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

### **Cover Note**

#### **Objective**

- 1 The objective of the session is to discuss and approve for publication a draft comment letter on ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* for publication.

#### **Background**

- 2 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 (the 'IFRS IC').
- 3 In situations for which the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting, the IFRS IC publishes an agenda decision (sometimes referred to as a 'rejection notice') which generally includes explanatory material outlining the IFRS IC's view on how to apply the applicable principles and requirements.
- 4 Agenda decisions are non-authoritative in formal terms although they clearly carry some weight in practice<sup>1</sup>. Therefore, neither the IASB nor the IFRS IC specifies transition requirements or an effective date. If an entity changes its accounting policy as a result of an agenda decision, it is currently required to apply the new policy retrospectively unless it is impracticable to do so. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* further clarifies that applying a requirement is impracticable when 'the entity cannot apply it after making every reasonable effort to do so'. The IASB considers that, for certain voluntary changes in accounting policies, this can create a barrier for entities wishing to adopt, and transition to, 'better' accounting policies.

#### *Lowered thresholds*

- 5 To facilitate voluntary changes in accounting policy that results from an agenda decision, the ED proposes to amend IAS 8 to lower the threshold for retrospective

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<sup>1</sup> For example, in 2011, ESMA issued a press release stating: "ESMA believes that ... rejection notes published by the IFRS Interpretations Committee often provide clarification of the standards. There is an expectation on the part of the stakeholders in IFRS that rejection notes concluding that IFRSs are sufficiently clear will be carefully considered by preparers in determining their accounting policies. In the case of a change in a previous accounting treatment following the issue of a rejection note, an issuer should apply IAS 8 and provide proper and sufficient disclosure on the reasons for the change, having regard to the particular facts and circumstances of the individual case, including reference to the rejection note."

application of such changes by allowing an assessment based on costs to the entity and expected benefits to users.

- 6 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.
- 7 The ED provides guidance on factors to consider when assessing the costs and benefits.

#### *Timing of applying changes*

- 8 As mentioned in paragraph 4, neither the IASB nor the IFRS IC specifies transition requirements for a change in accounting policy that results from an agenda decision. This can be problematic as the explanatory material in an agenda decision might be viewed as being effective immediately upon publication, because it often addresses the application of IFRS Standards that are already effective
- 9 The IASB considered whether to provide guidance in that area but finally decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision. 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 TEG discussion and recommendation to the EFRAG Board**

- 10 EFRAG TEG discussed the proposed amendments at its June 2017 and April 2018 meetings. At the April 2018 meeting, members unanimously agreed to recommend the draft comment letter contained in agenda paper 07-02.
- 11 In summary, EFRAG TEG sees merit in considering a threshold based on costs and benefits for all voluntary changes in accounting policies, to reduce the burden for entities and promote greater consistency in the application of IFRS Standards. However, EFRAG TEG does not support introducing a distinction between voluntary changes in an accounting policy resulting from an agenda decision and other voluntary changes.
- 12 EFRAG TEG also considers 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.
- 13 The draft comment letter, contained in agenda paper 07-02 provides the detailed comments and responses to the questions in the ED.

#### **Question for the EFRAG Board**

- 14 Does the EFRAG Board approve issuing the Draft Comment Letter contained in agenda paper 07-02 for consultation?

#### **Agenda Papers**

- 15 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 07-02 – EFRAG's Draft Comment Letter as recommended by EFRAG TEG; and
  - (b) Agenda paper 07-03 – IASB's Exposure Draft ED/2018/1 *Accounting Policy Changes (Amendments to IAS 8)*.