STAFF PAPER

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IASB® Meeting

Project	**Accounting Policy Changes (Proposed amendments to IAS 8)**
Paper topic	Analysis of feedback—status of Agenda Decisions and timing of application

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Introduction

1. Agenda Paper 12A for this meeting summarises the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and explains the objectives of this meeting.

2. This paper analyses feedback on:

   (a) the status and role of Agenda Decisions; and

   (b) the Board's decision not to amend IAS 8 to address the timing of application of accounting policy changes that result from an Agenda Decision (timing of application).

3. This paper asks the Board:

   (a) for its views on aspects of the feedback that the Due Process Oversight Committee of the Trustees (DPOC) will consider in January 2019; and

   (b) to decide whether to amend IAS 8 to address the timing of application.

Structure of the paper

4. The paper is structured as follows:

   (a) summary of staff recommendations;

   (b) status and role of Agenda Decisions:

      (i) background;

      (ii) summary of feedback; and

      (iii) our analysis and recommendation.

   (c) the timing of application:

      (i) background;

      (ii) summary of feedback; and

      (iii) our analysis and recommendation.

5. This paper has one appendix—Appendix A: statistical summary of responses to Question 2 of the Exposure Draft *Accounting Policy Changes* (Exposure Draft).

Summary of our conclusions and recommendations

6. We recommend that the Board not amend IAS 8 to address the timing of application of accounting policy changes that result from an Agenda Decision.

7. We plan to recommend to the DPOC at their meeting in January 2019 that, in the light of the feedback on this Exposure Draft,

   (a) no changes are required to the due process for Agenda Decisions; and

   (b) the DPOC amend the *Due Process Handbook* (Handbook) to:

      (i) explicitly specify that:

         1. the objective of including explanatory material in Agenda Decisions (explanatory material) is to

improve consistency in the application of IFRS Standards; and

2. any explanatory material cannot add or change requirements in IFRS Standards. Rather, it explains how the applicable principles and requirements in the Standards apply to the question, transaction or fact pattern described in the Agenda Decision.

(ii) distinguish between Agenda Decisions that include explanatory material and all others. This could be done by referring to Agenda Decisions with explanatory material as Agenda Decisions—Explanatory (or another appropriate title).

(iii) explain that entities be allowed sufficient time to prepare for accounting policy changes that result from an Agenda Decision.

Status and role of Agenda Decisions

Background—what is an Agenda Decision and what is the process for publishing an Agenda Decision?

8. Currently, the Handbook specifies that an Agenda Decision[1] is one of the due process tools used by the IFRS Interpretations Committee (Committee) when it addresses questions submitted to it about the application of IFRS Standards.

9. For each question submitted, the Committee is required to consider at a public meeting whether to add a project to its standard-setting agenda. If the Committee

[1] The Handbook currently uses the terminology ‘Rejection Notice’ rather than ‘Agenda Decision’. Convention has developed to use the term Agenda Decision. This is because ‘Rejection Notice’ fails to convey that, in addition to noting the Committee’s decision that standard-setting is not required, explanatory material is often included in Rejections Notices/Agenda Decisions, which is responsive to stakeholders’ questions. In this paper, we refer to Rejection Notices as Agenda Decisions.

decides not to recommend standard-setting in response to a submitted question, it publishes an Agenda Decision to explain its decision. In many cases this is because the Committee concludes that standard-setting is:

(a) unnecessary—typically because, in the Committee's view, IFRS Standards provide enough information for an entity to determine its accounting or because there is no evidence that a widespread accounting problem exists; or

(b) unhelpful—because, for example, introducing new or amended requirements might assist one entity with a particular type of transaction, while raising questions for other entities with slightly different types of transactions.

10. Agenda Decisions do not add or change requirements in IFRS Standards. However, Agenda Decisions often include information to help entities apply the Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted.

11. Paragraph 5.22 of the Handbook describes Agenda Decisions, and the relevant due process the Committee is required to follow to publish them (as noted in the footnote to paragraph 8 of this paper, the Handbook refers to Agenda Decisions as 'Rejection Notices'):

> If the Interpretations Committee does not plan to add an item to its work programme it publishes this as a tentative rejection notice in the *IFRIC Update* and on the IFRS Foundation website and requests comments on the matter. The comment period for rejection notices is normally at least 60 days. After considering those comments the Interpretations Committee will either confirm its decision and issue a rejection notice, add the issue to its work programme or refer the matter to the IASB. Rejection notices 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. The IASB is not asked to ratify rejection notices.'

