

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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

Feedback to constituents – EFRAG [Final] Comment Letter

August 2018

Introduction

Objective of this feedback statement

EFRAG published its [final] comment letter on ED /2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* ('the ED') on [date]. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's [final] comment letter.

Background to the ED

On 27 March 2018, the IASB issued ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* (the 'ED').

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.

An entity might change an accounting policy in line with the explanatory material in an agenda decision. If it does so, it is currently required to apply the general requirements applicable to all voluntary changes in accounting policies which requires retrospective application unless it is 'impracticable to do so'. IFRS Standards set a high threshold for justifying impracticability and the IASB considers that this can create a barrier for entities wishing to adopt, and transition to, better accounting policies.

To facilitate voluntary changes in accounting policy resulting from an agenda decision, the ED proposes to amend IAS 8 *Accounting*

Policies, Changes in Accounting Estimates and Errors to allow entities, in determining how far back they should adjust comparative information, to consider the expected benefits to users of financial statements of applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.

Further details are available on the EFRAG [website](#).

EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on. EFRAG did not support the proposals in the ED insofar as it 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.

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:

- clarify their scope and in particular the potential pervasiveness of agenda decisions beyond the fact patterns addressed in the submissions; and
- help preparers assess the benefits for users.

Lastly, EFRAG reiterated its suggestions to the IASB 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.

Comments received from constituents

EFRAG received ten comment letters from constituents. These comment letters are available on the EFRAG [website](#).

The comment letters received came from a number of national standard setters, a regulator, a professional organisation and an accounting organisation..

All respondents disagreed, like EFRAG, with introducing a distinction for voluntary changes in accounting policies arising from agenda decisions for the reasons expressed in EFRAG’s Draft Comment Letter. Some 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.

Most respondents also supported, like EFRAG, the IASB’s decision not to prescribe a general application date for all accounting changes resulting from agenda decisions

Mixed views were however 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:

- some respondents supported EFRAG’s suggestion for the reasons expressed in the Draft Comment Letter. One respondent suggested to extend the application of the lowered threshold to correction of errors as well.
- Some other respondents (in about equal number) disagreed with EFRAG’s suggestion and considered that no changes were needed to the existing ‘impracticability’ threshold

EFRAG’s [final] comment letter

EFRAG retained the main views expressed in its draft comment letter except for the suggestion that the IASB considers whether a relief from retrospective application could be allowed to all voluntary changes in accounting policy based on an assessment of costs and benefits which was removed in the light of the mixed feedback received.

EFRAG also considered a number of drafting improvements suggested by respondents (see detailed analysis hereafter).

Detailed analysis of issues, comments received, and changes made to EFRAG’s [final] comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Revised thresholds for voluntary changes arising from agenda decisions

Proposals in the ED

Applying the amendment, an entity would be required to apply voluntary changes in accounting policies resulting from agenda decisions either:

- from the earliest period practicable; or
- from the earliest date for which the expected benefits for users would exceed the costs for preparers.

EFRAG’s tentative position

EFRAG did not support the proposals in the ED insofar as it disagreed with introducing a distinction between voluntary changes in accounting policies.

EFRAG considered that:

- if retrospective application is a hindrance to making voluntary changes in an accounting policy, then that is likely to be the case for all voluntary changes; and
- the proposals in the ED raise broader questions about the status and the objectives of agenda decisions.

EFRAG therefore suggested that the IASB considers revising IAS 8’s impracticability threshold for relief from retrospective application for all

EFRAG’s [final] position

Considering the feedback received, EFRAG retained its initial views not supporting the proposed amendments insofar as they introduce a distinction between voluntary changes in accounting policies arising from agenda decisions and other voluntary changes.

EFRAG also reconsidered its initial suggestion that the IASB considers revising IAS 8’s impracticability threshold for relief from retrospective application for all voluntary changes in accounting policies and decided to remove it in the light of the mixed feedback received.

Lastly, if the costs and benefits proposal is proceeded with, EFRAG included in its final drafting, the suggestion made by one respondent to develop step-by-step guidance on cost and benefits assessment could be structured similarly to the process for making materiality judgements set out in the IFRS Practice Statement 2 *Making Materiality Judgements*.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

voluntary changes. This could reduce the burden for entities seeking to make improvements to their accounting policies and promote greater consistency.

EFRAG also assessed that, if finalised, further guidance will be needed to clarify the scope of the proposed amendments and to help preparers assess the benefits for users.

Constituents’ comments

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.

