STAFF PAPER

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IASB Meeting

Project	Accounting Policy Changes (Proposed amendments to IAS 8)		
Paper topic	Possible ways forward		
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Introduction and purpose

1. Agenda Paper 12B for this meeting summarises the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* included in the Exposure Draft *Accounting Policy Changes* (Exposure Draft).

2. This paper discusses the possible project direction in the light of the feedback on Question 1 of the Exposure Draft—ie the proposal to introduce a cost-benefit threshold for changes in accounting policy that result from an agenda decision.

3. The International Accounting Standards Board (Board) discussed a summary of comments received on Question 1 of the Exposure Draft at its December 2018 meeting—Agenda Paper 12D for this meeting reproduces that summary of comments for ease of reference.

Structure of the paper

4. This paper includes:

    (a) objectives of the proposed amendments;

(b) overview of feedback;

(c) possible ways forward;

(d) staff recommendation; and

(e) question for the Board.

5. The paper includes two appendices:

(a) Appendix A—Analysis of feedback on main aspects of the proposed amendments; and

(b) Appendix B—Feedback from members of the Accounting Standards Advisory Forum (ASAF).

Objectives of the proposed amendments

6. Paragraph BC3 of the Exposure Draft discussed the challenges entities might face in applying an accounting policy change that results from an agenda decision. That paragraph explained that because an agenda decision does not add or change requirements in IFRS Standards, neither the Board nor the Committee can develop specific transition requirements for any such accounting policy change—the requirements for a voluntary accounting policy change in IAS 8 therefore apply. IAS 8 requires retrospective application except to the extent that it is impracticable to do so. Paragraph BC4 went on to explain some of the possible consequences of the challenges identified for entities:

> BC3. …This can be problematic in some situations because:
>
> (a) the expected benefits to users of financial statements from applying a voluntary change in accounting policy retrospectively may not outweigh the cost to the entity of determining the effects of the change, even though the change might result in financial statements providing more useful information overall.
>
> (b) explanatory material in an agenda decision might be viewed as being effective immediately upon publication, because the Committee often addresses the application of

> IFRS Standards that are already effective. However, entities may find it difficult to obtain the necessary information to determine the effects of retrospective application—particularly entities with interim or annual reporting dates close to the date of publication of an agenda decision.[1]
>
> BC4. The problems noted in paragraph BC3 might dissuade entities from making the related change in accounting policy, or from submitting questions to the Committee for consideration. In addition, the Committee might recommend undertaking standard-setting solely because of concerns about transition, rather than because of a need to change or add to the principles and requirements in IFRS Standards. Frequent changes to the Standards could be a burden to stakeholders and create unnecessary disruption.

7. The proposed amendments were therefore intended to make it easier for preparers to make accounting policy changes that result from an agenda decision by lowering the threshold for retrospective application of those changes.

Overview of feedback

8. As discussed in paragraphs 6–11 of Agenda Paper 12D for this meeting, respondents expressed mixed views on the proposed amendments. Some respondents agreed, some disagreed, and some said they would agree if the Board were to extend the scope of the proposed cost-benefit threshold. The extended scope suggested would include all voluntary accounting policy changes, not only those that result from an agenda decision.

9. Regulators expressed concerns about the proposed amendments while responses from other stakeholder groups were generally mixed. Many respondents raised concerns about particular aspects of the proposed amendments.

[1] Paragraphs 18-19 of Agenda Paper 12B provide further information on the Board's discussions regarding the timing of applying an accounting policy change that results from an agenda decision.

10. Respondents who generally agreed with the proposed amendments did so because they said the proposed amendments would remove part of the challenge entities face when changing an accounting policy as a result of an agenda decision.

11. Respondents who disagreed with, or expressed concerns about, the proposed amendments said they:

    (a) *are unnecessary because the existing requirements in IAS 8 are adequate*
    Some respondents said IAS 8 already provides relief from retrospective application of an accounting policy change to the extent it is impracticable to do so. In their view, further relief is unnecessary.

    (b) *result in a fundamental change that could lead to unintended consequences for investors*
    A few respondents said, applying the proposed amendments, some entities might not apply some accounting policy changes retrospectively and different entities might apply the same change differently depending on the facts and circumstances. One respondent[2] said the principle of retrospective application 'remains a cornerstone to ensure that comparable information is provided between [entities] and across different reporting periods and to promote enforceability of IFRS.' In their view, the proposed amendments could result in a lack of (a) trend information for investors, and (b) comparability between entities in respect of prior period information.

12. The main comments raised regarding the proposed cost-benefit threshold relate to:

    (a) *the scope of the proposed cost-benefit threshold*

    Many respondents disagreed with limiting the scope of the proposed cost-benefit threshold to only accounting policy changes that result from an agenda decision. These respondents suggested that the Board extend the scope of the cost-benefit threshold to all voluntary

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

accounting policy changes. Many said limiting the scope of the cost-benefit threshold as proposed would:

(i) create an arbitrary distinction between different types of voluntary accounting policy changes;

(ii) elevate the status of agenda decisions; and

(iii) create practical challenges, particularly in assessing whether an accounting policy change results from an agenda decision.

(b) *application of the proposed cost-benefit threshold*

Many respondents said applying the proposed cost-benefit threshold could be both (a) challenging and costly, and (b) difficult to audit and enforce. Because of the subjective nature of the assessment (particularly that of expected benefits), some said entities might not use the proposed cost-benefit threshold as often as the Board might have expected.

Nature of change

13. Some respondents also disagreed with the Board's decision not to amend IAS 8 to provide requirements on determining the nature of a change that results from an agenda decision (eg whether the change is an accounting policy change or the correction of a prior period error). In particular, some said the proposed amendments increase the importance of assessing the nature of a change that results from an agenda decision—this is because, applying the proposed amendments, different requirements would apply depending on the nature of the change.

Possible ways forward

14. Appendix A to this paper presents our analysis of the main comments received. In the light of that analysis, we have identified two approaches as possible ways forward for the project:

Approach	Summary description
Modified Exposure Draft	Proceed with finalising the proposed amendments, subject to extending the scope of the proposed cost-benefit threshold so that an entity could apply it to all voluntary changes in accounting policy.
Do Not Proceed	Do not proceed with the proposed amendments and do no further work on the project.

15. Paragraphs A32–A33 of Appendix A discuss other approaches suggested by respondents but with which we do not recommend proceeding.

Modified Exposure Draft Approach

16. Applying this approach, the Board would proceed with the amendments to IAS 8, expanding the scope of the cost-benefit threshold to all voluntary changes in accounting policy.

17. When developing the proposed amendments, the Board considered whether to propose this expanded scope. Paragraph BC8 of the Exposure Draft (see paragraph A2 of Appendix A) explains the Board's rationale for limiting the scope to only accounting policy changes that result from an agenda decision. If the proposed cost-benefit threshold were to apply to all voluntary accounting policy changes, the Board was concerned about a potential loss of comparability between entities and a loss of information for investors if voluntary accounting policy changes (other than those that result from an agenda decision) were to occur frequently. The Board also identified that the challenges it was aiming to address arise for accounting policy changes that result from an agenda decision but would not generally be expected to arise for other voluntary accounting policy changes.

18. Nonetheless, feedback on the proposals has identified that the potential loss of information for investors is expected to be limited for voluntary accounting policy changes other than those that result from an agenda decision—this is because the principles and requirements in IFRS Standards limit the range of voluntary

accounting policy changes that can be made. In addition, an entity can make such an accounting policy change only if it results in reliable and *more* relevant information (paragraph 14 of IAS 8). Our analysis in paragraphs A2–A12 of Appendix A also highlights that:

(a) a loss of comparability might not be relevant for voluntary accounting policy changes (other than those that results from an agenda decision) because the accounting between entities might already be different in situations in which such a change can be made; and

(b) the proposed cost-benefit threshold is not a low hurdle and would not provide a 'free pass' to prospective application.

