

STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative: Accounting Policies		
Paper topic	Transition and effective date		
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Objective and structure of this paper

1. This paper discusses staff analysis and recommendations about the amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* relating to:
 - (a) the transition requirements; and
 - (b) the effective date of the amendments to IAS 1 and its interaction with the effective date of the amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* resulting from the Accounting Policies and Accounting Estimates project.
2. This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraphs 3-4);
 - (b) Transition (paragraphs 5-12);
 - (i) Staff recommendation and question for the Board (paragraph 12);
 - (c) Effective date (paragraphs 13-23);
 - (i) Amendments to IAS 1 and IFRS Practice Statement 2 (paragraphs 13-19);

- (ii) Amendments to IAS 8 (paragraphs 20-21);
 - (iii) Early application (paragraph 22);
 - (iv) Staff recommendation and question for the Board (paragraph 23);
- (d) Appendix A—Extract from the Exposure Draft.

Summary of staff recommendations

3. Staff recommend that the Board amends the transition requirements proposed in the *Disclosure of Accounting Policies* Exposure Draft to require entities to (see paragraphs 5-12):
- (a) disclose material accounting policy information for the current period; and
 - (b) disclose comparative accounting policy information if, applying paragraph 38 of IAS 1, it is relevant to understanding the current period’s financial statements.
4. Staff also recommend that the Board (see paragraphs 13-23):
- (a) require entities to apply the amendments to IAS 1 and IFRS Practice Statement 2 to annual reporting periods beginning on or after 1 January 2023 with early application permitted; and
 - (b) change the effective date of the amendments to IAS 8 resulting from the Accounting Policies and Accounting Estimates project to annual reporting periods beginning on or after 1 January 2023 with early application permitted.

Transition

5. Paragraph 139U of the Exposure Draft set out the proposed transition requirements (see Appendix A). In particular, the Exposure Draft proposed to:
- (a) permit early application of the amendments; and
 - (b) require entities to apply the amendments prospectively.

6. While a few respondents agreed with the proposed transition requirements, some respondents also thought the Board should clarify whether ‘prospective application’ means that an entity would need to disclose (see [February 2020 Agenda Paper 20](#)):
 - (a) only material accounting policies for the current period; or
 - (b) both material accounting policies for the current period and significant accounting policies for the comparative period(s).

7. Paragraphs 38-41 of IAS 1 detail the requirements for minimum comparative information. In particular, paragraph 38 of IAS 1 states:

‘Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period’s financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period’s financial statements.’

8. Applying the requirements for comparative information in IAS 1, comparative information about an entity’s accounting policies should only be disclosed to the extent that that information is relevant to understanding the current period’s financial statements.

9. Furthermore, staff think in most cases it would be unnecessary to provide comparative information about accounting policies because:
 - (a) if the accounting policy is unchanged from the prior period, it is likely that the disclosure of the current period’s accounting policy will provide users with all the information about accounting policies that is relevant to an understanding of the current period’s financial statements; and
 - (b) if the accounting policy has changed from the prior period, the disclosures required by paragraphs 28-29 of IAS 8 for changes in accounting policies are likely to provide any information about prior period accounting policies that is relevant to an understanding of the current period’s financial statements.

10. Staff think the intention of the proposed transition requirements is for an entity to:
- (a) disclose its material accounting policy information for the current period; and
 - (b) comply with the requirements of paragraph 38 of IAS 1 which describes the comparative information that should be included in the financial statements.
11. Staff agree with those respondents that thought that the reference to ‘prospective application’ in the Exposure Draft is unclear when applied to accounting policy information. Consequently, staff think the transition requirements should be clarified to ensure the outcome described in paragraph 10 is achieved. For example, the transition requirements could be amended to read:

... An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. ~~The amendments shall be applied prospectively~~An entity shall disclose comparative accounting policy information if, applying paragraph 38 of IAS 1, it is relevant to understanding the current period's financial statements.

Staff recommendation and question for the Board

12. Staff recommend that the Board amends the proposed transition requirements to require entities to:
- (a) disclose material accounting policy information for the current period; and
 - (b) disclose comparative accounting policy information if, applying paragraph 38 of IAS 1, it is relevant to understanding the current period’s financial statements.

Question 1

Does the Board agree with the staff recommendation in paragraph 12?

