STAFF PAPER

September 2017

IASB Meeting

Project	**Accounting policy changes (Amendments to IAS 8)**
Paper topic	Proposed threshold and timing challenge

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Introduction

1. At its meeting in June 2017, the International Accounting Standards Board (Board) discussed whether, and if so how, to address the challenges posed by the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for voluntary changes in accounting policies—in particular, changes in accounting policies that result from agenda decisions published by the IFRS Interpretations Committee (Committee)[1]. Specifically, the Board considered whether it should change the impracticability threshold in IAS 8 that an entity applies in determining whether to apply a voluntary change in an accounting policy retrospectively. The Board considered whether to change the threshold for all voluntary changes in accounting policies or only for those changes that result from agenda decisions.

2. The Board tentatively decided to amend IAS 8 to lower the impracticability threshold for voluntary changes in accounting policies that result from agenda decisions. The proposed threshold would include a consideration of the benefits and costs of applying the change retrospectively. The Board also tentatively decided not to address whether a change that results from an agenda decision is the correction of an error or a voluntary change in an accounting policy.

3. The Board asked the staff to further consider the proposed threshold and accompanying application guidance. The discussion at the June 2017 meeting also highlighted a concern about the timing of application of accounting policy changes

[1] Agenda Paper 12B from the Board's June 2017 meeting can be accessed here.

resulting from agenda decisions—ie entities might be expected to apply accounting policies in line with explanatory material in an agenda decision from the date of publication of that agenda decision. Consequently, we have also considered whether the Board should address this matter.

4. At the Accounting Standards Advisory Forum (ASAF) July 2017 meeting, we asked members for their views on (a) the Board's tentative decision to lower the impracticability threshold for voluntary changes in accounting policies that result from agenda decisions; and (b) whether the proposed threshold should include a consideration of the benefits and costs of retrospectively applying such a change in accounting policy. Appendix A to this paper summarises the feedback received from ASAF members.

Structure of the paper

5. This paper is structured as follows:
   - (a) staff analysis and recommendations:
     - (i) timing challenge for changes resulting from agenda decisions; and
     - (ii) the proposed threshold and accompanying application guidance.
   - (b) questions for the Board.

6. There are four appendices to this paper:
   - (a) Appendix A summarises feedback from ASAF members;
   - (b) Appendix B summarises recent examples of transition relief provided by the Board and the rationale for providing that relief;
   - (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 reproduces paragraphs 22-27 of IAS 8 for ease of reference.

Staff analysis

Timing challenge posed by agenda decisions

Background

7. As explained in Agenda Paper 12B of the June 2017 Board meeting, agenda decisions are non-authoritative—accordingly, any change in an accounting policy resulting from an agenda decision is not a change that is required by IFRS Standards. Unless the change is a correction of an error, an entity accounts for this change as a voluntary change in an accounting policy.

8. Nonetheless, entities are often expected to apply accounting policies in line with explanatory material in agenda decisions. Because agenda decisions do not have an effective date, they might be viewed as being effective immediately upon publication. This can create a challenge for entities that change an accounting policy as a result of an agenda decision—especially for entities with reporting dates close to the date of publication of the agenda decision. For example, if the Committee publishes an agenda decision in June of a particular year, an entity might be expected to apply any change that results from that agenda decision for a reporting period (annual or interim) ending on 30 June of that year—this could be particularly challenging in some situations.

Analysis

9. When the Board sets an effective date for new or amended requirements, it considers whether those applying IFRS Standards have sufficient time to prepare for the new requirements. Paragraph 6.35 of the Due Process Handbook states:

> The mandatory effective date is set so that… those applying IFRS have sufficient time to prepare for the new requirements.

10. When an entity changes an accounting policy voluntarily, we think it would generally have sufficient time to prepare for the new accounting policy. This is because it would generally be able to plan for such a change.

11. Similarly, when an entity is expected to change an accounting policy as a result of explanatory information in an agenda decision, we expect it would have sufficient time to implement that change. Although the Committee exposes an agenda decision

for a 60-day comment period before finalising it, we would find it unreasonable to expect an entity to apply a change in an accounting policy resulting from an agenda decision immediately upon publication of that agenda decision. For example, depending on the particular facts and circumstances, we would generally find it unreasonable to expect an entity to apply a change resulting from an agenda decision published in June of a particular year to its financial statements for a reporting period ending on 30 June of that year. Determining what is 'sufficient time' to implement a change resulting from an agenda decision requires judgement, and would depend on the nature of the change.