19. Accordingly, if the Board decides to proceed with amending IAS 8, we would propose that the Board extend the scope of the proposed cost-benefit threshold to all voluntary changes in accounting policy.

20. This approach would not address concerns raised about applying the cost-benefit threshold. Based on our analysis of those concerns (see paragraphs A13–A25 of Appendix A), if the Board decides to proceed with the Modified Exposure Draft approach, we would propose that the Board amend IAS 8 so that an entity *could* apply the cost-benefit threshold but would not be required to do so. An entity could then apply the threshold when that application would itself be considered cost-beneficial.

Do Not Proceed

21. If the Board concludes that the expected benefits of the Modified Exposure Draft approach do not outweigh the cost of standard-setting, we would recommend not proceeding with the proposed amendments.

Staff recommendation

22. In our view, the expected benefits of proceeding with the Modified Exposure Draft approach do not outweigh the expected cost of standard-setting for the following reasons:

   (a) As explained in paragraph 7 above, the Board developed the proposed amendments to make it easier for preparers to make accounting policy changes that result from an agenda decision; it did not do so for conceptual or other reasons. Preparers however expressed mixed views on the proposed amendments—some said the proposals would be helpful while others said they would be challenging and costly to apply. Regulators and many auditors also said the proposed amendments would be difficult to enforce and audit. Respondents raised numerous questions about the proposals, with many requesting additional application guidance or examples.

   (b) The feedback on the proposed amendments raises significant doubts about the possible benefits of proceeding with the project. This is because entities are unlikely to apply the cost-benefit threshold if they conclude that doing so would be challenging and costly. That challenge and cost may increase if the amendments are viewed as difficult to enforce and audit. Based on our analysis of the feedback (see paragraphs A13–A25 of Appendix A), we think it is not possible to significantly change the proposed cost-benefit threshold or its related application guidance. The feedback therefore suggests that the expected benefits of proceeding with the project would be notably less than originally expected when developing the proposals.

   (c) Developments since publishing the Exposure Draft (see paragraphs 13–19 of Agenda Paper 12B) have, in our view, reduced the need for amendments to IAS 8. In particular:

      (i) one of the challenges identified by the Board related to the timing of applying accounting policy changes that result from an agenda decision [3]. The Board's view—that an entity be entitled to sufficient time to implement any accounting policy change that the entity determines is needed as a result of an agenda decision—will be captured in the *Due Process Handbook* (*Handbook*) alongside the description of an agenda decision. This view has also been made visible to stakeholders in *IFRIC Update* and on the website. In our view, these developments alleviate one of the main reasons for undertaking the project.

(ii) the Due Process Oversight Committee (DPOC) discussed the due process for publishing an agenda decision as part of its review of the *Handbook*. The DPOC will amend the *Handbook* to improve the description of agenda decisions. In our view, these improvements will help stakeholders better understand the role of agenda decisions, and therefore better assess and apply any change that might result from an agenda decision.

23. We presented the feedback and our preliminary analysis to the ASAF in April 2019—ie we set out the two possible ways forward as described in paragraph 14 above but without any staff view on how the Board should proceed. ASAF members were 'lukewarm' at best regarding the project—two representatives suggested proceeding with the Modified Exposure Draft approach; one noted that stakeholders in their jurisdiction had mixed views; one noted that two standard-setters in their region suggested not proceeding and one standard-setter disagreed with the Modified Exposure Draft approach; and five suggested not proceeding with the project (see Appendix B for a summary of feedback from ASAF members).

24. Based on our analysis, we recommend not proceeding with the proposed amendments and doing no further work on the project.

[3] Paragraph BC3(b) of the Exposure Draft discusses the challenge identified regarding the timing of applying an accounting policy change that results from an agenda decision.

Question for the Board
Do you agree with our recommendation not to proceed with the proposed amendments and to do no further work on the project?