12. Accordingly, Agenda Decisions are subject to due process. The Committee exposes a tentative (ie draft) Agenda Decision for comment for 60 days. It then considers the comments and either confirms it is not necessary to undertake standard-setting and publishes a final Agenda Decision, or in the light of the feedback decides standard-setting is necessary. It may also refer a matter to the Board.

13. The Committee's Agenda Decisions are widely disseminated. They are available on the IFRS Foundation website listed both by applicable Standard and chronologically. Agenda decisions are also published in context in the annotated version of the printed bound volumes of IFRS Standards.

Feedback on the status of Agenda Decisions

14. The status of Agenda Decisions was not the subject of the Exposure Draft. Accordingly, most respondents to the Exposure Draft did not comment on their status. However, some respondents said the proposed amendments raise questions about the status of Agenda Decisions and their role in the application of IFRS Standards. These respondents suggested reconsidering the status of, and due process requirements for, Agenda Decisions. Some said the challenges the Board were trying to address in the Exposure Draft arise from the status of Agenda Decisions, and not from the requirements in IAS 8.

Same status as IFRS Standards or undertake standard-setting

15. Some respondents suggested that, when questions are submitted to the Committee, either (a) the Board should undertake standard-setting to clarify the matters raised, or (b) Agenda Decisions published should have the same (mandatory) status as IFRS Standards. For example, one respondent said:

> …If the IFRS Interpretations Committee observes in its work that mandatory guidance lead to inconsistent application or inappropriate accounting, the IASB should fix this unclear guidance through proper standard-setting procedure and transitional guidance... [Accounting Standards Committee of Germany [CL21]]

16. Similarly, another respondent[2] suggested that the Board should (a) undertake standard-setting (either amend the Standards through the annual improvements process or issue an IFRIC Interpretation) for any Agenda Decision that might lead to a significant and pervasive change in practice, and (b) incorporate other Agenda Decisions into educational materials.

17. Another respondent said:

> We believe the status of Agenda Decisions and the practical issues of their application will continue to be problematic until this fundamental conflict is resolved and, as such, recommend that the IFRS Foundation amend the Due Process Handbook, the definition of 'IFRSs' in paragraph 5 of IAS 8 and the process required for the finalisation of an Agenda Decision to grant them the authoritative status they already enjoy in practice…[Deloitte [CL85]]

18. One respondent[3] suggested either (a) giving Agenda Decisions the same status as IFRS Standards, or (b) clarifying that application of the explanatory material is 'completely optional'.

Due process for Agenda Decisions

19. Some respondents who did not suggest changing the status of Agenda Decisions suggested revisiting the due process requirements for Agenda Decisions—

[2] Hong Kong Institute of Certified Public Accountants [CL100].

[3] Accounting Standards Board of Japan [CL82].

particularly if entities are expected to change their accounting policies to reflect explanatory material. Those respondents suggested:

(a) that Agenda Decisions follow the same due process as IFRS Standards. A few respondents said the existing 60-day comment period is not enough[4].

(b) recognising the 'quasi-authoritative' status of Agenda Decisions by making changes to the Handbook, such as (i) introducing a higher threshold for the Committee to approve an Agenda Decision (for example, requiring a super-majority for approval); or (ii) requiring the Board to ratify or approve Agenda Decisions on a 'do not object' basis. [5]

(c) distinguishing between different types of Agenda Decisions (for example, those that provide explanatory material and those that do not), or providing a diagram that sets out where Agenda Decisions fit with IFRS Standards and other material (webcasts, etc) published by the IFRS Foundation. This diagram could then be used to determine the appropriate level of due process for Agenda Decisions and other materials.[6]

(d) amending the Handbook to address the timing of application. Paragraphs 53–54 of this paper discuss the comments raised in this respect.

Other comments

20. A few respondents said the Committee should not publish Agenda Decisions that prescribe an accounting treatment or are like an IFRIC Interpretation. This is because Agenda Decisions are not subject to the same due process as changes to

[4] For example, The Swedish Financial Reporting Board [CL87].

[5] For example, BDO [CL99].

[6] Autorite des Normes Comptables (French national standard-setter) [CL40].

IFRS Standards.[7] Another respondent said Agenda Decisions should be used only to confirm the correct application of existing requirements in the Standards.[8]

Staff analysis

The role of Agenda Decisions in supporting consistent application of IFRS Standards

21. As mentioned earlier in this paper, Agenda Decisions do not add or change requirements in IFRS Standards but often include information to help entities apply the Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted. Often for example, an Agenda Decision pulls together existing material in the Standards and accompanying material (such as Basis for Conclusions, Illustrative Examples, etc) to foster improved understanding of the applicable requirements.