12. In our view, the Board does not need to undertake standard-setting to address this matter—instead, in outlining its rationale for not undertaking standard-setting, the Board could explain that it expects entities to generally have sufficient time to implement changes in accounting policies resulting from agenda decisions.

13. In reaching our conclusion however, we did consider a potential standard-setting solution discussed in the following paragraphs.

Potential standard-setting

14. To address the timing challenge posed by agenda decisions, the Board could amend IAS 8 to require an entity that voluntarily changes an accounting policy as a result of an agenda decision to apply this change from the beginning of an annual reporting period beginning after publication of the agenda decision.

Advantage

15. In our view, such an amendment to IAS 8 would help address the timing challenge because it would generally allow entities sufficient time to implement changes in accounting policies resulting from agenda decisions. For example, assume an entity has a calendar year-end. If the entity were expected to change an accounting policy as a result of an agenda decision published in June 2018, the entity would not implement the change before the beginning of its next annual reporting period on 1 January 2019. Similarly, if an agenda decision were published in November 2018, that entity would not apply the change before 1 January 2019.

Potential drawbacks

16. The amendment could be seen to provide an effective date for agenda decisions, thereby implying agenda decisions have some level of authoritative status.

17. In addition, this amendment would prevent entities from immediately applying changes in accounting policies resulting from agenda decisions, despite the change being a voluntary change in an accounting policy. For example, if an entity with a calendar year-end were to change an accounting policy as a result of an agenda decision published in March 2018, the amendment would prevent that entity from implementing the change until the beginning of its next annual reporting period on 1 January 2019.

Recommendation

18. We recommend that the Board does not undertake standard-setting to address this matter. Rather, in explaining its rationale for not undertaking standard-setting, the Board could explain that it expects entities to generally have sufficient time to implement changes in accounting policies resulting from agenda decisions—in our view, such an explanation of the Board's expectations regarding changes in accounting policies that result from agenda decisions would be helpful.

Proposed threshold and application guidance

19. At its meeting in June 2017, the Board tentatively decided (a) to amend IAS 8 to lower the impracticability threshold regarding retrospective application of voluntary changes in accounting policies that result from agenda decisions, and (b) the proposed new threshold should include a consideration of the benefits and costs of applying the change retrospectively. In this section, we further consider the proposed threshold and what, if any, application guidance the Board should propose in that respect.

Should the proposed threshold include a consideration of benefits?

20. At the June 2017 meeting, some Board members asked whether it would be practical for entities to assess benefits for users of financial statements (users) when applying the proposed threshold. Similarly feedback from some ASAF members (see Appendix A to this paper) and some Committee members (see Addendum to Agenda

Paper 12B of the Board's June 2017 meeting) suggested it might be difficult for entities to assess benefits in some situations.

21. We agree with the Board's tentative decision that the proposed threshold should include a consideration of not only the costs to an entity, but also the benefits to users, of applying the change retrospectively. We think considering the benefits of retrospective application to users is an essential part of the threshold. This is because in almost all recent cases for which the Board did, or did not, provide relief from particular aspects of retrospective application, its primary consideration was the benefits to users— Appendix B to this paper provides some examples of recently issued Standards, amendments and proposed amendments for which the Board has considered providing relief from particular aspects of retrospective application.

22. We acknowledge that when the Board has provided relief from retrospective application for cost-benefit reasons, it is the Board that has assessed the benefits and costs, not entities themselves. Nonetheless, although new to IAS 8, requiring entities to assess benefits and costs would not be entirely new to those entities—Appendix C to this paper summarises the use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs. Further, considering a user's perspective when making judgements related to financial reporting would also not be entirely new—for example, an entity considers a user's perspective when making judgements about materiality.

23. We acknowledge that in assessing the benefits and costs, entities would be required to apply judgement considering the specific facts and circumstances. We think 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. Nonetheless, it is important to have sufficient requirements and application guidance to support entities in applying that judgement. For this reason, we recommend including application guidance on the cost-benefit threshold.

Application guidance

24. This section discusses application guidance the Board might consider providing to assist entities in assessing the benefits and costs of applying a change in an accounting policy resulting from an agenda decision retrospectively.

25. In considering the application guidance, we reviewed:

(a) the Board's rationale for providing exemptions from particular aspects of retrospective application in recently issued Standards, amendments and proposed amendments—see Appendix B to this paper for a summary; and

(b) the use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs—see Appendix C to this paper for a summary.