Appendix A—Analysis of feedback on main aspects of the proposed amendments

A1. This appendix provides our analysis of the main comments made by respondents in response to Question 1 of the Exposure Draft. In particular, it provides our analysis and views on feedback related to:

(a) the scope of the proposed cost-benefit threshold (paragraphs A2–A12);

(b) the application of the proposed cost-benefit threshold (paragraphs A13–A25);

(c) the nature of the change (paragraphs A26–A31); and

(d) other approaches (paragraphs A32–A33).

Scope of the proposed cost-benefit threshold

The Board's considerations in developing the Exposure Draft

A2. In developing the proposed amendments, the Board considered whether the cost-benefit threshold should apply to all voluntary changes in accounting policy or only those that result from an agenda decision. Board members had mixed views, explained in paragraphs BC7–BC8 of the Exposure Draft:

> BC7. Some Board members suggested application of the proposed threshold to all voluntary changes in accounting policy. This is because, in their view:
>
> (a) applying the threshold to all voluntary changes in accounting policy would make it easier for an entity to voluntarily apply any accounting policy that improves the usefulness of information provided to users of financial statements.
>
> (b) narrowing the application of the proposed threshold only to voluntary changes in accounting policy that result from an agenda decision might:
>
> (i) create what some would view as an arbitrary distinction between these voluntary changes and other

voluntary changes in accounting policy. This is because such a distinction would make it easier for entities to apply voluntary changes in accounting policy that result from an agenda decision.

(ii) be viewed as giving authoritative status to an agenda decision.

BC8. Nonetheless, the Board proposes limiting the scope of the proposed threshold to voluntary changes in accounting policy that result from an agenda decision because:

(a) the proposed threshold would apply to a smaller and known population of changes in accounting policy than if it were to apply to all voluntary changes. Applying the new threshold to a wider population might, for example, result in a loss of comparability between entities and a loss of information for users of financial statements if voluntary changes in accounting policy (other than those that result from an agenda decision) were to occur frequently.

(b) the distinction created between a voluntary change in accounting policy that results from an agenda decision and other voluntary changes would not be arbitrary given the process for developing and publishing agenda decisions[5].

(c) doing so would not change the non-authoritative status of agenda decisions; instead, it would simply identify agenda decisions as a source of voluntary changes in accounting policy.

[5] The Committee first publishes a tentative agenda decision, which is open for comment for 60 days, before it considers comments and decides whether to finalise the agenda decision.

Respondents' comments

A3. As discussed in paragraphs 13–25 of Agenda Paper 12D for this meeting, two respondents explicitly supported the proposed scope for the reasons outlined in paragraph BC8 of the Exposure Draft. However, many respondents disagreed with, or expressed concerns about, the scope. Those respondents suggested the Board extend the scope to all voluntary accounting policy changes, saying in particular:

(a) there is no basis for distinguishing between different types of voluntary accounting policy changes;

(b) they disagree with the Board's rationale in the Exposure Draft;

(c) the proposed amendments would elevate the status of agenda decisions; and

(d) the proposed amendments could create practical challenges, particularly in assessing whether a change in accounting policy results from an agenda decision.

A4. Other respondents said the impracticability threshold in IAS 8 is a very high hurdle and suggested that the Board consider revising this threshold—any revised threshold would then apply more generally to all accounting policy changes as well as the correction of a prior period error.

A5. Paragraphs 17–25 of Agenda Paper 12D provide more detail on these comments.

Staff analysis

Extending the scope to all voluntary changes in accounting policy

A6. The proposed amendments were intended to simplify the application of accounting policy changes that result from an agenda decision. However, the feedback suggests that limiting the scope of the proposed cost-benefit threshold to only accounting policy changes that result from an agenda decision may not work as the Board intended.

