Introduction

1. Applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity changes an accounting policy only if the change is required by an IFRS Standard or results in the financial statements providing reliable and more relevant information. One of the more common reasons for entities voluntarily changing an accounting policy is because of agenda decisions published by the IFRS Interpretations Committee (the Committee).

2. IAS 8 requires an entity to apply a change in an accounting policy retrospectively unless it is impracticable to determine the effects of the change. Entities face challenges in applying these requirements in some circumstances—discussed further in paragraphs 6-14 of this paper.

3. This paper:

   (a) explores possible alternatives to address the challenges posed by the requirements in IAS 8 for voluntary changes in accounting policies—in particular, changes in accounting policies that result from agenda decisions; and

   (b) asks the International Accounting Standards Board (the Board) if it agrees with our recommendation to propose a narrow-scope amendment to IAS 8 in this respect. This narrow-scope amendment would require an entity to apply a voluntary change in an accounting policy resulting from an agenda...
decision retrospectively, unless (a) determining the effects of the change would be impracticable; or (b) the cost of determining those effects would outweigh the benefits to users of financial statements (users) of applying the new policy retrospectively.

**Structure of the paper**

4. This paper is structured as follows:
   
   (a) background:
   
   (i) voluntary changes in accounting policies
   
   (ii) accounting policy changes resulting from agenda decisions
   
   (b) staff analysis and recommendations:
   
   (i) should the Board address whether a change resulting from an agenda decision is the correction of an error or a voluntary change in an accounting policy?
   
   (ii) addressing transition challenges—a possible solution.

5. There are four appendices to this paper:

   (a) Appendix A summarises one other alternative we considered but did not pursue;

   (b) Appendix B reproduces paragraphs 22-27 of IAS 8 for ease of reference;

   (c) Appendix C summarises the use of cost-benefit and other similar assessments in IFRS Standards and in IFRS for SMEs; and

   (d) Appendix D summarises the Committee’s process in publishing an agenda decision.
Background

**Voluntary changes in accounting policies**

*IAS 8 requirements*

6. Applying paragraph 14 of IAS 8, an entity changes an accounting policy only if the change:
   
   (a) is required by an IFRS Standard; or

   (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows (referred to as a voluntary change in an accounting policy).

7. Paragraph 22 of IAS 8 requires an entity to apply a voluntary change in an accounting policy retrospectively as if it had always applied the new policy—except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Paragraphs 23-27 of IAS 8—reproduced in Appendix B to this paper—specify how an entity applies a change in an accounting policy when it is impracticable to determine the effects.

8. IAS 8 sets a high threshold for justifying impracticability—paragraph 5 of IAS 8 states that ‘applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so…’.

*The challenge*

9. When the Board develops a new IFRS Standard or amends requirements in IFRS Standards, it considers transition and often provides entities with relief from retrospective application (or from some aspects of retrospective application)—mainly for cost-benefit reasons. For example, in 2016 and 2017, the Board issued two new IFRS Standards, eight narrow-scope amendments (including annual improvements) and one IFRIC Interpretation. In almost all of these cases, the Board provided entities with relief from retrospective application (or from some aspects of retrospective application), usually for cost-benefit reasons.
10. However, similar relief is not available to an entity that voluntarily changes an accounting policy. This can create a barrier for entities wishing to adopt, and transition to, ‘better’ accounting policies—i.e an entity can change an accounting policy voluntarily only if the new policy provides reliable and more relevant information.

**Accounting policy changes resulting from agenda decisions**

11. The Committee works together with the Board in supporting the application of IFRS Standards. The Committee discusses application questions submitted by stakeholders to assess whether to add a matter in question to its standard-setting agenda. In situations for which the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting, the Committee publishes an agenda decision. In these situations, the agenda decision generally includes explanatory material outlining the Committee’s view on how to apply the applicable principles and requirements. Appendix D to this paper summarises the Committee’s process in publishing an agenda decision.

12. Paragraph 5.22 of the *Due Process Handbook* states that agenda decisions ‘do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive’. Accordingly, entities might change an accounting policy in line with the explanatory material in an agenda decision. Indeed, we understand that some regulators expect entities to apply accounting policies in line with explanatory material in agenda decisions. The Committee’s objective in including explanatory material within agenda decisions is to facilitate greater consistency in the application of IFRS Standards.

13. Because agenda decisions are non-authoritative, any change in an accounting policy resulting from an agenda decision is not a change that is required by IFRS Standards. Accordingly, unless treated as a correction of an error, an entity accounts for this change as a voluntary change in an accounting policy, and is required to apply it
retrospectively unless it is impracticable to determine the effects of the change. Paragraphs 15-23 of this paper discuss this further.

The challenge

14. Explanatory material in agenda decisions does not change or add to authoritative requirements in IFRS Standards. Accordingly, neither the Board nor the Committee can specify transition requirements or an effective date for entities that change an accounting policy as a result of an agenda decision. This can be problematic in some situations, in particular because:

(a) the benefits to users from applying a voluntary change in an accounting policy retrospectively may not outweigh the costs—this could prevent agenda decisions from being viewed as helpful, informative and persuasive, and could deter entities from submitting issues to the Committee for consideration; and

(b) the Committee may recommend undertaking standard setting solely because of concerns regarding transition, rather than a need to change or add to the principles and requirements in IFRS Standards.

Staff analysis

Should the Board address whether a change resulting from an agenda decision is the correction of an error or a voluntary change in an accounting policy?

Analysis

15. We think that IAS 8 provides entities with an appropriate framework to assess whether a change resulting from an agenda decision is the correction of a material prior period error or a voluntary change in an accounting policy. Applying IAS 8, entities first assess whether the change meets the definition of a prior period error. Paragraph 5 of IAS 8 states:

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods
arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

16. In some situations, the accounting policy previously applied could have resulted from the entity failing to use, or misusing, reliable information that was available or could reasonably be expected to have been obtained.

17. However, in other situations, entities, appropriately in our view, treat the change as a change in an accounting policy. In these situations, the information in an agenda decision provides new information that is ‘helpful, informative and persuasive’—information that was not available previously and could not reasonably have been expected to be obtained. The Committee comprises members that represent ‘the best available combination of technical expertise and diversity of international business and market experience in the practical application of IFRSs and analysis of financial statements prepared in accordance with IFRSs’.¹ The matters submitted to the Committee are generally complex and have resulted in the application of diverse reporting methods. The Committee publishes an agenda decision after extensive analysis and discussion of these matters—this often demonstrates that the accounting policy applied by an entity before the Committee published the agenda decision was not an error.

18. In some situations, assessing whether a change resulting from an agenda decision is a correction of an error or a change in an accounting policy might be difficult. Some

¹ Paragraph 38 of the IFRS Foundation Constitution
might suggest that the Board undertake standard-setting with respect to this assessment.

19. Although we agree that this assessment might require judgement in some situations, we nonetheless think that entities should make this assessment. We think:

(a) it would be inappropriate to require entities to characterise all changes resulting from agenda decisions as corrections of errors for the reasons outlined in paragraph 17 above.

(b) it would also be inappropriate to characterise all changes resulting from agenda decisions as changes in accounting policies, especially in situations in which an entity’s application of a previous accounting policy meets the definition of a prior period error. We think such a change could also potentially lead to stakeholders misusing the Committee’s process—ie by submitting questions simply to avoid treating a change in accounting as the correction of an error. We note that the Committee has no means to refuse to discuss matters submitted to it.

20. We also think the Committee should not decide for each agenda decision whether any resulting change would be the correction of an error or a change in an accounting policy because the assessment depends on an entity’s particular facts and circumstances.

21. The Board discussed this issue at its February 2012 meeting. IASB Update from that meeting says the Board tentatively agreed that ‘…rejection notices [agenda decisions] are not intended to determine whether certain accounting practices are errors; that judgement is left to entities, their auditors and their regulators…’

22. In July 2011, ESMA published a public statement titled, Retrospective Adjustments to Financial Statements Following Rejection Notes Published by the IFRS Interpretations Committee. ESMA’s conclusion was consistent with the Board’s conclusion in 2012. The statement notes (emphasis added):

...There is an expectation on the part of the stakeholders in IFRS that rejection notes concluding that IFRSs are sufficiently clear

---

2 See Agenda Paper 15A from the Board’s February 2012 meeting for further information.
will be carefully considered by preparers in determining their accounting policies. In the case of a change in a previous accounting treatment following the issue of a rejection note, an issuer should apply IAS 8 and provide proper and sufficient disclosure on the reasons for the change, having regard to the particular facts and circumstances of the individual case, including reference to the rejection note.

