May 2018

IFRS® Foundation

Accounting Policy Changes

Proposed amendments to IAS 8: an overview

Why propose the change?

The International Accounting Standards Board (Board) was informed that the requirement in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to apply changes in accounting policy retrospectively, subject to impracticability, may reduce the usefulness of Agenda Decisions published by the IFRS Interpretations Committee (Committee). Explanatory material in Agenda Decisions supports high-quality and consistent application of IFRS Standards. Accordingly, the Board is proposing a narrow-scope amendment to simplify the application of accounting policy changes that result from Agenda Decisions.

The proposed amendment is intentionally narrow in scope—it would not change the non-authoritative status of Agenda Decisions, nor the approach in IAS 8 to apply voluntary changes in accounting policy retrospectively. It proposes introducing a new threshold that requires a company to consider the expected benefits to users of financial statements and the cost to the company of applying such accounting policy changes retrospectively.

Retrospective application

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Agenda Decisions and explanatory material

Agenda Decisions

An Agenda Decision is a decision published by the IFRS Interpretations Committee explaining its rationale for not adding a particular matter to its standard-setting agenda.

Agenda Decisions often include material that explains how to apply the principles and requirements in IFRS Standards.

The Committee discusses application questions submitted by stakeholders, and decides whether standard-setting is needed to address the question. If the Committee decides not to recommend standard-setting because, for example, it concludes that the Standards provide enough information for a company to determine its accounting, it publishes an Agenda Decision to explain why.

Agenda Decisions often include explanatory material to help companies applying IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted. The objective of including explanatory material in Agenda Decisions is to improve consistency in the application of the Standards. An Agenda Decision might therefore provide new information that results in a company changing its previous accounting policy.

Agenda Decisions are not authoritative so, applying IAS 8, any resulting policy change is described as a voluntary change in accounting policy. Unlike mandatory changes resulting from new IFRS Standards, neither the Board nor the Committee can specify in an Agenda Decision how or when companies apply accounting policy changes of this nature. Companies therefore apply the requirements in IAS 8 for voluntary changes in accounting policy.

Applying changes in accounting policy

Voluntary changes in accounting policy are applied retrospectively, with restatement of comparative information. However relief is available if retrospective application is impracticable as defined by IAS 8. When this is the case, a company applies the new policy from the earliest date practicable.

Impracticable

Applying a requirement is impracticable when a company cannot apply it after making every reasonable effort to do so.

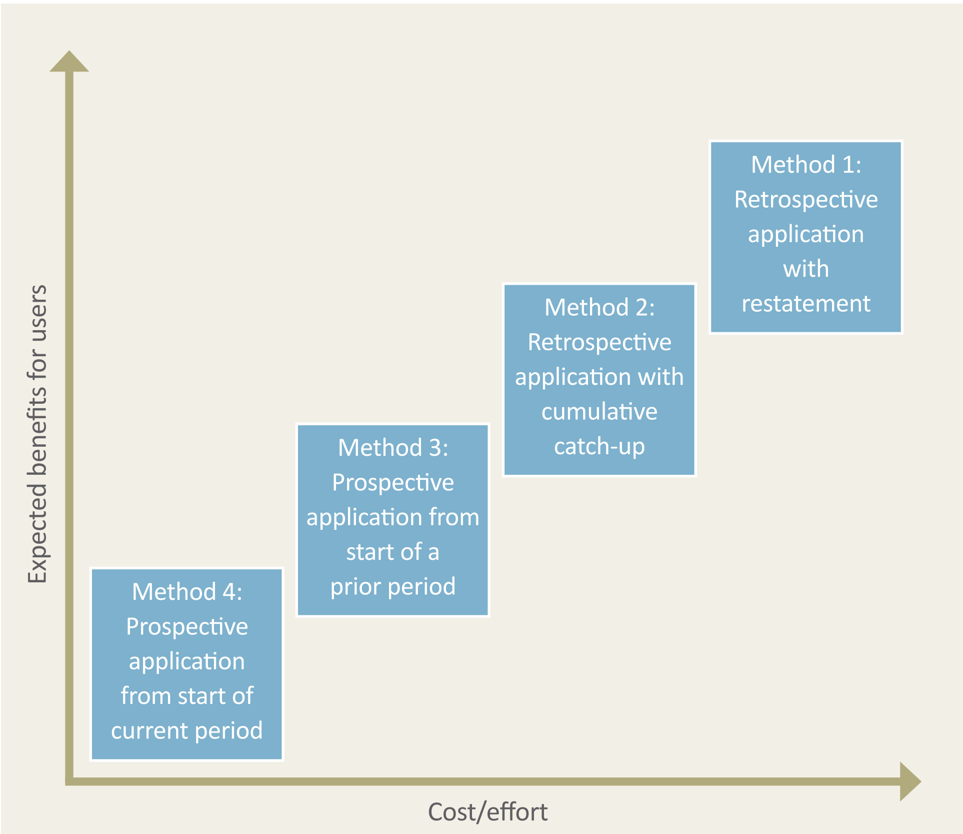
The proposed amendment does not change this approach in IAS 8 of applying an accounting policy change. Instead, it proposes an alternative threshold to the impracticable threshold for assessing how to apply an accounting policy change resulting from an Agenda Decision. The proposed threshold is based on an assessment of the expected benefits to users and the cost to a company. Importantly, the proposed threshold is not a 'free pass' to prospective application; it is designed to achieve a balance of cost and benefits on initial application of accounting policy changes resulting from Agenda Decisions.

