STAFF PAPER

21 May – 25 May 2012

IASB Meeting

Project	**Effective dates and transition methods**
Paper topic	Disclosure about information relating to periods earlier than the required preceding period

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Purpose of the paper

1. We have received questions about the requirements in IFRSs to adjust comparative information when an entity applies an accounting policy retrospectively. The questions relate to whether:
   (a) an entity that presents more than one year of comparative information should adjust the information for those additional earlier years; and
   (b) information included in historical summaries (e.g. 5-year summaries) presented with financial statements should also be adjusted.
2. We recommend amending the requirements of IAS 8:
   (a) to specify that an entity needs to adjust the comparative information only for the preceding period; and
   (b) to remove the current guidance referring to adjustment of historical summaries of financial data.

Staff analysis and recommendation

3. When a change in accounting policy is applied retrospectively, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that entities should

adjust information about prior periods, such as historical summaries of financial data, as far back as is practicable (IAS 8 paragraph 26).

4. IAS 8 paragraph 22 requires entities to adjust the comparative amount for each prior period presented as if the new accounting policy had always been applied. Consequently, there is a view that entities are required to adjust *all* financial information disclosed. Such financial information could consist of information disclosed in the “primary financial statements” or in the notes that relate to periods earlier than the minimum comparative period as specified in IAS 1 *Presentation of Financial Statements*, or information contained in management commentary such as historical summaries.

Comparative information related to information earlier than the preceding year

5. Currently some regulators (eg in Europe, Canada and in the United States) require some entities to provide an additional year of comparative information.

6. Some constituents, particularly preparers, have informed us that the cost to adjust the additional comparative information beyond that currently required in IFRSs in accordance with the new accounting policy outweighs the benefits that it brings. We are also told that it imposes an operational burden that is significant, especially for those changes in policies that have a pervasive effect on an entity’s financial reporting, eg revenue recognition or financial instruments. Consequently, there have been questions raised on whether IFRSs should be requiring entities to present adjusted comparative information beyond the minimum comparative period required by IAS 1.

7. The alternative point of view is that the Board should retain the existing requirements in which all comparative information within the financial statements must be adjusted to reflect the new accounting policy that is applied retrospectively. This is because it improves the comparability of the information presented when an entity presents more than the minimum required, thus improving the understandability of the information for users. .

8. However, we share the concerns about costs raised by the preparers. Consequently, ***we recommend that entities are only required to adjust the***

comparative information relating to the preceding period for the effects of the new accounting policy.

9. Our reasons are as follows:

   (a) IFRSs only require entities to present one comparative period of financial information. We view additional comparative information voluntarily provided by entities as helpful, but not necessary, additional information provided as a convenience to users.

   (b) The entity would still be applying the new accounting policy on a retrospective basis, but it would only reflect the cumulative adjustments as a consequence of applying the new policy from the beginning of the preceding period. This is consistent with the latest annual improvements to IAS 1 which clarify that the opening statement of financial position that is required when an entity changes its accounting policy should be presented at the beginning of the preceding period.

   We also note that limiting the requirement to adjust comparatives to the preceding period for changes in an accounting policy standardises the requirements for all IFRS preparers, regardless of how many years of comparatives they present, however we acknowledge that regulators and others might choose to extend these requirements for other reasons.

10. We note that our recommendation does not prohibit entities from adjusting comparatives for earlier periods.

11. If the Board agrees with our recommendation, ***we also recommend that entities are required disclose:***

   (a) ***whether additional comparative information presented is adjusted and to label it clearly; and***

   (b) ***a description of the previous accounting policy that had been applied for that financial information, if the additional comparative information has not been adjusted.***

Historical information disclosed

12. Some entities present historical information for some line items in their management commentary. There have been questions about whether entities are required to adjust those amounts to reflect a change in an accounting policy.

13. We note that IFRSs are applicable to information contained in financial statements. ***Consequently, we recommend clarifying that entities are not required to adjust financial information that is not contained in financial statements, eg five-year historical summaries that are disclosed in management commentary, for a change in accounting policy.***

Staff recommendations

Questions
(1) We recommend that entities are only required to adjust the comparative information relating to the preceding period for the effects of the new accounting policy. Do you agree? (2) If the Board agrees with the staff recommendation in Question 1, we recommend that the entity is required to disclose the following information: (a) whether additional comparative information presented is adjusted and to label it clearly; and (b) a description of the previous accounting policy that had been applied for that financial information if it has not been adjusted for the change in accounting policy. (3) We propose to clarify that an entity is not required to adjust financial information that is not contained in financial statements. Do you agree?