Staff paper

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IASB® Meeting

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Project	**Primary Financial Statements**
Topic	**Transition and effective date**
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Objective

1. This agenda paper sets out staff analysis and recommendations on the proposals in the Exposure Draft *General Presentation and Disclosures* (the Exposure Draft) for transition and the effective date of IFRS X *General Presentation and Disclosures* (IFRS X).

2. This paper should be read in conjunction with:

   (a) Agenda Paper 21A *Consideration of the re-exposure criteria*; and

   (b) Agenda Paper 21C *Due process requirements*.

Summary of staff recommendations

3. The staff recommend the IASB:

   (a) require an entity to apply IFRS X for annual periods beginning on or after 1 January 2027 with early application permitted;

(b) confirm the proposal in the Exposure Draft to require an entity to apply IFRS X retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*[1];

(c) confirm the proposal in the Exposure Draft to require an entity to present each of the headings and subtotals required by IFRS X in condensed financial statements in interim financial reports in the first year of application of IFRS X;

(d) introduce a transition requirement that requires an entity to disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 *Presentation of Financial Statements* and IFRS X for the annual period immediately preceding the date of initial application of IFRS X and permit, but not require, this disclosure for the reporting period when IFRS X is first applied or for earlier comparative periods presented. This disclosure would be required instead of the disclosure requirement in paragraph 28(f) of IAS 8;

(e) require an entity, that has not applied IFRS X before its effective date, and presents subtotals which are labelled the same as required subtotals in IFRS X, to disclose the fact that subtotals presented may not be the same as subtotals had the requirements in IFRS X been applied; and

(f) to require first-time adopters of IFRS Accounting Standards to apply the transition requirement in paragraph 118 of the Exposure Draft to present each of the headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports for part of the period covered by its first IFRS financial statements.

[1] The Exposure Draft proposed to change the title of IAS 8 to *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors.*

Structure of this paper

4. This paper includes:

   (a) background (paragraphs 5–22);

   (b) staff analysis, recommendations and questions for the IASB (paragraphs 23–78):

      (i) initial and early application and effective date for IFRS X (paragraphs 24–66);

      (ii) disclosure requirements in IAS 8 (see paragraphs 67–75);

      (iii) first-time adopters of IFRS Accounting Standards (see paragraphs 76–78);

   (c) Appendix A—Disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

   (d) Appendix B—Effective dates for other major IFRS Accounting Standards;

   (e) Appendix C—Summary of the feedback on transition and effective date from IFRS Foundation bodies and consultative groups;

   (f) Appendix D—Summary of limited outreach with IT specialists; and

   (g) Appendix E—Illustration of the timeline for the transition to IFRS X.

Background

5. This section is structured as follows:

   (a) requirements in the Due Process Handbook (paragraphs 6–7);

   (b) proposals in the Exposure Draft (paragraphs 8–13); and

   (c) summary of the feedback (paragraphs 14–22).

Requirements in the Due Process Handbook

6. The *Due Process Handbook (2020)* (the Due Process Handbook) states that the requirements for the effective date and transition are mandatory parts of an IFRS Standard (see paragraphs 6.30 and 6.35 of the Due Process Handbook). Paragraph 6.35 states that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the IFRS Standards have sufficient time to prepare for the new requirements.

7. The Due Process Handbook also requires the IASB to consider how first-time adopters should apply the Standard and whether any amendments are needed to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (see paragraph 6.36 of the Due Process Handbook).

Proposals in the Exposure Draft

8. The Exposure Draft proposed that an entity applies IFRS X for annual reporting periods beginning on or after 18-24 months from the date of publication of IFRS X with early application permitted (see paragraph 117 of the Exposure Draft). In proposing this transition period, the IASB concluded that:

   (a) the proposals affect presentation and disclosures and should be more straightforward to implement than the changes affecting recognition and measurement; and

   (b) 18-24 months was expected to allow sufficient time for entities to make any necessary updates to their systems, collect the information needed to restate comparatives and resolve any operational challenges (see paragraph BC182 of the Basis for Conclusions on the Exposure Draft).

9. The Exposure Draft also proposed that IFRS X be applied retrospectively in accordance with IAS 8 (see paragraph 119 of the Exposure Draft) because IFRS X is expected to result in extensive changes to the statement(s) of financial performance and there is a risk that the information included in the statement(s) of financial

performance could be misleading if comparatives are not restated (see paragraph BC183 of the Basis for Conclusions on the Exposure Draft).

10. The Exposure Draft proposed that in the first year of application of IFRS X, an entity shall present each of the headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports, despite the requirements in paragraph 10 of IAS 34 *Interim Financial Reporting* (see paragraph 118 of the Exposure Draft) because:

    (a) in the first year of application the entity may have different subtotals in its most recent annual financial statements from those required by IFRS X and the entity will be prevented from presenting the subtotals required by IFRS X in its interim financial report(s); and

    (b) presenting the subtotals required by IFRS X would provide useful information to users of financial statements (see paragraph BC184 of the Basis for Conclusions on the Exposure Draft).

11. The Exposure Draft did not consider any transition requirements for condensed interim financial statements related to the requirements for disaggregation in condensed financial statements (see paragraph 5 of the Exposure Draft) and the disclosure requirements for management performance measures (see paragraph 16A of the proposed amendments to IAS 34 in the Exposure Draft).

12. The Exposure Draft did not consider any amendments to IFRS 1 for first-time adopters of IFRS Accounting Standards.

13. The Exposure Draft also did not consider any transition requirements for the disclosure requirements in IAS 8 (see Appendix A) related to:

    (a) IFRS Accounting Standards that are issued but not yet effective that an entity has not applied (paragraphs 30–31 of IAS 8); and

    (b) initial application of an IFRS Accounting Standard that has an effect on the reporting period when IFRS X is first applied and any prior periods presented (paragraph 28(f) of IAS 8).

