

## STAFF PAPER

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## IASB Meeting

Project	Accounting policies and accounting estimates (Amendments to IAS 8)		
Paper topic	Transition, Effective Date and Due Process		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

## Introduction and purpose

1. In October 2019, the International Accounting Standards Board (Board) tentatively decided to finalise the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* published in the [Exposure Draft Accounting Policies and Accounting Estimates](#) (Proposed amendments to IAS 8) (Exposure Draft), with some modifications.
2. The purpose of this paper is:
  - (a) to ask the Board whether it agrees with our recommendations with respect to transition and the effective date of the amendments to IAS 8;
  - (b) to set out the steps in the [IFRS Foundation Due Process Handbook](#) (Due Process Handbook) that the Board has taken in developing the amendments to IAS 8;
  - (c) to ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements; and
  - (d) to ask whether any Board member intends to dissent from the issuance of the amendments to IAS 8.

## Structure of the paper

3. This paper is structured as follows:
  - (a) Summary of the amendments (paragraphs 5–7);
  - (b) Transition and effective date (paragraphs 8–24); and
  - (c) Due process steps and permission for balloting (paragraphs 25–29):
    - (i) re-exposure;
    - (ii) intention to dissent;
    - (iii) confirmation of the due process steps; and
    - (iv) proposed timetable for balloting and publication.
4. This paper includes two appendices:
  - (a) Appendix A—Extract from the Basis for Conclusions on the Exposure Draft; and
  - (b) Appendix B—Actions taken by the Board to meet the due process requirements.

## Summary of the amendments

5. The amendments to IAS 8 would aim to help entities distinguish accounting policies from accounting estimates. In October 2019, the Board tentatively decided to modify the proposals in the Exposure Draft in response to feedback.<sup>1</sup>
6. The amendments to IAS 8 would:
  - (a) introduce a definition of ‘accounting estimates’—that definition would specify that:
    - (i) accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty;
    - (ii) such monetary amounts are outputs of measurement techniques used in applying accounting policies; and

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<sup>1</sup> [Agenda Papers 26A–26D](#) for the October 2019 Board meeting provide further information.

- (iii) an entity uses judgements and/or assumptions in developing an accounting estimate.
  - (b) clarify that:
    - (i) estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop accounting estimates;
    - (ii) the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors;
    - (iii) a change in accounting estimate that results from new information or new developments is not the correction of an error; and
    - (iv) if a change is a change in accounting estimate, it cannot also be a change in accounting policy.
7. The amendments would also:
- (a) delete existing example IE3 from the *Guidance on Implementing IAS 8*; and
  - (b) add to the *Guidance on Implementing IAS 8* examples illustrating how an entity would apply the definition of accounting estimates.

## Transition and effective date

### ***Transition***

#### *Proposal in the Exposure Draft*

8. Paragraph 54F of the Exposure Draft sets out proposed transition requirements. This paragraph states:

54F [Draft] *Amendments to IAS 8*, issued in [date to be decided after exposure], amended paragraphs 5, 32, 34, 51–53 and added paragraphs 32A and 32B. An entity shall apply those amendments only:

(a) from the start of the first annual period beginning on or after [date to be decided after exposure], or from the start of an earlier annual period selected by the entity; and

(b) to all changes in accounting policies and all changes in accounting estimates that occur on or after the date determined in (a). The entity shall apply the rest of this Standard to these changes in accounting policies and changes in accounting estimates. For example, for changes in accounting policies, the entity shall apply paragraphs 14–31.

9. Appendix A to this paper reproduces paragraphs BC21–BC22 of the Exposure Draft, which outline the Board’s considerations in this respect.

### *Respondents’ comments*

10. Only a few respondents commented on the proposed transition requirements.
11. One respondent said the Board is undermining the principle of retrospective application in most new standards and amendments. In the respondent’s view, users find retrospective application gives a more faithful representation of performance and is more helpful.
12. A few respondents said the proposed wording of the last two sentences of paragraph 54F(b) (reproduced in paragraph 8 of this paper) is confusing, unclear and unnecessary. These respondents suggest deleting these two sentences.

### *Staff analysis and recommendation*

#### *Transition requirements*

13. As explained in paragraph BC22 of the Exposure Draft (see Appendix A to this paper), in the Board’s view, the expected benefits of applying the amendments to changes that occurred in prior periods would not outweigh the cost.<sup>2</sup> We continue to agree with the proposed transition requirements for the reasons considered by the Board when developing those requirements. Respondents have not provided any information beyond that previously considered by the Board.

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<sup>2</sup> See paragraph BC22 of the Exposure Draft (reproduced in Appendix A to this paper).

*Last two sentences of paragraph 54F(b)*

14. We understand that the last two sentences in paragraph 54F(b) of the proposed amendments are intended to clarify that, although an entity would apply the proposed amendments prospectively (ie in determining whether changes that occur on or after the effective date are changes in accounting policies or changes in accounting estimates), an entity would then continue to apply the existing requirements in IAS 8 to determine whether to account for such a change prospectively or retrospectively.
  
15. The amendments would clarify only whether a change is a change in accounting policy or a change in accounting estimate—they would not change the requirements in IAS 8 on accounting for those changes. An entity accounting for a change in accounting policy in the period in which it applies the amendments for the first time would apply the requirements in IAS 8 in the same manner as it would in any other period. We think it is unnecessary to specify that the rest of IAS 8 continues to apply to changes in accounting policies and changes in accounting estimates.
  
16. We also note that when developing transition requirements, the Board normally only specifies how an entity applies the amended portion of any Standard and not how it applies any portion of the Standard which has not been amended—while we understand the intention behind the last two sentences, we think carrying forward these sentences to the final amendments could have unintended consequences for other amendments.
  
17. Accordingly, we recommend that the Board not include these sentences when it finalises the amendments to IAS 8.

**Question 1 for the Board**

**1. Transition requirements**

Does the Board agree with our recommendations to:

- (a) require entities to apply the amendments only to changes in accounting policies and changes in accounting estimates that occur on or after the start of the first annual period in which the entity applies the amendments; and
  
- (b) not include the last two sentences of paragraph 54F(b) of the proposed amendments.

## **Effective date**

### *Proposal in the Exposure Draft and respondents' comments*

18. The Board did not propose an effective date but proposed that earlier application be permitted. Appendix A to this paper reproduces paragraphs BC23–BC24 which outline the Board's considerations in respect of permitting early application of the proposed amendments.
19. No respondent commented on this aspect of the proposed amendment.

### *Staff analysis and recommendation*

20. Paragraph 6.35 of the Due Process Handbook explains that the mandatory effective date of any amendment is set so that (a) jurisdictions have sufficient time to incorporate the new requirements into their legal systems and (b) those applying IFRS Standards have sufficient time to prepare for the new requirements.
21. The Board generally allows at least 12 to 18 months between the issuance of a new Standard or amendment and its effective date. If the Board agrees with our recommendations set out in this paper, we expect the Board to issue the amendments during the first half of 2020.
22. The amendments are narrow in scope and apply only to changes in accounting policies and changes in accounting estimates that occur after the start of the first annual period in which the entity applies the amendments. We think entities would have sufficient time to apply the amendments if the Board were to set an effective date of 1 January 2022—ie approximately 18 months after the end of the first half of 2020. Accordingly, we recommend that the Board require entities to apply the amendments for annual periods beginning on or after 1 January 2022.
23. As explained in Appendix A of [Agenda Paper 26C](#) for the October 2019 Board meeting, we will, to the extent feasible, co-ordinate the timing of issuing these amendments with any other amendments to IAS 8. If this results in delays to issuing the amendments, we will reassess the appropriateness of the effective date and present our updated recommendation to the Board.
24. We continue to agree with the Board's rationale for permitting early application of the amendments and recommend that the Board confirm this proposal. In addition, and as explained in paragraph BC24 of the Exposure Draft (see appendix A to this paper),

the Board proposed not to add a requirement for an entity to disclose the fact that it has applied those amendments for an earlier period. We continue to agree with the Board's rationale and, accordingly, recommend confirming this decision.

