STAFF PAPER

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IASB Meeting

Project	**Effective date and transition methods**		
Paper topic	Disclosures on the quantitative effects of a required change in accounting policy		
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Purpose

1. We received questions about the disclosure requirement to quantify the effect on the current period of a change in accounting policy as a result of a change in IFRSs; in particular, some preparers and their auditors questioned whether the benefits of giving this disclosure for the current period outweigh the costs. We share their concerns and recommend removing that disclosure requirement from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Background to the disclosure requirements

2. Entities are required to apply changes in accounting policy retrospectively by default. The only exceptions to this are (a) if the Board requires a different approach, as set out in the transition guidance of an IFRS, or (b) if retrospective application is impracticable.

3. Applying a change in policy retrospectively means that the entity applies the new policy as if that new policy had always been applied (recognition, measurement, disclosure and presentation). Consequently, when the entity first applies the new policy, it adjusts all relevant prior period amounts and disclosures presented in the financial statements to comply with the new IFRS.

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4. IAS 8 sets out information to be disclosed when an IFRS requires a change in an accounting policy when the change has an effect on the past or current periods or might have an effect on future periods (the entire IAS 8 paragraph 28 is copied in Appendix A):

> (f) for the current period and each prior period presented, 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; …. .

Staff analysis

5. Paragraph 28(f) of IAS 8 requires entities to disclose the amount of the adjustment for affected financial statement line items for the current period of change and for each prior period presented.

6. Determining the amount to disclose in respect of prior periods is straight forward because the prior periods were presented on the basis of the old accounting policy in previous financial statements and the new accounting policy in the current year's financial statements. The amount of the adjustment is the difference between the two accounting policies.

7. However, the current period's financial information has only been prepared on the basis of the new accounting policy. Many preparers and auditors have interpreted the requirement in paragraph 28(f) that entities would need to calculate the effect of the "current period's amount of the adjustment" by applying the old policy to the current period's results in addition to the new policy.

8. We think that this disclosure about the quantitative effect for the current period could be useful:

   (a) Having more than one year's worth of information about the quantification of the effect of the change in policy would provide users with a better understanding of the impact of the effect of the new policy on the entity's financial results.

   (b) Knowing "what the results would have been under the old policy" can be helpful for management in explaining the effects of the new policy to users.

9. However, some preparers and auditors have told us that to prepare this information about the current period requires the entity to continue to maintain its former accounting systems just for the purpose of calculating this adjustment for the disclosure requirement.

10. We share the concerns raised that the costs of requiring an entity to prepare and disclose this information for the current period might outweigh the incremental benefit of doing so.

11. Consequently, we recommend removing the requirement that entities quantify the effect on the current period of a change in accounting policy as a result of a change in IFRSs.

Question for the Board

Question 1
We recommend removing the requirement that entities quantify the effect on the current period of a change in accounting policy as a result of a change in IFRSs. Do you agree?

Additional considerations: exceptions from retrospective application

12. We consider here the consequences of the preceding discussion on circumstances where the Board provides relief from retrospective application as part of the transition provisions in an IFRS. This discussion is based on the assumption that the Board agrees with the staff recommendation above to remove the requirement for an entity to quantify the effect on the current period of a change in an accounting policy as a result of a change in an IFRS.

13. The Board discusses transition requirements as part of the development of an IFRS. When circumstances require, the Board departs from the default retrospective application of the new IFRS and instead sets out tailored transition requirements.

14. The departure from (full) retrospective application set out in transition requirements might mean that comparative information is not adjusted when the IFRS is first applied. For example, the transition guidance might require that the new IFRS is applied only from the start of the current period. In this example, the comparative information is presented on the basis of the old accounting policy. When comparative information is not adjusted for compliance with the new IFRS, two questions arise:

    (a) Does paragraph 28 of IAS 8 require disclosure of the quantitative effects of the new policy on the preceding period?

    (b) When comparative information is not adjusted, should disclosure of the quantitative effects of the change in policy on the current period be required instead?

15. The default requirement of IAS 8 for retrospective application of a change in policy is automatically overridden by transition requirements included in an IFRS (paragraph 19 of IAS 8). This is not the case for the disclosures about the effect of a change in accounting policy because they apply whether or not there are transition requirements in an individual IFRS.

No adjustment of comparatives: Is disclosure of 'the amount of the adjustment for each financial line item affected' required for prior periods?

16. When transition requirements do not require adjustment of comparative information, there will be no amount to disclose in respect of this disclosure requirement for the preceding period because there is no adjustment. An example where entities are not required to adjust comparative information is in IFRS 9 *Financial Instruments.* The disclosure requirements are therefore consistent with the accounting requirements and we do not think that an amendment is needed to IAS 8.

No adjustment of comparatives: Should disclosure of 'the amount of the adjustment for each financial line item affected' be required for the current period?

17. We note that if there is no adjustment required to comparative amounts on the application of a new IFRS, there will be no disclosure of the quantitative effects for individual line items when there is a change in accounting policy. The question therefore arises: what information entities should disclose to inform users about the effects of the change in accounting policy. For example, should the Board require disclosure of the quantitative effects of the change in the policy on the current period?

18. We note that departures from retrospective application are determined on a case by case basis and for a variety of reasons. Therefore we think that any additional disclosure requirements should also be determined on a case by case basis. We do not think that the Board should develop additional default disclosures for circumstances in which it provides transition relief from retrospective application of an IFRS.

Question for the Board

Question 2
We recommend that no additional amendments be made to the disclosure requirements in IAS 8 for circumstances in which transition requirements do not require retrospective application. Do you agree?

Appendix A: Disclosure requirements for a change in accounting policy arising from application of an IFRS

A1. IAS 8 paragraph 28:

Disclosure

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.