A7. One of the main reasons the Board proposed limiting the scope of the cost-benefit threshold was because it was concerned about a potential loss of comparability between entities and a loss of information for investors if voluntary accounting policy changes (other than those that result from an agenda decision) were to occur frequently

A8. We agree with some respondents who say:

(a) extending the scope of the proposed cost-benefit threshold to all voluntary accounting policy changes might not result in frequent changes in accounting policy. This is because:

(i) the principles and requirements in IFRS Standards limit the range of voluntary changes that can be made; and

(ii) the requirement in IAS 8—for a voluntary accounting policy change to result in reliable and more relevant information[5]—naturally limits the number of other voluntary changes.

(b) a loss of comparability might not be relevant for voluntary accounting policy changes (other than those that results from an agenda decision) because the accounting between entities might already be different in situations in which such a change can be made.

(c) the proposed cost-benefit threshold is not a low hurdle—it would not provide a 'free pass' to prospective application; it is designed to achieve a balance of cost and expected benefits on the initial application of an accounting policy change.

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[5] Paragraph 14 of IAS 8 states:

'An entity shall change an accounting policy only if the change:

(a) …; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

A9. We do not agree with respondents who say:

(a) the distinction created between an accounting policy change that results from an agenda decision and other voluntary changes would be arbitrary. All agenda decisions are subject to due process including exposure for comment—the process for developing and publishing agenda decisions provides a basis for the distinction.

(b) limiting the scope of the cost-benefit threshold to accounting policy changes that result from an agenda decision would elevate the status of agenda decisions. In our view, doing so would simply identify agenda decisions as a source of accounting policy changes.

(c) it might be difficult to assess whether an accounting policy change results from an agenda decision. An accounting policy change results from an agenda decision when the explanatory material included in it results in an entity determining that it needs to change its accounting policy—we would expect this assessment to be relatively straight-forward because the explanatory material includes references to the applicable principles and requirements in IFRS Standards.

A10. Having considering the feedback, on balance we would propose that if the Board decides to proceed with amending IAS 8, it should extend the scope of the cost-benefit threshold to include all voluntary changes in accounting policy.

Extending the scope to corrections of prior period errors and replacing the impracticability threshold

A11. The requirements in IAS 8 that apply to the correction of a prior period error are, in our view, appropriate and we are unaware of significant concerns in this respect. We would therefore propose that the Board not extend the scope of the cost-benefit threshold further to also include the corrections of errors.

A12. We also recommend not replacing the impracticability threshold in IAS 8 with the proposed cost-benefit threshold. This is because the two thresholds are different and are intended to apply to different situations; therefore replacing one with the other could have unintended consequences. For example, the impracticability threshold applies if making assumptions about management's intentions in a prior period or estimating amounts in a prior period would require the use of hindsight. However, the cost-benefit threshold may not capture situations that require the use of hindsight.

Application of the proposed cost-benefit threshold

The Board's considerations in developing the Exposure Draft

A13. Paragraphs BC9–BC10 of the Exposure Draft state:

> BC9. There are different ways the Board might have determined the proposed new threshold. In particular, the Board considered whether the new threshold should include consideration of only the cost to the entity of determining the effects of retrospective application or, instead, should also include consideration of the expected benefits to users of financial statements. Some Board members asked how practical it might be for entities to assess expected benefits from a user's perspective. These Board members also noted that when the Board or Committee provide relief from retrospective application of new requirements, it is the Board or Committee, not an entity itself, that assess the expected benefits and cost.
>
> BC10. The Board proposes including consideration of the expected benefits to users of financial statements as well as the cost to an entity for the following reasons:
>
> (a) for almost all recent IFRS Standards or amendments for which the Board did or did not provide relief from retrospective application, its main consideration was the expected benefits to users of financial statements. Accordingly, the Board decided that considering the expected benefits to users should be part of the new threshold.

(b) requiring entities to assess the expected benefits and cost would not be entirely new. Other IFRS Standards already include requirements based on benefits and cost or other similar thresholds. For example, in applying the expected credit loss impairment model, IFRS 9 *Financial Instruments* requires an entity to consider all reasonable and supportable information that is available without undue cost or effort.

