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ED/2018/1 Accounting Policy Changes (Proposed amendments to IAS 8)

Cover Note

Objective

- 1 The objectives of the session are to:
 - (a) consider the feedback received in response to EFRAG's draft comment letter on ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* (the 'ED') which was issued on 27 March 2018;
 - (b) discuss and recommend to the EFRAG Board a Final Comment Letter on the ED; and
 - (c) discuss and approve a feedback statement.

Background

- 2 The aim of the ED is to promote greater consistency in the application of IFRS Standards and reduce the burden on entities when they change an accounting policy as a result of an agenda decision issued by the IFRS Interpretations Committee (the 'IFRS IC').
- 3 The ED proposes to amend IAS 8 to lower the threshold for relief from retrospective application of such changes by allowing an assessment based on costs to the entity and expected benefits to users. Applying the amendment, an entity would be required to apply voluntary changes in accounting policies resulting from agenda decisions either:
 - (a) from the earliest period practicable: or
 - (b) from the earliest date for which the expected benefits for users would exceed the costs for preparers.
- 4 The IASB considered whether to provide guidance to address the timing of applying a change in accounting policy that results from an agenda decision but finally decided not to amend IAS 8 for that issue. The IASB is of the view that an entity should be entitled to sufficient time to prepare for a change in accounting policy but determining 'sufficient time' to implement a change requires judgement and will depend on the nature of the change.

EFRAG's initial assessment on the ED

- 5 EFRAG published its Draft Comment Letter on 24 April 2018. In the letter, EFRAG did not support the proposals in the ED insofar as EFRAG disagreed with

introducing a distinction between voluntary changes in accounting policies resulting from agenda decisions and other voluntary changes. EFRAG considered that the proposals in the ED raised broader questions about the status and the objectives of agenda decisions.

- 6 EFRAG suggested that the IASB considers whether the threshold for relief from retrospective application of all voluntary changes in accounting policy should be revised to one based on an assessment of costs and benefits. This could reduce the burden for entities seeking to make improvements to their accounting policies and promote greater consistency in the application of IFRS Standards.
- 7 EFRAG also considered that the proposals in the ED may give rise to practical challenges if finalised in their current form and that further guidance will be needed to:
 - (a) clarify their scope and in particular the potential pervasiveness of agenda decisions beyond the fact patterns addressed in the submissions; and
 - (b) help preparers assess the benefits for users.
- 8 Lastly, EFRAG reiterated its suggestions to the IASB, made in a previous comment letter, to reconsider whether some additional clarification on the distinction between a change in accounting policy and correction of an error would be useful in finalising the amendments contained in this ED and in the one issued in September 2017.

Comment letters received

- 9 EFRAG received comment letters from ten respondents representing national standard-setters, a regulator and an accounting and a professional organisations (see list in appendix to the Feedback Statement).
- 10 All respondents disagreed, like EFRAG, with introducing a distinction for voluntary changes in accounting policies arising from agenda decisions for the reasons expressed in the Draft Comment Letter.
- 11 However, mixed views were expressed on EFRAG's suggestion that the IASB considers whether the threshold for relief from retrospective application of all voluntary changes in accounting policy should be revised to one based on an assessment of costs and benefits:
 - (a) Four respondents supported EFRAG's suggestion as this could reduce the burden for entities seeking to make improvements to their accounting policies and promote greater consistency in the application of IFRS Standards as explained in EFRAG's Draft Comment Letter. One of these respondents suggested to extend the application of the lowered threshold to correction of errors as well.
 - (b) Conversely, Five respondents disagreed with the suggestion made by EFRAG .
 - (c) One respondent did not express a view.
- 12 Respondents who disagreed with EFRAG's suggestion generally considered that the high level of judgement involved in costs and benefits assessment would not promote greater consistency as intended and the reduction in instances where adjustments are made retrospectively would result in a loss of comparability between entities and a loss of information for users of financial statements. One respondent considered that departure from full retrospective restatement should only apply when specifically allowed by an IFRS Standard.