Summary of the feedback

14. The IASB received feedback on the transition period and effective date from:

    (a) comment letter respondents (see paragraphs 15–18);

    (b) targeted outreach participants (see paragraphs 19–20); and

    (c) IFRS Foundation bodies and consultative groups (see paragraphs 21–22).

Feedback from comment letters

15. The Exposure Draft did not contain a question on the transition period and effective date. However, some comment letter respondents said that the proposed transition period of 18-24 months was not sufficient and suggested a transition period of at least two years due to:

    (a) changes to accounting and consolidation systems and other systems for gathering data;

    (b) the requirement on disclosure of operating expenses by nature when an entity presents operating expenses by function in the statement of profit or loss;

    (c) the requirement to apply the proposals retrospectively and restate the comparative period(s); and

    (d) the time required to discuss the requirements with auditors and regulatory bodies.

16. One respondent said that they disagreed with the IASB's conclusion in paragraph BC183 of the Basis for Conclusions on the Exposure Draft that 'a restatement of comparatives should be relatively straightforward' because some proposals, such as the proposals for classification of foreign exchange differences, relate to transactions with large volumes that are processed automatically. Some respondents suggested a transition period of at least three-years or more because significant system changes would be needed to apply the proposed requirement in the Exposure Draft for an

entity to disclose operating expenses by nature when the entity reports operating expenses by function in the statement of profit or loss.

17. Some respondents asked the IASB to align the implementation period of IFRS X with the implementation period provided for other major IFRS Accounting Standards including IFRS 9 *Financial Instruments,* IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* (see Appendix B).

18. One respondent suggested that the transition requirements permit an entity to apply any new disclosure requirements prospectively without providing comparative information when an entity first applies IFRS X. One standard-setter suggested that IFRS X should be applied prospectively because retrospective application of IFRS X would require an entity to maintain two sets of data.

Feedback from targeted outreach participants

19. We did not ask a specific question on transition and effective date during the targeted outreach we conducted in Q4 2022 (see Agenda Paper 21A of the January 2023 IASB meeting). However, during some targeted outreach events some participants requested that the IASB provide a transition period of at least two years. The reasons given included:

    (a) other requirements that entities are required to apply in the next few years, such as IFRS Sustainability Disclosure Standards;

    (b) laws and regulations in some jurisdictions that require entities to provide two or more years of comparative information; and

    (c) the system changes required to apply some aspects of the proposals, in particular the proposed requirements for classification of income and expenses in categories in the statement of profit or loss and the revised proposal for disclosure of operating expenses by nature.

20. A few preparers said that they think it will be possible to apply the requirements in IFRS X once published before the effective date of IFRS X because the revised

proposals are expected to be easier to implement than the proposals in the Exposure Draft.

Feedback from IFRS Foundation bodies and consultative groups

21. In March and May 2023, we sought input on factors the IASB should consider in determining the transition period and effective date of IFRS X from the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC), the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG). Appendix C contains a summary of the feedback from these meetings.

22. The key points raised by members were:

    (a) information that is expected to be readily available and information that would need to be gathered in order to apply the requirements in IFRS X was mixed—for some entities most of the information needed to apply the requirements in IFRS X would be readily available, but for other entities changes to IT systems and data gathering processes would be required;

    (b) changes to IT systems may be required by some entities to apply:

        (i) the requirements to classify income and expenses in categories in the statement of profit or loss;

        (ii) the disclosure requirements for management performance measures;

        (iii) the revised requirement to disclose operating expenses by nature;

        (iv) the change in starting point for the presentation of cash flows from operating activities using the indirect method in the statement of cash flows; and

        (v) the requirements for disaggregation;

    (c) users of financial statements would like to have comparative information for at least one year for all the requirements for the first year of application of IFRS X and a reconciliation from the old to the new presentation in the statement of profit or loss;

(d) users of financial statements would like to see entities apply IFRS X to their financial statements as soon as possible;

(e) some entities are considering applying IFRS X prior to the effective date and making the IFRS Accounting Taxonomy for IFRS X available at the same time as IFRS X would be important in facilitating application of IFRS X prior to the effective date; and

(f) in determining the effective date, the IASB should give consideration to the proposed requirements to apply IFRS X retrospectively in accordance with IAS 8 and in interim financial statements.

Staff analysis, recommendations and questions for the IASB

23. The section is structured as follows:

(a) initial and early application and effective date for IFRS X (paragraphs 24–66);

(b) disclosure requirements in IAS 8 (see paragraphs 67–75); and

(c) first-time adopters of IFRS Accounting Standards (see paragraphs 76–78).

Initial and early application and effective date for IFRS X

Initial and early application of IFRS X

24. In this section of the paper, we consider:

(a) application of IFRS X retrospectively (paragraphs 25–31);

(b) application of IFRS X in interim financial statements (paragraphs 32–36); and

(c) application of IFRS X before the effective date (paragraphs 37–38).

Application of IFRS X retrospectively

25. One national standard-setter suggested prospective application of IFRS X (see paragraph 18). However, we recommend that the IASB confirm the proposal in

paragraph 119 of the Exposure Draft to require entities to apply IFRS X retrospectively in accordance with IAS 8 because IFRS X is expected to result in extensive changes to the statement(s) of financial performance and there is a risk that the information included in the statement(s) of financial performance could be misleading if comparatives are not restated (see paragraph 9). We also note that while stakeholders have asked the IASB to consider the time required to apply IFRS X retrospectively when determining the effective date, no other stakeholders have asked the IASB to reconsider the proposed approach to application.

26. The IASB could consider possible transition requirements that provide relief(s) that may facilitate application of IFRS X sooner. However, we note that there are linkages between most of the requirements in IFRS X which makes it difficult to introduce such transition requirements (see paragraphs 27–30). We also note that permitting prospective application of some of the disclosure requirements in IFRS X as suggested by one stakeholder (see paragraph 18) would not necessarily provide relief for preparers and would not respond to the feedback from users of financial statements for comparative information in the initial year of application of IFRS X (see paragraph 22(c)).

