# STAFF PAPER

**January 2017**

**IASB® Meeting**

| | | | |
|---|---|---|---|
| **Project** | **Conceptual Framework** | | |
| Paper topic | Updating References Exposure Draft—transition and effective date | | |



| | | | |
|---|---|---|---|
| CONTACT(S) | Jelena Voilo | jvoilo@ifrs.org | +44(0) 20 7246 6914 |
| | Yulia Feygina | yfeygina@ifrs.org | +44 (0)20 7246 6410 |





## Purpose of paper

1. This paper discusses whether any changes are needed to the proposed transition provisions and effective date of the amendments proposed in the Exposure Draft *Updating References to the Conceptual Framework* (the Updating References Exposure Draft). Agenda Paper 10E *Updating References Exposure Draft—proposed amendments* discusses the proposed amendments themselves.

## Summary of staff recommendations

2. The staff recommend confirming the proposals in the Updating References Exposure Draft that:
   (a) retrospective application, applying IAS 8 *Accounting Policies, Changes in Accounting Policies and Errors*, will be required for:
      (i) the amendment to paragraph 11 of IAS 8. This amendment will be applied to both existing and new accounting policies, except for a possible temporary relief for rate-regulated entities that will be discussed at a future Board meeting.
      (ii) other proposed amendments, ie the amendments to IFRS 2 *Share-based Payment*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 1 *Presentation of Financial*

*Statements*, IAS 34 *Interim Financial Reporting* and the remaining amendments to IAS 8.

(b) a transition period of approximately 18 months will be set for the proposed amendments.

## Structure of paper

3. This paper is structured as follows:

   (a) background (paragraphs 5–16);

   (b) staff analysis (paragraphs 17–46):

      (i) transition provisions for the proposed amendment to paragraph 11 of IAS 8 (paragraphs 20–38);

      (ii) transition provisions for other proposed amendments (paragraph 39–42);

      (iii) effective date of proposed amendments (paragraphs 43–44);

      (iv) drafting changes to the transition and effective date paragraph (paragraphs 45–46).

4. In addition, the appendix summarises comments and suggestions on the proposed transition provisions and effective date made by only one or a few respondents and provides the staff response.

## Background

### *Proposals in the Exposure Draft*

5. The Updating References Exposure Draft proposed replacing references to the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) in IFRS Standards with references to the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*) and updating the related quotations.

6. The Updating References Exposure Draft proposed adding a transition and effective date paragraph to each amended Standard except for:

(a) IFRS 4 *Insurance Contracts*, because the proposed amendments affect only the Introduction to the Standard and the Guidance on implementing it; they do not affect the Standard itself; and

(b) SIC-32 *Intangible Assets—Web Site Costs*, because the proposed amendment affects the paragraph describing the background to an issue and does not affect the consensus reached.

7. For all amendments, the Updating References Exposure Draft proposed setting an effective date that would allow a transition period of approximately 18 months after the issue of the revised *Conceptual Framework*. This was intended to allow entities sufficient time to review the effects of the revised concepts on their accounting policies and prepare for the application of any necessary changes. The Updating References Exposure Draft proposed permitting early application of the proposed amendments because some entities may not find it difficult to apply the amendments immediately, and the Board saw no reason to delay the adoption of improvements for such entities.

8. The Updating References Exposure Draft proposed that the amendments would be applied retrospectively in accordance with IAS 8, except for the proposed amendments to IFRS 3 *Business Combinations*. Amendments to IFRS 3 would be applied prospectively to avoid the need to restate previous business combinations.

### *Summary of feedback*

9. The proposed transition provisions and effective date were largely supported by respondents:

(a) most respondents who supported the proposed amendments agreed with the proposed transition provisions; and

(b) most respondents who commented on the effective date agreed to the proposed transition period of approximately 18 months.

10. However, as noted in this month's Agenda Paper 10E, some respondents asked for a comprehensive analysis of the effects of the proposed amendments. Some of these

respondents stated that they could not form an opinion on the transition provisions until such analysis was performed.

