

STAFF PAPER

June 2020

IASB Meeting

Project	Accounting Policy Changes (Proposed amendments to IAS 8)		
Paper topic	Introduction and background		
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Introduction and objective of this meeting

1. The [Exposure Draft Accounting Policy Changes](#) (Exposure Draft) proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The proposed amendments aimed to simplify the application of accounting policy changes that result from an agenda decision by lowering the threshold for retrospective application of such changes. The proposed threshold would include consideration of the expected benefits to users of financial statements (investors) of applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.
2. At its meeting in December 2018, the International Accounting Standards Board (Board) received a summary of feedback on the Exposure Draft. However, because of the interaction with the Due Process Oversight Committee's (DPOC) review of the [Due Process Handbook](#) (*Handbook*) which was ongoing at that time, the Board was not asked to make decisions about the proposed amendments. The DPOC has now completed its deliberations on the due process for publishing an agenda decision and expects to publish the revised *Handbook* in June 2020.

3. The objective of this meeting is to:
 - (a) provide the Board with our analysis of whether to proceed with the proposed amendments in the light of the feedback; and
 - (b) ask the Board whether it agrees with our recommendation not to proceed and to do no further work on the project.

Structure of the papers for this meeting

4. This paper includes an overview of the proposed amendments, and a summary of developments since publishing the Exposure Draft.
5. Agenda Paper 12C includes our analysis of possible ways forward in the light of the feedback on the proposed amendments.
6. Agenda Paper 12D summarises feedback on the proposed amendments—it reproduces Agenda Paper 12C for the Board’s December 2018 meeting for ease of reference.

Overview of the proposed amendments

7. Applying IAS 8, an entity changes an accounting policy only if the change is required by an IFRS Standard or results in improving the usefulness of information provided to investors. A common reason for voluntarily changing an accounting policy is to reflect explanatory material included in an agenda decision published by the IFRS Interpretations Committee (Committee). The objective of including such explanatory material is to improve consistency of application of IFRS Standards. An agenda decision may provide additional insights that might change an entity’s understanding of the principles and requirements in IFRS Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision.
8. Applying an accounting policy change that results from an agenda decision can be challenging in some situations. Part of the challenge is because IAS 8 requires an

entity to apply an accounting policy change retrospectively as if the entity had always applied the new policy, except to the extent it is impracticable to do so.

9. To simplify the application of accounting policy changes that result from an agenda decision, the Board proposed:
 - (a) to amend IAS 8 to lower the threshold for retrospective application of such changes. The proposed threshold would include consideration of the expected benefits to investors of applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.
 - (b) to include application guidance on expected benefits and cost in order to provide a framework to support entities in applying the judgement required to assess the expected benefits and cost.

10. In developing the proposed amendments, the Board considered:
 - (a) whether to provide requirements to help determine whether a change that results from an agenda decision is the correction of a prior period error, a change in accounting policy or a change in accounting estimate. The Board concluded that no additional requirements were needed because IAS 8 already provides a framework to determine the nature of a change in accounting.
 - (b) whether and how it might address *when* an entity applies an accounting policy change that the entity determines is needed as a result of an agenda decision (timing of application). The Board concluded that there was no obvious way for it to address the matter and, therefore, proposed no amendment to IAS 8 in this respect. Instead, the Basis for Conclusions on the Exposure Draft outlined the Board’s view on the timing of application as a means of helping entities apply such an accounting policy change. The Board’s view is that an entity should be entitled to sufficient time to determine whether an accounting policy change is needed and, if so, implement that change. Determining how long is ‘sufficient’ is a matter of judgement that will depend on the nature of the change and an entity’s particular facts and circumstances. Nonetheless an entity would be

expected to implement any change on a timely basis.

11. Question 1 of the Exposure Draft asked for feedback on the proposed amendments. Question 2 asked for feedback on the Board’s decision regarding the timing of application.
12. At its meeting in December 2018, the Board:
 - (a) decided not to amend IAS 8 to address the timing of application—see paragraphs 18–19 of this paper for more information.
 - (b) agreed that it would be helpful for the DPOC to first consider whether any changes are required to the due process for publishing an agenda decision before the Board makes decisions about the proposed amendments. Paragraphs 13–17 summarise developments regarding amendments to the *Handbook*.

Developments since publishing the Exposure Draft

Due process for publishing an agenda decision

Background

13. An agenda decision is one of the due process tools the Committee uses when responding to questions submitted to it about the application of IFRS Standards. For each question submitted, the Committee is required to consider at a public meeting whether to add a project to the standard-setting agenda. If the Committee 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 the required 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.

14. In accordance with the *Handbook*, 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 standard-setting is not needed and publishes a final agenda decision or, in the light of the feedback, decides standard-setting is needed. It may also refer a matter to the Board.
15. Agenda decisions, and the explanatory material within them, are not part of IFRS Standards because they do not add or change requirements in IFRS Standards. However, this does not mean they can be ignored. Agenda decisions are first and foremost a statement of a decision not to undertake standard-setting—ie a statement that standard-setting would not be the most appropriate response to a question submitted to the Committee. Nonetheless, in the context of those decisions and to improve consistency of application, agenda decisions often explain how to apply the existing principles and requirements in IFRS Standards. An entity must determine whether the transaction or fact pattern described in an agenda decision is applicable to it—if that is the case, the entity applies the accounting specified in the agenda decision because that is what IFRS Standards require. An entity is therefore required to apply the applicable IFRS Standards, reflecting the explanatory material in an agenda decision.

Board's discussion

16. The status of agenda decisions was not the subject of the Exposure Draft and most respondents did not comment on it. However, some respondents to the Exposure Draft said the proposed amendments raised questions about the status of agenda decisions and their role in the application of IFRS Standards. At its December 2018 meeting, the Board considered the feedback on the status of agenda decisions and its unanimous view was that that the status (as described above in paragraphs 13-15) is appropriate. Some respondents suggested reconsidering the

due process for publishing an agenda decision, and this feedback was reported to the DPOC at its January 2019 meeting¹.

DPOC's discussions

17. At its meeting in December 2019, having considered the feedback on its proposed amendments to the *Handbook* regarding agenda decisions, the DPOC:
 - (a) confirmed the status of agenda decisions (see paragraphs 13–15 above).
 - (b) decided that the *Handbook* should be amended to clarify that, while an agenda decision cannot add or change requirements in IFRS Standards, the explanatory material in an agenda decision derives its authority from the Standards themselves. An entity is therefore required to apply the applicable Standards, reflecting the explanatory material in an agenda decision.
 - (c) decided to involve the Board in the process of publishing a final agenda decision as an additional due process step—ie if the Board objects to such an agenda decision (which would be the case if four or more Board members object), an agenda decision would not be published and the Board would decide how to proceed.

Timing of application

18. At its December 2018 meeting, the Board considered feedback on the timing of application (Question 2 of the Exposure Draft) and reaffirmed its decision not to amend IAS 8 in this respect. The Board's decision and views on this matter were communicated to the DPOC to assist with the DPOC's review of the *Handbook*.
19. The DPOC decided that it would be helpful to capture the Board's view in the *Handbook*, alongside the description of an agenda decision. The Board's view regarding sufficient time is also now included in the rubric introducing agenda decisions in *IFRIC Update*. Sue Lloyd, Vice-Chair of the Board, also wrote an article on the topic in March 2019—[Agenda Decisions—Time is of the essence](#).

¹ See [Agenda Paper 1F](#) from that meeting for further information.