Linkages between requirements in IFRS X

27. In order to apply the requirements for the new structure of the statement of profit or loss an entity would also need to apply the new requirements for aggregation and disaggregation. For example, an entity is required to consider the roles of the primary financial statements when determining:

(a) which specified line items should be presented in the primary financial statements to provide a useful structured summary of the entity’s assets, liabilities, equity, income, expenses and cash flows; and

(b) which specified line items not presented should be disclosed in the notes to the financial statements when material.

28. The IASB could consider providing transition requirements for application of the aggregation and disaggregation requirements related to the notes to the financial

statements. However, we do not recommend such an approach because limited outreach with preparers indicated that it would be more efficient for entities to apply the requirements for aggregation and disaggregation in the notes to the financial statements at the same time as they apply the requirements for aggregation and disaggregation in the primary financial statements.

29. The disclosure requirements for management performance measures require an entity to reconcile a management performance measure to the most directly comparable subtotal or total required by IFRS Accounting Standards. Hence, an entity would need to apply the requirements in IFRS X for the new structure of the statement of profit or loss in order to apply the disclosure requirements for management performance measures.

30. We note that it would be possible for the IASB to consider requiring entities to first apply the requirements for the new structure of the statement of profit or loss and then apply the requirements to disclose management performance measures at a later date. However, we do not recommend such an approach because the requirements for the structure of the statement of profit or loss and management performance measures are complementary. We also note that such an approach would not necessarily provide relief for preparers because:

    (a) the changes, in particular the changes to IT systems explained in Appendix D, which stakeholders said would require time to implement mostly relate to the changes to the structure of the statement of profit or loss and not to the disclosure of management performance measures; and

    (b) some entities are already required to provide disclosures about alternative performance measures or non-GAAP measures based on local laws and regulations.

Permitting entities to not provide comparative information

31. The IASB could consider permitting entities to not provide comparative information for the new disclosure requirements for management performance measures and operating expenses by nature. However, such an approach would not respond to the

feedback from users of financial statements (see paragraph 22(c)) that they would prefer comparative information for all the disclosure requirements in the initial year of application of IFRS X. Feedback from preparers indicates that such an approach would not necessarily provide relief to facilitate earlier application of IFRS X as discussed in paragraph 30.

Application of IFRS X in interim financial statements

32. We also recommend that the IASB confirm the proposed transition requirement in paragraph 118 of the Exposure Draft that in the first year of application of IFRS X, an entity shall present each of the headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports for the reasons stated in the Exposure Draft (see paragraph 10).

33. We note that while some stakeholders said that in determining the effective date the IASB should give consideration to this transition requirement and the requirements for management performance measures and aggregation and disaggregation that would also be required to be applied in condensed financial statements provided in interim financial reports in the first year of application of IFRS X (see paragraph 11), they have not asked the IASB to reconsider the proposed approach.

34. Limited outreach with preparers also indicated that not requiring entities to apply the transition requirements for headings and subtotals in condensed financial statements provided in interim financial reports in the first year of application of IFRS X would not necessarily provide relief as changes in IT systems and processes would need to be in place from the start of the annual reporting period in order to apply those requirements in annual financial statements (see Appendix D).

35. Likewise, not requiring entities to give comparative information for management performance measures in condensed financial statements provided in interim financial reports in the first year of application of IFRS X would not necessarily provide relief as discussed in paragraph 31. The disclosures for operating expenses by nature would

not be required in interim financial statements (see Agenda Paper 21A of the March 2023 IASB meeting).

36. Therefore, we recommend that the IASB confirm the proposed transition requirement in the Exposure Draft for presentation of headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports in the first year of application of IFRS X.

Application of IFRS X before the effective date

37. We think that the IASB should confirm the proposal in the Exposure Draft to permit entities to apply IFRS X before the effective date (see paragraph 117 of the Exposure Draft). A few stakeholders raised concerns about the loss of comparability if some entities were to apply the requirements in IFRS X before the effective date (see paragraph C9 in Appendix C). However, as users of financial statements would like to see entities apply IFRS X to their financial statements as soon as possible (see paragraph 22(d)) and some entities have indicated that they would like to apply IFRS X before the effective date in order to realise the benefits of IFRS X (see paragraph 22(e)), we recommend that the IASB confirm this proposal.

38. We do not think that the IASB needs to consider providing specific transition requirements to enable entities to apply some of the requirements in IFRS X before the effective date and the remainder of the requirements in IFRS X from the effective date. This is because the current requirements in IAS 1 would permit entities to implement changes in their financial statements that align with some of the requirements in IFRS X.

Effective date for IFRS X

39. In this section we consider two possible effective dates for IFRS X of 1 January 2026 and 1 January 2027 (see Appendix E for illustrations of the timeline for these possible effective dates). These dates assume that the IASB tentatively decides that re-exposure of IFRS X is not required (see Agenda Paper 21A of this meeting) and that

the balloting process would be completed and IFRS X published in the first half of 2024. If the IASB were to tentatively decide that re-exposure is required, it would need to re-consider the possible effective dates.

40. We do not think that the IASB needs to consider an effective date of 1 January 2028 or beyond. Some comment letter respondents said that a transition period of at least three years would be required because significant system changes would be needed to apply the proposal to disclose operating expenses by nature (see paragraph 16). As discussed in Agenda Paper 21A of this meeting, the IASB has revised this proposal to address these concerns. In targeted outreach and our discussions with consultative groups, stakeholders have indicated that the revised proposals address the concerns raised and that an extended transition period is no longer required (see paragraphs 19 and 22).

41. We also do not think the IASB needs to consider an effective date of 1 January 2025 as this would give entities and jurisdictions less than 12 months for implementation which is insufficient for requirements with such a pervasive effect. It would also result in an implementation period that is shorter than the proposal in the Exposure Draft of 18-24 months from date of publication of IFRS X (see paragraph 8).

42. In determining whether the effective date for IFRS X should be 1 January 2026 or 1 January 2027, in the following paragraphs we consider the Due Process Handbook requirement for the IASB to consider the time required for jurisdictions to incorporate the new requirements into legal systems (see paragraphs 43–50) and the time for those applying the new requirements to prepare (see paragraphs 51–61).