Recommendation

23. We recommend that the Board does not undertake standard-setting with respect to assessing whether a change resulting from an agenda decision is the corrections of an error or a change in an accounting policy.

Addressing transition challenges—a possible solution

24. We are not aware of any concerns regarding the requirements in IAS 8 for corrections of errors. We think the Board should not change these requirements—ie entities should correct an error retrospectively unless it is impracticable to do so. For this reason we did not consider any alternatives that would suggest a change to the requirements for corrections of errors.

25. However, requiring entities to apply all changes in accounting policies retrospectively (unless it is impracticable) can create a barrier that prevents entities from adopting policies that provide reliable and more relevant information—see paragraphs 6-10 of this paper for further details. The requirements in IAS 8 could also deter entities from changing accounting policies to reflect the explanatory material in agenda decisions. This would counter the benefits the Committee hopes to achieve by including explanatory material in agenda decisions—see paragraphs 11-14 for further details.

26. In our view, one of the main reasons for these challenges is that IAS 8 sets a high threshold—impracticable—regarding the use of anything other than a retrospective
approach. We think this is appropriate for corrections of errors but not for voluntary changes in accounting policies.

27. We think that a possible solution could involve lowering the impracticability threshold to a cost-benefit threshold. The Board could amend IAS 8 to require entities to apply this lower threshold either:

(a) to all voluntary changes in accounting policies (Alternative I); or
(b) only to voluntary changes in accounting policies resulting from agenda decisions (Alternative II).

Alternative I—Apply cost-benefit threshold to all voluntary changes in accounting policies

28. Applying this alternative, an entity would apply all voluntary changes in an accounting policy retrospectively, unless:

(a) determining the period-specific effects or the cumulative effect of the change would be impracticable; or
(b) the cost of determining those effects would outweigh the benefits to users of applying the new policy retrospectively. (cost-benefit threshold).

If either (a) determining the effects of the change in accounting policy would be impracticable; or (b) the cost of determining those effects would outweigh the benefits to users, an entity would apply the requirements in paragraphs 23-27 of IAS 8 when transitioning to the new accounting policy—the entity would not default to prospective application.

Alternative II—Apply cost-benefit threshold only to voluntary changes in accounting policies resulting from agenda decisions

29. Alternative II is similar to Alternative I. However, applying Alternative II, an entity would apply the cost-benefit threshold only to changes in accounting policies

---

3 Appendix A to this paper outlines one other possible alternative we considered but do not recommend pursuing, together with our reasons.

4 IFRS for SMEs uses the term ‘undue cost or effort’ for assessing cost-benefit. We have not proposed using this term in IAS 8 because the term ‘undue cost or effort’ is also used in IFRS 9 Financial Instruments for a particular purpose, and using the same term could be misleading. Appendix C to this paper summarises the use of undue cost or effort and other similar terms in IFRS Standards and IFRS for SMEs.
resulting from agenda decisions. An entity would continue to apply any other voluntary change in accounting policy retrospectively unless impracticable to do so.

**Comparison of Alternative I and Alternative II**

30. The following table summarises the advantages and potential drawbacks of both alternatives, which paragraphs 31-44 of this paper discuss in more detail.

<table>
<thead>
<tr>
<th>Alternative I</th>
<th>Alternative II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Potential drawbacks</strong></td>
</tr>
<tr>
<td>Narrow-scope amendment that has the potential to resolve the challenge faced by entities</td>
<td>Entity assesses costs and benefits</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Potential drawbacks</strong></td>
</tr>
<tr>
<td>Incentive to classify changes as changes in accounting policies</td>
<td>Incentive to classify changes as changes in accounting policies</td>
</tr>
<tr>
<td><strong>Potential unintended consequences of broad scope</strong></td>
<td>Limited scope—avoids unintended consequences of broader scope of Alternative I</td>
</tr>
<tr>
<td></td>
<td>Creates a distinction between different types of voluntary changes in accounting policies</td>
</tr>
</tbody>
</table>

31. Applying either alternative would result in a narrow-scope amendment to IAS 8 that could, in our view, resolve at least some of the challenge entities face in adopting better accounting policies, including those resulting from agenda decisions—discussed in paragraphs 6-14 of this paper. The amendment to IAS 8 would be narrow in scope because it would change only the threshold for retrospective
application within the requirements for voluntary changes in accounting policies (Alternative I), or only that threshold for voluntary changes in accounting policies resulting from agenda decisions (Alternative II).