The proposed threshold

When applying the proposed cost/benefit threshold to an accounting policy change resulting from an Agenda Decision, a company is required to consider:

- the additional cost it would reasonably expect to incur and the additional effort it would reasonably expect to make to determine the effect of the change; and
- how the absence of information that retrospective application would provide could affect decisions that users of financial statements make based on the company's financial statements.

The graph below illustrates the different application methods. Users of financial statements are generally expected to benefit more as the application method moves from prospective to retrospective application with restatement. The cost and effort involved are also expected to increase as the application method moves from prospective to retrospective application with restatement.



Application of the proposed threshold in practice

The following example illustrates the application of the proposed cost/benefit threshold.

Assume Company A applies a change in accounting policy resulting from an Agenda Decision in its annual financial statements for the year ended 31 December 20X7. Company A presents one year of comparative information. The table below illustrates the considerations and implications related to such an accounting policy change. Today, Company A determines which of Methods 1 to 4 below it is required to apply by assessing which method is practicable. Applying the proposed threshold, Company A would determine which method to apply based on an assessment of the expected benefits and cost.

Application Method	The method would apply when…	Implications for Company A in its 20X7 annual financial statements
Method 1: Retrospective application with restatement	…the expected benefits of restating all periods presented—as if the new policy had always been applied—exceed the cost of doing so.	• Company A applies the new policy for both 20X6 and 20X7. • A cumulative catch-up adjustment is made at 1 January 20X6, representing the cumulative effect of retrospective application before that date.
Method 2: Retrospective application with cumulative catch-up	…the expected benefits of applying the new policy at the start of the current period—as if the new policy had always been applied—exceed the cost of doing so (and the cost exceeds the expected benefits for Method 1).	• Company A applies the new policy for 20X7. • A cumulative catch-up adjustment is made at 1 January 20X7, representing the cumulative effect of retrospective application before that date.
Method 3: Prospective application from start of a prior period	…the expected benefits of applying the new policy to new transactions, events or conditions from the start of a prior period exceed the cost of doing so (and the cost exceeds the expected benefits for Methods 1 and 2).	• Company A applies the new policy to new transactions, events or conditions occurring after 1 January 20X6 (the earliest date on which the expected benefits exceed the cost). • No adjustment is made for transactions, events or conditions that occurred before that date.
Method 4: Prospective application from start of current period	…the expected benefits of applying the new policy to new transactions, events or conditions from the start of the current period exceed the cost of doing so (and the cost exceeds the expected benefits for Methods 1, 2 and 3).	• Company A applies the new policy only to new transactions, events or conditions occurring after 1 January 20X7. • No adjustment is made for transactions, events or conditions that occurred before that date.

Expected benefits and cost

The Exposure Draft provides guidance on how a company assesses whether the expected benefits to users of financial statements exceed the cost to the company of determining the effects of the accounting policy change. To make this assessment, a company is required to apply judgement and consider all relevant facts and circumstances. The proposed threshold is not limited to simply assessing cost because doing so in isolation would fail to reflect the importance of user needs.

What questions would a company consider in assessing the expected benefits and cost of determining the effects of the accounting policy change?

Examples of such questions include:

- Does the company have the information already? If not, could the information be obtained or developed without significant additional cost or effort?
- How significant is any potential departure from retrospective restatement? The greater the departure, the greater the likelihood that a user's decision-making could be affected.
- How big is the change? What types of user decisions could be affected by not applying the new policy retrospectively?
- How pervasive is the change? Is the effect restricted to a specific line item or does the change have an effect throughout the financial statements?
- How does the change affect trend information? For example, does the change affect frequent or recurring transactions or do the transactions affected by the change occur less frequently?

Proposed guidance on expected benefits and cost is included in Appendix A (paragraphs A6–A10) of the Exposure Draft.

FAQs on the proposed amendment

The table below includes some frequently asked questions and information about where you can find additional information on some of the questions you may have about the proposed amendment.

Question	Response and Exposure Draft reference
Why does the proposed threshold apply only to voluntary changes in accounting policy resulting from Agenda Decisions, and not to all voluntary changes in accounting policy?	The Board was informed that the requirements in IAS 8 can create an impediment to the Committee's objective of improving consistency in the application of IFRS Standards through Agenda Decisions. Paragraphs BC6–BC8 of the Exposure Draft provide more information.
How and why did the Board develop the proposed cost/benefit threshold?	The Board decided that the proposed threshold should include an assessment of both expected benefits and cost. Details of the Board's considerations are included in paragraphs BC9-BC12 of the Exposure Draft. Application guidance is also included in paragraphs A6–A10.
Does the proposed amendment address the timing of application of changes resulting from an Agenda Decision?	The Board decided not to propose an amendment to IAS 8 to address the timing of application. However, the Board has outlined its views on the timing of implementing such changes in paragraphs BC18–BC22 of the Exposure Draft. Question 2 in the Invitation to Comment section of the Exposure Draft asks for comments on the Board's considerations in this respect.
Does the proposed amendment address how to determine if an Agenda Decision results in a change in accounting policy?	IAS 8 already provides a framework that enables a company to determine the nature of any change that results from an Agenda Decision. The proposals do not affect the assessment. Therefore, as explained in paragraphs BC15–BC17 of the Exposure Draft, the Board has not proposed any additional requirements in this respect.
Have the impracticability requirements in IAS 8 been amended?	No. However, the Exposure Draft proposes to move some of these requirements, without amendment, to paragraphs A2–A5.

What next?

The comment period for the Exposure Draft ends on **27 July 2018**. We encourage you to provide your views on the proposals.

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