Factors to consider in incorporating the new requirements into legal systems

43. In this section we consider:

(a) translation and endorsement processes for IFRS X (see paragraphs 44–46);

(b) IFRS Accounting Taxonomy for IFRS X (see paragraphs 47–48); and

(c) changes to regulatory requirements (see paragraphs 49–50).

Translation and endorsement processes for IFRS X

44. The endorsement process for IFRS Accounting Standards is unique to each jurisdiction with some jurisdictions following an extensive process and others following a simpler process (see the jurisdiction profiles for the process followed in each jurisdiction).

45. In some jurisdictions, the understandability and the accessibility of IFRS X would depend on the availability of the translated version of IFRS X. Some jurisdictions are required to endorse the translated version or by reference to the translated version of an IFRS Accounting Standard.

46. Based on limited outreach, we expect that most jurisdictions would be able to complete endorsement processes at the latest by the end of 2025 because:

    (a) translations of IFRS X are likely to be completed within 9-12 months of publication;

    (b) endorsement of IFRS X is likely to be completed in most jurisdictions within 12 months of publication; and

    (c) no jurisdictions are expected to require more than 18 months to incorporate IFRS X into their legal systems.

IFRS Accounting Taxonomy for IFRS X

47. In some jurisdictions, entities are required to provide digital financial statements, tagged using digital taxonomy, at the same time as paper-based financial statements. The Due Process Handbook states that the IFRS Taxonomy for new IFRS Standards is to be made available in a timely manner (see paragraph A26 of the Due Process Handbook).

48. The IFRS Accounting Taxonomy for IFRS X is currently being developed and is expected to be available 9-12 months after IFRS X is published (see Agenda Paper 1 of the July 2023 meeting of the IFRS Taxonomy Consultative Group). The endorsement process generally takes up to six months in jurisdictions where IFRS Accounting Taxonomy is subject to endorsement. Therefore, the IFRS Accounting

Taxonomy for IFRS X is expected to be available for use within 18 months of the publication of IFRS X.

Changes to regulatory requirements

49. Some regulators have requirements or guidance for entities to disclose forecast information, alternative performance measures or non-GAAP measures and regulatory information that is based on information provided in the financial statements. Some regulators also issue templates which entities are required to use in their financial statements.

50. Regulators will require time to consider changes to their requirements to align with the requirements in IFRS X, in particular the new structure of the statement of profit or loss and the disclosure requirements for management performance measures. However, the length of time to make such changes will depend on each regulator and the extent of change required.

Factors to consider in determining the time entities need to prepare for IFRS X

51. In this section we consider:

(a) time required to gather information and change IT systems (see paragraphs 52–53);

(b) time required for discussions with internal and external stakeholders (see paragraphs 54–55);

(c) implementation periods for other major IFRS Accounting Standards (see paragraphs 56–58); and

(d) the interaction of IFRS X with other recently published and forthcoming IFRS Standards (see paragraphs 59–61).

Time required to gather information and change IT systems

52. Feedback on the time required to gather information to apply the requirements in IFRS X and the changes required to IT systems was mixed (see paragraphs 15, 19, 22(b) and Appendix C). In order to understand the feedback on the changes required

to IT systems we also conducted limited outreach with IT specialists which is summarised in Appendix D.

53. Our key observations based on the feedback are:

(a) some entities may not need much time to apply IFRS X, for example, entities that already provide detailed disclosures for non-GAAP measures and have systems that can easily facilitate additional disaggregation and the new structure of statement of profit or loss.

(b) for other entities, changes to IT systems and data gathering processes may be required in order to obtain the necessary information, for example entities with different and legacy systems. The extent of changes and time needed to change IT systems and data gathering systems vary by entity, depending on the system(s) they use, their internal capabilities and their consolidation processes.

(c) if system changes are required, the necessary changes would generally need to be implemented before the start of the comparative period(s).

Time required for discussions with internal and external stakeholders

54. Some stakeholders that requested a minimum two-year transition period said that they required time to discuss the requirements in IFRS X with internal and external stakeholders, including remuneration committees, lenders, auditors and regulators (see paragraph 15). For example, during limited outreach some stakeholders said that:

(a) changes would be required to remuneration policies and debt covenants that are linked to metrics in the statement of profit or loss and that the changes would require negotiation and approval from the relevant stakeholders; and

(b) the proposed disclosures for management performance measures would require the most discussion between preparers and auditors because alternative performance measures and non-GAAP measures disclosed today are often not subject to audit.

55. We note that the extent of the discussions required and the time required for those discussions would be entity-specific.

Implementation periods for other major IFRS Accounting Standards

56. Some stakeholders asked the IASB to consider the implementation periods of other major IFRS Accounting Standards when determining the effective date for IFRS X (see paragraph 17). Appendix B contains a summary of the implementation periods for major IFRS Accounting Standards published in recent years.

57. The effective date for each of the IFRS Accounting Standards listed in Appendix B was determined based on the facts and circumstances for each project. Each project also resulted in changes in recognition and measurement requirements and had a unique combination of transition requirements.

58. IFRS X will result in changes to presentation and disclosure throughout the financial statements, with the most impact on the statement of profit or loss. We think that the IASB should determine the implementation period and effective date for IFRS X considering the facts and circumstances specific to IFRS X and that alignment with the implementation periods for other major IFRS Accounting Standards is not required.

Interaction of IFRS X with other recently published and forthcoming IFRS Standards

59. Some stakeholders asked the IASB to consider other IFRS Standards that entities are required to apply in the next few years, when determining the effective date of IFRS X (see paragraph 19(a)). We note that entities have applied all major IFRS Accounting Standards listed in Appendix B that were published in recent years.

60. The IASB will consider the effective date for the forthcoming IFRS Accounting Standard on *Subsidiaries without Public Accountability: Disclosures* at this meeting (see Agenda Paper 31A *Effective date and Transition* of this meeting). The IASB may like to consider aligning the effective dates of these two Accounting Standards so that eligible entities can apply the new requirements together. However, such alignment is not required in order for an entity to apply the requirements of IFRS X.