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:

- About half of the respondents supported EFRAG’s suggestion for the reasons expressed in the Draft Comment Letter. One of these respondents suggested to extend the application of the lowered threshold to correction of errors as well.
- The other half of the respondents disagreed with EFRAG’s suggestion. These respondents 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.

Respondents who supported the lowered thresholds for all voluntary changes also generally agreed with EFRAG that more guidance would be needed for the assessment. One of these respondents suggested that a step-by step

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

guidance on cost and benefits assessment could be structured similarly to the process for making materiality judgements set out in the IFRS Practice Statement 2 *Making Materiality Judgements*.

Several 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 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, the possibility that an entity which has adopted a different accounting policy would fall into a correction of error should be excluded.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

DRAFT

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Timing of applying changes resulting from an agenda decision

Proposals in the ED

The ED does not prescribe a general application date for accounting changes resulting from agenda decisions. The IASB considers that an entity should be entitled to sufficient time to prepare for a change but determining that time requires judgement and depends on the nature of the change.

EFRAG’s tentative position

EFRAG agreed with the IASB’s decision not to prescribe a general application date for all accounting changes resulting from agenda decisions. EFRAG is not persuaded that either of the alternatives considered in the Basis for conclusions of the ED would work in practice as they may conflict with local regulation. EFRAG considered that, to address the concerns about the timing of the changes resulting from agenda decisions, the IASB could explore whether there are further ways to improve the awareness of constituents in particular for agenda decisions addressing issues that are expected to have pervasive effects.

Constituents’ comments

All respondents who provided input on the matter supported, like EFRAG, the IASB’s decision not to prescribe a general application date for all accounting changes resulting from agenda decisions. Seven respondents did not explicitly address the issue.

Two respondent also considered whether the ‘time constraints’ created by the absence of an effective date for agenda decisions should be factored in when assessing the costs of the changes in accounting policies arising from an

EFRAG’s response to constituents’ comments

EFRAG’s [final] position

Considering the feedback received, EFRAG retained its initial views except that 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 was removed..

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

agenda decisions: one of these respondents considered it should and the other one that this was unclear.

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).

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Other matters

Proposals in the ED

The ED proposed the proposed amendments only to changes in accounting policy on or after a date to be decided after exposure (effective date).

EFRAG’s tentative position

EFRAG suggested permitting early application of the amendments resulting from the ED, if finalised. This would be consistent with the stated objectives to promote adoption of ‘better’ accounting policies and reduce the burden on entities by allowing entities to apply the new requirements for agenda decisions published in the period between the publication of the amendments and their effective date. *Constituents’ comments.*

Lastly, EFRAG reiterated the suggestions made in its comment letter on ED/2017/5 *Accounting Policies and Accounting Estimates* to:

- combine any amendments resulting from the two exposure drafts published on IAS 8 (ED/2018/1 and ED/2017/5). This would avoid making two amendments to IAS 8 in a short period of time; and
- reconsider, in the light of the changes proposed by these exposure drafts published on IAS 8 (ED/2018/1 and ED/2017/5), further clarification on the distinction between changes in accounting policies and correction of errors.

Constituents’ comments

Only one respondent explicitly commented on the transition requirements of the ED (on which the IASB was seeking specific input in its consultation). This respondent supported EFRAG’s suggestion to allow early application of the amendments resulting from the ED, if finalised.

EFRAG’s response to constituents’ comments

EFRAG [final] position

Considering the feedback received, EFRAG retained its initial views.

Appendix 1: List of respondents

	Name of constituent	Country	Type / Category
CL001	The European Securities and Markets Authority (ESMA)	Europe	Regulator
CL002	Accounting Standards Committee of Germany (ASCG)	Germany	Standard Setter
CL003	Autorité des Normes Comptables (ANC)	France	Standard Setter
CL004	Dutch Accounting Standard Board (DASB)	The Netherlands	Standard Setter
CL005	UK Financial Reporting Council (UK FRC)	United Kingdom	Standard Setter
CL006	Swedish Enterprise Accounting Group (SEAG)	Sweden	Professional Organisation
CL007	Organismo Italiano di Contabilita (OIC)	Italy	Standard Setter
CL008	Comissão Normalização Contabilística (CNC)	Portugal	Standard Setter
CL009	Instituto de Contabilidad y Auditoria de Cuentas (ICAC),	Spain	Standard Setter
CL010	Institute of Chartered Accountants of England and Wales	UK	Accounting organisation