22. The objective of including explanatory material in Agenda Decisions is to improve consistency in the application of IFRS Standards. A primary strategic goal of the Foundation is to support the consistent application and implementation of IFRS Standards globally.[9] The matters submitted to the Committee are generally complex in nature and have resulted in entities applying differing reporting methods. The Committee publishes an Agenda Decision after research, analysis, discussion and consultation on these matters. Explanatory material is included in an Agenda Decision when the Committee has concluded that the principles and requirements in IFRS Standards provide an adequate basis for an

[7] For example, the European Financial Reporting Advisory Group [CL104].

[8] Financial Reporting Council, UK [CL39].

[9] https://www.ifrs.org/-/media/project/2015-trustees-review/request-for-views/educational-materials/feedback-statement-request-for-views.pdf

entity to determine the appropriate accounting[10]. Nonetheless, that explanatory material might provide new information that is 'helpful, informative and persuasive' and, thus, could result in an entity changing its previous accounting policy. In this way, Agenda Decisions support a common understanding of, and thus consistent application of, the Standards.

23. In considering the feedback on the status of Agenda Decisions, it is important to recall the feedback from stakeholders in response to the 2015 Trustees' Review of Structure and Effectiveness. In response to that consultation, respondents said the Board should remain focussed on setting principles-based standards and should avoid introducing too many rules just for the sake of consistent application or attempting to solve local or regional problems.[11] They also said the Board should 'make amendments to standards only when those amendments are strictly necessary and should not attempt to provide accounting [requirements] for every possible transaction'.[11] Respondents to that consultation generally supported the enhancements made to the Committee's process in 2012 (to introduce the inclusion of explanatory material in Agenda Decisions and the due process supporting Agenda Decisions). However, a number of respondents recommended that the effectiveness and efficiency of the Committee be improved, ie that the Committee become more responsive in dealing with questions submitted to it.

24. Consequently, in our view Agenda Decisions play an important role in supporting consistent application of the Standards, without undermining the principle-based nature of those Standards.

[10] In contrast, if the Committee concludes that standard-setting is needed to resolve a matter, then it will recommend doing so—the Committee does not publish an Agenda Decision with explanatory material when it concludes standard-setting is needed.

[11] Paragraph F49 of the Trustees' Review of Structure and Effectiveness: Feedback Statement on the July 2015 Request for Views.

Where do Agenda Decisions fit within other material published by the Foundation?

25. The Board and the Committee publish:

(a) mandatory requirements in IFRS Standards (including IFRS Standards and IFRIC Interpretations) and amendments to IFRS Standards;

(b) non-mandatory material that accompanies a Standard, such as Illustrative Examples, Basis for Conclusions, Guidance on Implementing a Standard and IFRS Practice Statements;

(c) explanatory material (non-mandatory) in Agenda Decisions; and

(d) other educative material (non-mandatory) in various formats including, for example, Effects Analysis, Project Summaries, Webcasts and Articles.

26. Accordingly, Agenda Decisions are part of the non-mandatory materials that the Board or Committee publishes. Because of their importance, they are subject to due process that involves exposure for comment—and thus are subject to more rigorous due process than, for example, the other educative materials listed above in paragraph 25. Nonetheless, they do not add or change mandatory requirements and thus do not have the (mandatory) status of IFRS Standards.

27. Saying that materials published by the Board or Committee have non-mandatory status does not mean that they have no authority and should be ignored. The Handbook explains that Agenda Decisions should be seen as 'helpful, informative and persuasive'. The reason that the Board and Committee publish all the various non-mandatory materials listed above in paragraph 25 is to meet the Foundation's strategic goal of supporting consistent application and implementation of the Standards globally. We would expect non-mandatory materials that the Board or Committee publishes to be considered by stakeholders and thus influence the application of the Standards. However, this does not mean that all materials

published by the Board and Committee should have the same (mandatory) status as the Standards themselves.

Why the non-mandatory status of Agenda Decisions is appropriate

28. As mentioned above, Agenda Decisions do not add or change requirements in the Standards—instead, they explain how to apply those requirements. Indeed, the Committee publishes an Agenda Decision with explanatory material only after it has considered whether, and concluded not, to undertake standard-setting to address a particular matter—ie the Committee has concluded that it is not necessary to change the Standards because the principles and requirements in the Standards provide an adequate basis for an entity to determine its accounting in the fact pattern submitted. If Agenda Decisions were to have the (mandatory) status of the Standards, providing explanatory material in Agenda Decisions would effectively be standard-setting. Therefore, in our view the current status of, and due process for, Agenda Decisions is appropriate.