11. Some respondents grouped the proposed amendments into ‘editorial’ (ie not leading to changes to accounting policies) and ‘substantive’ (those that could lead to changes in accounting policies)[1]. These respondents agreed with the proposed transition provisions and effective date for what they referred to as ‘editorial’ amendments. However, some of those respondents suggested that including transition and effective date paragraphs for such amendments is not necessary because it may imply that the proposals could have a significant effect on the requirements of the Standards or give an impression that the *Conceptual Framework* is itself a Standard.

12. A few respondents suggested that some amendments should be applied prospectively. An accounting firm argued that prospective application would be a more cost-beneficial solution. A few respondents suggested that amendments should be applied prospectively if they relate to updating references to either the definitions of elements of financial statements or to the recognition criteria. This was because, in their opinion, the revised definitions and recognition criteria could lead to recognition of new assets and liabilities.

13. A few respondents suggested providing a longer transition period of at least two years to allow preparers sufficient time to review their existing accounting policies and to prepare for the application of any revised accounting policies.

14. An accounting firm suggested that early application should not be permitted on a Standard-by-Standard basis, ie financial statements cannot be prepared using references partly to the *Framework* and partly to the *Conceptual Framework*.

15. Some respondents commented specifically on the proposed amendment to replace the reference in paragraph 11 of IAS 8. This proposal was intended to achieve transition to the revised *Conceptual Framework* for entities that use the *Framework* to develop accounting policies when no Standard applies to a transaction or event. In particular, respondents provided the following comments and suggestions:

[1] Respondents grouped the proposed amendments in various ways, but most of them suggested that amendments to IAS 8 and IFRS 3 are potentially substantive.

(a) retrospective application of the amendment to IAS 8 would require entities to account for transactions and events as if the revised accounting policies were in place when those transactions and events occurred. Because the possible changes in accounting policies as a result of replacing the reference in IAS 8 have not been identified, it is not possible to determine whether retrospective application of those revised policies is appropriate.

(b) mandating a review of existing accounting policies would be an unduly onerous obligation to impose on entities. The proposed amendment should be applicable only when an entity would be developing a new accounting policy or reviewing an existing one.

(c) an analysis of potential effects of the proposed amendment on accounting policies could suggest that prospective application is more suitable or practicable in some or all cases (see also paragraph 12).

16. Other comments and suggestions on transition provisions and effective date made by respondents, and the staff response, are set out in the appendix.

## Staff analysis

17. The Updating References Exposure Draft proposed adding a transition and effective date paragraph to each amended Standard because those provisions are required for all changes to Standards. Paragraph 6.35 of the *IASB and IFRS Interpretations Committee Due Process Handbook* (the Handbook) requires that:

> A Standard, or an amendment to a Standard, has an effective date and transition provisions. The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

18. Only editorial corrections that remedy drafting errors made when writing or typesetting the documents become effective immediately when published, provided that the corrections do not alter the technical meaning of the text[2]. Amendments

[2] See paragraph 6.41 of the *IASB and IFRS Interpretations Committee Due Process Handbook*.

proposed in the Updating References Exposure Draft cannot be equated to editorial corrections, so in accordance with the Handbook, the affected Standards will include transition and effective date paragraphs.

19. This section discusses:

    (a) transition provisions for the proposed amendment to paragraph 11 of IAS 8 (paragraphs 20–38);

    (b) transition provisions for other proposed amendments (paragraphs 39–42);

    (c) the effective date of the proposed amendments (paragraphs 43–44); and

    (d) drafting changes to the transition and effective date paragraph (paragraphs 45–46).

### *Transition provisions for the proposed amendment to paragraph 11 of IAS 8*

20. The proposed amendment to paragraph 11 of IAS 8 would affect preparers of financial statements who develop accounting policies by reference to the *Framework* in the absence of an IFRS Standard that specifically applies to a particular transaction or event. As a result of the amendment, the preparers would be required to review their accounting policies developed by reference to the *Framework* and revise them if they are inconsistent with the revised concepts in the *Conceptual Framework*.