### Question 2 for the Board

#### 2. Effective date

Does the Board agree with our recommendations to:

- (a) require entities to apply the amendments to annual periods beginning on or after 1 January 2022, with earlier application permitted; and
- (b) not add a requirement for an entity to disclose the fact that it has applied the amendments for an earlier period?

## Due process steps and permission for balloting

### *Re-exposure*

25. The Board considered whether to re-expose the amendments to IAS 8 at its October 2019 meeting, in light of the modifications to the proposals in the Exposure Draft. The Board tentatively decided not to re-expose the amendments to IAS 8.<sup>3</sup>

### *Intention to dissent*

26. In accordance with paragraph 6.23 of Due Process Handbook, we are asking whether any Board member intends to dissent from the issuance of the amendments to IAS 8.

### *Confirmation of the due process steps*

27. We think the Board has undertaken all the due process activities identified as being required in the Due Process Handbook and, thus, is able to finalise the amendments. Appendix B to this paper summarises the due process steps taken in developing the amendments to IAS 8—the applicable due process steps to date for issuing the amendments have been completed.

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<sup>3</sup> [Agenda Papers 26D](#) for the October 2019 Board meeting and the [October 2019 IASB Update](#) provide further information.

28. We request permission to start the balloting process if the Board is satisfied that (a) it has been provided with sufficient analysis, and (b) has undertaken appropriate consultation and due process to support issuing the amendments.

***Proposed timetable for balloting and publication***

29. We plan to begin the balloting process in the near term and expect to issue the amendments in the first half of 2020.

**Questions 3 and 4 for the Board**

**3. Dissent**—does any Board member intend to dissent from the issuance of the amendments to IAS 8?

**4. Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IAS 8?



## Appendix A—Extract from the Basis for Conclusions on the Exposure Draft

### Transition (paragraph 54F)

BC21 The Board proposes that an entity should apply the amendments only to changes in accounting policies and changes in accounting estimates that occur on or after the start of the first annual period in which the entity applies the amendments.

BC22 The Board proposes this transition because the benefits of applying the amendments to reclassify changes that occurred before the date mentioned in paragraph BC21 (ie in a prior period) would be minimal. The only information that such retrospective reclassifications would provide is the fact that a change in an accounting policy in a prior period would now have been reclassified as a change in an accounting estimate, or vice versa, and the effect of the difference between those two treatments. In the Board's view, this information would have neither predictive value nor confirmatory value. In addition, retrospective reclassification would impose on users of financial statements cost and effort to review and understand the resulting adjustments. It would also require entities to incur cost and expend effort in searching for past changes that the entities would have to reclassify on applying the new definitions and guidance.

BC23 The Board proposes to permit early application. In the Board's opinion, early application would enable entities to adopt more promptly a clearer and more consistent distinction between accounting policies and accounting estimates without:

- (a) depriving users of financial statements of useful information;  
or
- (b) impairing comparability between entities that adopt the amendment early and entities that wait until the effective date.

BC24 The Board does not propose creating a requirement for an entity to disclose the fact that it has applied those amendments for an earlier period. The Board concluded that this information is unlikely to be material. Moreover, paragraph 28 of IAS 8 requires an entity to disclose the effect, if any, of initial application of a Standard.