29. The content of Agenda Decisions means that it is essential that they have the same (non-mandatory) status as the Basis for Conclusions and Illustrative Examples that accompany the Standards. In explaining how the principles and requirements in the Standards apply to particular fact patterns, the content and style of the explanatory material is often similar to that of Illustrative Examples. The explanatory material refers to (or reproduces) the applicable principles and requirements and will also link those principles and requirements to relevant explanations provided by the Board in the Basis for Conclusions or other accompanying material. The explanatory material guides an entity through the applicable requirements, sometimes highlighting questions an entity may need to ask itself in applying those requirements.

30. For example, in March 2018 the Committee published an Agenda Decision Revenue recognition in a real estate contract (IFRS 15 *Revenue from Contracts with Customers*). In explaining how an entity applies the requirements in

paragraph 35(b) of IFRS 15 *Revenue from Contracts with Customers* to particular real estate contracts, the Agenda Decision links together the applicable requirements with additional information in the Basis for Conclusions on IFRS 15. For example, the Agenda Decision states:

> …Applying paragraph 35(b), an entity recognises revenue over time if the customer controls the asset an entity's performance creates or enhances as the asset is created or enhanced…
>
> Paragraph BC129 explains that the Board included the criterion in paragraph 35(b) to 'address situations in which an entity's performance creates or enhances an asset that a customer clearly controls as the asset is created or enhanced'. Accordingly, the Committee observed that, in applying paragraph 35(b), an entity assesses whether there is evidence that the customer clearly controls the asset that is being created or enhanced (for example, the part-constructed real estate) as it is created or enhanced…

31. Another Agenda Decision published in March 2018, Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15 *Revenue from Contracts with Customers*), provides an example of an Agenda Decision that highlights questions an entity might ask itself in determining how to account for a particular contract. The Agenda Decision states:

> …In assessing the criterion in paragraph 27(b) [of IFRS 15], the Committee observed that the entity considers, among other factors, the following:
>
> a. whether the entity provides a significant service of integrating the land and the building into a combined output as described in paragraph 29(a)—for example, is there a transformative relationship between the transfer of the land and the construction of the building in the process of fulfilling

the contract [paragraph BC116K]? Would the entity's performance in constructing the building be any different if it did not also transfer the land and vice versa? There is a functional relationship between the land and the building [paragraph BC116K]—the building cannot exist without the land; its foundations will be built into the land. However, this does not necessarily mean that the risks the entity assumes in transferring the land to the customer are inseparable from the risks it assumes in constructing the building [paragraph BC116K].

b. whether the land and the building are highly interdependent or highly interrelated as described in paragraph 29(c)—for example, would the entity be able to fulfil its promise to transfer the land even if it did not construct the building, and would it be able to fulfil its promise to construct the building even if it did not transfer the land? [Paragraph 29(c) and paragraphs IE51, IE58I and IE61A of the Illustrative Examples].

...

32. Therefore, because Agenda Decisions often quote from, or refer to, the Basis for Conclusions and have similar content to that of Illustrative Examples, we think it is essential that Agenda Decisions have the same (non-mandatory) status as those accompanying materials. Otherwise by referring to (non-mandatory) material in an Agenda Decision, the status of that quoted (non-mandatory) material would be changed.

33. In addition, Agenda Decisions always quote from the Standards in highlighting the applicable principles and requirements. That style of material cannot simply be given the status of IFRS Standards—doing so would create duplication in our literature and potential confusion. For example, it would be confusing to have the same mandatory requirements in different parts of IFRS literature, with

potentially small differences in wording arising from the different contexts within which those requirements are stated.

The consequences of changing the status of Agenda Decisions

34. Even if it were possible from a practical perspective to change the status of Agenda Decisions, we think doing so would risk reducing their effectiveness in supporting consistent application. This is because doing so could:

(a) *create a rules-based environment and imbalance in IFRS Standards*

There would potentially be detailed mandatory requirements for particular facts and circumstances determined by submissions to the Committee. This would compromise the principles-based nature of IFRS Standards. It could also lead to situations in which there are detailed requirements on particular aspects of a Standard while other (and potentially more important) aspects of that Standard would not have similar detailed requirements.