61. In June 2023, the ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related*

Disclosures with an effective date of 1 January 2024. We acknowledge that some entities may need to consider the implementation of IFRS S1 and IFRS S2 at the same time as IFRS X. However, this would not be the case for all entities that would be required to apply IFRS X.

Staff conclusions, staff recommendations and questions for the IASB

62. On balance, we recommend that the IASB sets the effective date for IFRS X as 1 January 2027 with early application permitted (see paragraphs 63–66). We also recommend the IASB confirm the proposals in the Exposure Draft to require an entity to:

    (a) apply IFRS X retrospectively in accordance with IAS 8 (see paragraph 25); and

    (b) present each of the headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports in the first year of application of IFRS X (see paragraph 32).

63. We acknowledge that:

    (a) some entities in some jurisdictions may be able to apply IFRS X before 1 January 2027 and may indeed apply it before 1 January 2027; and

    (b) an effective date of 1 January 2026 would respond to the requests from users of financial statements to see entities apply IFRS X to their financial statements as soon as possible (see paragraph 22(d)).

64. However, we think that there is sufficient evidence to indicate that some entities are likely to require at least two years to implement the changes required to apply IFRS X and that an effective date of 1 January 2027 would be more appropriate, considering endorsement and translation processes, changes to regulatory requirements, changes to data collection processes and IT systems, as well as discussions with internal and external stakeholders.

65. Whilst the IASB could consider specific transition requirements to facilitate a shorter implementation period, this would introduce complexity for both users and preparers of financial statements. We also note that such an approach:

    (a) would not respond to the requests from users of financial statements to see all requirements in IFRS X implemented at once, with comparative information, as discussed in paragraph 22(c);

    (b) may result in some entities applying the transition requirements and other not which may create inefficiencies for users of financial statements as they would need to understand what requirements have or have not been applied;

    (c) may result in increased costs to preparers due to the inefficiencies that would arise in applying the requirements of IFRS X over an extend implementation period; and

    (d) would not reduce the time required for jurisdictions to complete the necessary steps to incorporate IFRS X into legal requirements as discussed in paragraphs 43–50.

66. Whilst jurisdictions and entities may be able to work towards applying IFRS X from 1 January 2026, setting this as effective date would have a higher risk of jurisdictions delaying the effective date of IFRS X or requesting that the IASB extend the effective date as has happened in the past with other major IFRS Accounting Standards. We think that an effective date of 1 January 2026 would require the IASB to continue to monitor and stand ready to consider delaying the effective date before or soon after publication of IFRS X. This would introduce uncertainty for stakeholders and may disrupt smooth implementation of IFRS X. We think certainty of the implementation period is important for an Accounting Standard that is going to have a pervasive effect on the financial statements of every entity that applies IFRS Accounting Standards. Therefore, we recommend that the IASB require an entity to apply IFRS X for annual periods beginning on or after 1 January 2027 with early application permitted.

Question for the IASB
1. Does the IASB agree to with staff recommendations to: (a) require an entity to apply IFRS X for annual periods beginning on or after 1 January 2027 with early application permitted; (b) confirm the proposal in the Exposure Draft to require an entity to apply IFRS X retrospectively in accordance with IAS 8; and (c) confirm the proposal in the Exposure Draft to require an entity to present each of the headings and subtotals required by IFRS X in condensed financial statements in interim financial reports in the first year of application of IFRS X?

Disclosure requirements in IAS 8

67. The Exposure Draft did not consider any transition requirements for the disclosures in IAS 8 (see paragraph 13 and Appendix A). In particular, the requirement in paragraph 28(f) of IAS 8 that requires an entity to disclose the amount of adjustments to each financial statement line item affected by a new IFRS Accounting Standard in the reporting period when a new IFRS Accounting Standard is first applied and any prior period presented. This section is structured as follows:

(a) disclosure requirements on initial application of an IFRS Accounting Standard (see paragraphs 68–71);

(b) disclosure requirements for IFRS Accounting Standards that are issued but not yet effective that an entity has not applied (see paragraphs 72–74); and

(c) staff recommendations and question for the IASB (see paragraph 75).

Disclosure requirements on initial application of an IFRS Accounting Standard

68. Some IFRS Accounting Standards and amendments to IFRS Accounting Standards have provided transition requirements for paragraph 28(f) of IAS 8. Examples include:

(a) amendments to IFRS 10 *Consolidated Financial Statements* for investment entities (see paragraph C2A of IFRS 10), IFRS 15 *Revenue from Contracts* *with Customers* (see paragraph C4 of IFRS 15) and amendments to IAS 41 *Agriculture* for bearer plants (see paragraph 63 of IAS 41) which requires an entity to provide the quantitative information in paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application and permits, but does not require, this information in the reporting period when the requirements are first applied or for earlier comparative periods;

(b) IFRS 16 *Leases* (see paragraph C12 of IFRS 16) which provides disclosure requirements on transition instead of the requirements in paragraph 28(f) of IAS 8; and

(c) IFRS 17 *Insurance Contracts* which permits an entity to not provide the disclosures required in paragraph 28(f) of IAS 8 (see paragraph C3(a) of IFRS 17).

69. As IFRS X impacts on presentation and disclosure, we think that the IASB should provide a specific disclosure requirement in IFRS X that clarifies how the requirement in paragraph 28(f) of IAS 8 should be applied on initial application of IFRS X. We think that, instead of the requirement in paragraph 28(f) of IAS 8, the IASB should require that entities disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 and IFRS X.

70. We note that if this reconciliation were to be required for the reporting period when IFRS X is first applied:

(a) entities would be required to maintain systems applying the requirements in IAS 1 for the duration of the year of initial application which would increase implementation costs; and

(b) such a disclosure is expected to be of limited benefit as IFRS X is required to be applied retrospectively.

71. Therefore, we recommend that the IASB require this disclosure for the annual period immediately preceding the date of initial application and permits, but does not require,

this disclosure for the reporting period when IFRS X is first applied or for earlier comparative periods presented.