## Appendix B—Actions taken by the Board to meet the due process requirements

Step	Required / Optional	Actions
<b>Consideration of information gathered during consultation</b>		
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	<p>All comment letters received by the Board (82 comment letters) have been posted on the project website here:</p> <p><a href="https://www.ifrs.org/projects/work-plan/accounting-policies-and-accounting-estimates/comment-letters-projects/exposure-draft-accounting-policies-and-accounting-estimates/#comment-letters">https://www.ifrs.org/projects/work-plan/accounting-policies-and-accounting-estimates/comment-letters-projects/exposure-draft-accounting-policies-and-accounting-estimates/#comment-letters</a></p>
Board and IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>The Board discussed the summary of feedback from comment letters at its March 2018 meeting. (see <a href="#">Agenda Paper 26</a> <i>Feedback summary: Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)</i>).</p> <p>The Board received an update on the project and discussed next steps at its July 2018 meeting. (see <a href="#">Agenda Paper 26</a> <i>Update and next steps</i>).</p> <p>The Board discussed staff preliminary views on the matters identified in the feedback to the Exposure Draft, including preliminary views on the project direction at its April 2019 meeting. (see <a href="#">Agenda Paper 26A</a> <i>Cover note</i>, <a href="#">Agenda Paper 26B</a> <i>Analysis of feedback—definition of accounting estimates</i>, <a href="#">Agenda Paper 26C</a> <i>Analysis of feedback—other aspects</i> and <a href="#">Agenda Paper 26D</a> <i>Project direction</i>).</p> <p>The Board discussed our analysis and recommendations on the matters identified in the feedback to the Exposure Draft, including our recommendations on the project direction at its October 2019 meeting. (see <a href="#">Agenda Paper 26A</a> <i>Cover note</i>, <a href="#">Agenda Paper 26B</a> <i>Analysis of feedback—definition of accounting estimates</i>, <a href="#">Agenda Paper 26C</a> <i>Analysis of feedback—other aspects</i> and <a href="#">Agenda Paper 26D</a> <i>Project direction</i>).</p> <p>The Board will discuss feedback on the transition requirements proposed in the Exposure Draft (covered in this paper) at its December 2019 meeting.</p> <p>The Committee also discussed our analysis on the matters identified in the feedback to the Exposure Draft and planned recommendations to the Board at its September 2018 meeting (see <a href="#">Agenda Paper 8</a> <i>Analysis of feedback on proposed amendments to IAS 8</i>). Committee members provided advice to the Board on the planned recommendations and project direction.</p> <p>All staff papers above are publicly available.</p> <p>The project webpage has up-to-date information about all technical papers related to the project:</p> <p><a href="https://www.ifrs.org/projects/work-plan/accounting-policies-and-accounting-estimates/#project-history">https://www.ifrs.org/projects/work-plan/accounting-policies-and-accounting-estimates/#project-history</a></p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	<p>The Board considered the likely effects of the amendments when it discussed the project direction at its meeting in October 2019. See <a href="#">Agenda Paper 26D</a> <i>Project direction</i> of that meeting for further details.</p>

Step	Required / Optional	Actions
Round-table and outreach meetings to promote debate and hear views on proposals that are published for public comment	Optional	The proposed amendments were discussed with members of: <ul style="list-style-type: none"> <li>(i) the Global Preparers Forum (GPF) at its <a href="#">October 2017 meeting</a>; and</li> <li>(ii) the Accounting Standards Advisory Forum (ASAF) at its <a href="#">April 2018</a> and <a href="#">October 2018 meeting</a>.</li> </ul>
<b>Finalisation</b>		
Due process steps are reviewed by the Board.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	As explained in paragraph 25 of this paper, the Board, at its meeting in October 2019 considered whether to, but decided not to, re-expose the amendments.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Paragraphs 18–25 of this paper discuss the effective date. We recommend an effective date of 1 January 2022.
<b>Drafting</b>		
Drafting quality assurance steps are adequate.	Required	To be completed in due course. The Translations, Taxonomy and Editorial teams will review the pre-ballot draft.  We intend to send a draft of the amendments to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft.
<b>Publication</b>		
Press release to announce the final Standard.	Required	To be completed in due course. A press release will be published with the amendments.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope. According to paragraph 6.38 of the Due Process Handbook, a Feedback Statement is required for all new IFRS Standards and major amendments.  The Basis for Conclusions on the amendments will explain how the Board has responded to comments received.
Standard is published.	Required	The amendments will be made available on our website when published.