(b) *reduce the responsiveness of the Committee and delay providing clarity on known application questions*

The Committee published nine Agenda Decisions with explanatory material in 2018, 11 in 2017 and 13 in 2016 (and has a further 12 tentative Agenda Decisions with explanatory material in its work in progress at 30 November 2018). If Agenda Decisions were to have the (mandatory) status of IFRS Standards, this level of activity would lead to constant amendments to the Standards. Based on the feedback to the Trustees' Review of Structure and Effectiveness (see paragraph 23 of this paper), we think this would be unacceptable to most of our stakeholders. As a consequence, we would expect the number of Agenda Decisions published to reduce significantly—this would in turn have a detrimental effect on the Committee's responsiveness and the Foundation's strategic goal of supporting consistent application and implementation of IFRS Standards globally.

In addition, if the status were changed, we would expect stakeholders to request the same due process for Agenda Decisions as for any other form of standard-setting—this would delay providing clarity to stakeholders on known application questions. Such an outcome would be counter to the request we received in the Trustees' Review of Structure and Effectiveness for the Committee to become more responsive in dealing with questions submitted to it[12].

(c) *impose unnecessary costs on stakeholders*

Standard-setting results in costs for stakeholders. Frequent standard-setting in the form of publishing Agenda Decisions would require stakeholders to incur these costs each time an Agenda Decision is published.

Need for standard-setting

35. For the same reasons as those outlined above in paragraphs 33–34, we think the Board or Committee should not undertake standard-setting when it concludes that the principles and requirements in the Standards provide an adequate basis for an entity to determine the appropriate accounting. We therefore disagree with feedback that suggests standard-setting should be undertaken when (a) there is inconsistent application or inappropriate accounting, or (b) publishing an Agenda Decision could lead to a significant and pervasive change in practice.

36. Our view is consistent with the Board's view when, in 2017, it discussed the accounting for modifications and exchanges of financial liabilities that do not result in derecognition. When the Committee initially discussed this matter, it analysed and concluded upon the accounting required by IFRS 9 *Financial*

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[12] See paragraph 23 of this paper for more information.

Instruments—that accounting was described in *IFRIC Update*. The Board agreed with the Committee's technical analysis of the requirements in IFRS 9 and concluded that those requirements provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities. Accordingly, although the Committee expressed a preference for highlighting the requirements using an interpretation, the Board concluded that, in this situation, standard-setting is not required. The Board also noted the potential knock-on implications for IFRS Standards more generally of creating a precedent of undertaking standard-setting even when the Committee or Board have confirmed that existing requirements provide an adequate basis to determine the required accounting.

Due process for Agenda Decisions

37. Some respondents who did not suggest changing the status of Agenda Decisions suggested amending their due process requirements (see paragraph 19 of this paper). We think those suggestions would be relevant only if Agenda Decisions were given the same (mandatory) status of IFRS Standards. These include the suggestion to (a) introduce a higher threshold for approving Agenda Decisions, (b) require the Board to ratify Agenda Decisions, and (c) follow the same due process as that followed when developing or amending a Standard. Consistent with our view that the current status of Agenda Decisions is appropriate, we think introducing these requirements is unnecessary and would hamper the Committee's ability to respond to application questions on a timely basis. For example, the requirement for a simple majority of Committee members to approve an Agenda Decision—a decision not to add a matter to its standard-setting agenda—is consistent with the requirements that apply when the Board makes decisions about adding agenda items to its workplan.[13]

[13] Paragraph 5.6 of the Handbook says that '…The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting'. Similarly, paragraph 5.18 of the Handbook says 'A simple majority of Interpretations Committee members present can decide, after a debate in a public meeting, whether to add any issue to its work programme'.

38. We agree with respondents who said the Committee should not publish Agenda Decisions that are akin to an IFRIC Interpretation and also those who suggested that Agenda Decisions be used only to confirm the application of existing requirements—this aligns with the current requirements and process followed by the Committee in publishing an Agenda Decision. Explanatory material in an Agenda Decision does not add or change requirements in IFRS Standards whereas an IFRIC Interpretation adds new mandatory requirements.

39. Nonetheless, the Handbook provides limited information about Agenda Decisions (see paragraph 11 of this paper). We think it might be useful to supplement the existing requirements in the Handbook by explicitly specifying the objective of explanatory material and confirming that any explanatory material cannot add or change requirements in IFRS Standards. We also think it might be useful to distinguish between Agenda Decisions that include explanatory material and those that do not.

Conclusion and recommendation for the DPOC

40. We think the current status and role of Agenda Decisions is appropriate:

    (a) Agenda Decisions should not have the same (mandatory) status as that of IFRS Standards; and

    (b) the Board or Committee should not undertake standard-setting if it concludes that the principles and requirements in the Standards provide an adequate basis for an entity to determine the appropriate accounting.