Disclosure requirements for IFRS Accounting Standards that are issued but not yet effective that an entity has not applied

72. IAS 8 also contains disclosure requirements for IFRS Accounting Standards that are issued but not yet effective that an entity has not applied (paragraphs 30-31 of IAS 8). They require an entity to disclose the known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS Accounting Standard will have on the entity's financial statements in the period of initial application.

73. We note that some entities present subtotals, such as operating profit or loss, which are labelled with the same labels as required subtotals in IFRS X, applying the requirements in IAS 1. Therefore, during the period from the publication date to the effective date of IFRS X, some entities may be presenting operating profit or loss that is not calculated in accordance with IFRS X.

74. The longer the period between the publication and effective date of IFRS X, the more possibility that there will be entities presenting operating profit or loss in accordance with IFRS X by applying IFRS X early and entities presenting operating profit or loss based on their own definitions applying IAS 1. In addition to the general requirements in paragraphs 30–31 of IAS 8, we think that the IASB should introduce a specific disclosure requirement that requires an entity to disclose the fact that subtotals presented which are labelled the same as required subtotals in IFRS X may not be the same as the subtotals had the requirements in IFRS X been applied.

Staff recommendations and question for the IASB

75. Based on the analysis in paragraphs 67–74, we recommend that the IASB:

(a) introduce a transition requirement that requires an entity to disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 and IFRS X for the annual period immediately preceding the date of initial application of IFRS X and permit, but not require, this disclosure for the reporting period when IFRS X is first applied or for earlier comparative periods presented. This disclosure would be required instead of the disclosure requirement in paragraph 28(f) of IAS 8; and

(b) require an entity, that has not applied IFRS X before its effective date, and presents subtotals which are labelled the same as subtotals in IFRS X, to disclose the fact that subtotals presented may not be the same as the subtotals had the requirements in IFRS X been applied.

Question for the IASB
2. Does the IASB agree to with staff recommendations in paragraph 75?

First-time adopters of IFRS Accounting Standards

76. IFRS 1 does not provide exemptions from presentation and disclosure requirements in other IFRS Accounting Standards (see paragraph 20 of IFRS 1). IFRS 1 contains all the transition requirements applicable for a first-time adopter preparing its first annual and interim financial statements in accordance with IFRS Accounting Standards. A first-time adopter does not apply the transition requirements of individual IFRS Accounting Standards unless specifically required to do so (see paragraph 9 of IFRS 1).

77. Paragraph 2(b) of IFRS 1 requires an entity to apply IFRS 1 to each interim financial report, if any, that it presents in accordance with IAS 34 for part of the period covered by its first IFRS financial statements. Therefore, in order for an entity to apply the headings and subtotals in IFRS X in its first condensed financial statements, we recommend that the IASB require that the transition requirement in paragraph 118 of Exposure Draft to present each of the headings and subtotals required by IFRS X in

condensed financial statements provided in interim financial reports is also applied by first-time adopters of IFRS Accounting Standards.

78. However, we do not think the specific disclosure requirement recommended in paragraph 75(a) would be required for a first-time adopter of IFRS Accounting Standards because IFRS 1 requires an entity to disclose:

(a) an explanation of how transition from previous GAAP to IFRS Accounting Standards affected its reported financial position, financial performance and cash flows (see paragraph 23 of IFRS 1); and

(b) a reconciliation of the statement of profit or loss to the latest period in the entity's most recent annual financial statements applying previous GAAP (see paragraph 24(b) and IG example 11 of IFRS 1).

Question for the IASB

3. Does the IASB agree with the staff recommendation to require first-time adopters of IFRS Accounting Standards to apply the transition requirement in paragraph 118 of the Exposure Draft to present each of the headings and subtotals required by IFRS X in condensed financial statements provided in interim financial reports for part of the period covered by its first IFRS financial statements?

Appendix A—Disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

A1. This appendix includes the requirements in paragraphs 28, 30 and 31 of IAS 8.

> **28** When initial application of an IFRS has an effect on the current period or any prior period, would 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 entity shall disclose:
>
> (a) the title of the IFRS;
>
> (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
>
> (c) the nature of the change in accounting policy;
>
> (d) when applicable, a description of the transitional provisions;
>
> (e) when applicable, the transitional provisions that might have an effect on future periods;
>
> (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
>
> (i) for each financial statement line item affected; and
>
> (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
>
> (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
>
> (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of

how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30 When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

31 In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new IFRS;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the IFRS is required;

(d) the date as at which it plans to apply the IFRS initially; and

(e) either:

(i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Appendix B—Effective dates for other major IFRS Accounting Standards

B1. The table below lists the publication date and the effective date of recent IFRS Accounting Standards that respondents mentioned in their comment letters. All standards permitted early application with a unique combination of transition requirements.

IFRS Accounting Standard	Publication date	Effective date	Implementation period
IFRS 9 *Financial Instruments*[2]	July 2014	1 January 2018	Three years and five months
IFRS 15 *Revenue from Contracts with Customers*	May 2014	1 January 2018[3]	Three years and seven months
IFRS 16 *Leases*	January 2016	1 January 2019	Three years
IFRS 17 *Insurance Contracts*	May 2017	1 January 2023[4]	Five years and seven months

[2] IFRS 9 (2014) was issued as a complete standard including the requirements previously issued in 2009 for classification and measurement of financial assets, 2010 for classification and measurement of financial liabilities and 2013 for hedge accounting.

[3] The effective date for IFRS 15 was extended by one year. The original effective date was 1 January 2017.

[4] The effective date for IFRS 17 was extended by two years. The original effective date was 1 January 2021.

Appendix C—Summary of the feedback on transition and effective date from IFRS Foundation bodies and consultative groups

C1. This appendix provides a summary of the feedback on factors the IASB should consider in determining the transition period and effective date of IFRS X from the March and May 2023 meetings of the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC), the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG) [5].

