

Policy choices in IFRS

Disclaimer:

These slides have been prepared by MASB staff for presentation at the 11th Annual AOSSG meeting in November 2019

Any views are individual MASB staff views and not necessarily those of the FRF or MASB

Transaction-by-transaction and class-by-class policy choices

IFRS include policy choices applied on a transaction-by-transaction basis, such as:

- Equity instruments at FVOCI under IFRS 9
- Low-value leases – expense treatment under IFRS 16

IFRS also include policy choices applied on a class basis, such as:

- PP&E measurement at cost or revalued amount under IAS 16
- Short-term leases – expense treatment under IFRS 16

Irrevocable versus revocable policy choices

Some IFRS policy choices are irrevocable, such as:

- Financial asset or liability at FVPL under IFRS 9
- Credit cards or loans with insurance – apply either IFRS 9 or IFRS 17

Some IFRS policy choices are revocable, such as:

- PP&E measurement at cost or revalued amount under IAS 16
- Investment property measurement at cost or revalued amount under IAS

Under IAS 8, policy choices can be 'remade' if the new information is just as reliable and more relevant

Reasons for basis of policy choices in IFRS

Some of the reasons outlined in Bases for Conclusions for the basis of policy choices include:

- Choice is irrevocable to ensure discipline and avoid cherry picking
- Choice is class-by-class to achieve consistency
- Choice is transaction-by-transaction to reduce application burden

Other factors

- Policy choices should be avoided to the extent feasible to help ensure comparable reporting
- Circumstances change and businesses evolve, which tends to support policy choices being revocable
- The criteria for a policy change under IAS 8 [IAS 8.14] create a 'high hurdle', but are also judgemental
- Conceptual Framework also available to help entities make policy choices [CF.SP1.1(b)]
- Similar assets/liabilities can have different purposes within a business, which tends to support policy choices being transaction-by-transaction
- Some policy choices will be for practical reasons, such as cost versus benefit considerations, which tends to support policy choices being transaction-by-transaction

Possible issues for discussion

- Is there a need for some principles to be applied each time it is contemplated to include a policy choice in an IFRS? Some possible principles would be that:
 - ❖ all choices are subject to IAS 8 unless there is a compelling reason to make them irrevocable
 - ❖ all choices are applicable to whole classes of items unless there is a compelling reason for them to be on a transaction-by-transaction basis

[No criticism of the IASB's decisions about the basis for policy choices is intended and MASB staff appreciate that the various policy choices have been developed over a long period]