21. A few respondents stated that it is not possible to determine whether the proposed retrospective application of those revised policies would be appropriate because possible changes in accounting policies have not been identified. In response, the staff performed an analysis of the effects on preparers of financial statements of replacing the reference to the *Framework* in paragraph 11 of IAS 8. The staff presented the results of this work at the November 2016 Board meeting.

22. The November 2016 Agenda Paper 10G *Effects of the proposed changes to the Conceptual Framework on preparers* suggested that the scope of any changes to preparers' accounting policies as a result of replacing references to the *Framework* in IAS 8 is likely to be limited. This is either because most preparers do not develop accounting policies by reference to the *Framework* or because the revised concepts will suggest accounting outcomes similar to those produced by existing concepts.

Thus, Agenda Paper 10E for this month recommends confirming the proposal to replace the reference to the *Framework* in paragraph 11 of IAS 8.

23. The following sections discuss whether, as suggested by some respondents, the proposed amendment to paragraph 11 of IAS 8 should be applied:

    (a) to new accounting policies only (see paragraphs 24–34);

    (b) prospectively (see paragraphs 35–38).

### *Applying the amendment to new accounting policies only*

24. A few respondents suggested that the proposed amendment to IAS 8 should be applicable only when an entity develops a new accounting policy, or reviews an existing one. They suggested this because, in their view, a review of all accounting policies would be unduly onerous for preparers of financial statements.

25. If the Board were to require entities to develop accounting policies by reference to the revised concepts only when they need to develop a *new* accounting policy it could lead to:

    (a) some accounting policies of an entity being based on the concepts in the *Framework* and some on the revised concepts in the *Conceptual Framework*; and

    (b) a lack of comparability between entities because accounting policies for the same transactions could differ depending on when the entity developed the policy.

26. In addition, if some concepts in the *Framework* are withdrawn or superseded, it is likely that the Board has concluded that they would no longer produce the most useful financial information. Accordingly, the staff think that entities should not continue to apply accounting policies based solely on superseded concepts of the *Framework*.

27. As noted in paragraph 22, only a limited number of accounting policies are prepared by reference to the *Framework*. For this reason, the staff do not expect that a review of such existing accounting policies would be unduly onerous for preparers of financial statements.

28. Hence, except for as discussed in paragraphs 29–34, the staff do not recommend amending the transition provisions in a way that would apply the amendment to paragraph 11 of IAS 8 to new accounting policies only.

29. However, the staff have identified one area where requiring preparers of financial statements to review their accounting policies following the replacement of the reference to the *Framework* in IAS 8 may be unduly burdensome.

30. That area is rate regulation. An entity that is subject to rate regulation develops accounting policies on the basis of:

    (a) IFRS 14 *Regulatory Deferral Accounts* if the entity was a first-time adopter of IFRS Standards after IFRS 14 became effective and if the entity elected to apply IFRS 14; but

    (b) paragraph 11 of IAS 8 if the entity was a first-time adopter of IFRS Standards before IFRS 14 became effective or if the entity elected not to apply IFRS 14.[3] This would mean that following the proposed replacement of the reference to the *Framework* in IAS 8, those latter rate-regulated entities would need to review their accounting policies in light of the revised concepts and might need to revise their accounting policies.

31. The October 2016 Agenda Paper 10C *Testing the proposed asset and liability definitions—illustrative examples* discussed how the concepts proposed to support the revised definitions could help the Board develop an analysis of the rights and obligations of rate-regulated entities (see section 4.1 of Agenda Paper 10C). However, both that Agenda Paper and the December 2016 Agenda Paper 9A *Overview of the core features of the model* prepared by the rate-regulated activities project team explain that the revised concepts would not necessarily give a definitive answer as to whether regulatory deferral account balances meet the definition of assets or liabilities or should be recognised.