C2. We asked members for input on:

(a) information needed to apply the requirements in IFRS X that is readily available;

(b) new information that will need to be gathered in order to apply the requirements in IFRS X and whether such information is likely to be easily obtainable;

(c) new information which is likely to require changes in systems and processes to gather and the extent of changes that are likely to be required;

(d) whether entities were planning to apply IFRS X earlier than the effective date; and

(e) for users of financial statements which proposals they would need comparative information for in the first year of application of IFRS X to fully realise the benefits of the proposal.

Readily available and new information

C3. Feedback from GPF, ASAF and EEG members on information that is expected to be readily available and information that would need to be gathered in order to apply the requirements in IFRS X was mixed. GPF members explained that for some entities most of the information needed to apply the requirements in IFRS X would be readily

[5] Papers and meeting summaries: Global Preparers Forum (GPF) Agenda Paper 1 and meeting summary, Capital Markets Advisory Committee (CMAC) Agenda Paper 2 and meeting summary, Accounting Standards Advisory Forum (ASAF) Agenda Paper 6 and meeting summary and the Emerging Economies Group (EEG) Agenda Paper 4 and meeting summary.

available, but for other entities changes to IT systems and data gathering processes would be required in order to obtain the necessary information. The extent of changes needed to IT systems and data gathering systems vary by entity.

C4. One GPF member said that the remapping of accounts in the consolidation system cannot be done retrospectively. Another GPF member noted that in cases where the necessary IT systems rely on third-party vendors, some vendors may not have sufficient capacity to make the necessary changes to an entity's IT systems for several years.

C5. Examples given by GPF, ASAF and EEG members that had mixed feedback included:

(a) the requirements to classify income and expenses in categories in the statement of profit or loss. For some entities the proposed requirements in IFRS X are similar to the current presentation used in the statement of profit or loss and limited changes would be required, but for other entities the new structure of the statement of profit and loss differs greatly to the current presentation format and significant changes in IT systems and processes would be required;

(b) the disclosure requirements for management performance measures. For example, some entities provide the tax effect on reconciling items for alternative performance measures they currently disclose and would not need to gather new information to apply the requirements for management performance measures in IFRS X, but other entities that do not currently provide this information would need to change their systems and processes in order to gather new information; and

(c) the revised requirement to disclose operating expenses by nature. For some entities information about operating expenses by nature would be easily obtainable because they are required to disclose this information applying local laws and regulations, but for other entities new information would need to be gathered.

C6. Other changes to systems and processes that would be needed that were identified by GPF, ASAF and EEG members included:

(a) the change in starting point for the presentation of cash flows from operating activities using the indirect method in the statement of cash flows; and

(b) the requirements for disaggregation.

C7. For example, one GPF member said that the items included in general accounts such as 'other operating income/expenses' and 'other finance income/expenses' of each group company will need to be checked because these accounts may contain items which would be required to be classified in different categories in the statement of profit or loss.

Entities that plan to apply IFRS X prior to the effective date

C8. A few GPF members said that they are considering applying IFRS X prior to the effective date. Their reasons included:

(a) the information required to apply the proposals is readily available;

(b) they would like to obtain the benefits of better communication on management performance measures;

(c) implementing IFRS X will help to facilitate the required changes to systems for other projects, such as the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and

(d) the proposed transition period would be sufficient to educate internal and external stakeholders.

C9. A few GPF members said that they will not consider applying the requirements in IFRS X prior to the effective date. Their reasons included:

(a) losing comparability if peers in the industry are not applying IFRS X;

(b) the need to prioritise other projects, such as sustainability reporting; and

(c) the time needed to understand and apply the concepts in IFRS X.

C10. Two GPF members said that they will consider whether to apply IFRS X before the effective date based on whether other entities in the same industry are likely to apply

IFRS X before the effective date and the time taken for endorsement of IFRS X. Another GPF member said that to encourage entities to apply IFRS X before the effective date, the IASB should publish it in the first part of the year.

C11. Two ASAF members said that making the IFRS Accounting Taxonomy for IFRS X available at the same time as IFRS X would be important in facilitating application of IFRS X prior to the effective date.

C12. One ASAF member said that a few users did not want entities to apply IFRS X before the effective date because it would reduce comparability between entities. However, another ASAF member said that investors in their jurisdiction want to see financial statements applying IFRS X as soon as possible.

C13. Some EEG members said that some entities in their jurisdiction would consider applying IFRS X prior to the effective date because IFRS X would result in more useful information for users of financial statements.

Comparative information for in the first year of application of IFRS X

C14. CMAC members said that they would like to have comparative information for at least one year for all the requirements for the first year of application of IFRS X. One member said that comparative information for three years would be helpful for trend analysis.

C15. One ASAF member said that some users have requested that, when an entity first applies IFRS X, and in order to maintain the time series of information, it should be required to provide a reconciliation from the old to the new presentation in the statement of profit or loss.

Other comments from GPF, ASAF and EEG members

C16. A few GPF and ASAF members said that in determining the effective date the IASB should give consideration to the proposed requirements to apply IFRS X retrospectively in accordance with IAS 8 and in interim financial statements.

C17. A few EEG members said that a longer transition period should be given to smooth transition for small and medium sized entities.

C18. One GPF and one EEG member said that management performance measures are a new concept in that member's jurisdiction and that time will be required to check whether the requirements for management performance measures are consistent with current regulations.

C19. A few GPF members noted that the new requirements would affect budgeting and forecasting, internal reporting, strategic planning and internal controls which are linked to the financial reporting system. They said that time would be required to change these processes and educate employees on the changes.

Appendix D—Summary of limited outreach with IT specialists

D1. This appendix provides a summary of the limited outreach feedback from IT specialists on the possible changes that may be required in order to apply the requirements in IFRS X.

Extent of IT changes required

D2. IT specialist explained that the IT starting point for each entity is unique and the extent of IT changes required by IFRS X will be unique to each entity. Some entities may have recently upgraded systems making changes easier to implement.