**Entity assesses costs and benefits**

32. Some might be concerned that both alternatives could introduce subjectivity by allowing entities to assess the costs and benefits of retrospective application. When the Board or Committee provide relief from retrospective application of new or amended requirements in IFRS Standards for cost-benefit reasons, it is the Board or Committee that assesses the costs and benefits of applying the change retrospectively, not entities themselves.

33. We acknowledge that in assessing the cost-benefit threshold, entities would be required to apply judgement considering the specific facts and circumstances. Nonetheless, we think that requiring entities to apply judgement is an essential part of a principles-based framework—it does not, in and of itself, lead to inconsistent application or inappropriate accounting. In addition, the cost-benefit threshold, although new within IAS 8, would not be entirely new to an entity in preparing IFRS financial statements. Our proposal for that threshold builds on similar assessments required by IFRS Standards in particular circumstances—see paragraphs 47-51 of this paper for further information.

34. We think the Board could also consider providing application guidance to assist entities in assessing this threshold. Paragraphs 47-51 of this paper discuss whether, and what, application guidance the Board could provide in this respect.

35. Compared to Alternative I, Alternative II would limit an entity’s assessment of costs and benefits only to changes in accounting policies resulting from agenda decisions—a smaller and known population of changes in accounting policies compared to Alternative I. Although not subject to the due process required for changes to IFRS Standards, agenda decisions are open for public comments for 60 days and the
Committee considers any comments received before finalising agenda decisions. Consequently, some might view Alternative II as a preferable approach.

**Incentive to classify changes as changes in accounting policies**

36. IAS 8 requires an entity to distinguish between the correction of an error and a voluntary change in an accounting policy. In both situations, an entity applies any resulting change retrospectively, unless it is impracticable to do so. Separate disclosures are required for corrections of errors and changes in accounting policies.

37. Some might say that introducing a cost-benefit threshold only for voluntary changes in accounting policies could create an incentive for entities to classify changes as changes in accounting policies, rather than corrections of errors.

38. We do not agree. We think the requirement to disclose corrections of errors separately already provides a significant incentive to classify changes as changes in accounting policies. In our view, a change in the threshold for retrospective application would not change this incentive substantively.

39. Compared to Alternative I, applying Alternative II would be limited to a smaller and known population of changes in accounting policies. Consequently, some might view Alternative II as preferable in this respect.

**The scope of Alternative I versus Alternative II**

40. Some might say that applying Alternative I could result in potentially unintended consequences because the cost-benefit threshold would apply to all voluntary changes in accounting policies. If voluntary changes in accounting policies were to occur frequently without retrospective application, this might result in a loss of comparability.

41. We think IAS 8 mitigates this risk to an extent because it permits an entity to voluntarily change an accounting policy only if the new policy results in providing reliable and more relevant information. In addition, applying either alternative, an entity would still be expected to apply the change retrospectively unless the costs of
doing so would outweigh the benefits to users (or if applying the change retrospectively would be impracticable).

42. In addition, Alternative II would limit the application of the cost-benefit threshold to changes in accounting policies resulting from agenda decisions and thus would reduce any potential loss of comparability.

*Alternative II would create a distinction between different types of voluntary changes in accounting policies*

43. Alternative II could be viewed as creating an arbitrary distinction between changes in accounting policies resulting from agenda decisions and other voluntary changes in accounting policies. Alternative I would also make it easier for entities to voluntarily adopt better accounting policies that provide reliable and more relevant information. Accordingly, some might view Alternative I as preferable to Alternative II in this respect.

44. In saying that, we do not view the distinction created by Alternative II as arbitrary because of the process for publishing agenda decisions—described in Appendix D to this paper.

*Staff recommendation*

45. On balance, we recommend Alternative II—ie applying a cost-benefit threshold for changes in accounting policies resulting from agenda decisions.