41. We plan to recommend to the DPOC that, in the light of the feedback on the Exposure Draft, no changes are required to the due process for Agenda Decisions.

42. Nonetheless, we acknowledge that there is an important relationship between the content in Agenda Decisions and their status. Therefore, we plan to recommend to the DPOC that it amend the Handbook to:

(a) explicitly specify that:

(i) the objective of including explanatory material in Agenda Decisions is to improve consistency in the application of IFRS Standards; and

(ii) any explanatory material cannot add or change requirements in IFRS Standards. Rather, it explains how the applicable principles and requirements in the Standards apply to the question, transaction or fact pattern described in the Agenda Decision.

(b) distinguish between Agenda Decisions that include explanatory material and all others. This could be done by referring to Agenda Decisions with explanatory material as Agenda Decisions—Explanatory (or another appropriate title).

Questions 1 and 2 for the Board
1. Does the Board agree that the current status and role of Agenda Decisions is appropriate and, thus, that standard-setting should not be undertaken when it or the Committee concludes that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting? 2. Does the Board have any views on our analysis and conclusions in paragraphs 21–42 of the paper?

Timing of application of changes that result from an Agenda Decision

Background—what the Board said in the Exposure Draft

43. Paragraphs BC18–BC22 of the Exposure Draft set out the Board's considerations on the timing of application when developing the proposed amendments:

> *The timing of application of changes that result from an agenda decision*
>
> BC18 As noted in paragraph BC3(b), the new information provided by the explanatory material in agenda decisions might be viewed as being effective immediately upon publication. If so, an entity could find it difficult in some circumstances to change its accounting to reflect this new information. For example, assume the Committee publishes an agenda decision in June of a particular year and an entity with an annual reporting period ending on 31 December is expected to change its accounting policy as a result of the agenda decision. Depending on the change, it could be difficult for the entity to apply that change to its interim financial report(s) of the same year.
>
> BC19 For this reason, the Board considered whether and how it might address when an entity applies a change in accounting policy that results from an agenda decision. The Board noted that there is no obvious way for it to address the matter. This is because agenda decisions are non-authoritative and any resulting change in accounting policy is not one that is required by IFRS Standards. Accordingly, it is difficult for the Board to address the timing of a voluntary change.
>
> BC20 The Board considered amending IAS 8 to require the application of a voluntary change in accounting policy that

results from an agenda decision only from the beginning of the next annual reporting period, ie the first annual reporting period beginning after publication of the agenda decision. Some Board members supported this approach because it would provide an entity with some time to implement a change in accounting policy that results from an agenda decision. However, the approach would also have prevented an entity from applying any such change before the next annual reporting period. A variation of this approach would be to require the application of such a voluntary change no later than the beginning of the next annual reporting period, which would permit application of the change from the date of publication of the agenda decision. However, that approach might not have resolved the difficulty faced by an entity that is expected to apply the change immediately, for example, due to local regulations.

BC21 The Board decided not to propose amending IAS 8 to address when an entity applies a change in accounting policy that results from an agenda decision. Instead, the Board decided to outline in the Basis for Conclusions its views on implementing such changes as a means of helping entities apply a change that results from an agenda decision (see paragraph BC22).

BC22 The Board observed that when the Board develops new requirements or amends existing requirements, the *Due Process Handbook* requires it to consider whether those applying IFRS Standards have sufficient time to prepare for the new or amended requirements. Similarly, when an entity voluntarily changes an accounting policy, it would generally plan to have sufficient time to prepare for the new policy. The Board is therefore of the view that an entity should equally be entitled to sufficient time to prepare

> for a change in accounting policy that results from an agenda decision. Determining what 'sufficient time' to implement a change is requires judgement, and will depend on the nature of the change. However, in the Board's view, it would generally be unreasonable to expect an entity to apply a change in accounting policy that results from an agenda decision immediately upon publication of that agenda decision. For example, depending on the particular facts and circumstances, it would generally be unreasonable to expect an entity with an annual reporting period ending on 31 December to apply in its interim financial report(s) of that year a change that results from an agenda decision published in June of the same year.

44. Question 2 of the Exposure Draft (reproduced in Appendix A to this paper) asked respondents to provide their views on this matter.

Feedback on the timing of application

General

45. Sixty-seven respondents commented on the Board's decision not to amend IAS 8 to address the timing of application. Appendix A to this paper provides an overview of the responses received.