26. The application guidance suggested in paragraph 27 of this paper builds on similar assessments already required by the Standards in particular circumstances.

27. We suggest including the following within the application guidance:

(a) 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, substantially exceeds the expected benefits for users;

(b) an entity assesses the cost and benefits taking into account the specific facts and circumstances;

(c) the threshold is not intended to be a low hurdle;

(d) in assessing the benefits to users, an entity considers how the economic decisions of users could be affected by not having the information that would result from retrospective application. In doing so, the entity assesses the expected effects on:

(i) its financial statements:

a. pervasiveness across the financial statements—the more pervasive a change across the financial statements, the more a user's economic decisions would be expected to be affected by not applying the change retrospectively.

For example, users are more likely to benefit significantly from retrospective application of a change that involves consolidating a subsidiary that was not previously consolidated because this could have a pervasive effect on the entity's financial statements (ie it could affect multiple line items within the financial statements). Users are less likely to benefit significantly if the change results only in a re-classification of amounts reported within different components of equity.

b. significance of the effect of applying a change—the more significant the effect of applying a change, the more a user's economic decisions would be expected to be affected by not applying the change retrospectively. For example users are more likely to benefit significantly from retrospective application if the change affects the recognition of an asset or liability. Users are less likely to benefit significantly if the change affects only one aspect of a particular cost-based measurement of an asset or liability.

   Similarly, the greater the number and significance of transactions affected by the change, the more a user's economic decisions would be expected to be affected by not applying the change retrospectively.

c. effect across different reporting periods— for example, users are less likely to benefit significantly from retrospective application for contracts that begin and end within the same reporting period. This is because the amounts reported in the financial statements for that contract may not change across reporting periods.

(ii) trend information—users are more likely to benefit significantly from retrospective application if the change provides trend information and less likely to benefit significantly if, for example, the change affects only one-off transactions or events.

(iii) its financial statements in future reporting periods—for example, assume a change affects the accounting for long-term contracts, say 20-year contracts. If the entity were to apply the new accounting policy only to contracts entered into after a particular date, users might not obtain the full benefits of the new policy for up to 20 years from the date on which the new policy is applied. This is because the accounting for old contracts during that 20-year period would not be consistent with the accounting for new contracts.

(e) 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, an entity would be expected to incur greater costs to justify applying a new accounting policy prospectively than it would to justify applying the new policy retrospectively but without restating comparative information.

Recommendation

28. Based on our analysis, we recommend that:

(a) the proposed threshold include consideration of not only the costs to an entity, but also the benefits to users, of applying the change retrospectively.

(b) the proposed amendments specify that 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 would outweigh the benefits to users of applying the new accounting policy retrospectively.

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 (Appendix D to this paper reproduces paragraphs 23-27 of IAS 8 for ease of reference).

(c) the Board provide application guidance on the assessment of the costs and benefits of applying a change in accounting policy resulting from an agenda decision retrospectively.

Questions for the Board

Question 1

As outlined in paragraph 18 of this paper, we recommend that the Board does not to undertake standard-setting to address the timing challenge posed by agenda decisions. Instead, we recommend that the Board explain its rationale for not undertaking standard-setting in the Basis for Conclusions on the proposed amendments. Does the Board agree with our recommendation?

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 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 accounting policy retrospectively.

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.

Question 3(a)

Does the Board agree with our recommendation to provide application guidance on how an entity would assess the costs and benefits of applying a change in accounting policy resulting from an agenda decision retrospectively? Paragraph 27 of this paper outlines our suggestions as to the content of the application guidance.

Question 3(b)

Does the Board have any comments on the suggestions outlined in paragraph 27 of this paper, or additional suggestions, regarding the content of the application guidance?

Appendix A—Feedback from ASAF members

A1. At the July 2017 ASAF meeting, ASAF members were asked for their views on:

a. the Board's tentative decision to lower the impracticability threshold for voluntary changes in accounting policy that result from agenda decisions; and

b. whether the proposed threshold should include a consideration of the benefits and costs of retrospectively applying such a change in accounting policy.

Overall

A2. Members were generally supportive of addressing the matter and of the direction proposed by the Board. Several members said enforcers in their respective jurisdictions expect entities to apply accounting policies in line with explanatory material in agenda decisions and this creates challenges for entities whose policies are not aligned with that explanatory material. The Accounting Standards Committee of Germany (DRSC) representative said German stakeholders generally consider any material explaining how to apply IFRS Standards published by the IFRS Foundation as mandatory—this includes agenda decisions.