- 13 Respondents who supported the consideration of a costs and benefits threshold applicable to all voluntary changes also generally agreed with EFRAG that more guidance would be needed for the assessment of that threshold:
 - (a) One respondent suggested that a step-by step guidance on cost and benefits assessment could be structured similarly to the process for making materiality judgements set out in IFRS Practice Statement 2 *Making Materiality Judgements*.
 - (b) Two respondents questioned whether the time constraints costs due to the absence of effective date of changes arising for agenda decision should be factored in the assessing the costs of the changes: one of these respondents considered it should and the other one that this was unclear).
- 14 Four respondents noted that the proposals would put more stress on the distinction between changes in accounting policies and correction of errors and generally concurred with EFRAG that more guidance would be needed in that area. One of these respondents considered that the ED actually failed to address the real issue associated with agenda decisions that is whether the explanatory material in agenda decisions shall be considered as triggering a correction of an error, or a change in accounting policy, or a change in accounting estimates. This respondent suggested that a possible way forward would be to include in the agenda decisions a statement clarifying whether during the outreach activities divergence in practice has been identified. In this case it should be excluded that an entity which has adopted a different accounting policy would fall into a correction of error.
- 15 Four respondents also supported, like EFRAG, the IASB's decision not to prescribe a general application date for all accounting changes resulting from agenda decisions. The other six respondents did not specifically address the matter in their response letters.
- 16 One respondent did not support the suggestion in paragraph 33 of EFRAG's DCL that the IASB consider limiting the benefit of the lower threshold for a certain period of time. In the view of this respondent, this may undermine the aims of the proposed amendments (i.e. to remove a barrier to improving the quality of reporting and consistency in the application of IFRS).
- 17 Only one respondent commented on the ED's transition requirements UK FRC; on which the IASB was not seeking specific input. This respondent agreed with EFRAG's suggestion to allow early application of the amendments resulting from the ED, if finalised.

Other feedback

- 18 The EFRAG User Panel discussed the proposed amendments to IAS 8 at its May 2018 meeting.
- 19 Members generally considered that it would highly judgemental to assess the benefits to users and very difficult to express it in monetary terms.
- 20 Some members expressed scepticism about the principle of introducing of cost-benefit thresholds. They considered that this could result in a loss of valuable information and contradict the objective to have more transparent and comparable information. These members considered that if the effects of the changes on comparative information are material, the adjustments should be done in all cases.
- 21 Two members supported the IASB's proposals and considered that the lower threshold should not be extended to all voluntary changes as suggested in EFRAG's draft comment letter. These members also acknowledged that the benefit of retrospective application on trend information should not be overstated as generally only one year of comparable information would be adjusted anyway.

- 22 Conversely one member agreed with EFRAG’s suggestion to consider extending the lowered thresholds to all voluntary changes to promote better accounting.

EFRAG Secretariat proposed responses/recommendation

- 23 Considering the input received from constituents and the User Panel, the EFRAG Secretariat recommends that the Final Comment Letter reflects the following:
- (a) Retain the view that the IASB should not introduce a distinction between voluntary changes in accounting policies resulting from agenda decisions for the reasons already expressed in the Draft Comment Letter;
 - (b) Remove, in the absence of a consensus among our stakeholders, the explicit suggestion that the IASB considers whether to provide relief from retrospective application to all voluntary changes in accounting policy based on an assessment of costs and benefits;
 - (c) Retain the agreement with the IASB’s decision not to prescribe a general application date for all accounting changes resulting from agenda decisions;
 - (d) Remove the suggestion in paragraph 33 of EFRAG’s Draft Comment Letter that the IASB consider limiting the benefit of the lower threshold for a certain limited period of time; and
 - (e) Retain the view that, if the amendments are finalised, more guidance would be needed in particular on the cost and benefits assessment and reflect the suggestion made by one respondent to consider a step-by step guidance that could be structured similarly to the process for making materiality judgements set out in IFRS Practice Statement 2 *Making Materiality Judgements*.

Questions for EFRAG TEG

- 24 Does EFRAG TEG agree to recommend the revised Comment Letter contained in Agenda paper 04-02 for consideration by the EFRAG Board?
- 25 Does EFRAG TEG approve the feedback statement contained in agenda paper 04-03?

Agenda Papers

- 26 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 04-02 – EFRAG’s Final Comment Letter; and
 - (b) Agenda paper 04-03 – EFRAG’s Feedback Statement.