46. Applying this alternative, an entity would apply a voluntary change in an accounting policy resulting from an agenda decision retrospectively, unless:

(a) determining the period-specific effects or the cumulative effect of the change would be impracticable; or

(b) the cost of determining those effects outweigh the benefits to users of applying the new accounting policy retrospectively.

If (a) determining the effects of the change would be impracticable; or (b) the costs of determining those effects would outweigh the benefits to users, an entity would apply the requirements in paragraphs 23-27 of IAS 8.
Application guidance—cost-benefit threshold

47. In this section, we consider what application guidance, if any, the Board might consider providing to assist entities in assessing the cost-benefit threshold.

48. In our view, it would be beneficial to provide application guidance. It would facilitate better understanding of the proposed amendment by explaining how an entity assesses the costs and benefits of applying the requirements in IAS 8. Nonetheless, in doing so, we need to be careful to develop application guidance that would be helpful, without creating new questions or unintended consequences.

49. In considering what the Board should include as application guidance, we reviewed the use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs—see Appendix C for a summary.

50. We think the Board could clarify that the costs of applying a new accounting policy retrospectively would outweigh the benefits if the incremental costs that an entity would incur or the additional effort that would be required to determine the effects of the change substantially exceeds the expected benefits for users from applying the new accounting policy retrospectively.

51. In addition, we think the application guidance could specify that:

(a) the cost-benefit threshold is not intended to be a low hurdle;

(b) an entity assesses the cost and benefits of applying the new accounting policy retrospectively, taking into account the particular facts and circumstances;

(c) in assessing the benefits, an entity considers:

(i) how the economic decisions of users could be affected by not having that information—for example, (a) users are more likely to benefit from restated comparative information when it provides trend information; and (b) are less likely to benefit significantly from having restated comparative information when the change in accounting policy affects one-off transactions or events; and

(ii) the expected effect of the change on the entity’s financial statements—the greater the expected effect of the change on
the entity’s financial statements, the more a user’s economic decisions would be expected to be affected by not having that information.

(d) in assessing the costs, an entity considers:

(i) information that is reasonably available without undue cost or effort—if an entity already has, or could easily and without significant expense or effort, acquire the information necessary to apply the change retrospectively, the benefits to users would be expected to exceed any further cost or effort by the entity; and

(ii) the greater an entity’s departure from retrospective application, the higher the cost or effort an entity would be expected to incur to justify this departure. For example, paragraph 25 of IAS 8 specifies that when it is impracticable to determine the cumulative effect of a change, an entity ‘adjusts the comparative information to apply the new accounting policy prospectively from the earliest day practicable’. We think that the entity would be expected to incur greater costs to justify applying the new accounting policy from the beginning of the current reporting period than it would to justify applying the new policy from the beginning of a prior reporting period.
## Questions for the Board

### Question 1

Does the Board agree with our recommendation not to undertake standard-setting with respect to assessing whether a change resulting from an agenda decisions is the correction of an error or a voluntary change in an accounting policy?

### Question 2

Does the Board agree with our recommendation to amend IAS 8 to specify that:

- an entity would apply a voluntary change in an accounting policy resulting from an agenda decision retrospectively, unless (a) determining the effects of the change would be impracticable; or (b) the cost of determining those effects would outweigh the benefits to users of financial statements of applying the new policy retrospectively; and

- if (a) determining the effects of the change would be impracticable or (b) the costs of determining those effects would outweigh the benefits to users of financial statements, an entity would be required to apply the requirements in paragraphs 23-27 of IAS 8.

### Question 3

Does the Board agree with our recommendation to provide application guidance on how an entity would assess the costs and benefits of the change?

### Question 4

Does the Board have any comments on our suggestions for application guidance as outlined in paragraphs 50 and 51 of this paper?
Appendix A—Other alternative considered but not pursued

A1. We considered one other alternative but decided not to pursue it as follows:

*Amend IAS 8 to remove the requirement to adjust comparative information when it is not useful*

A2. When an entity changes its accounting policy for one-off transactions or events, users are unlikely to be interested in, or to benefit significantly from, having restated comparative information (whether resulting from a voluntary change in accounting policy or a correction of an error). Users are more likely to benefit from comparative information when it provides trend information. Accordingly, the Board could:

(a) specify the characteristics of transactions and events for which users would not be expected to benefit from having comparative information; and

(b) amend IAS 8 to require entities to determine a cumulative catch up adjustment at the beginning of the current reporting period for such transactions and events without restating comparative information.