D3. The level of IT expertise in each entity also varies. Some entities may be able to make the changes required inhouse and others will require support from external vendors. The extent of input needed from external vendors will also vary and some external vendors may need to make changes to the consolidation systems they provide to customers.

D4. For example, in some jurisdictions external vendors provide consolidation systems to customers that were developed based on local reporting practices and to comply with regulatory requirements that differ to the requirements in IFRS X. Fundamental changes to these systems would be required for some of the requirements in IFRS X, such as changes to the structure of the statement of profit or loss and the starting point for operating cash flows when using the indirect method for reporting cash flows from operating activities in the statement of cash flows.

D5. IT changes required for IFRS X differ to those required for other major IFRS Accounting Standards that resulted in changes to recognition and measurement requirements. For example, IFRS Accounting Standards that result in a change in measurement of assets or liabilities may require new modules to be created to make the required calculations, but do not result in extensive changes to the mapping of accounts within a consolidation system that may be required by IFRS X.

D6. The level of automation in accounting systems varies. For example, some entities have fully automated systems with all entities in the group using the same accounting system, some entities have several different systems connected by an application programming interface (API) and some entities have different systems for each entity in the group with each entity reporting to the parent using Excel based reporting packages. Fully automated systems are designed to capture information and process it prospectively. They are not designed for changes to be made retrospectively.

Possible changes required for specific proposals

D7. Some entities may need to add new accounts to the chart of accounts to meet the disaggregation requirements and the requirements to classify income and expenses in categories in the statement of profit or loss (see paragraph C7). For example, some income and expenses that are captured in a single account today, such as other income, may need to be captured in more than one account so that they can be classified in the relevant categories of the statement of profit or loss or disaggregated in the notes.

D8. When entities in the group use different accounting systems the level of granularity of the chart of accounts often differs. For example, if new accounts need to be added to capture the required information and an API is used to connect the systems, then it will also need to be adjusted for the new accounts. Such changes cannot be made retrospectively as the system did not previously capture the required information.

D9. In addition to changes to the chart of accounts, some entities may also need to make changes to IT system functionalities to allocate items, such as foreign exchange differences, to each category in the statement of profit or loss.

Time required to implement IT changes

D10. For entities subject to reporting and audit requirements for internal controls over financial reporting, initial testing of IT system changes is required before the start of the reporting period as IT controls are required to be effective for the duration of the reporting period. If system changes are not made at the start of the reporting period, IT control testing is required for the new and the existing system. Excel workarounds for things which are currently automated would require new internal controls testing.

D11. While the extent of changes required to IT systems and the time to implement those changes will vary by entity, IT system changes would generally be undertaken in the following steps:

(a) Step 1: the entity considers the new requirements in IFRS X and discusses changes with internal and external IT specialists;

(b) Step 2: changes to the IT system made in a test environment;

(c) Step 3: pilot testing of IT system changes;

(d) Step 4: system changes go live at the start of the comparative period and old and new systems operate in parallel during the comparative period (IT controls testing conducted on the comparative period); and

(e) Step 5: new system fully operational and old system is stopped during the year of initial application.

Appendix E—Illustration of the timeline for the transition to IFRS X

E1. The figures below illustrate the timeline for the transition to IFRS X for an entity with a calendar year end and half-yearly interim financial reporting assuming that IFRS X is published in the first half of 2024.

Figure 1: Illustration for effective date of 1 January 2026

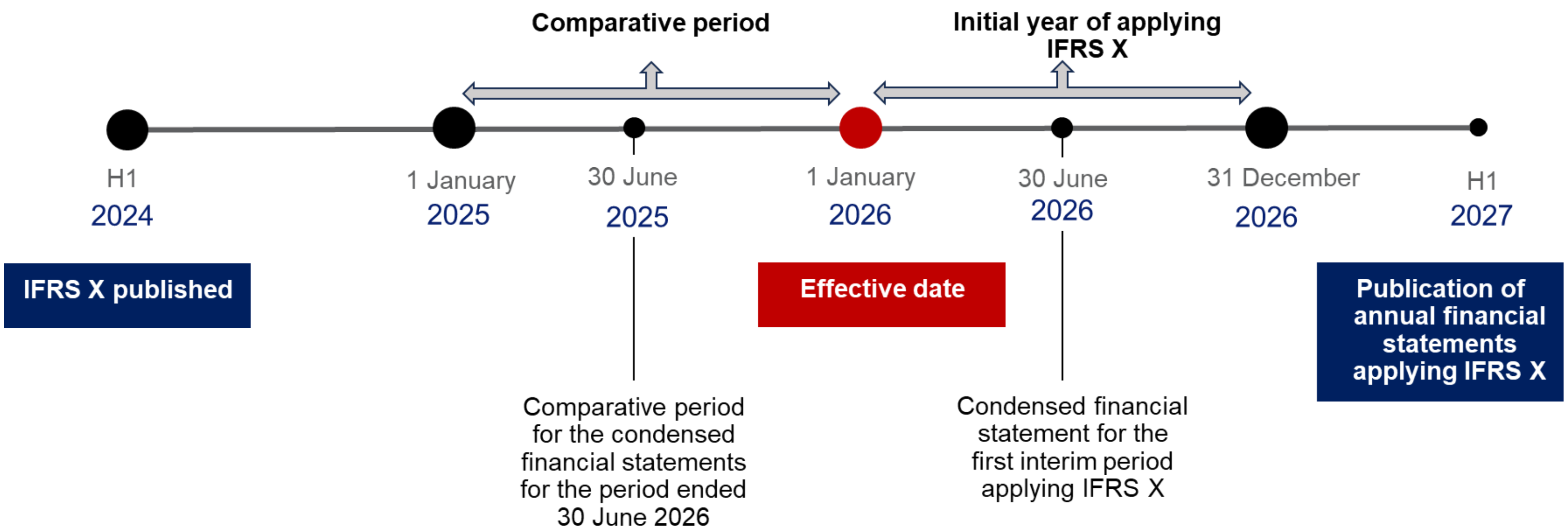

Figure 2: Illustration for effective date of 1 January 2027