A3. The DRSC representative highlighted that agenda decisions can be viewed as effective immediately upon publication, creating transition challenges for entities.

Lowering the threshold for voluntary changes resulting from agenda decisions

A4. Most members agreed with the Board's tentative decision to lower the impracticability threshold.

A5. Members had mixed views on whether a lower threshold should apply to all voluntary changes in accounting policy or only to accounting policy changes resulting from agenda decisions.

A6. The European Financial Reporting Advisory Group (EFRAG), DRSC, Autorite des norms comptables (ANC) and South African Financial Reporting Standards Council (SAFRC) representatives said it would be inappropriate to create a distinction between changes resulting from agenda decisions and other voluntary changes. In their view, this could imply that agenda decisions have authoritative status. The

EFRAG representative said in some situations, it could be difficult to assess whether a change in accounting policy results from an agenda decision or from other factors.

A7. The Australian Accounting Standards Board (AASB)/New Zealand Accounting Standards Board (NZASB) representative agreed with the Board's tentative decision, saying it strikes the right balance and is practical. The Accounting Standards Board of Canada (AcSB) representative said given the circumstances, the Board's tentative decision on this matter is probably the best solution. Other members did not express a view.

A8. Most members generally supported a proposed threshold that would involve consideration of the benefits and costs of applying a change retrospectively. Some members raised concerns as follows:

a. The AcSB and the AASB/NZASB representatives cautioned against setting a low threshold, noting the importance of providing the appropriate application guidance.

b. The Financial Accounting Standards Board (FASB) representative said it would be difficult for entities to assess benefits—entities would place more emphasis on costs. That representative also suggested the Board consider whether it needs to retain the impracticability threshold if it proposes a new threshold.

c. The Asian-Oceanian Standards-Setters Group (AOSSG) representative said the Board, and not entities, should assess the benefits of applying a change retrospectively. That representative noted the explanation in paragraph BC24 of IAS 8 in this respect.

d. The EFRAG representative suggested an excessive cost threshold, thus removing the need for entities to assess benefits.

e. In written comments submitted before the meeting, the China Accounting Standards Committee (CASC) representative said investors, creditors and regulators would be concerned that the proposed threshold would be subjective and difficult to apply. This could result in reduced comparability and could be misused by entities.

Other comments

A9. Some members commented on the treatment of agenda decisions as follows:

a. the Organismo Italiano di Contabilita (OIC) representative said it would be difficult for entities to demonstrate that a change in accounting policy resulting from an agenda decision is not the correction of an error. The AOSSG representative said in his jurisdiction, such a change is treated as the correction of an error.

b. The AASB/NZASB representative said IAS 8 already contains requirements to help assess whether a change is a voluntary change in accounting policy or a correction of an error. Thus, in her view, nothing further is needed in this respect.

A10. The SAFRC representative questioned the appropriateness of treating voluntary changes in accounting policies differently from corrections of errors.

A11. The Accounting Standards Board of Japan (ASBJ) representative said agenda decisions should be authoritative and ideally would include an effective date and transition requirements for any resulting changes.

Appendix B—Examples of recent transition reliefs

B1. This appendix provides some examples of recently issued Standards, amendments and proposed amendments for which the Board has considered providing relief from particular aspects of retrospective application for reasons other than impracticability.

Recently issued Standards and amendments

IFRS 15 Revenue from Contracts with Customers

B2. Paragraph BC437 of IFRS 15 states (emphasis added):

> The boards decided that although retrospective application would generally impose increased preparation costs, *those costs would be outweighed by the increased benefits to users of financial statements*. Consequently, the boards considered how the burden of retrospective application could be eased while, at the same time, retaining the benefits of comparability and consistency that retrospective application would provide. To ease the burden of transition without sacrificing comparability, the boards decided to allow an entity to elect to use one or more of the following practical expedients when applying IFRS 15 retrospectively…

Practical expedient	**Rationale**
For contracts completed before the date of initial application of IFRS 15, an entity need not restate contracts that begin and end within the same annual reporting period.	In considering whether an entity should be required to review and restate all contracts completed before the date of initial application, the boards decided that *trend information should be preserved* for completed contracts that span annual reporting periods. Consequently, the boards decided to limit the relief to only those contracts that begin and end within the same annual reporting period, because the amount and timing of revenue recognition relating to those contracts would not change between annual reporting periods. The boards noted that this relief would significantly reduce the transition burden on

	entities that have a large number of short-term contracts. A consequence of this relief is that revenue reported in interim periods before and after the effective date would not necessarily be accounted for on a comparable basis. The boards expect that an entity would *not elect to use this relief if it operates in an industry in which comparability across interim reporting periods is particularly important* to users of financial statements