46. A majority of those who commented agreed with the Board's decision not to amend IAS 8 in this respect, and its explanation in paragraphs BC18–BC22 of the Exposure Draft. In particular, respondents said:

    (a) the explanation in paragraphs BC18–BC22 and, in particular, the Board's view in paragraph BC22 is helpful. Documentation of that view would assist entities in determining when to apply a change that results from an Agenda Decision.

(b) if an accounting policy change that results from an Agenda Decision is 'voluntary', the timing of applying such a change should also be voluntary—ie the Board cannot or should not mandate an effective date for a voluntary change in accounting policy.

(c) not specifying the timing of application would appropriately require an entity to apply judgement (considering the particular facts and circumstances) in determining when to apply a change that results from an Agenda Decision.

(d) the alternative approaches considered by the Board (and outlined in paragraph BC20) would not effectively deal with the matter.

47. One respondent who said the explanation in paragraphs BC18–BC22 was helpful nonetheless said:

> …we consider that the issue relates to the authority and process of issuing agenda decisions. Consequently we would prefer that the Board's expectations conveyed in BC20-BC22 to allow entities sufficient time to prepare for changes in accounting policies resulting from agenda decisions are reflected in the Due Process Handbook... [KPMG [CL46]]

48. Similarly, some other respondents who also said the explanation in paragraphs BC18–BC22 was helpful suggested:

(a) including this explanation either as part of the main body of IAS 8 or as application guidance to IAS 8;

(b) publishing an Agenda Decision that would include the information in paragraphs BC18–BC22; or

(c) including that information on the IFRS Foundation's webpages that discuss Agenda Decisions.

49. One respondent who agreed with the Board's decision not to amend IAS 8 expressed concerns about the Board's view in paragraph BC22. That respondent said paragraph BC22 effectively sets out requirements on the timing of application based on the Handbook, which in the respondent's view is inappropriate.[14] Another respondent suggested removing the example in paragraph BC22 because it might unintentionally create a rule.[15]

50. Some respondents disagreed with the Board's decision not to amend IAS 8. These respondents said the explanation in paragraphs BC18–BC22 might be of little help—this is because neither the proposed amendments nor the explanation in those paragraphs would provide relief for entities operating in jurisdictions in which they are expected to immediately apply accounting policy changes that results from an Agenda Decision.[16] In addition, paragraph BC22 states that an entity should be entitled to 'sufficient time' but does not provide further information about the optimal implementation time.[17] This lack of specificity could result in entities implementing a change at different times, which might impair comparison between entities.[18]

Possible ways to address this matter

51. Some respondents made specific suggestions, including:

Apply alternative in paragraph BC20

52. Some respondents suggested that an entity apply an accounting policy change no later than the beginning of the next annual reporting period (ie the second alternative specified in paragraph BC20). Some suggested a variation of this approach whereby the Board would set a time limit within which an entity could

[14] European Securities and Markets Authority [CL18].

[15] PricewaterhouseCoopers [CL52].

[16] BDO [CL99].

[17] Hong Kong Institute of Certified Public Accountants [CL100].

[18] For example, the Japanese Institute of Certified Public Accountants [CL66].

take advantage of the proposed lower threshold (for example, specifying that an entity could apply the lower threshold for up to twelve months or two years after publishing an Agenda Decision). This would minimise the risk of entities choosing to apply an accounting policy change as and when it suits them.

Amend due process

53. A few respondents suggested amending the due process requirements for Agenda Decisions. One respondent suggested allowing more time for entities to prepare for the application of Agenda Decisions. This could be done by considering the timing of finalising Agenda Decisions—for example, if the Board were to ratify Agenda Decisions, such ratification could be carried out at its first meeting in each calendar quarter. This would allow entities some time to apply any resulting change.[19] Similarly, another respondent suggested the introduction of an official publication date for Agenda Decisions (for example, three or six months after the Committee completes its discussion on a particular matter).

54. A few respondents suggested providing guidance on the effective date and transition in the Handbook, or alternatively amending the Handbook to allow the Committee to specify an effective date and transition in each Agenda Decision.[20]

Staff analysis

General

55. We continue to agree with the Board's decision not to amend IAS 8 to address the timing of application for the reasons outlined in paragraphs BC18–BC22 of the Exposure Draft. A majority of those who commented agreed with the Board's view in paragraph BC22; they said documentation of that view is helpful. We think clarifying the Board's expectation regarding the timing of application will

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[19] For example, BDO [CL99].

[20] For example, the Israel Accounting Standards Board [CL56].

encourage entities to apply accounting policy changes that result from an Agenda Decision, thereby improving consistency in the application of IFRS Standards.

