STAFF PAPER

October 2012

IASB Meeting

Project	**IAS 8 - Effective date and transition methods**
Paper topic	Recommendation to withdraw the ballot draft

CONTACT(S) Alan Teixeira ateixeira@ifrs.org +20 7246 6442

Background

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, among other things, sets out the disclosure requirements for when an entity changes an accounting policy, whether that change is an election made by the entity or required by a new or amended IFRS. The requirements in IAS 8 can be thought of as the general, or default, transition requirements. They can be overridden by another IFRS, which might provide relief from some, or all, of IAS 8 or might add additional requirements that are specific to that new IFRS.

One of the requirements in IAS 8 is for an entity to disclose, to the extent practicable, the amount of the adjustment on the initial application of an IFRS for the current period and each prior period for each financial statement line affected (IAS 8.25(f)).

The feedback we received on the proposed amendments to IFRS 10 *Consolidated Financial Statements* relating to transition identified this requirement as being burdensome. Similar concerns were raised by some in relation to IFRS 9 *Financial Instruments*, in addition to questions about what exactly IAS 8.25(f) requires.

In May 2012 the IASB decided to give relief from IAS 8.25(f) on initial application of IFRS 10, having assessed that the cost of meeting that requirement was likely to exceed the benefits. At that meeting the IASB also discussed IAS 8 and tentatively agreed to remove the requirement in IAS 8.25(f) when the change is a result of a change in an IFRS. Instead, the IASB would decide on a case-by-case basis whether additional disclosures are needed when transition provisions for a new or amended IFRS do not require retrospective application rather than as part of IAS 8. The staff began the balloting process not long after the meeting.

During balloting of the proposed amendment to IAS 8 it became clear that more IASB members intended to dissent to the proposal than had indicated in the public session. Some IASB members also expressed a concern that the change would move IFRS away from US GAAP. The FASB had modified the US GAAP requirements to converge with IFRS.

In response to the matters raised during the balloting process, the staff began developing a modified proposal aimed at addressing the concerns of the dissenting IASB members while still providing some relief within IAS 8. The intention was to bring the modified proposal back to the IASB in a public meeting.

Financial Instruments – IFRS 9

The financial instruments project team had been monitoring the discussion about IAS 8. In the absence of an amendment to IAS 8, the staff decided they should recommend that the IASB provide transition relief as part of the IFRS 9 amendments. The main two areas of concern were the burden on transition for impairment and classification and measurement. In the light of the delays in the IAS 8 discussions, the timing of the planned impairment and classification and measurement EDs and the increased uncertainty about the likelihood of the IAS 8 amendments being finalised, the staff developed the IFRS 9 transition requirements on the presumption that the IAS 8 proposal would not be finalised. In September 2012 the IASB supported special transition requirements for IFRS 9, specifically providing that disclosures by line item not be required.

Reassessing the IAS 8 proposal

The IASB has demonstrated that it is willing to make exceptions to IAS 8 if it determines that the costs of applying IAS 8 are likely to exceed the benefits. In addition to the relief on transition for IFRS 10 and IFRS 9, the IASB tentatively decided in October 2011 to provide similar relief in the leases project. Given the concerns raised by IASB member during balloting and the demonstrated willingness of the IASB to create exceptions to the IAS 8 default requirements, it is appropriate to reassess whether the changes to IAS 8 are still necessary.

In theory, it should not matter whether we keep IAS 8 as it stands today and consider whether we should provide relief on a case-by-case basis or remove the requirement in IAS 8.25(f) and develop specific requirements on a case-by-case basis. However, some of the IASB members dissenting to the proposal were concerned that removing what they saw as an appropriate default position, and therefore shifting the focus of creating transition requirements to each individual project, could lead to inconsistent transition requirements—IAS 8 provides a consistent template.

On the other hand, the staff have heard concerns that IAS 8.25(f) is being treated as an absolute requirement, whether the effect of the change in accounting policy is material or not. I can only emphasise that IAS 8 is subject to the same materiality overlay as other standards. IAS 1.31 states:

> An entity need not provide a specific disclosure required by an IFRS if the information is not material.

Recommendation

I am recommending that, in the light of the concerns raised by IASB members and their demonstrated ability to create exceptions to IAS 8.25(f), we withdraw the ballot draft and remove the narrow scope project from the IASB work plan.

The staff will continue to collect information about how changes in accounting policy are being presented in financial statements. The more general matter of comparability and transition could be a topic that is discussed at the upcoming disclosure forum. I also expect comparability, which is at the heart of the IAS 8 requirements, to be considered more generally in the development of the presentation and disclosure chapters in the Conceptual Framework project.

It will remain incumbent on the staff to assess on a case-by-case basis whether to create more specific transition requirements for a particular IFRS or amendment.

Recommendation

I recommend that the IASB:

(a) stop the balloting process for the amendments to IAS 8 approved at the meeting in May 2012; and

(b) remove the related project to make narrow scope amendments to IAS 8 from the work plan.