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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 consider EFRAG TEG and EFRAG CFSS views on the on the best ways for the IASB to proceed with ED/2018/1 *Accounting Policy Changes* (Proposed amendments to IAS 8) (the 'ED').

Background

- 2 The ED proposed 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.
- 3 The IASB also 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 Basis for Conclusions of the ED explains 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 comment letter

- 4 EFRAG published its final comment letter on 23 August 2018. In the letter EFRAG:
 - (a) agreed with the IASB's decision not to prescribe a general application date for all accounting changes resulting from agenda decisions;
 - (b) disagreed with introducing a distinction between voluntary changes in accounting policies resulting from Agenda Decisions and other voluntary changes;
 - (c) suggested that the IASB, instead, 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; and

- (d) 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:
 - (i) clarify their scope and in particular the potential pervasiveness of agenda decisions beyond the narrow fact patterns addressed in the submissions; and
 - (ii) help preparers assess the benefits for users.

Feedback received by the IASB and subsequent deliberations

- 5 At its December meeting, the IASB considered the feedback received from its consultation (105 respondents). The IASB received mixed views on the proposed amendments.
- 6 Many respondents disagreed, like EFRAG, with introducing a distinction for changes arising from agenda decision. Those respondents, including EFRAG, generally suggested, that the IASB consider extending the scope to all voluntary changes in accounting policy.
- 7 Only two respondents explicitly supported the proposed scope of the amendments for the reasons outlined in the ED
- 8 Regulators and many auditors generally assessed that the proposed amendments would be difficult to enforce and audit; because of the high subjectivity involved by the costs and benefit assessment.
- 9 Many respondents, including EFRAG, also considered that practical challenges may arise if the proposals were to be finalised as proposed:
 - (a) Determining whether an accounting policy change actually results from an Agenda Decision, particularly if an entity's fact pattern is similar to (but not the same as) that described;
 - (b) Assessing cost-benefit would be subjective and would require entities to apply significant judgement and could result difficult to audit and enforce.
- 10 At its December 2018 meeting, the IASB confirmed its tentative decision not to amend IAS 8 on the timing of application of an accounting policy change resulting from an agenda decision. The IASB will discuss other aspects of the ED (specifically its proposal to introduce a cost-benefit threshold) at a future meeting. .

Possible ways forward considered by the Staff and the IASB

- 11 Agenda paper 08-03 (containing ASAF Paper 5A) includes the IASB staff's preliminary views on the direction of the project in the light of the comments received. The staff of the IASB is consulting the ASAF before developing recommendations for the IASB.
- 12 In short, the IASB staff considers two possible ways forward; namely:
 - (a) proceed with a 'Modified ED' that extends the scope of the proposed cost-benefit threshold to all voluntary changes; or
 - (b) not proceed with the proposed amendments.

Proceed with a 'Modified ED'

- 13 In the ED, the IASB provided its rationale for not applying the scope of its proposals to all voluntary changes:
 - (a) a possible loss of information for users in voluntary changes (other than the ones resulting from agenda decisions) were to occur frequently; and
 - (b) potential loss of comparability between entities.

- 14 The staff of the IASB observes that the feedback received from the consultation has identified that:
- (a) The potential loss of information for users resulting from an extension of the cost-benefit threshold to all voluntary changes would be limited as such changes are only allowed they provide reliable and more relevant information.
 - (b) the loss of comparability concern might not be relevant as the accounting policies may already be different between entities in situations in which voluntary changes can be made.
- 15 The staff of the IASB also suggests, if the scope is extended to all voluntary changes, to keep the cost-benefit testing optional, as proposed in the ED.

Not proceed with the proposed amendments

- 16 Alternatively, the IASB could decide not to proceed with the amendments as the mixed feedback received and the absence of evidence that their benefits would outweigh their cost.
- 17 The IASB staff considers that it may not be possible to significantly improve the cost-benefit application guidance to address all the concerns heard (in particular regarding the complexity and high level of judgement involved by the assessment).

EFRAG Secretariat's preliminary views

- 18 After considering the analysis prepared by the staff of the IASB, the EFRAG Secretariat sees no reasons to modify the assessments and recommendations contained in EFRAG's Comment Letter:
- (a) suggesting that the IASB, considers extending the cost-benefit threshold to all voluntary changes; while keeping it optional (the 'Modified ED' approach, discussed above); and
 - (b) acknowledging that more work will be needed to improve the application guidance; in particular regarding the assessment of benefits for users.
- 19 Regarding the inherent complexity involved by the assessment of costs and benefits (as raised by some respondents), the EFRAG Secretariat is of the view that, as the testing remains optional an entity would only apply it when that application would itself be cost-beneficial.

Questions for EFRAG TEG and EFRAG CFSS

- 20 What are EFRAG TEG and EFRAG CFSS views on the way forward for the project? In particular would you suggest:
- (a) proceeding with a Modified ED approach (Paragraphs 13 to 15); as suggested in EFRAG's Comment Letter;
 - (b) not proceeding with the proposed amendments; or
 - (c) another approach? Please explain which and why.

Agenda Papers

- 21 In addition to this cover note, the following agenda papers have been provided for the session:
- (a) 08-02 ASAF 05 *Cover Memo Accounting Policy Changes*;
 - (b) 08-03 ASAF 05A *Accounting Policy Changes - Proposed ways forward*; and
 - (c) 08-04 ASAF 05B *Accounting Policy Changes feedback summary*.