

IFRS in Focus

IASB proposes more changes to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

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The International Accounting Standards Board (IASB) has proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that would introduce a new, lower, threshold to getting relief from having to account for a change in accounting policy fully retrospectively, when that change is a consequence of an agenda decision issued by the IFRS Interpretations Committee. The proposal is set out in a recent Exposure Draft (ED) 2018/01.

The proposed changes would:

- Make it easier for an entity to change an accounting policy in response to an agenda decision issued by the IFRS Interpretations Committee.
- Allow an entity to depart from full retrospective application of the new policy if it can demonstrate that the cost of determining the effects of the retrospective application would exceed the expected benefits to users.

Comments on the proposed changes are due by 27 July 2018.

Agenda decisions

The role of the Interpretations Committee is to consider and respond to questions about how IFRS Standards are applied. If the Committee decides that a Standard is unclear it can develop and issue an Interpretation or suggest minor changes that the IASB should make to clarify the requirements. In most cases, however, the Committee will decide not to take a matter onto its agenda.

When it plans to take that path, it publishes a *Tentative Agenda Decision* explaining why it does not intend to consider the matter further. This could be because the issue is too large and pervasive for an Interpretation or there might be no evidence of divergence in practice. However, the most common reason is that the Committee has concluded that the requirements in the relevant Standard are clear. When this is the case, the Committee usually, although not always, includes an explanation of how to apply the Standard.

Tentative agenda decisions are open for public comment for 60 days. Once the Interpretations Committee has considered feedback on a Tentative Agenda Decision it can decide to finalise that decision, or it could add the matter to its agenda. An *Agenda Decision* is the final version of the decision published by the Interpretations Committee.

In 2017 the Interpretations Committee finalised 14 agenda decisions. They can be viewed on the IFRS Foundation website: <http://www.ifrs.org/supporting-implementation/how-the-ifrs-interpretations-committee-helps-implementation/#agendadecisions>.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Status of an Agenda Decision

The guidance provided in the Agenda Decision could indicate to an entity that it has made an error that needs to be corrected, that it should change how it estimates some information or that it should change its accounting policy. The proposed amendments relate only to changes in an accounting policy.

An Agenda Decision is not part of IFRS. Accordingly, a change in accounting policy that is motivated by an Agenda Decision is not a change that is mandated by the IASB. It would be a voluntary change in accounting policy for the purposes of IAS 8. Such changes must be applied retrospectively, with any comparative information adjusted as if the entity had always applied the new policy.

Relief from full retrospective application

When an entity makes a voluntary change in its accounting policy, IAS 8 provides relief from full retrospective application if it is impracticable for the entity to determine either the period-specific effects or the cumulative effect of the change.

When it is impractical to determine the period-specific information necessary to restate the comparative information, an entity applies the new policy retrospectively from the earliest period for which it is practicable (which might be the current period) and adjusts the opening equity for that period.

When it is impracticable to calculate the cumulative effect at the beginning of the current period the new policy is applied prospectively, from the earliest date practicable.

The proposed amendments

When the IASB develops, or amends, a new Standard or the Interpretations Committee develops an Interpretation they often provide entities with more relief from some aspects of retrospective application than is provided by IAS 8. The IASB is concerned that, without additional relief, the requirements in IAS 8 discourage entities from making some changes that would improve the application of IFRS.

The IASB is therefore proposing to expand the circumstances in which an entity is relieved of full retrospective application, when a change in accounting policy is in response to an agenda decision. Instead of having to demonstrate that it is impracticable to determine the period-specific effects or the cumulative effect of the change, an entity can use the relief when the costs of determining the effects of the change exceed the expected benefits to users from applying the new accounting policy retrospectively. This is a lower hurdle than impracticability.

Expected benefits to users

An entity will need to make an assessment of the expected benefits to users, by considering how the absence of information that would be provided by applying a new accounting policy retrospectively could affect the decisions that users make on the basis of the financial statements. The proposal suggests that users are more likely to benefit from retrospective application:

- (a) when the change leads to the initial recognition or derecognition of an asset or liability or affects transactions reported over several periods (nature of the change);
- (b) the larger the effect of the change relative to the reported position, performance or cash flows (magnitude of the change);
- (c) when the change affects many aspects of the financial statements, such as consolidating an entity for the first time (pervasiveness of the change); and
- (d) the more significant the effect on trends, particularly for frequent or recurring transactions (effect of the change on trends).

An entity also factors into the assessment the extent to which it might move away from full retrospective application. For example, if it is able to measure the cumulative effects in the earliest period reported but not the period-specific effects in the comparative period, the loss of information to users is smaller than would be the case if the changes were applied prospectively.

Costs to the entity of determining the effects of retrospective application

When assessing the cost, an entity considers the additional cost it would reasonably expect to incur and the additional effort it would reasonably expect to make to determine the period specific effects or the cumulative effect of the change. Hence, an entity will need to assess whether the information necessary to apply the new accounting policy is reasonably available without undue cost and effort.

Other matters

The IASB considered whether to apply the proposed threshold to all voluntary changes in accounting policy, but decided to limit it to agenda decisions because it is a defined set of circumstances and one that has been the subject of some public consultation.

The IASB also considered whether it should impose some constraints around when an entity should be able to make a change in accounting policy motivated by an agenda decision but concluded that implementing this would be difficult. The current proposal is to allow an entity to make the change in any period after the decision is finalised.

The IASB will set an effective date if it decides to proceed with the amendments. However, the IASB is proposing not to allow early application of the new threshold.

Other proposed changes to IAS 8

In 2017 the IASB published two other proposals to change IAS 8.

ED 2017/5 proposes changes to the definitions of an accounting policy and an accounting estimate. The comment period closed in January 2018 and the IASB began considering the feedback it received at its public meeting in March. Our IASPlus website has a summary of the staff papers and IASB discussion: <https://www.iasplus.com/en/meeting-notes/iasb/2018/march/march>.

ED 2017/6 proposes amendments to the definition of materiality. The comment period also closed in January 2018 and the IASB is expected to begin considering the feedback it received at its public meeting in April.

Further information

The ED is available on the IFRS Foundation website at: <http://www.ifrs.org/projects/work-plan/accounting-policy-changes/comment-letters-projects/ed-accounting-policy-changes/#consultation>.

The IASB will accept comments until 27 July 2018.

If you have any questions about the proposals, please speak to your usual Deloitte contact or get in touch with one of the Global contacts.

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