…

IFRS 16 Leases

B3. Paragraphs BC276 and BC277 of IFRS 16 state (emphasis added):

> BC276 The IASB decided not to require a full retrospective approach for all lessees because *the costs of such an approach could be significant and would be likely to outweigh the benefits*…
>
> BC277 The IASB also rejected a prospective approach (ie applying IFRS 16 only to leases that commence after the date of transition). Although such an approach would be the *least costly* for preparers to apply, the information provided would *not be beneficial for users of financial statements*, particularly for entities that enter into long-term operating leases. For example, some entities enter into operating leases with lease terms of 20 to 30 years. For such entities, a user would not obtain the full benefits of IFRS 16 or full comparability of lease accounting for up to 30 years after implementing the new requirements, because the accounting for leases during that period would not be consistent…

Recognition of Deferred Tax Assets (Amendments to IAS 12)

B4. Paragraphs BC60 and BC61 of IAS 12 state (emphasis added):

> BC60 The Board decided to require the adjustment of comparative information for any earlier periods presented.

> However, this amendment allows the change in opening equity of the earliest comparative period presented that arises upon the first application of the amendment to be recognised in opening retained earnings (or in another component of equity, as appropriate), without the need to allocate the change between opening retained earnings and other components of equity. This is to avoid undue cost and effort.
>
> BC61 The Board noted that, with the exception of the amounts that would have to be adjusted within equity, the accounting required by these amendments is based on amounts and estimates at the end of the reporting periods. The changes to the accounting are mechanical in nature and so the Board expects that *the cost of adjusting comparatives should not exceed the benefits of greater comparability*.

Proposed amendments

Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)

B5. Paragraph BC4 of the proposed amendments to IFRS 11 states (emphasis added):

> BC4 The Board proposes that an entity apply the proposed amendment to IFRS 11 to transactions for which joint control is obtained on or after the beginning of the first annual reporting period beginning on or after the effective date of the amendment, with earlier application of the amendment permitted. The Board proposes this approach because it believes that *the benefits of applying the proposed amendment on a retrospective basis are unlikely to outweigh the costs*. This is because a retrospective approach would require an entity to go back and analyse all of its acquisitions of joint operations using the new guidance to evaluate its accounting effect.

B6. The proposed amendments to IFRS 3 and IFRS 11 mainly affect one-off transactions.

Property, Plant and Equipment—Proceed before Intended Use (Proposed amendments to IAS 16)

B7. Paragraph BC28 of the proposed amendments to IAS 16 states (emphasis added):

> BC28 … the Board concluded that the *benefits of retrospective application applying IAS 8 might be outweighed by the costs*. Consequently, the Board proposes retrospective application of the proposed amendments only to items of property, plant and equipment made available for use from the beginning of the earliest period presented when first applying the amendments. An entity would not apply the proposed amendments to items of property, plant and equipment made available for use before that date.

B8. The proposed amendments to IAS 16 affect one aspect of the cost-based measurement of some items of property, plant and equipment.

Annual Improvements to IFRS Standards 2015-2017 Cycle

B9. Paragraph BC3 of the proposed amendments to IAS 23 *Borrowing Costs* states (emphasis added):

> BC3 Development of a qualifying asset may take a long time. Moreover, the development of some assets currently in use may have been completed many years ago. Therefore, the Board concluded that the *costs of gathering the information required to capitalise borrowing costs retrospectively may exceed the potential benefits*. Accordingly, the Board proposes to require prospective application of the proposed amendments—ie the proposed amendments would apply only to borrowing costs incurred on or after the date of first applying the amendments.

B10. The proposed amendments to IAS 23 mainly affect one aspect of the cost-based measurement of a qualifying asset (as defined in IAS 23).

B11. In addition, in redeliberating the proposed amendments to IAS 12 *Income Taxes* included in the *Annual Improvements to IFRS Standards 2015-2017 Cycle Exposure Draft*, the Board tentatively decided to require an entity to apply the amendments to income tax consequences of dividends recognised on or after the beginning of the earliest reporting period presented. This is because the benefits would not outweigh the costs—the amendments would affect neither assets nor liabilities, but only components of equity.

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.
>
> 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—Excerpts of IAS 8

D1. 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.