STAFF PAPER

March 2012

IASB Meeting

Project	**Effective date and transition methods**
Paper topic	Disclosure requirement on transitional provisions when there is a mandatory change in accounting policy

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Purpose of the paper

1. After the Board's last discussion on effective dates and transition, we were contacted by some constituents regarding the disclosure requirements in IAS 8 *Accounting Policies, Changes in Estimates and Errors*. They raised issues relating to the disclosures required on transition to a new accounting policy when a new IFRS takes effect.

Summary of the issues

2. Issue 1: On initial application of an IFRS, IAS 8 requires an entity to disclose the amount of the adjustment for the current period presented. When an entity is applying new IFRSs on a retrospective basis, some constituents noted that applying this disclosure may require an entity to apply both the previous and new IFRSs on a parallel basis to determine the amount of the adjustment in the current period. They asked whether this was the objective of the requirement.

3. Issue 2: IAS 8 requires entities to apply new or amended IFRSs on a retrospective basis; unless the Board decides to give some exceptions in the form of transitional provisions. IAS 8 requires an entity to disclose (a) a description of

any applicable transitional provisions; and (b) the effect that those transitional provisions may have on future periods. Some constituents have asked whether IAS 8 intended that entities should provide quantified information to explain the effect of the transitional provision on future periods.

Summary of the staff recommendation

4. We recommend amending paragraph 28 in IAS 8:

   (a) Issue 1: so that an entity is not required to disclose the amount of adjustment for the current period presented on initial application of an IFRS; and

   (b) Issue 2: to be clear that entity is only required to provide a narrative description on applicable transitional provisions. If those transitional provisions may have an effect on future periods, that fact should be disclosed. We also recommend providing additional guidance on how that disclosure should be applied.

Issue 1: Disclosure of the amounts adjusted as a result of a change in accounting policy in the period of adoption

5. On initial application of an IFRS or when there is a voluntary change in accounting policy, IAS 8 in paragraph 28(f) and 29(c) requires the disclosure of the *amount of the adjustment* for:

   (a) each financial line item affected for each period presented (current and prior periods) if applying that IFRS; and

   (b) if IAS 33 *Earnings per Share* applies, for basic and diluted earnings per share,

   when applying the new IFRS or when the change in accounting policy:

   - has an effect on financial information in the current period;
   - could have had an effect on the financial information on any prior period; or

- might have an effect on financial information on future periods.

6. A constituent asked whether, when an entity initially applied an IFRS, that entity was intended to apply the previous IFRS and the revised IFRS on a parallel basis to determine the amount of adjustment *for the current period*. For example, does the Board intend entities to apply IAS 39 as well as IFRS 9 in 2015 when IFRS 9 is required to be applied for the first time?

Staff analysis

7. To obtain the amount of adjustment when there is a change in an accounting policy in the current reporting period, an entity would have to maintain two systems—one complying with the new IFRS and the other applying the old requirements. We reviewed some annual reports for entities applying IFRIC 12 *Service Concession Arrangements* for the first time and noted that entities had to do so to comply with IAS 8. IFRIC 12 was chosen because that was one of the changes to IFRSs whereby affected entities might have been required to change their accounting systems and accounting policies to comply with the new requirements.

8. We think that this disclosure on the amount of adjustment for the current period could be useful information:

   (a) For applying new IFRSs: users would be able to compare the effect of any changes arising from applying new IFRSs or when there is a voluntary change in accounting policy. This is particularly so when we think that many entities may apply new IFRSs in the same period.

   (b) Maintaining two sets of results can also be useful for management in explaining and understanding the results under the new policy.

9. However we question whether the benefits of *requirin*g an entity to disclose the effect of the change in the period of application for the current period and requiring an entity to maintain two systems would exceed the costs. We also think that if an entity is applying new IFRSs or has changed its accounting policy on a retrospective basis, the entity can readily disclose the amount of the

adjustment for previous periods presented and we question whether a second year of quantification of the effect of the change in policy is necessary.

10. Consequently, we recommend that the Board *should not require* an entity to disclose the amount of the adjustment on the current period of change.

11. We also think that disclosures of the amount of adjustment relating to prior periods should continue to be a requirement. This is because when an entity applied a new or an amended IFRS retrospectively, it would have to adjust its comparative information for each prior period presented. The entity would already have the information to reconcile the previous requirement and the new requirements. Consequently, we take the view that the existing requirement to disclose the amount of adjustment relating to prior periods would not be incrementally costly to preparers. However, this information would be relevant to users to update their models on the entity's financial information.

Issue 2: Disclosures about the effect of transitional provisions

12. As noted above, IAS 8 requires an entity to apply changes in an accounting policy when it applied an IFRS on a retrospective basis, unless individual IFRSs gave different transitional provisions from applying retrospective application.

13. Paragraph 28(e) in IAS 8 requires an entity to explain the effects (on future reporting periods) of applying transitional provisions if retrospective application was not applied.

14. We received a question from a constituent asking if there is relief from disclosing the effect on future periods of applying transitional provisions when applying a new IFRS, if the entity is unable to determine the effects of those transitional provisions.

Staff analysis

15. We think that in some situations, a narrative disclosure about the effects of applying transitional provisions on future reporting periods can be useful. For

example the Board amended IAS 23 *Borrowing Costs* to require entities to capitalise borrowing costs, when previously entities were allowed to recognise borrowing costs as an expense. To make the transition to the revised IAS 23, an entity was allowed to capitalise borrowing costs for some types of assets from the effective date of the revised IAS 23 (prospectively) rather than applying the revised IAS 23 retrospectively. The previous requirements of IAS 23 permitted a policy choice, so explaining how the transition provisions had affected a particular entity's results would assist in making comparisons of that entity's results with those of other entities that might have previously followed the other policy choice.

16. We note that in order to provide more comparable information, an entity would have to apply IAS 23 on a retrospective basis, which was not what the Board intended to give relief from in the first place.

17. Examples of other situations in which an entity may not be able to provide meaningful disclosures about the potential effect of applying transitional provisions could be in cases in which the Board provided an exception or exemption to recognition or measurement from applying a new or amended IFRS retrospectively. For example:

    (a) if the Board allowed an entity to apply hindsight when applying a new standard retrospectively; or

    (b) if, for example in the Leases project, the Board proposed that an entity should apply one interest rate for all outstanding leases rather than determining a specific interest rate for each outstanding lease contract.

18. In order to require a quantitative disclosure of the effects of the transition guidance, the entity would need to calculate what the results would have been without the relief from the transitional provisions. We think that requiring entities to disclose the effects of those exceptions or exemptions would be contrary to the Board's purpose in giving the reliefs in the first place. Consequently, we recommend that the Board should delete this disclosure requirement.

Staff recommendation

Question 1
We recommend clarifying that entity is only required to provide a narrative disclosure on applicable transitional provisions. If those transitional provisions may have an effect on future periods, that fact should be disclosed. Do you agree?

Question 2
We recommend that an entity should not be required to disclose the amount of adjustment on the current period when an IFRS is initially applied or when there is a change in accounting policy. Do you agree?