A3. One advantage of this approach is that it would propose a principle to distinguish between when to restate comparative information and when not to, which would be focussed on users’ needs. However, we did not pursue this alternative because:

(a) it would require a comprehensive reconsideration of some of the principles in IAS 8;

(b) it would be difficult to identify and distinguish the characteristics of transactions and events for which users would be expected to benefit from having comparative information; and

(c) it would still require entities to determine the cumulative catch up adjustment at the beginning of the current reporting period, thus limiting its usefulness.
Appendix B—Excerpts of IAS 8

B1. This appendix reproduces paragraphs 22-27 of IAS 8.

*Retrospective application*

22 Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

*Limitations on retrospective application*

23 When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

24 When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

25 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to
comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an IFRS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50–53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.
Appendix C—Use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs

C1. This appendix summarises the use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs.

IFRS Standards

IFRS 9 Financial Instruments

C2. Paragraph 5.5.9 of IFRS 9 requires an entity to consider reasonable and supportable information that is available without undue cost or effort when determining significant increases in credit risk. Paragraph 5.5.17(c) of IFRS 9 requires an entity to reflect reasonable and supportable information that is available without undue cost or effort when measuring expected credit losses.

C3. In addition, paragraph 7.2.20 of IFRS 9 also provides some relief from retrospective application of the impairment requirements in IFRS 9 in situations in which determining whether there has been a significant increase in credit risk since initial recognition would involve undue cost or effort. Paragraph B8G of IFRS 1 First-time Adoption of International Financial Reporting Standards provides similar relief for first-time adopters. We have reproduced some relevant excerpts from the application guidance and the Basis for Conclusions of IFRS 9 below for ease of reference.

Application guidance

B5.5.49 For the purpose of this Standard, reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

1 We have updated paragraph numbers and cross-references to other paragraphs. We have also made minor editorial revisions for improved consistency.
B5.5.51 An entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses, including the effect of expected prepayments. The information used shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. An entity may use various sources of data, that may be both internal (entity-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments).

**Basis for Conclusions**

BC7.81 The IASB considered that the intention was not to penalise entities that could not obtain information about the initial credit risk without undue cost or effort. It also noted that an entity need not have specific information about the initial credit risk of a financial instrument and clarified this in IFRS 9. For example, the IASB noted that if an entity is able to assess the change in credit risk of a financial instrument on the basis of a portfolio analysis, such an approach could similarly be applied on transition to assess the change in credit risk since initial recognition.

BCE.164 In addition, IFRS 9 emphasises that an exhaustive search for information is not required. For example, when assessing significant increases in credit risk, entities shall consider all internal and external information that is reasonably available without undue cost or effort. This may mean that entities with little historical information would draw their estimates from internal reports and statistics (which may, for
example, have been generated when deciding whether to launch a new product), information that they have about similar products or from peer group experience for comparable financial instruments.

**IFRS 8 Operating Segments**

C4. Paragraph 18 of IFRS 8 provides entities with relief from restating segment data for prior periods in particular situations if the information required to make the disclosure is not available and the cost to develop it would be excessive. Paragraphs 29-30 and 32-33 of IFRS 8 also provide entities with relief from particular disclosure requirements if the information required to make the disclosure is not available and the cost to develop it would be excessive. Paragraphs BC47 and BC48 note that IFRS 8 uses excessive cost rather than impracticability to ensure convergence with US GAAP (SFAS 131).

**IFRS 12 Disclosure of Interests in Other Entities**

C5. Paragraph B15 of IFRS 12 states (emphasis added):

An entity may present the summarised financial information required by paragraphs B12 and B13 on the basis of the joint venture's or associate's financial statements if:

(a) the entity measures its interest in the joint venture or associate at fair value in accordance with IAS 28 (as amended in 2011); and

(b) the joint venture or associate does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

**IFRS 15 Revenue from Contracts with Customers**

C6. Paragraph B17 of IFRS 15 states (emphasis added):

The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an
entity without undue cost. Therefore, an input method may be necessary.