56. We note that respondents who disagreed with the Board's decision on the timing of application generally did not identify problems with the explanation in paragraphs BC18–BC22, but rather said that explanation might be of little help.

57. We think the Board's view as expressed in paragraph BC22 does not specify requirements on the timing of application. We therefore disagree with the respondent who suggested that it did. That view—that an entity should be entitled to sufficient time to prepare for an accounting policy change—is simply that, the Board's view. It does not say anything specific about the timing of application and, because it is not part of IFRS Standards, is not a requirement. It is because the Board's view is not a requirement that we think some said it might be of little help.

58. Some respondents who said the explanation in the Basis for Conclusions is helpful nonetheless suggested including it in IAS 8 or in an Agenda Decision. However, we think it is not possible to do so. As noted above, the explanation in paragraphs BC18–BC22 reflects the Board's view but is not a requirement. Accordingly, we think it cannot be included in IAS 8, nor is it appropriate for inclusion in an Agenda Decision that explains how to apply IFRS Standards.

59. One respondent suggested including the information in paragraph BC22 in the Handbook (see paragraph 47 of this paper). We agree with this respondent. The Handbook explains both the nature of, and due process for, Agenda Decisions. We think inclusion of the information in paragraph BC22 would strengthen the existing explanation about Agenda Decisions in the Handbook. Accordingly, we plan to recommend that the DPOC amend the description of Agenda Decisions in the Handbook to explain that entities should have sufficient time to prepare for accounting policy changes that result from an Agenda Decision.

60. A few respondents suggested specifying what constitutes 'sufficient time'. We continue to agree with the Board that determining what is 'sufficient' necessarily involves the use of judgement and depends on the particular facts and circumstances. Accordingly, we think the Board cannot and should not specify what constitutes sufficient time.

Possible ways to address the matter

Applying alternatives in BC20

61. Because Agenda Decisions do not have the status of IFRS Standards (and based on our analysis in this paper, we think the (non-mandatory) status is appropriate), we agree with respondents who said the alternatives proposed in paragraph BC20 would not effectively deal with the timing of application.

62. Nonetheless, we considered whether the Board should set a time limit after which an entity would no longer be able to use the proposed lower threshold, as suggested by some respondents. Such an approach might be needed if the main concern regarding the timing of application was that entities would delay applying an accounting policy change until quite some time after an Agenda Decision is published. However, we are not aware that this is the case. In addition, this approach would not address the main concern identified about the timing of application—ie the difficulty faced by an entity that is expected to apply a change immediately. Applying this suggested approach, an entity might still be expected to apply a change that results from an Agenda Decision immediately.

63. We also think the requirements in IAS 8 that distinguish between a prior period error and an accounting policy change minimise the risk of an entity intentionally delaying the application of a change. This is because the longer the time that elapses between the publication of an Agenda Decision and the application of any resulting change, the more difficult it would be to demonstrate that the Agenda Decision provides new information (rather than information that was available or could reasonably have been expected to be obtained in prior periods). In other

words, the longer the time that elapses, the more difficult it would be to demonstrate that any resulting change is an accounting policy change and not the correction of a prior period error.

Amend due process

64. For reasons outlined in paragraph 37 of this paper, we recommend not amending the due process for Agenda Decisions. Any such change would add to the time needed to finalise an Agenda Decision and thus would hamper the Committee's ability to respond on a timely basis.

Conclusion and planned recommendation for the DPOC

65. We continue to agree with the Board's decision not to amend IAS 8 to address the timing of application for the reasons outlined in paragraphs BC18–BC22 of the Exposure Draft. We therefore recommend that the Board make no changes in this respect.

66. We plan to recommend to the DPOC that it amend the description of Agenda Decisions in the Handbook to explain that entities should be allowed sufficient time to prepare for accounting policy changes that result from an Agenda Decision.

Questions 3 and 4 for the Board
3. Does the Board agree with our recommendation not to amend IAS 8 to address the timing of application of accounting policy changes that result from an Agenda Decision? 4. Does the Board have any views on our analysis and conclusions in paragraphs 55–66 of the paper?

Appendix A—Statistical summary of responses to Q2 of the Exposure Draft

A1. Question 2 of the Invitation to Comment to the Exposure Draft stated:

> The Board decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee. Paragraphs BC18-BC22 of the Basis for Conclusions on the proposed amendments set out the Board's considerations in this respect.
>
> Do you think the explanation provided in paragraphs BC18–BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not? If not, what do you propose, and why? Would you propose either of the alternatives considered by the Board as outlined in paragraph BC20? Why or why not?

A2. The following chart summarises the views of those who commented on this question: