DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Jean-Paul Gauzès
EFRAG Board President
35 Square de Meeûs

B-1000 Brussels

IFRS Technical Committee
Telefon: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 27 June 2018

Dear Jean-Paul,

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's ED/2018/1 *Accounting Policy Changes* (herein referred to as the 'ED') by providing in advance our feedback vis-à-vis the IASB.

Please find attached our comment letter to the IASB, containing our detailed comments on the questions raised in the ED.

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

IFRS Technical Committee
Telefon: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 27 June 2018

Dear Hans,

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

Generally, we support rethinking the accounting guidance for voluntary changes in accounting policy with respect to the existing requirement of having to apply such changes retrospectively. We support a relief from retrospective application on a cost-benefit basis as described in the ED, if the voluntary change results in an overall improvement of useful information to users of financial statements.

However, we do not support the ED proposal to lower the threshold for retrospective applications only for a subset of voluntary changes in accounting policies, being those changes that can be linked to an existing agenda decision and explanatory documentation published by the IFRS Interpretations Committee in past. We think there should be no different thresholds for voluntary changes in accounting policy as proposed in the ED for the following reasons:

- