by-step approach for making materiality judgements set out in IFRS Practice Statement 2 *Making Materiality Judgements*. This would facilitate consistent application of the proposed requirements.

[7] Austrian Financial Reporting and Auditing Committee [CL79].

Cost-benefit assessments made by the Board [Issue II-3]

34. Some respondents said it is the Board, and not entities themselves, that should assess expected benefits and cost. This is because of the subjectivity involved in making such assessments, and thus the potential loss of comparability if entities were to do so. Some of those respondents noted that the Board previously considered, but did not introduce, a cost-benefit threshold in IAS 8 because applying such a threshold would be too subjective. Paragraph BC24 of IAS 8 states:

> In the light of comments received on the Exposure Draft, the Board decided that an exemption based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities. Moreover, the Board decided that balancing costs and benefits is a task for the Board when it sets accounting requirements rather than for entities when they apply those requirements. Therefore, the Board decided to retain the impracticability criterion for exemption in the previous version of IAS 8…

Request for other clarifications [Issue II-4]

Optional application of proposed threshold

35. A few respondents said assessing whether expected benefits exceed the cost could be costly in some situations and making this assessment might itself not be cost-beneficial. One of those respondents suggested that the Board make the application of the proposed threshold optional.

Concepts already in IFRS Standards

36. Paragraph BC10(b) of the Exposure Draft states:

> 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.

37. Some respondents said the proposed threshold would introduce an additional variation of cost-benefit assessments that exist in IFRS Standards, such as ‘undue cost or effort’ in IFRS 9 *Financial Instruments* and ‘excessive cost’ in IFRS 8 *Operating Segments*[8]. Some of those respondents disagreed with the Board’s view in paragraph BC10(b) and said the proposed threshold is different from thresholds used in other IFRS Standards. For example, some said ‘undue cost and effort’ in IFRS 9 does not explicitly require consideration of expected benefits. Accordingly, respondents suggested using a concept already in IFRS Standards.

Balance in guidance for expected benefits and cost

38. One respondent[9] suggested providing more application guidance than was proposed to assist entities evaluate cost. The respondent said the examples accompanying the discussion in paragraph A8 of the Exposure Draft (which discusses examples of factors an entity considers in assessing expected benefits) are useful and suggested adopting the same approach when discussing the assessment of cost in paragraph A10.

Differences with materiality assessment

39. A few respondents said it is unclear how the assessment of expected benefits differs from the assessment of materiality. This is particularly because the examples of factors an entity considers when assessing expected benefits (as listed in paragraph A8 of the Exposure Draft) are similar to those considered when making materiality assessments.

Management’s role in making the assessment

40. A few respondents suggested that, because of the judgement involved in assessing expected benefits and cost, the Board should specify that management’s judgement is respected unless unreasonable. Another respondent suggested clarifying that management is responsible for documenting a defendable position for their assessment of expected benefits and cost.

[8] Paragraphs 18, 29–30 and 32–33 of IFRS 8 provides entities with relief from particular requirements if the necessary information is not available and the cost to develop it would be excessive.

[9] Association for Financial Markets in Europe [CL53].

Disclosure

41. A few respondents said the Board should require entities to disclose information about the process and results of assessing expected benefits and cost. Those respondents were concerned about possible misuse of the proposed threshold.

Nature of change (change in accounting policy, change in accounting estimate or correction of a prior period error) [Issue III]

42. In developing the proposed amendments, the Board considered whether, but decided not, to provide application guidance on determining the nature of any change that results from an Agenda Decision, ie whether the change is a change in accounting policy, a change in accounting estimate or the correction of a prior period error. The Board concluded that additional requirements were not necessary because IAS 8 already provides a framework to determine the nature of any change. Paragraphs BC15–BC17 of the Exposure Draft (reproduced in Appendix B to this paper) discuss the Board's considerations in this respect.

43. One respondent[10] said it is helpful that the proposed definition of an Agenda Decision in the Exposure Draft acknowledges that a change resulting from an Agenda Decision is not always the correction of a prior period error.[11] However, some respondents expressed concerns about the Board's decision and views in this respect, discussed below.

Increased importance of nature of change [Issue III-1]

44. Determining whether a change that results from an Agenda Decision is an accounting policy change or the correction of a prior period error can be challenging in some situations. However, IAS 8 currently requires an entity to apply both a voluntary change in accounting policy and the correction of a prior period error retrospectively, except to the extent it is impracticable to do so.

[10] Mazars [CL62]

[11] The proposed definition of an Agenda Decision in the Exposure Draft: '..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.'

45. Some respondents said the proposed amendments would increase the importance of assessing the nature of any change that results from an Agenda Decision. This is because, applying the proposed amendments, an entity would apply different requirements to an accounting policy change that results from an Agenda Decision than the correction of a prior period error resulting from an Agenda Decision. A few said this distinction would also create an incentive for entities to treat any change that results from an Agenda Decision as an accounting policy change. Accordingly, some respondents suggested that the Board provide further requirements on this matter.