**Other considerations**

C7. The Board has also considered, but did not introduce, undue cost or effort in some other IFRS Standards. In particular:

(a) IFRS 1—the Board considered allowing entities to use fair value as deemed cost for property, plant & equipment if determining a cost-based measurement would involve undue cost or effort (paragraphs BC41-BC42 of IFRS 1);

(b) IFRS 3 *Business Combinations*—the Board considered requiring entities to measure non-controlling interests at fair value unless doing so would impose undue cost or effort (paragraph BC215 of IFRS 3);

(c) IAS 1 *Presentation of Financial Statements*—the Board considered providing entities with an exemption from reclassifying comparative amounts when it would require undue cost or effort (paragraphs BC34-BC36 of IAS 1); and

(d) IAS 8—the Board considered providing entities with an exemption from retrospective application and retrospective restatement when it gives rise to undue cost or effort (paragraphs BC23 and BC24 of IAS 8).

**IFRS for SMEs**

C8. IFRS for SMEs requires an entity to apply undue cost or effort for exemptions from some requirements in IFRS for SMEs. Section 2 *Concepts and Pervasive Principles* contains requirements on how an entity applies this threshold. Section 2.14B states:

Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the entity’s specific circumstances and on management’s judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are
expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers’ fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME’s financial statements would receive from having the information. An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.

C9. Paragraphs BC232 and BC233 of the Basis for Conclusions state:

BC232 The IASB also thinks that the clarifying guidance will help to emphasise two further points:

(a) that the undue cost or effort exemption is not intended to be a low hurdle. This is because an entity is required to carefully weigh the expected effects of applying the exemption on the users of the financial statements against the cost or effort of complying with the related requirement. In particular, the IASB observed that it would expect that if an entity already had, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. This is because, in that case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the entity.

(b) that an entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date.

BC233 Some respondents to the 2013 ED asked for further guidance and/or a definition of undue cost or effort. The IASB decided that it was not appropriate to provide further guidance
in the IFRS for SMEs because, ultimately, application of an undue cost or effort exemption depends on an SME’s specific circumstances and on management’s judgement. The IASB also noted that the terms ‘undue cost’ and ‘undue cost or effort’ are used in full IFRS and it would not be appropriate to define a term under the IFRS for SMEs that is used, but not defined, in full IFRS. This is because it may be used to interpret requirements in full IFRS. The IASB also observed that the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken. Consequently, undue cost or effort would generally be easier to meet for SMEs than for entities with public accountability, because the notion is applied relative to the benefits to users and SMEs are not accountable to public stakeholders.
### Appendix D—The Committee’s process in publishing an agenda decision

D1. This appendix summarises the Committee’s process in publishing an agenda decision.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step I—Stakeholder submits matter to the Committee for consideration</td>
<td>Stakeholders submit application questions to the Committee—paragraph 5.14 of the Due Process Handbook states: Issues could include the identification of divergent practices that have emerged for accounting for particular transactions, cases of doubt about the appropriate accounting treatment for a particular circumstance or concerns expressed by investors about poorly specified disclosure requirements.</td>
</tr>
<tr>
<td>Step II—Committee discusses matter and assesses whether to publish a tentative agenda decision</td>
<td>The Committee discusses the question submitted and assesses whether to add the matter to its standard-setting agenda. In making this assessment, the Committee considers, among other things, whether the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting.</td>
</tr>
<tr>
<td>Step III—Publish tentative agenda decision [if the Committee concludes the principles and requirements in IFRS Standards provide an adequate basis]</td>
<td>If the Committee concludes that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting, it then issues a tentative agenda decision outlining its reasons for not adding the matter to its standard-setting agenda. In this situation, the agenda decision typically includes explanatory material outlining the Committee’s view on how to apply the applicable principles and requirements.</td>
</tr>
<tr>
<td>Step IV—Consider comments on the tentative agenda decision and finalise agenda decision</td>
<td>Tentative agenda decisions are open for comment for 60 days. The Committee considers any comments on a tentative agenda decision before deciding whether to finalise it. The Board does not ratify agenda decisions issued by the Committee, but is informed of the agenda decisions published by the Committee at a public Board meeting.</td>
</tr>
</tbody>
</table>