(c) considering a user's perspective when making decisions about financial reporting would not be new for entities. For example, an entity considers a user's perspective when assessing materiality.

(d) the assessment of the expected benefits to users of financial statements and cost to the entity would require judgement depending on the particular facts and circumstances. However, applying judgement is an essential part of a principle-based framework—it does not, in itself, lead to inconsistent application or inappropriate accounting.

A14. The Board acknowledged that entities might face some practical challenges in assessing cost and, particularly, expected benefits to investors. Accordingly, the Board developed the proposed application guidance in the Exposure Draft to provide a framework to support entities in applying the judgement required to assess expected benefits and cost.

Respondents' comments

A15. Of those who commented on the application of the proposed cost-benefit threshold, one national standard-setter and one respondent (representing three organisations of preparers) agreed with the cost-benefit threshold. They said (a) entities are used to making such assessments, and (b) the proposed application guidance is well developed and can be put into practice. However, many expressed concerns. Those respondents said applying the cost-benefit threshold could be both (a) challenging and costly, and (b) difficult to audit and enforce.

The assessment, particularly of expected benefits, would be subjective and would require entities to apply significant judgement. Accordingly, some said entities might not use the proposed cost-benefit threshold as often as the Board might have expected.

A16. Specific comments raised included:

(a) *practical challenges*—respondents said it might be difficult to (i) determine the point in time at which expected benefits exceed cost, (ii) compare expected benefits (which would generally not be quantified) with costs (which entities might be able to quantify); and (iii) determine when to assess whether expected benefits exceed cost (eg on publication of an agenda decision, at an entity's reporting date or sometime in-between).

(b) requests for illustrative examples or a step-by-step guide.

(c) requests for additional clarity about the assessment of cost, managements role in making the assessment, and how the assessment of expected benefits and cost is similar to (and differs from) assessing materiality.

(d) *alternative approaches*—respondents suggested, among others (i) using concepts already in IFRS Standards such as 'undue cost or effort', and (ii) making the application of the proposed cost-benefit threshold optional.

Paragraphs 26–41 of Agenda Paper 12D provide more detail on these comments.

Staff analysis

Possible changes to cost-benefit threshold and related application guidance

A17. The proposed application guidance on assessing the expected benefits and cost is extensive, particularly with respect to assessing expected benefits. It includes 10 paragraphs of application guidance, five factors to consider when assessing expected benefits and 11 examples supporting these factors. Those examples generally provide contrasts explaining when information provided by retrospective application might be more or less beneficial to investors.

A18. Although improvements could possibly be made to the wording, we have not identified significant changes or improvements that the Board could make to the proposed application guidance.

Illustrative examples

A19. Some respondents suggested providing illustrative examples or including a step-by-step guide to help entities apply the proposed cost-benefit threshold. As noted above, the proposed application guidance already provides many examples. Paragraph A8 of the Exposure Draft discusses five factors an entity could consider when assessing expected benefits to investors. Within each of these factors, the application guidance provides examples of situations in which investors are more likely to benefit from retrospective application of a new accounting policy and situations in which they are less likely to do so. For example, one of the factors to consider is the nature of the change. In relation to that factor, paragraph A8(a) of the Exposure Draft states:

> the nature of the change—the more significant the effect of the change in accounting policy because of its nature, the greater the likelihood that a user's decision-making could be affected by an entity not applying the change retrospectively. For example
>
> (i) users are likely to benefit more from retrospective application of a new accounting policy that would result in the initial recognition or derecognition of an asset or liability. Users are likely to benefit less from retrospective application of a new accounting policy that would affect only one aspect of a particular cost-based measurement of an asset or liability.
>
> (ii) users are likely to benefit more from retrospective application of a new accounting policy that affects

transactions reported in the financial statements over several periods.

A20. Because the assessment of expected benefits and cost would very much depend on the particular facts and circumstances, in our view it would neither be useful nor practical to develop a comprehensive example or provide a step-by-step illustration of how an entity would assess expected benefits and cost of implementing a particular change in accounting policy.