Presumed nature of change [Issue III-2]

46. A few respondents said, in their view, a change that results from an Agenda Decision is the correction of prior period error. This is because Agenda Decisions do not add or change requirements in IFRS Standards—rather, they confirm how entities should apply existing requirements.

47. However, a few other respondents said an Agenda Decision does not have the (mandatory) status of IFRS Standards and, accordingly, cannot result in the correction of a prior period error. Some of those respondents suggested removing the proposed amendment to paragraph 5 of IAS 8, which states that an Agenda Decision ‘may result in…the correction of a prior period error’. Instead, they suggested emphasising the (non-mandatory) status of Agenda Decisions.

Suggestions on nature of change [Issue III-3]

48. One respondent suggested that the Board provide examples to illustrate how an entity would assess the nature of a change that results from an Agenda Decision—for example, how an entity would assess whether an Agenda Decision provides information that would not otherwise be available and could not otherwise reasonably be expected to have been obtained.

49. Another respondent suggested treating as an accounting policy change (and not as the correction of a prior period error) any change that relates to a question for which the Committee has identified diversity in practice. Another also said it would be helpful to specify that entities are not required to apply a change that results from an Agenda Decision if the change is not the correction of a prior period error.

Appendix A—Summary of other comments

A1. The following table summarises other comments:

Topic	Summary of feedback
1. Alternative approaches	Some respondents suggested that the Board consider alternative approaches to address the matter as follows: *Prospective application and/or a modified retrospective approach* Some respondents suggested providing entities with a choice of applying an accounting policy change that results from an Agenda Decision prospectively or retrospectively. Some suggested requiring prospective application of such accounting policy changes, either from the beginning of the current period or a prior period. One respondent suggested allowing the use of a modified retrospective approach[12] for all accounting policy changes. Respondents made these suggestions generally because they viewed the suggested approaches to be an effective way to address the identified challenges associated with applying an accounting policy change that results from an Agenda Decision. *Transition in each Agenda Decision* A few respondents suggested that the Committee should specify transition requirements and an effective date in each Agenda Decision. If that were to happen, then another respondent suggested that the Board amend IAS 8 to clarify that an entity need not apply a change that results from an Agenda Decision until the date specified in the Agenda Decision and need not apply the change retrospectively if it is stated as such in the Agenda Decision.

[12] Applying this approach, an entity would apply an accounting policy change retrospectively with the cumulative effect of initially applying the new accounting policy recognised in equity at the beginning of the period in which the entity first applies the change.

2. Proposed definition of an Agenda Decision	Some respondents support the proposed definition of an Agenda Decision and accompanying clarification, which explains that a change that results from an Agenda Decision is not necessarily the correction of a prior period error. Some of those respondents said it would be helpful for the definition to also clarify that Agenda Decisions do not have the (mandatory) status of IFRS Standards. However, a few other respondents said it would be inappropriate to define an Agenda Decision in IAS 8 or refer to Agenda Decisions, either in the Standard itself or in the Basis for Conclusions—this is because Agenda Decisions do not have the status of IFRS Standards. A few respondents said it would be inappropriate to label an accounting policy change that results from an Agenda Decision as 'voluntary'—this would contradict the 'in-substance mandatory' status of Agenda Decisions among preparers, auditors and many regulators. They said the label 'voluntary' could result in entities downplaying the role of Agenda Decisions in the application of IFRS Standards.
3. Awareness of Agenda Decisions	A few respondents said Agenda Decisions are not easily accessible and awareness of them is not widespread. Accordingly, they suggested promoting greater awareness of Agenda Decisions by various means—in particular, for Agenda Decisions addressing matters that are expected to have a pervasive effect. A few respondents suggested publishing a consultation document and associated press release for tentative Agenda Decisions, instead of relying only on *IFRIC® Update*.
4. Interaction with local requirements	One respondent said in jurisdictions where the accounting standards are written into the legislative framework (eg India), the proposed amendments might raise questions about how to recognise non-mandatory material in the form of Agenda Decisions. Similarly, another respondent said a reference to Agenda Decisions in IAS 8 might result in the need to define Agenda Decisions and

	incorporate all previously published Agenda Decisions as part of its legislation. This might in turn create the need to constantly update that legislation to incorporate any newly published Agenda Decisions.
5. Request for other clarifications	Some respondents suggested that the Board: (a) address how an entity would consider any Agenda Decisions published before the proposed amendments if the entity had not previously considered them; (b) permit early application of the proposed amendments; (c) clarify that the proposed amendments would apply only when the previous accounting did not result in an error; and (d) clarify that a cross-reference to a previously published Agenda Decision does not imply that the previously published Agenda Decision is new information.