[3] In January 2014 the Board issued IFRS 14 *Regulatory Deferral Accounts* to permit, but not require, first-time adopters of IFRS Standards that conduct rate-regulated activities *to continue* to recognise and measure regulatory deferral account balances in accordance with their previous GAAP.

32. Therefore, the revision of accounting policies by rate-regulated entities following the replacement of the reference to the *Framework* in IAS 8 could lead to diversity in practice.

33. Moreover, rate-regulated entities will have to review their accounting policies again when the Board concludes its Standard-setting project on rate-regulated activities. For some entities this could lead to another round of changes to accounting policies. That would be disruptive for both users and preparers.

34. For the reasons stated in paragraphs 32–33, it may be useful to consider relieving rate-regulated entities from a requirement to reassessing their accounting policies for these items twice in a short period. The Conceptual Framework and rate-regulated activities project teams will jointly consider how best to address this issue and bring a paper to a later Board meeting.

*Prospective versus retrospective application*

35. Retrospective application is potentially more complex and costly for preparers than prospective application. However, retrospective application means that information presented about past financial reporting periods would be prepared on the same basis as information about the current period, and so would be comparable. Such information is expected to be more useful to users of financial statements than information that is prepared on different bases for different periods.

36. In some cases, it may be impracticable to apply an amendment retrospectively. IAS 8 already explains that a change in accounting policy is applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change (in which cases it allows either a catch-up adjustment or prospective application). Impracticability is defined in paragraph 5 of IAS 8, while paragraphs 23–27 and 50–53 discuss impracticability in respect of retrospective application and retrospective restatement. The staff have identified no need to change or extend that discussion.

37. In some cases, retrospective application might, arguably, not produce benefits sufficient to justify the cost of retrospective application. Nevertheless, as it is not possible to determine the exact population of accounting policies that could be affected by the amendment to IAS 8, the staff cannot suggest specific transition

provisions for cases when retrospective application would cause costs that exceed the benefits. Moreover, the staff have not been able to identify characteristics of cases when the costs would exceed the benefits.

38. Therefore, the staff recommend confirming the proposal in the Updating References Exposure Draft that the amendment to paragraph 11 of IAS 8 should be applied retrospectively.

| **Question 1—transition provisions for paragraph 11 of IAS 8** |
| --- |
| Do you agree to confirm the proposal in the Updating References Exposure Draft that the amendment to paragraph 11 of IAS 8 should be applied:<br>(a) to both existing and new accounting policies, except for a possible temporary relief for rate-regulated entities that will be discussed at a future Board meeting; and<br>(b) retrospectively? |

### *Transition provisions for other proposed amendments*

39. As noted in paragraph 12, a few respondents suggested prospective application for updated references to either the definitions of elements or to the recognition criteria.

40. In Agenda Paper 10E for this month the staff recommend retaining the reference to the *Framework* in IFRS 3 because replacing it could lead to unintended consequences. The remaining proposed amendments—to IFRS 2, IFRS 6, IAS 1, IAS 8 (except to paragraph 11 of this Standard) and IAS 34—are not expected to have a significant effect on the requirements of the affected Standards. Therefore, the staff do not expect that entities would have practical difficulties implementing the amendments retrospectively.

41. In addition, as noted in paragraph 36 of this paper, IAS 8 already explains how entities should apply new accounting policies if they determine that retrospective application is impracticable.

42. Accordingly, the staff recommend confirming the proposal in the Updating References Exposure Draft that the proposed amendments be applied retrospectively in accordance with IAS 8.

| **Question 2—transition provisions for other amendments** |
|---|
| Do you agree to confirm that the amendments to IFRS 2, IFRS 6, IAS 1, IAS 34 and the remaining amendments to IAS 8 (ie those not covered by question 1) should be applied retrospectively in accordance with IAS 8? |

### *Effective date of proposed amendments*

43. As noted in paragraph 9(b) most of the respondents supported the proposed transition period. A few respondents who suggested a longer transition period did not provide any reasons that would lead the staff to recommend extending the proposed transition period. Considering the nature of the proposed amendments and their likely limited effect on accounting policies, the staff suggest that the transition period of approximately 18 months is appropriate.