Effective date***Amendments to IAS 1 and IFRS Practice Statement 2***

13. Some respondents to the Exposure Draft thought the Board should consider combining this project with either the Primary Financial Statements project or the Accounting Policies and Accounting Estimates project as they deal with related matters (see [February 2020 Agenda Paper 20](#)).
14. The Primary Financial Statements project issued the Exposure Draft *General Presentation and Disclosures* in December 2019. The comment period on that Exposure Draft ends on 30 September 2020 and redeliberations are expected to take several months. Consequently, we think combining this project with the Primary Financial Statements project would unnecessarily delay the proposed amendments to IAS 1 which almost all respondents thought would be useful.
15. Staff note that the project redeliberations for the Accounting Policies and Accounting Estimates project have been finalised and permission to begin the balloting process has been obtained. We think it might be possible to align both the publication and the effective date of the amendments to IAS 8 with the publication and effective date of the amendments to IAS 1 and IFRS Practice Statement 2 as suggested by respondents to the Exposure Draft (see paragraph 13).
16. At its December 2019 meeting, the Board tentatively decided to require entities to apply the amendments to IAS 8 to annual reporting periods beginning on or after 1 January 2022, with early application permitted (see [December 2019 Agenda Paper 26](#)).
17. Staff considered requiring entities to apply the amendments to IAS 1 and IFRS Practice Statement 2 to annual reporting periods beginning on or after 1 January 2022, with early application permitted. This would provide a period of approximately 12 months between when the final amendments are issued and when they become effective. The amendments affect only the disclosure of accounting policies and are prospective. Therefore, it could be argued that a 12-month implementation period would be sufficient.

18. However, we do not recommend an effective date of 1 January 2022 because¹:
- (a) we think it is important to ensure entities have sufficient time to interpret and apply the amendments to IAS 1 given that part of the objective of the amendments is to support behavioural change in making accounting policy disclosures; and
 - (b) given the Covid-19 pandemic:
 - (i) jurisdictions may need more time to incorporate the new requirements into their legal systems; and
 - (ii) those applying IFRS Standards may need more time to prepare for the new requirements.
19. Instead, we think the Board should require entities to apply the amendments to IAS 1 and IFRS Practice Statement 2 to annual reporting periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IAS 8

20. If the Board wishes to align the effective date of the amendments to IAS 8 with these amendments, then the Board will need to change the effective date of the amendments to IAS 8.
21. We recommend changing the effective date of the amendments to IAS 8 to 1 January 2023 while continuing to permit early application. We acknowledge this would result in a delay in requiring entities to apply the amendments to IAS 8—however, in our view:
- (a) the expected benefits of aligning the effective dates of both amendments would outweigh the costs. Both amendments deal with related matters and we see benefits in allowing jurisdictions, preparers and users of financial statements to prepare for and adapt to them at the same time.

¹ See paragraph 6.35 of the *Due Process Handbook*.

- (b) entities that have the resources available to prepare for and apply either or both of the amendments earlier than the effective date would be able to do so because both amendments would permit early application.
- (c) given the Covid-19 pandemic, an effective date of 1 January 2023 would ensure there is sufficient time:
 - (i) for entities to implement the amendments. We note that the Board has decided to require entities to apply the amendments prospectively (ie only to any 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).
 - (ii) for jurisdictions to incorporate the requirements into their legal systems.

Early application

22. We also considered, but do not recommend, requiring entities that want to early apply either one of the amendments (ie either the amendments to IAS 8 or the amendments to IAS 1 and IFRS Practice Statement 2) to also apply the other amendment at the same time. This is because the amendments deal with related but different matters. Requiring an entity to apply both amendments at the same time could unnecessarily deter an entity from applying the amendments early.

Staff recommendation and question for the Board

23. For those reasons discussed in paragraphs 13-22, staff recommend that the Board:
- (a) require entities to apply the amendments to IAS 1 and IFRS Practice Statement 2 for annual reporting periods beginning on or after 1 January 2023 with early application permitted; and
 - (b) change the effective date of the amendments to IAS 8 to annual reporting periods beginning on or after 1 January 2023 with early application permitted.

Question 2

Does the Board agree with the staff recommendation in paragraph 23?

Appendix A—Extract of proposed amendments to IAS 1

...

139U *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued [date to be decided after exposure], amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A-117D and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. The amendments shall be applied prospectively.