Use of a concept already in IFRS Standards

A21. Some respondents suggested the Board consider using a concept already used in IFRS Standards such as 'undue cost or effort' in IFRS 9 *Financial Instruments* or 'excessive cost' in IFRS 8 *Operating Segments*.

A22. Appendix C to Agenda Paper 12A of the Board's September 2017 meeting summarised the use of cost-benefit and other similar thresholds in IFRS Standards and IFRS for SMEs. During its deliberations, the Board discussed, but decided not to use, a concept already used in other IFRS Standards.

A23. We continue to agree with the Board's decision in this respect. This is because those other concepts and any related application guidance apply in a different context—for example, 'undue cost or effort' in IFRS 9 is used mainly in the context of assessing whether the cost of obtaining reasonable and supportable information does not outweigh the benefits of the information when determining significant increases in credit risk or when measuring expected credit losses. Accordingly, the related application guidance in IFRS 9 necessarily focuses on the types of information an entity considers within that particular context. The concept of 'undue cost or effort' in IFRS 9 and its related application guidance could not simply be used in assessing expected benefits and cost of retrospective application of a new accounting policy without significant modification or the provision of additional application guidance. Using the same concept with two different sets of application guidance would be confusing and could potentially give rise to new questions.

Requirement to apply the cost-benefit threshold

A24. A few respondents said applying the proposed cost-benefit threshold could be costly in some situations, making the assessment itself not cost-effective. Accordingly, these respondents suggested the Board not require an entity to apply the cost-benefit threshold.

A25. We agree with these respondents—the objective of the proposed amendments is to simplify the application of accounting policy changes that result from an agenda decision. We see no particular benefit in requiring entities to assess whether expected benefits exceed cost in situations in which making that assessment would itself not be cost-beneficial.

Nature of the change

The Board's considerations in developing the Exposure Draft

A26. Paragraphs BC15–BC17 of the Exposure Draft explain that, in developing the proposals, the Board considered whether to provide application guidance to help entities determine whether a change that results from an agenda decision is the correction of a prior period error, a voluntary change in accounting policy or a change in accounting estimate. The Board acknowledged that such an assessment could require judgement but concluded that no amendment was needed because IAS 8 provides a framework to determine the nature of a change that results from an agenda decision.

A27. In explaining its decision, the Board noted that the research, analysis and discussion supporting the publication of an agenda decision often provides entities with additional insights or information that would not otherwise have been available. The Board also noted that it would be inappropriate to characterise all changes that result from an agenda decision as the correction of an error, a voluntary change in accounting policy or a change in accounting estimate in part because the nature of the change is likely to vary by entity.

Respondents' comments

A28. Some respondents expressed concerns about the Board's decision and views in this respect. In particular some respondents said:

(a) the proposed amendments increase the importance of assessing whether a change that results from an agenda decision is the correction of a prior period error or a change in accounting policy—this is because, applying the proposed amendments, different requirements would apply in these situations. Some respondents therefore suggested providing additional guidance, including illustrative examples, to help entities make this assessment.

(b) a change that results from an agenda decision is always the correction of a prior period error while others said an agenda decision could never be the correction of a prior period error because agenda decisions do not have the status of IFRS Standards.

Paragraphs 42–49 of Agenda Paper 12D provide more detail on these comments.

Staff analysis

A29. We continue to agree with the Board's decision not to amend IAS 8 in this respect because the Standard already provides a framework to determine the nature of a change in accounting. We also agree that it would be inappropriate to characterise all changes that result from an agenda decision as either the correction of a prior period error, a change in accounting policy or a change in accounting estimate. That said, we note that the *Handbook* is expected to say that explanatory material in an agenda decision may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Standards—feedback on the DPOC's review of the *Handbook* indicates that including this explanation and wording in the *Handbook* is viewed as helpful. That wording will also be included in *IFRIC Update*.

A30. In our view, the proposed amendments would not significantly increase the importance of assessing whether a change that results from an agenda decision is the correction of a prior period error or an accounting policy change. That assessment is already important—an entity is required to disclose a correction of an error separately from accounting policy changes. The proposed amendments would not significantly change the distinction already in IAS 8.

A31. We also conclude that, because the assessment of the nature of a change depends on the particular facts and circumstances, it would neither be useful nor practical to develop examples in this respect.

Other approaches

A32. We considered, but do not recommend, the following approaches suggested by some respondents:

(a) the Board permit entities to apply an accounting policy change that results from an agenda decision prospectively (or to apply a modified retrospective approach); or

(b) the Committee specify transition requirements and an effective date in each agenda decision. [6]

A33. In particular, in our view:

(a) permitting prospective application of particular (or all) accounting policy changes that result from an agenda decision would undermine the principle of retrospective application of accounting policy changes in IAS 8 and is beyond the scope of this project; and

(b) it is not possible to specify transition requirements and an effective date in each agenda decision because explanatory material in an agenda decision does not add or change requirements in IFRS Standards.

[6] Paragraph A1.1 of Appendix A to Agenda Paper 12D provides more details on respondents' suggestions in this respect.

Appendix B—Feedback from ASAF members

B1. This appendix reproduces extracts from the Summary Note of the Accounting Standards Advisory Forum meeting held on 1 April and 2 April 2019.

Accounting Policy Changes (Proposed amendments to IAS 8)

53. The purpose of the session was to obtain ASAF members' views on the best way to proceed—considering feedback in comment letters—specifically on the Board's proposal to introduce a new cost-benefit threshold for accounting policy changes that result from an agenda decision (Agenda Paper 5).

54. The staff paper set out two possible approaches:

(a) the modified Exposure Draft approach—the Board proceed with finalising the proposed amendments, subject to extending the scope of the proposed cost-benefit threshold so that an entity could apply it to all voluntary accounting policy changes.

(b) the do not proceed approach—the Board not proceed with the proposed amendments.

Project direction

55. Two members (the GLASS and FRC representatives) suggested proceeding with the modified [Exposure Draft] approach for the reasons outlined in the staff paper. The FRC representative saw no reason to limit the application of the cost-benefit threshold to only accounting policy changes resulting from an agenda decision.

56. The EFRAG representative said views were mixed in its jurisdiction between the two approaches. The AOSSG representative said two AOSSG members (India and Hong Kong) suggested not proceeding with the amendments and one AOSSG member (Australia) said the Board should not expand the scope of the proposals to include all voluntary accounting policy changes. Five other ASAF members (representatives from ARD, ASBJ, AcSB, OIC and KASB) suggested that the Board not proceed with the amendments.

57. ASAF members who suggested that the Board not proceed with the amendments did so because, in their view:

(a) applying and auditing the cost-benefit threshold, and in particular determining the expected benefits for users of financial statements, would be difficult (AOSSG and ARD);

(b) entities could use the amendments as a reason not to apply an accounting policy change retrospectively, which would have a negative effect on the overall quality of financial reporting (ARD);

(c) the amendments could reduce comparability between entities by resulting in more frequent voluntary accounting policy changes (AOSSG); and

(d) the existing requirements in IAS 8 are sufficient (ASBJ, OIC, KASB, AOSSG).

Other comments

58. Some respondents also made other comments on the proposed amendments as follows:

(a) the GLASS representative said (a) the assessment of cost and benefits is different from the assessment of materiality, and (b) entities should disclose the effect of an accounting policy change even if they do not restate comparative information;

(b) the AOSSG representative said one of its members (Hong Kong) suggested requiring entities to apply accounting policy changes prospectively with an option to apply any change retrospectively;

(c) the ASBJ representative reiterated the ASBJ’s view that the Board should undertake standard-setting when diverse reporting methods exist in practice; and

(d) the FASB representative said the Committee is better placed than individual entities to assess the expected benefits for users of financial statements. Accordingly, the Committee could consider providing direction regarding the expected benefits in each agenda decision.