

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in 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)**

### **Cover Note**

#### **Objective**

- 1 The objective of the session is to approve a final comment letter in response to the IASB's consultation on ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* (the 'ED') which was issued on 27 March 2018.

#### **Background**

- 2 The ED proposes to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to lower the threshold for relief from retrospective application when entities change an accounting policy as a result of an agenda decision issued by the IFRS Interpretations Committee. Applying the amendments, 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.

#### **EFRAG's initial assessment on the ED**

- 3 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.
- 4 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. 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.

- 5 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.

#### **Comment letters received**

- 6 EFRAG received comment letters from thirteen respondents representing national standard-setters, a regulator and accounting and professional organisations. The list of respondents is contained in Appendix 1.
- 7 All respondents disagreed, like EFRAG, with introducing a distinction for voluntary changes in accounting policies arising from agenda decisions.
- 8 However, respondents expressed mixed views on EFRAG's suggestion that the IASB considers applying a threshold based on costs and benefits to all voluntary changes in accounting policy.
- (a) 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.
  - (b) some other respondents (in about equal number) disagreed with EFRAG's suggestion.
- 9 Respondents who did not support the consideration of a costs and benefits threshold applicable to all voluntary changes generally assessed 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 preparers and across different reporting periods and a loss of valuable information for users of financial statements.
- 10 Respondents who supported, like EFRAG, the consideration of a costs and benefits threshold for all voluntary changes also generally agreed with EFRAG that more guidance would be needed for the assessment of that threshold. These respondents also 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.
- 11 Lastly a majority of respondents who addressed the question, also supported, like EFRAG, the IASB's decision not to prescribe a general application date for all accounting changes resulting from agenda decisions.

#### **EFRAG TEG's recommendation to the EFRAG Board**

- 12 At its July 2018 meeting, EFRAG considered the feedback received and members present unanimously agreed to recommend a Final Comment Letter to the EFRAG Board. In the letter, EFRAG TEG recommended to reiterate the following views already contained in the Draft Comment Letter:
- (a) disagree with the ED insofar as it introduces a distinction between voluntary changes in accounting policies;
  - (b) agree with the IASB's decision not to prescribe a general application date for all accounting changes resulting from agenda decisions; and
  - (c) if the IASB nevertheless proceeds with the proposals in the ED, provide more guidance in particular on the scope of the amendments, the assessment of costs and benefits and the distinction between a change in an accounting policy and a correction of an error.

- 13 In its discussions, EFRAG TEG paid particular attention to the mixed feedback received on its suggestion that the IASB could further consider whether a relief from retrospective application could be allowed to all voluntary changes. In the light of the strong message heard from constituents that no distinction should be introduced in the accounting for voluntary accounting policy changes, EFRAG TEG decided to retain the suggestion as it was considered important that the IASB fully assesses both available options (i.e. no change to the existing threshold or introduction of a costs and benefits assessment for all voluntary change) to retain consistent treatment of all voluntary changes in accounting policy.

**Questions for the EFRAG Board**

- 14 Does EFRAG Board approve the Final Comment Letter in Agenda paper 04-02?

**Agenda Papers**

- 15 In addition to this cover note, agenda paper 04-02 *EFRAG's Final Comment Letter on ED/2018/1 Accounting Policy Changes* has been provided for the session.

**Appendix 1: List of respondents**

	<b>Name of constituent</b>	<b>Country</b>	<b>Type / Category</b>
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 (ICAEW)	UK	Accounting organisation
CL011	Norwegian Accounting Standards Board (NASB)	Norway	Standard Setter
CL012	BusinessEurope	Eruope	Professional Organisation
CL013	Fédération Bancaire Française (FBF)	France	Professional Organisation