

# Draft Endorsement Criteria Assessment of narrow-scope amendments issued 2021 (*with an effective date of 1 January 2023*)

## Introduction

### Purpose

1. The purpose of this Draft Endorsement Criteria Assessment (DECA) is to determine whether the UK's statutory requirements for endorsement and adoption are met for a set of three amendments to international accounting standards<sup>1</sup> issued by the International Accounting Standards Board's (IASB) in 2021 (the "2021 Amendments"). The 2021 Amendments have an effective date of 1 January 2023 and earlier application is permitted.
2. The UK Endorsement Board (UKEB) was not able to directly influence the 2021 Amendments as the amendments included in this project were developed before the creation of the UKEB. They were finalised and published by the IASB after EU exit. However, the amendments have been subject to public consultation and comments from UK stakeholders were submitted directly to the IASB and/or to the European Financial Reporting Advisory Group (EFRAG) and were fully considered by the IASB when finalising those amendments.
3. The UKEB is considering these amendments for endorsement and formal adoption in the UK so that UK entities are able to apply them from the effective date of the amendments of 1 January 2023.

### Background to the amendments

4. The IASB issues narrow-scope amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS and to support their consistent application. Proposals for amendments often arise from questions submitted to the IFRS Interpretations Committee.
5. The 2021 Amendments are narrow in scope<sup>2</sup> and were issued and exposed separately for public comment as the IASB considered they merited separate consultation and outreach.

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<sup>1</sup> This is defined in the Companies Act using Article 2 of the IAS Regulation "...international accounting standards' shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)."

<sup>2</sup> Each one of the 2021 Amendments meet the criteria in paragraph 5.16 of the [IASB and IFRS Interpretations Committee Due Process Handbook](#).

## Scope

6. The 2021 Amendments covered in this project are shown in the table below. **Section B** in this paper provides a brief description of each one of these amendments.

Title of the Amendment	Amended Standard	Issue date
Disclosure of Accounting Policies	Amendments to IAS 1 <i>Presentation of Financial Statements</i> and to IFRS Practice Statement 2 <i>Making Materiality Judgements</i> [see paragraphs 7–8 below]	12/02/21
Definition of Accounting Estimates	Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	12/02/21
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Amendments to IAS 12 <i>Income Taxes</i>	07/05/21

## Exclusions

7. IFRS Practice Statement 2 *Making Materiality Judgements*<sup>3</sup>, provides reporting entities with non-mandatory guidance on making materiality judgements when preparing general purpose financial statements.
8. The amendments to IFRS Practice Statement 2 provide explanations and application guidance related to the 'four-step materiality process' to accounting policy disclosures set out in the IAS 1 amendments. The amendments to IFRS Practice Statement 2 have not been included as part of the UKEB's 2021 Amendments project as UK-adopted IAS only comprise the mandatory<sup>4</sup> sections of standards.

## Structure of the assessment

9. We have split our analysis into the following sections:
- Section A:** describes UK Statutory requirements for endorsement and adoption;
  - Section B:** discusses how each of the 2021 Amendments meet the criteria in section A.
10. For each amendment described in **Section B** we provide:
- a description of and rationale for, what has changed, and an overview of UK views on the ED's proposals;
  - a technical criteria assessment (refer to paragraph 11(c));

<sup>3</sup> Link to [IFRS Practice Statement 2 Making Materiality Judgements](#) issued in September 2017.

<sup>4</sup> **Mandatory pronouncements** are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. **This categorisation is set out in the Introduction to the IASB yearly Bound Volumes.**

- c) an assessment of whether the Amendment is not contrary to the true and fair view requirement (refer to paragraph 11(a)); and
- d) an assessment of whether the Amendment is likely to be conducive to the UK long term public good (refer to paragraph 11(b) and 12(c).)

## Section A: UK Statutory requirements for endorsement and adoption

11. Paragraph 1 of Regulation 7 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 requires that an international accounting standard only be adopted if:
  - a) “the standard<sup>5</sup> is not contrary to either of the following principles—
    - i. an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
    - ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
  - b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
  - c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.”
12. This document assesses the criteria above in the following order:
  - a) Whether the standard meets the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c));
  - b) Whether the standard is not contrary to the principle that an entity’s accounts must give a true and fair view (Regulation 7(1)(a)); and
  - c) Whether use of the standard is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

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<sup>5</sup> The term “standard” includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (SIC-IFRIC interpretations) issued or adopted by the International Accounting Standards Board (IASB). This ECA relates to amendments to those standards.

- i. whether each amendment is likely to improve the quality of financial reporting;
- ii. the costs and benefits that are likely to result from each amendment; and
- iii. whether the amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

## Relevance, Reliability, Comparability and Understandability<sup>6</sup>

13. Information is **relevant** if it is capable of making a difference in the decision-making of users or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past or both.
14. Financial information is **reliable** if, within the bounds of materiality, it:
  - a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;
  - b) is complete; and
  - c) is free from material error and bias.
15. Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.
16. Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.
17. In conducting our overall assessment against the technical accounting criteria we are required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the 2021 Amendments provide information that is understandable, relevant, reliable and comparable?) rather than a relative one (do the 2021 Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of any of the 2021 Amendments uses comparative language (e.g. 'enhances comparability'), this does not mean that our objective is to reflect a real comparison in relative terms. Instead, our objective is to explain that any individual aspect or requirement of the 2021 Amendments has the potential to "enhance" one or more of the qualitative characteristics. The overall assessment of each of the 2021 Amendments against the technical accounting criteria is an absolute one. Consideration of whether each of the 2021 Amendments is likely to improve the quality of financial reporting is separate from

<sup>6</sup> These descriptions are based on the qualitative characteristic of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

this assessment and is included within the UK long term public good assessment in Section B.

## True and fair view assessment

18. The UKEB is required to consider whether an international accounting standard being assessed for use in the UK meets certain legislative criteria set out in Regulation 7(1) of SI 2019/685. The first criterion set out in that regulation requires that an international accounting standard can be adopted only if:
- “the standard is not contrary to either of the following principles—
- a) an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
  - b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [...]”
19. In this section of the DECA we consider whether each of the 2021 Amendments meet this endorsement criterion. For the sake of brevity, we refer to our assessment against this endorsement criterion as ‘the true and fair view assessment’ and to the principles set out in Regulation 7(1)(a) as the ‘true and fair principle’. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.
20. The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is ‘not contrary’ to the true and fair principle. In other words, it is an ex-ante assessment. We have therefore considered whether each of the 2021 Amendments contain any requirement that would prevent accounts prepared using each of the 2021 Amendments from giving a true and fair view.
21. Our approach is to determine whether each of the 2021 Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of each of the 2021 Amendments taken as a whole, including its interaction with other UK-adopted international accounting standards.
22. For the purposes of our assessment, we consider the requirement in IAS 1 for financial statements to ‘present fairly the financial position, financial performance and cash flows of an entity’<sup>7</sup> to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

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<sup>7</sup> Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

23. Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

### [Draft Adoption decision]

24. **[Section B** of the DECA discusses how each of the 2021 Amendments meet the statutory endorsement criteria in **section A**.
25. On the basis of these assessments, the UKEB concludes that each of the 2021 Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt each of the 2021 Amendments for use in the UK.]

Draft for comment

# Draft Endorsement Criteria Assessment of narrow-scope amendments issued 2021 (*with an effective date of 1 January 2023*)

## Section B – Description and assessment of narrow-scope amendments to be considered for adoption

<i>I Amendments to IAS 1 – Disclosure of Accounting Policies</i>	
Title and issue date of final amendment	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) <sup>8</sup> issued on 12 February 2021.
Origin	<p>In March 2017 the IASB published the Discussion Paper <i>Disclosure Initiative – Principles of Disclosure</i> (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared by an entity applying IFRS standards. The Discussion Paper noted that paragraph 117 of IAS 1 required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differed in their views about what constitutes a significant accounting policy. Feedback on this Discussion Paper recommended the IASB to develop requirements and guidance to help entities make more effective accounting policy disclosures and that the definition of “materiality” in paragraph 7 of IAS 1 be the basis of such requirements.</p> <p>On 18 July 2018, the IASB added the <i>Disclosure of Accounting Policies</i> project to its workplan to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosure.</p>
What has changed?	<p>The Amendments to IAS 1:</p> <ul style="list-style-type: none"> <li>• Revise paragraphs 117 and 122 of IAS 1 to require entities to disclose their “material” accounting policy information rather than their “significant” accounting policies. This is because “significant” is not defined in IFRS Standards whereas “material” is well understood by stakeholders.</li> <li>• Revise paragraph 117 of IAS 1 to clarify that accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence the decisions of primary users of the entity.</li> <li>• Add new paragraph 117A of IAS 1 to clarify that: <ul style="list-style-type: none"> <li>○ accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial.</li> <li>○ not all accounting policy information relating to material transactions, other events or conditions is material.</li> </ul> </li> <li>• Provide examples in new paragraph 117B of IAS 1 of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements.</li> <li>• Explain in new paragraph 117C of IAS 1 that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements</li> </ul>

<sup>8</sup> Not discussed in this paper as these are amendments to non-mandatory guidance. Refer to paragraphs 7–8 of the DECA.

<i>I Amendments to IAS 1 – Disclosure of Accounting Policies</i>	
	<p>of IFRS Standards. However, if an entity discloses such information, it should not obscure material accounting policy information (paragraph 117D).</p> <ul style="list-style-type: none"> <li>• Delete the discussion of “measurement basis (or bases)” in former paragraphs 117(a)–(b) and 118 of IAS 1 to enable preparers to apply judgement and thereby disclose only material accounting policy information. For example, information about the measurement basis used by an entity would not be needed when an IFRS Standard requires an entity to use that measurement basis.</li> <li>• Emphasise in new paragraph 117E of IAS 1 that the Amendments to IAS 1 do not relieve an entity from meeting other disclosure requirements within IFRS Standards.</li> </ul>
Transition requirements	The Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with early application permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.
<b>UK views of the ED’s proposals</b>	
Issued for public comment	Exposure Draft ED/2019/6 Disclosure of Accounting Policies (Proposed amendments to IAS 1 and to IFRS Practice Statement 2)—issued for public comment on 1 August 2019 (comment period ended 29 November 2019).
UK stakeholders responding to IASB’s proposals	There were 11 UK respondents to the IASB’s proposals. These were comprised of 2 accounting and audit representative organisations, 6 accounting firms, 1 standard-setter, 2 user organisations. One of the accounting and audit representative organisations additionally also responded to EFRAG’s draft comment letter.
Feedback received and actions taken by the IASB	<p>Almost all respondents supported the proposal to require entities to disclose their “material” accounting policies instead of their “significant” accounting policies and supported the inclusion of examples of circumstances in determining whether an accounting policy is material. A few respondents suggested adding further clarifications that were considered by the IASB in finalising the amendments.</p> <p>User respondents were concerned that the impact of the new requirements may lead to fewer or reduced disclosures. The IASB observed that if, in line with the new guidance, accounting policy disclosures are considered in combination with other information in a complete set of financial statements, entities will disclose enough information about their accounting policies to enable users to make decisions.</p>
<b>Technical criteria assessment</b>	
Relevance	<p>The guidance introduced by the Amendments to IAS 1 is based on the concept of “materiality” which is an aspect of “relevance”. “Materiality” provides a threshold or cut-off point to identify relevant accounting policy information that could influence the economic decisions of users. In this respect the Amendments to IAS 1 help entities:</p> <ul style="list-style-type: none"> <li>• Apply materiality judgements to accounting policy disclosure to identify and disclose accounting policy information that is relevant to users of financial statements;</li> <li>• Remove immaterial accounting policy information that may obscure material accounting policy information; and</li> <li>• Put more focus on entity-specific information that describes how an entity has applied the requirements of an international accounting standard to its own circumstances.</li> </ul>
Reliability	The Amendments to IAS 1 do not change the way transactions are accounted for or presented. However, the disclosure of accounting policy information provides context for the other information contained in the financial statements and the amendments have the potential to result in information that faithfully depicts how an entity has exercised judgement in selecting and applying the accounting policies to its own specific circumstances.
Understandability	The Amendments to IAS 1 will provide clarity on the approach that should be used to disclose accounting policy information as the amendments replace the existing reference to “significance” (which is not defined in IFRS Standards) with the defined concept of “materiality” and provide accompanying guidance and examples. In addition,



<i>I Amendments to IAS 1 – Disclosure of Accounting Policies</i>	
	the assessment of whether accounting policy information is “material” will better relate to similar “materiality” assessments made for other information contained in the financial statements.
Comparability	The Amendments to IAS 1 have the potential to result in a consistent approach to disclosing accounting policies but will not directly affect the disclosure of comparative accounting policy information as this information will only be required if it is ‘relevant to understanding the current period’s financial statements’ <sup>9</sup> .
Conclusion	Overall, we conclude that the Amendments to IAS 1 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
<b>Amendment is not contrary to the true and fair view requirement</b>	
Description	The Amendments to IAS 1 result in an entity disclosing their “material” accounting policy information rather than their “significant” accounting policies. This is because “significant” is not defined in IFRS Standards whereas “material” is well understood by stakeholders. In addition, the assessment of whether accounting policy information is material will better relate to similar “materiality” assessments made for other information contained in the financial statements.
Conclusion	<p>The previous section of this DECA concludes that the Amendments to IAS 1 meet the technical accounting criteria. The technical accounting criteria refer to reliability which includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment therefore underpins the overall true and fair view assessment.</p> <p>Our assessment has not identified any requirement of the Amendments to IAS 1 that would prevent individual or group accounts prepared using the Amendments to IAS 1 from giving a true and fair view of the undertaking’s or group’s assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments to IAS 1 would result in accounts which did not give a true and fair view would be extremely rare.</p> <p>Overall, we conclude that the Amendments to IAS 1 are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685</p>
<b>UK long term public good</b>	
Description of entities that will be impacted	The Amendments to IAS 1 will affect all companies that apply UK-adopted international accounting standards. There are currently approximately 1,500 entities with equity listed in the London Stock Exchange (Main Market and AIM) that prepare their financial statements in accordance with UK-adopted international accounting standards (calculation based on LSEG and Reuters-Eikon data). In addition, UK law allows unlisted companies the option to use UK-adopted international accounting standards IFRS and approximately 14,000 companies currently take up this option (calculation based on FAME, Companies Watch and proprietary data).
Do the amendments improve financial reporting?	The Amendments to IAS 1 have the potential to improve financial reporting when compared to previous guidance as these amendments will reduce the disclosure of immaterial accounting policy information and will result in a more consistent approach to disclosing accounting policy information that is “material” and more focused on entity-specific information.
Costs for preparers and users	<p><b>Preparers:</b> Given that the Amendments to IAS 1 are narrow in scope, we estimated preparers’ adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers. We assessed whether preparers would be facing costs related to:</p> <ul style="list-style-type: none"> <li>• familiarisation;</li> <li>• design of data collection processes;</li> <li>• IT system changes;</li> </ul>

<sup>9</sup> Refer to paragraph 38 of IAS 1.

<i>I Amendments to IAS 1 – Disclosure of Accounting Policies</i>	
	<ul style="list-style-type: none"> <li>• governance processes;</li> <li>• external audit; and</li> <li>• other costs.</li> </ul> <p>We believe that preparers will face some <b>one-off familiarisation costs</b> related to the change from applying the concept of “significant” to applying the concept of “material” to accounting policy information. We expect these costs to be minimal as before the amendments, IAS 1 already required preparers to assess whether each accounting policy was “significant”.</p> <p>It is not expected that entities will incur any additional costs related to the <b>design of data collection processes</b> or related to <b>IT system changes</b> as the amendments do not affect recognition or measurement and require an entity to apply its own judgement to determine what accounting policy information is material. The cost of applying the amendments would be further limited as the amendments are required to be applied prospectively.</p> <p>We expect other costs (i.e. <b>governance processes, external audit costs and other</b>) to be minimal or nil.</p> <p><u>Users:</u> We expect one-off familiarisation costs for users to be minimal as IAS 1 already requires the disclosure of significant accounting policies which is a small change from the new requirement to disclose material accounting policies.</p>
Benefits for preparers and users	<p><u>Preparers:</u> The revised guidance will enable preparers to better exercise their judgement by focusing on accounting policy information which is material.</p> <p><u>Users:</u> The revised guidance will potentially reduce the disclosure of immaterial accounting policy information. In addition, users are likely to benefit from more entity-specific disclosures that should enable a better understanding of an entity.</p>
Whether the amendments are likely to have an adverse effect on UK economy	<p>The 2021 Amendments to IAS 1 are limited in scope and will generally bring improved financial reporting when compared to current guidance. More specifically, the amendments are expected to enhance the transparency of reporting to investors, as the term “material” is better understood by users of financial accounts than the term “significant”. The amendments also provide helpful examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see added paragraph 117B).</p> <p>We have not identified any factors that would indicate that these amendments would lead to changes that are detrimental to the UK economy.</p> <p>As a result, the UKEB believes that these amendments would not have any adverse effect on the UK economy, including on economic growth. As such, the Amendment is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management’s stewardship.</p>
Conclusion	<p>Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments to IAS 1, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.</p>

<i>2 Amendments to IAS 8 – Definition of Accounting Estimates</i>	
Title and issue date of final amendment	Definition of Accounting Estimates (Amendments to IAS 8) issued on 12 February 2021.
Origin	The IFRS Interpretations Committee informed the IASB that entities faced difficulties in distinguishing changes in accounting policies from changes in accounting estimates. The IASB understood that such difficulties arose because the combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscured the distinction between accounting policies and accounting estimates.
What has changed?	<p>The Amendments to IAS 8:</p> <ul style="list-style-type: none"> <li>• Replace in paragraph 5 of IAS 8 the definition of a “change in accounting estimate” with a definition of “accounting estimates” which is anchored in the concept of “measurement uncertainty” in the IASB’s 2018 <i>Conceptual Framework</i>.</li> <li>• Clarify in paragraph 32 of IAS 8: <ul style="list-style-type: none"> <li>○ the relationship between “accounting policies” and “accounting estimates” by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.</li> <li>○ that developing accounting estimates involves the use of judgements and assumptions.</li> </ul> </li> <li>• Specify in new paragraph 32A of IAS 8 that measurement techniques and inputs an entity uses to develop accounting estimates include estimation techniques and valuation techniques.</li> <li>• Refine the wording in paragraph 34 of IAS 8 to clarify that a change in accounting estimate may result from new information or new developments and is not the correction of an error.</li> <li>• Specify in new paragraph 34A of IAS 8 that the effects of a change in an input or in a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.</li> </ul>
Transition requirements	The Amendments to IAS 8 are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period, with early application permitted.
<b>UK views of the ED’s proposals</b>	
Issued for public comment	Exposure Draft ED/2017/5 Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)—issued for public comment on 12 September 2017 (comment period ended 15 January 2018).
UK stakeholders responding to IASB’s proposals	There were 10 UK respondents to the IASB’s proposals. These were 2 accounting and audit representative organisations, 6 accounting firms, 1 standard-setter, 1 investor organisation. One of the accounting and audit representative organisations and the standard-setter additionally also responded to EFRAG’s draft comment letter.
Feedback received and actions taken by the IASB	All respondents supported the proposals to replace the definition of a “change in accounting estimate” with a definition of “accounting estimates” and overall agreed with other proposed clarifications to help entities distinguish accounting policies from accounting estimates. Respondents suggested some improvements to the definition of “accounting estimates” that were considered and addressed by the IASB in finalising the amendments.
<b>Technical criteria assessment</b>	
Relevance and Reliability	The Amendments to IAS 8 add useful clarifications to help entities distinguish between “accounting estimates” and “accounting policies”. Adding these clarifications will ensure that accounting changes are faithfully characterised and represented as either changes in accounting policies or changes in estimates, and therefore accounted for in

<i>2 Amendments to IAS 8 – Definition of Accounting Estimates</i>	
	accordance with their nature (i.e. retrospectively or prospectively). The resulting information will help users in their predictions of the future, or in confirming or correcting their current and past evaluations.
Understandability	The Amendments to IAS 8 will promote clarity on the distinction between changes in accounting policies and changes in accounting estimates and will eliminate confusion on this distinction as currently IAS 8 defines “accounting policies” and a “change in accounting estimate” but not “accounting estimates”. The added definition of “accounting estimates” will be readily understandable by preparers and by users with a reasonable knowledge of business and economic activities and accounting as it is based on existing guidance in international accounting standards (e.g. the definition of “accounting estimates” is consistent with the term “measurement uncertainty” in the 2018 IASB’s <i>Conceptual Framework</i> and includes a reference to “monetary amounts” in line with paragraph 36 of IAS 37 <sup>10</sup> ).
Comparability	The Amendments to IAS 8 will bring a consistent approach to characterising different types of accounting changes, and therefore, have the potential to increase comparability between entities.
Conclusion	Overall, we conclude that the Amendments to IAS 8 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
<b>Amendment is not contrary to the true and fair view requirement</b>	
Description	The Amendments to IAS 8 add guidance that is based on existing guidance in international accounting standards. This helps to ensure consistent application between accounting policies and accounting estimates.
Conclusion	<p>The previous section of this DECA concludes that the Amendments to IAS 8 meet the technical accounting criteria. The technical accounting criteria refer to reliability which includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment therefore underpins the overall true and fair view assessment.</p> <p>Our assessment has not identified any requirement of the Amendments to IAS 8 that would prevent individual or group accounts prepared using the Amendments to IAS 8 from giving a true and fair view of the undertaking’s or group’s assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments to IAS 8 would result in accounts which did not give a true and fair view would be extremely rare.</p> <p>Overall, we conclude that the Amendments to IAS 8 are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.</p>
<b>UK long term public good</b>	
Description of entities that will be impacted	The Amendments to IAS 8 will, in principle, affect all companies that apply UK-adopted international accounting standards. There are currently approximately 1,500 entities with equity listed in the London Stock Exchange (Main Market and AIM) that prepare their financial statements in accordance with UK-adopted international accounting standards (calculation based on LSEG and Reuters-Eikon data). In addition, UK law allows unlisted companies the option to use UK-adopted international accounting standards and approximately 14,000 companies currently take up this option (calculation based on FAME, Companies Watch and proprietary data).
Do the amendments	The Amendments to IAS 8 would lead to greater consistency in the application of the definitions in IAS 8 by clarifying the distinction between accounting policies and accounting estimates and by specifying how accounting policies relate to accounting

<sup>10</sup> For example, paragraph 36 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that “the amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period”.

<i>2 Amendments to IAS 8 – Definition of Accounting Estimates</i>	
improve financial reporting?	estimates. It would also remove diversity in accounting for changes in estimation techniques and valuation techniques. This would improve the overall quality of financial reporting.
Costs for preparers and users	<p><u>Preparers:</u> Given that the Amendments to IAS 8 are narrow in scope, we estimated preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers. We assessed whether preparers would be facing costs related to:</p> <ul style="list-style-type: none"> <li>• familiarisation;</li> <li>• design of data collection processes;</li> <li>• IT system changes;</li> <li>• governance processes;</li> <li>• external audit; and</li> <li>• other costs.</li> </ul> <p>We believe that preparers will face some <b>one-off familiarisation costs</b> related to the new definition of "accounting estimates" introduced by the amendments. We expect these costs to be minimal as this definition is based on existing guidance in international accounting standards.</p> <p>It is not expected that entities will incur any additional costs related to the <b>design of data collection processes</b> or related to <b>IT system changes</b> as the amendments do not affect recognition or measurement and require an entity to apply the definitions of accounting estimates and accounting policies to account for an accounting change. The cost of applying the amendments would be further limited as the amendments are required to be applied prospectively.</p> <p>We expect other costs (i.e. <b>governance processes, external audit costs and other</b>) to be minimal or nil.</p> <p><u>Users:</u> We expect one-off familiarisation costs for users to be minimal as the definition of 'accounting estimates' is based on existing guidance in international accounting standards.</p>
Benefits for preparers and users	<p><u>Preparers:</u> The added guidance has the potential to help preparers better distinguish accounting policies from accounting estimates and to apply the appropriate accounting.</p> <p><u>Users:</u> The added guidance has the potential to bring a more consistent approach to characterising different types of accounting changes, and therefore, has the potential to increase comparability between entities.</p>
Whether the amendments are likely to have an adverse effect on UK economy	<p>The 2021 Amendments to IAS 8 are limited in scope and will generally bring improved financial reporting when compared to current guidance. In particular, the amendments are expected to increase the transparency of reporting to investors by better specifying the distinction between accounting policies and accounting estimates.</p> <p>We have not identified any factors that would indicate that these amendments would lead to changes that are detrimental to the UK economy.</p> <p>As a result, the UKEB believes that these amendments would not have any adverse effect on the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management's stewardship.</p>
Conclusion	Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments to IAS 8, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.

### 3 *Amendments to IAS 12 – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction*

Title and issue date of final amendment	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued on 7 May 2021.
Origin	The IFRS Interpretations Committee received a request asking whether the ‘initial recognition exemption’ (IRE) in paragraphs 15 and 24 of IAS 12 <i>Income Taxes</i> applied to transactions, such as leases, that give rise to both an asset and liability on initial recognition and may result in temporary differences of the same amount. The Committee observed that in some cases, the exemption was applied, and in other cases it was not, reducing comparability between financial statements.
What has changed?	<p>The IASB decided to narrow the scope of the IRE in paragraphs 15 and 24 of IAS 12 so that this exemption does not apply to transactions that, on initial recognition give rise to equal amounts of taxable and tax-deductible temporary differences.</p> <p>New paragraph 22A further explains that, depending on the applicable tax law, a lease could be an example where equal and offsetting taxable and tax-deductible temporary differences may arise on initial recognition of the right-of-use asset and the lease liability.</p> <p>The IRE in paragraphs 15 and 24 of IAS 12 continues to apply to transactions that do not give rise to equal and offsetting temporary differences.</p> <p>The Amendments to IAS 12 also:</p> <ul style="list-style-type: none"> <li>• Clarify that if the transaction gives rise to equal taxable and tax-deductible temporary differences an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (paragraph 22(b) in IAS 12).</li> <li>• Explain in paragraph BC86 that in cases when an entity recognises unequal amounts of deferred tax assets and liabilities on initial recognition for equal taxable and tax-deductible temporary differences<sup>11</sup> an entity will recognise any difference between the deferred tax asset and liability in profit or loss<sup>12</sup>. For example, this would be the case if: <ul style="list-style-type: none"> <li>○ an entity is unable to recognise a deferred tax asset because it does not meet the recoverability requirement in IAS 12<sup>13</sup>, but is required to recognise a deferred tax liability; or</li> <li>○ the deferred tax asset and liability differ because different tax rates apply in future periods when the temporary differences reverse.</li> </ul> </li> </ul>
Transition requirements	<p>The Amendments to IAS 12 are applied for annual periods beginning on or after 1 January 2023, with earlier application permitted. If entities apply the amendments earlier, they shall disclose that fact. An entity:</p> <ul style="list-style-type: none"> <li>• Applies the Amendments to IAS 12 to transactions that occur on or after the beginning of the earliest comparative period presented.</li> </ul>

<sup>11</sup> Paragraphs BC86–BC87 explain that unequal amounts of deferred taxes would arise on initial recognition only infrequently because it is expected that entities would mostly meet the recoverability requirement through the future reversal of taxable temporary differences arising from the same transaction. Moreover, paragraph BC88 refers that the net effect of applying different tax rates to the measurement of the deferred tax asset and liability will often be immaterial.

<sup>12</sup> We understand that this is in line with paragraph 58 of IAS 12 which requires an entity to recognise deferred tax as income or an expense and include it in profit or loss for the period, except to the extent it arises from (a) a transaction or event recognised outside profit or loss, or (b) a business combination.

<sup>13</sup> We refer to the requirement in paragraph 24 of IAS 12 that an entity recognises deferred tax assets only ‘to the extent that it is probable that taxable profit will be available against which the tax-deductible temporary difference can be utilised’ as the ‘recoverability requirement’.

<b>3 Amendments to IAS 12 – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction</b>	
	<ul style="list-style-type: none"> <li>Also recognises deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with the cumulative effect of initially applying the amendments recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.</li> </ul>
<b>UK views of the ED’s proposals</b>	
Issued for public comment	Exposure Draft ED/2019/5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)–issued for public comment on 17 July 2019 (comment period ended 14 November 2019).
UK stakeholders responding to IASB’s proposals	There were 12 UK respondents to the IASB’s proposals. These were comprised of 2 accounting and audit representative organisations, 6 accounting firms, 3 preparers, 1 standard-setter. One of the accounting and audit representative organisations additionally also responded to EFRAG’s draft comment letter.
Feedback received and actions taken by the IASB	Most respondents agreed with the IASB’s decision to address the accounting for deferred tax related to leases and decommissioning obligations and with the proposal to narrow the scope of the IRE. However, most respondents either disagreed with or expressed concerns with various aspects of the proposals, especially the “capping” proposal <sup>14</sup> which was considered burdensome and complex. In response to this feedback received, the IASB removed the “capping” proposal and confirmed its proposal to narrow the scope of the IRE.
<b>Technical criteria assessment</b>	
Relevance and Reliability	<p>The Amendments to IAS 12 would require entities to apply the general principles in IAS 12 to transactions within the scope of the amendments. Doing so will provide relevant and reliable information as an entity:</p> <ul style="list-style-type: none"> <li>Will recognise the tax effects of the transactions within the scope of the amendments consistent with how the entity uses the asset and settles the corresponding liability and not only when the tax deduction becomes available for tax purposes;</li> <li>Will recognise the deferred tax effects of the asset and the liability separately consistent with the requirements in other Standards, for example, with IFRS 16 <i>Leases</i> that requires the separate recognition of assets and liabilities.</li> <li>An entity will avoid significant fluctuations in effective tax rates and distortions in financial performance that would otherwise arise from not recognising deferred tax when the IRE is applied.</li> </ul>
Understandability	The Amendments to IAS 12 are expected to enhance understandability and consistent application as they require an entity to recognise deferred taxes following the general principles in IAS 12 (i.e. an entity would recognise deferred tax for all temporary differences), in line with current practice of some entities. Users will also benefit from additional disclosures (derived from the application of the general requirements in IAS 12) that will help them obtain a better understanding of the tax position of an entity.
Comparability	<p>The Amendments to IAS 12 will increase comparability between entities as it will require consistent accounting for deferred tax assets and deferred tax liabilities that arise from transactions that give rise to equal taxable and tax-deductible temporary differences.</p> <p>The amendments provide two different sets of transition requirements: one applicable to transactions involving right-of-use assets and lease liabilities and decommissioning, restoration (and similar liabilities) and corresponding amounts as part of the cost of the</p>

<sup>14</sup> This proposal limited the recognition of a deferred tax liability to the extent that a corresponding deferred tax asset was recognised applying the ‘recoverability requirement’ in paragraph 24 of IAS 12. For the portion of deferred tax liability not recognised, the recognition exemption would continue to apply.

<b>3 Amendments to IAS 12 – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction</b>	
	related asset; and another applicable to other transactions within the scope of the amendments. This may impair comparability, but only on initial transition, and only for entities that had not previously recognised deferred taxes for leases and decommissioning liabilities—entities applying the Amendments to IAS 12 will be required to recognise a cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.
Conclusion	Overall, we conclude that the Amendments to IAS 12 meet the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685.
<b>Amendment is not contrary to the true and fair view requirement</b>	
Description	The Amendments to IAS 12 narrow the scope of the IRE in paragraphs 15 and 24 of IAS 12 so that this exemption does not apply to transactions that, on initial recognition give rise to equal amounts of taxable and tax-deductible temporary differences.
Conclusion	<p>The previous section of this DECA concludes that the Amendments to IAS 12 meet the technical accounting criteria. The technical accounting criteria refer to reliability which includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment therefore underpins the overall true and fair view assessment.</p> <p>Our assessment has not identified any requirement of the Amendments to IAS 12 that would prevent individual or group accounts prepared using the Amendments to IAS 12 from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of the Amendments to IAS 12 would result in accounts which did not give a true and fair view would be extremely rare.</p> <p>Overall, we conclude that the Amendments to IAS 12 are not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.</p>
<b>UK long term public good</b>	
Description of entities that will be impacted	<p>The Amendments to IAS 12 will, in principle, affect all companies that apply UK-adopted international accounting standards. There are currently approximately 1,500 entities with equity listed in the London Stock Exchange (Main Market and AIM) that prepare their financial statements in accordance with UK-adopted international accounting standards (calculation based on LSEG and Reuters-Eikon data). In addition, UK law allows unlisted companies the option to use UK-adopted international accounting standards and approximately 14,000 companies currently take up this option (calculation based on FAME, Companies Watch and proprietary data).</p> <p>However, some sectors are more likely to be affected by the Amendments to IAS 12 because of the prevalence of transactions that lead to the initial recognition of both an asset and a liability (i.e. leasing operations and decommissioning and restoration obligations).</p> <p>The following examples will help contextualise the prevalence of the transactions within the scope of the amendments, among UK listed companies.</p> <p>Using Reuters-Eikon data and companies' financial statements we estimate that:</p> <ul style="list-style-type: none"> <li>• of all companies listed on the LSEG, 812 had right-of-use assets, for a total carrying amount of about £105 billion, as of 2021 year-end. Some industries had more right-of-use assets than others, with Oil, Gas and Coal; Travel and Leisure; Personal Care, Drug and Grocery Stores; and Telecommunications Service Providers, accounting for roughly 54% of the total right-of-use assets. We expect companies belonging to these industries to be more affected among unlisted companies too.</li> <li>• Decommissioning liabilities are not separately searchable in the database so we specifically looked at the financial statements of the 8 largest oil and mining, utilities and mining and extraction companies listed on the LSE. We observed that</li> </ul>



<i>3 Amendments to IAS 12 – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction</i>	
	<p>the total amount of decommissioning liabilities was £49 billion as of 2021 year-end.</p> <p>Based on these analyses, we expect that the Amendments to IAS 12 would affect the number of calculations made for determining deferred tax (where the entity was not recognising deferred tax for these transactions) and this will affect the companies that have leases, decommissioning liabilities and/or other transactions that give rise to equal taxable and tax-deductible temporary differences. We are unable to determine the number of companies that were not recognising deferred tax for these transactions before the Amendments to IAS 12. We do not expect these amendments to have a material impact on the size of deferred tax assets/liabilities on UK companies' balance sheets as where deferred tax assets and liabilities arise from these transactions, they will in most instances offset<sup>15</sup>.</p>
Do the amendments improve financial reporting?	<p>Recognising deferred taxes avoids significant distortions in the income statement and results in a constant effective tax rate over the period. The Amendments to IAS 12 will improve the quality of financial reporting as they will:</p> <ul style="list-style-type: none"> <li>• reduce diversity in practice when accounting for deferred tax on transactions and events, that lead to the initial recognition of both an asset and a liability and give rise to equal taxable and tax-deductible temporary differences (such as leases and decommissioning obligations); and</li> <li>• result in entities recognising deferred taxes on transactions within the scope of the amendments (either initially and/or subsequently) in line with the general principles in IAS 12.</li> </ul>
Costs for preparers and users	<p><b>Preparers:</b> Given that the Amendments to IAS 12 are narrow in scope, we estimated preparers' adoption costs by conducting a qualitative assessment of the costs likely to be borne by preparers. We assessed whether preparers would be facing costs related to:</p> <ul style="list-style-type: none"> <li>• familiarisation;</li> <li>• design of data collection processes;</li> <li>• IT system changes;</li> <li>• governance processes;</li> <li>• external audit; and</li> <li>• other costs.</li> </ul> <p>We believe that preparers will face some <b>one-off familiarisation costs</b> related to the recognition of deferred tax on transactions within the scope of the amendments. We expect these costs to be minimal as some entities are already recognising deferred taxes for the transactions within the scope of the amendments and/or have systems in place for the recognition of deferred taxes for other assets and liabilities.</p> <p>The Amendments to IAS 12 require an entity to assess whether tax deductions are attributable to the asset or to the liability in determining the tax base of the asset and of the liability. It is not expected that this assessment will derive any additional costs related to <b>the design of data collection processes</b> as entities are expected to have already collected through existing processes all information required to apply their judgement in undertaking this assessment.</p> <p>Preparers may face some <b>IT system changes</b> to change their accounting systems so that deferred taxes are recognised. However, these costs are not expected to be significant as:</p> <ul style="list-style-type: none"> <li>• the amendments are not fully retrospective for leases and decommissioning liabilities, and are applied prospectively for other transactions that give rise to equal amount of taxable and tax-deductible temporary differences; and</li> </ul>

<sup>15</sup> For example, assuming the requirements in paragraph 74 of IAS 12 are met (i.e. for offsetting deferred tax assets and deferred tax liabilities).

<i>3 Amendments to IAS 12 – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction</i>	
	<ul style="list-style-type: none"> <li>the process for deferred tax calculation has been in place for many years and IT systems already cater for deferred taxes for other assets and liabilities.</li> </ul> <p>We expect other costs (i.e. <b>governance processes, external audit costs and other</b>) to be minimal or nil.</p> <p><u>Users</u>: We expect one-off familiarisation costs for users to be minimal as they would already be familiar with the deferred tax calculation.</p>
Benefits for preparers and users	<p><u>Both preparers and users</u> are likely to benefit from reducing the current diversity in practice in the reporting of transactions such as leases and decommissioning obligations and from the alignment of the accounting for deferred tax on such transactions with the general principles in IAS 12.</p> <p><u>Users</u> will also benefit from greater comparability of financial reporting amongst different industries and from additional disclosures derived from the application of the general requirements in IAS 12 that will help them obtain a better understanding of the tax position of an entity.</p>
Whether the amendments are likely to have an adverse effect on UK economy	<p>The 2021 Amendments to IAS 12 are limited in scope and will generally bring improved financial reporting when compared to current guidance. This is because the recognition of deferred taxes on the transactions within the scope of the amendments:</p> <ul style="list-style-type: none"> <li>Will bring a more accurate reflection of the entity's net profit; and</li> <li>Will match the tax effect of transactions with their accounting impact, thereby removing any distortion from the financial statements that are created by the accounting requirements (i.e. avoid significant fluctuations in an entity's effective tax rates).</li> </ul> <p>Moreover, deferred taxes are notional amounts that do not affect the actual amount paid to the tax authority and that will eventually reverse as the assets are recovered (or the liabilities are settled). For these reasons, we do not expect that the amendments would:</p> <ul style="list-style-type: none"> <li>Alter competition/competitive equilibria between different industries;</li> <li>Incentivise individual companies to increase/reduce the amount of transactions affected by the amendments; or</li> <li>have an adverse effect on the UK economy from those channels.</li> </ul> <p>On the other hand, the amendments are expected to increase the comparability of financial reporting amongst different industries, thereby enhancing the transparency of reporting to investors. We have not identified any factors that would indicate that these amendments would lead to changes that are detrimental to the UK economy.</p> <p>As a result, the UKEB believes that these amendments would not have any adverse effect on the UK economy, including on economic growth. As such, the endorsement is likely to be conducive to the UK long term public good in that improved financial reporting improves transparency and assists in the assessment of management's stewardship.</p>
Conclusion	<p>Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments to IAS 12, the UKEB concludes that they are likely to be conducive to the long term public good in the UK as required by SI 2019/685.</p>