44. Accordingly, the staff recommend confirming the proposal in the Updating References Exposure Draft that a transition period of approximately 18 months will be set for the proposed amendments.

| **Question 3—effective date of proposed amendments** |
|---|
| Do you agree to confirm the proposal in the Updating References Exposure Draft that a transition period of approximately 18 months will be set for the amendments? |

### *Drafting changes to the transition and effective date paragraph*

45. The staff suggest making some changes to the wording of the proposed transition and effective date paragraphs to address two concerns raised by the respondents. In particular, the staff suggest:

    (a) not referring directly to the revision of the *Conceptual Framework* in the first sentence of the paragraph. It could help avoid misinterpretation that the *Conceptual Framework* is itself a Standard or that the proposals could have a significant effect on the requirements of the Standards (see paragraph 11).

(b) amending the sentence on early application to clarify that the Board did not intend that the amendments could be applied at different times (see paragraph 14).

46. The revised wording would be as follows:

> ~~As a result of the revision of the *Conceptual* Framework in [date],~~ *Updating References to the Conceptual Framework* amended paragraph [No] ~~was amended~~. An entity shall apply this amendment for annual periods beginning on or after [effective date]. Earlier application is permitted if at the same time an entity also applies all other amendments made in *Updating References to the Conceptual Framework*. An entity shall apply this amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Appendix—Respondents' suggestions and comments on proposed transition and effective date

This appendix summarises comments and suggestions on transition and effective date made by only one or a few respondents and provides the staff's response to them.

| | **Respondents' suggestions** | **Staff response** |
|---|---|---|
| A1 | If the Board confirms the proposed amendments, it should clarify that any resulting changes in accounting policies do not fall under the requirement in paragraph 14(a) of IAS 8, ie it should clarify that such changes are not required by an IFRS Standard. | Paragraph 14 requires entities to change accounting policies only if the change is (a) required by an IFRS Standard or (b) results in the financial statements providing reliable and more relevant information.<br>The Board chose to achieve transition to the revised *Conceptual Framework* for entities through the replacement of references to the *Framework* in IFRS Standards instead of including transition provisions in the *Conceptual Framework* itself. Therefore, following the amendments of the affected Standards, any accounting policies developed by reference to the *Framework* in those Standards would have to be reviewed. Any resulting change would result from paragraph 14(a) of IAS 8, rather than from paragraph 14(b). |
| A2 | Consider the timing of any likely further amendments to IAS 1 and IAS 8 when setting the effective date for the amendments proposed in the Updating References Exposure Draft to avoid multiple changes to the Standards. In particular, respondents noted possible changes that could arise out of the materiality project in the Disclosure Initiative. | The staff will monitor the developments in the Disclosure Initiative. In December 2016 the Board tentatively decided to issue an Exposure Draft proposing to update the definition of materiality in IAS 1 and IAS 8. While it is likely that the amendments to IAS 1 and IAS 8 proposed in the Updating References Exposure Draft will be published earlier, the staff will consider whether it is possible to align the effective date for both these amendments and the proposed amendments to the definition of materiality. |

| | Respondents' suggestions | Staff response |
|---|---|---|
| A3 | Consider the effective dates of other major projects (IFRS 9, IFRS 15 and IFRS 16) when setting the effective date for the proposed amendments. Respondents had opposing views on how the effective dates of these Standards should affect the effective date: one respondent suggested that the Board should avoid an effective date that coincides with the effective dates of other major projects, while another suggested that it would be useful if the effective dates coincide so that all the changes could be made at once. | Considering the nature of the proposed amendments and the likely limited scope of their effect on accounting policies, the staff do not think that the effective date for the proposed amendments should be reviewed to either avoid or coincide with the effective dates of other major projects. |