

Mr Jean-Paul Gauzès
President
European Financial
Reporting Advisory Group
(EFRAG)
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Ref: EFRAG's Draft Comment Letter to the IASB's Exposure Draft *Accounting Policy Changes – Proposed amendments to IAS 8*

Dear Mr Gauzès,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's comment letter on the IASB's Exposure Draft (ED) *Accounting Policy Changes – Proposed amendments to IAS 8*. We are pleased to provide you with the following comments with the aim of improving the transparency and enforceability of financial statements.

Like EFRAG, ESMA does not support these proposed amendments as we do not believe that creating a sub-category of voluntary changes in accounting policies arising from the application of agenda decisions for which the impracticability threshold for retrospective application of such changes is lowered would promote increased consistency in the application of IFRS.

While, in our view, it is important to consider what role agenda decisions play in promoting consistency in financial reporting, we believe that the proposed amendments would introduce a fundamental change to the principle of retrospective application of changes in accounting policies as far as practicable, which is a cornerstone to provide comparable information and to promote enforceability of IFRS. In this respect, we disagree with EFRAG's proposal to expand the scope of the proposed relief to revise the impracticability threshold for all voluntary changes in accounting policy.

Particularly, we believe that, firstly like EFRAG, the proposed amendments will introduce a significant element of judgement. Secondly, the lack of clarity in the scope of the departure from the principle of full retrospective application may lead an issuer to arbitrarily qualify a voluntary change in accounting policy as one "resulting" from an agenda decision, thus benefitting from the lowered impracticability threshold.

In addition, we believe that the proposed amendments do not address the key issue relating to the application of agenda decisions which, in our view, relates to the difficulties that issuers encounter in deciding whether explanatory material in agenda decisions shall be regarded as

triggering a change in accounting policy or a correction of an error. In our view, the proposed amendments would not solve this issue and rather emphasise the tension between the change in accounting policy and the correction of error thus making the application of agenda decisions even more troublesome. Like EFRAG, we believe that it is important that the IASB continues work addressing this tension and that it further clarifies the role of explanatory material included in agenda decisions. The next consultation on the Due Process Handbook might be a good occasion to tackle this issue.

Finally, like EFRAG, we agree with the IASB's decision not to amend IAS 8 to provide requirements on the timing of application of agenda decision. Moreover, it is our understanding that agenda decisions do not have their own 'effective date' and therefore any implications of agenda decisions should be read in the context of the application date requirements of the IFRS which they refer to.

Our detailed comments to the IASB's Exposure Draft are set out in the appendix to this letter. Please do not hesitate to contact us should you wish to discuss all or any of our comments.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M'.

Steven Maijoor

Appendix – ESMA’s detailed answers to the questions in the ED

Question 1

The Board proposes to amend IAS 8 to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.

Do you agree with the proposed amendments? Why or why not? If not, is there any particular aspect of the proposed amendments you do or do not agree with? Please also explain any alternatives you would propose, and why.

1. ESMA believes that the principle of retrospective application of changes in accounting policies as far as practicable remains a cornerstone to ensure that comparable information is provided between issuers and across different reporting periods and to promote enforceability of IFRS. Therefore, ESMA disagrees with the IASB’s proposal to introduce a new, entity-specific threshold for changes resulting from agenda decisions as we believe that the proposed amendments would undermine this principle. In addition, in our view, the proposed amendments would introduce significant judgement in the identification of the impracticability threshold and result in information that is not comparable across different issuers and different reporting periods.
2. We believe that the proposed amendments do not clarify how issuers shall define changes in accounting policies that result from agenda decisions. We note that the fact patterns considered in agenda decisions are often quite specific and, therefore, we believe that either one of two approaches may occur in practice should the proposed amendments be finalised:
 - a. either the proposed lowered threshold applies only to the limited situations in which the issuer’s specific circumstances are the same as the ones addressed in the concerned agenda decision; or
 - b. an issuer arbitrarily chooses how flexible the notion of voluntary changes arising from an agenda decision is and essentially decides when a specific change falls into this category.
3. We believe that both those approaches would not be satisfactory to address the issue that the IASB intends to solve, while there is a risk that the proposed amendments would challenge the enforceability of requirements in IFRS.
4. We would also question whether the proposed requirement to assess the expected benefits to users of applying a change in policy fully retrospectively, would not result in a cost of implementation that is disproportionate when compared to the benefits that the proposed relief is intended to provide. We also note that the proposed amendments would introduce an additional variation to the range of different cost-benefit assessments that already exist in IFRS, such as IFRS 9 and IFRS 8. We would therefore recommend that the IASB undertakes an overall review of the cost-benefit assessments that are required for transition purposes across different IFRSs to ensure that they are consistent.

5. Furthermore, we believe that there is no technical merit in easing the application of agenda decisions as, in practice, we do not believe that changes in accounting policy resulting from agenda decisions are any different from other accounting policy changes. In its 2011 statement¹, ESMA recalled the importance that issuers carefully consider agenda decision and take action accordingly. Therefore, we do not expect that issuers would disregard an agenda decision which would have material practical implications on the financial statements simply because, as stated in paragraph BC 1 of the proposed amendments *'the requirements in IAS 8 could dissuade an entity from adopting an accounting policy that would improve the usefulness of information provided to users of its financial statements'*.
6. In our view, the area where issuers currently face challenges is to understand to what extent a change resulting from an agenda decision constitutes a change in accounting policy rather than an error. Therefore, in our view, the proposed amendment will further emphasise this tension as the correction of errors and change in accounting policies resulting from IFRS IC agenda decisions will be subject to different requirements with respect to retrospective application.
7. Finally, we believe that the IASB should prompt the IFRS Foundation to reconsider the role of agenda decisions as part of the forthcoming review of the Due Process Handbook. For example, it should be considered to what extent agenda decisions effectively constitute a confirmation that the existing IFRS requirements provide an adequate basis for an entity to determine the appropriate accounting treatment as opposed to clarifications that constitute *quasi-interpretations* of IFRS. In the latter case, the IASB may need to consider whether some agenda decisions should not be intended as an interpretation to IFRS and therefore fall into the standard-setting activity.
8. In this respect, we do not believe that the proposed amendments would be suitable to address the concerns expressed in paragraph BC 4 whereas it is mentioned that *'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'*. In our view, by creating a specific transition treatment for changes in accounting policies arising from agenda decisions, the proposed amendments would exacerbate the tension between changes in accounting policies and correction of errors, because they will be subject to different requirements with respect to retrospective application. Consequently, in order to avoid this tension, the Committee may in the future request more frequently to perform standard-setting activity. In addition, we note that when the transitional implications of an agenda decision are so relevant that the Committee has to recommend standard setting activity, this may be an indication that an agenda decision addresses a more fundamental issue which may deserve a specific standard-setting activity.

Question 2

The Board decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations

¹ https://www.esma.europa.eu/sites/default/files/library/2015/11/2011_211.pdf

Committee. Paragraphs BC18–BC22 of the Basis for Conclusions on the proposed amendments set out the Board’s considerations in this respect.

Do you think the explanation provided in paragraphs BC18–BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not? If not, what do you propose, and why? Would you propose either of the alternatives considered by the Board as outlined in paragraph BC20? Why or why not?

9. While ESMA agrees with the IASB’s decision not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision, we are concerned with the Board’s considerations on the timing of the application of agenda decisions in paragraph BC 22.
10. Explanatory material contained in agenda decisions has no effective date. As stated in response to the previous question, we suggest that the IASB should consider whether some agenda decisions should not trigger standard setting activity, which would enable the IASB to set dedicated transition requirements.
11. When this is not the case, we do not believe that the IASB’s due process handbook would provide an adequate basis to set *ad hoc* requirements for what concerns the timing of application of agenda decisions.