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International  
Accounting Standards  
Board

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*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## INFORMATION FOR OBSERVERS

**Board Meeting:** 11 March 2008, London

**Project:** ED Annual improvements process–Comment analysis

**Subject:** IAS 8 Status of the Implementation Guidance (Q7)  
(Agenda paper 8H)

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### Introduction

- 1 This purpose of this agenda paper is to summarise the staff's analysis of the comments received on the proposal in Question 7 of the annual improvements ED, which proposed to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify that consideration of the various forms of implementation guidance is not required.

### Staff recommendation

- 2 The staff recommends that the Board proceed with amendments to paragraphs 7 and 11 to IAS 8 and redraft the amendment to paragraph 9 of IAS 8 to take into consideration the varying context and weight of implementation guidance between different standards. Proposed wording is included in Appendix B to this agenda paper.

### Background

- 3 The concerns that led to the proposal related to the confusion over paragraph 7 of IAS 8, which currently reads as follows (emphasis added):  
**'When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item**

**shall be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation.**

- 4 The constituents who brought this matter to our attention noted that, as this paragraph is in bold-type, there is a misconception that it is more important than and thus overrides IAS 8.9. They also reported that some misinterpreted this to suggest that IAS 8 requires the mandatory application of all Implementation Guidance. At a minimum, the paragraphs appear to be in conflict.
- 5 In the February 2007 meeting, the Board confirmed that its intention is for all Implementation Guidance to be non-mandatory, and decided to amend IAS 8.7 to state the position beyond doubt. This results in the ED proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify that implementation guidance published in IFRSs does not form part of those IFRSs, and therefore does not contain requirements for financial statements.

### **Comment Analysis**

- 6 Of the 75 comment letters received by the Board, 56 commented on this issue. Respondents generally agreed with the Board's position that implementation guidance is non-mandatory. However, additional comments are summarised below.
- 7 Some respondents felt that the existing wording in paragraph 9 is sufficiently clear and not likely misinterpreted.<sup>1</sup> Some expressed concerns that over-emphasising the non-mandatory nature of implementation guidance could unnecessarily devalue the status of such guidance.<sup>2</sup> Consequently, the proposal may go beyond a clarification, and risk the unintended consequences of changing practice, creating diverging application.
- 8 For example, the comment letter from KPMG stated that the proposal 'could be read as a deliberate move by the Board to reduce the interpretive weight carried by Implementation Guidance, and not just a clarification'. Its letter also provided examples of these circumstances from practice.<sup>3</sup>
- 9 Noting that the interpretative weight of implementation guidance varies between standards and depends on context, these respondents believed that

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<sup>1</sup> CL 14, 23, 51, 58, 75

<sup>2</sup> CL 14, 28, 47A, 75

<sup>3</sup> CL 47A

the wording used to clarify the Board’s position should not excessively downgrade the status of such guidance.

- 10 Other respondents<sup>4</sup> noted that the Board should clarify the status of implementation guidance within certain sections of other IASB documents, not just IAS 8, to avoid similar misinterpretation. These include paragraph 41 of the *Due Process Handbook* that refers to ‘mandatory application guidance and implementation guidance’, and the preface to the IFRSs that refers to the scope and authority of IFRSs’ paragraphs in bold and plain types.
- 11 The staff notes that these suggested changes to other IASB documents may be more appropriately incorporated when such documents are being revised in the future.
- 12 The comments received and analysis above indicate that the proposed amendment to IAS 8 received broad support although some respondents find that the amended text as currently proposed may result in unintended consequences beyond the clarification the Board intended.
- 13 The staff agrees that the Board’s revised wording should adequately address the two main concerns from constituents about this proposal, which are:
- a. Removing the potential misinterpretation that Implementation Guidance is mandatory, and that it must be considered;
  - b. Avoiding over-emphasis on the non-mandatory nature of the Implementation Guidance and downgrade its status beyond the Board’s intention.
- 14 The staff has considered two potential changes to the ED proposal, as drafted in Appendices 1 and 2 to this agenda paper, respectively.

**View A – Retain paragraph 9 to IAS 8 largely unamended; and proceed to amend only paragraphs 7 and 11 to IAS 8 (draft wording is in Appendix A to this agenda paper).**

Supporters of this view recalled that the original submission to the Board cited the potential confusion as stemming from the last sentence of paragraph 7 that is in bold type. The proposal will remove references in paragraphs 7 and 11 that may create potential conflict. Because readers find the existing

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<sup>4</sup> CL 38, 44, 73

wording in paragraph 9 to be clear and not likely misinterpreted, and concerns raised by respondents mostly stemmed from the proposed amendment to paragraph 9, retaining this wording largely unamended would suffice.

**View B – Redraft the amendment to paragraph 9 to IAS 8 to take into consideration the varying context and weight of the different types of guidance between standards; and proceed with amendments to paragraphs 7 and 11 to IAS 8 (draft wording is in Appendix B to this agenda paper).**

Supporters of this view believe that by listing the specific types of guidance currently in IFRSs, the proposed amendment to paragraph 9 could create similar confusion about the status of different guidance in IFRSs, such as a new type of accompanying document to IFRSs being used in the future. All guidance states clearly whether it is an integral part of IFRSs. If so, it is mandatory. Removing a list of specific guidance could also take into consideration the varying context and weight of the different types of guidance between standards.

Redrafting the amendment to paragraph 9 would also address concerns about the current proposal. Current proposed changes to paragraph 9 also emphasized that implementation guidance is not mandatory, which raised the concern that this over-emphasis could be misinterpreted as the Board's deliberate intention to discourage reference to Implementation Guidance.

15 The staff recommends **View B**, to redraft the amendment to paragraph 9 to IAS 8 to take into consideration the varying context and weight of implementation guidance between different standards; and proceed with amendments to paragraphs 7 and 11 to IAS 8.

16 **Does the Board agree with the staff's recommendation?**

17 **Does the Board have any drafting comments on its preferred alternative?**

## **Appendix A – Drafting for View A**

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[Omitted from observer notes]

## **Appendix B – Drafting for View B**

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[Omitted from observer notes]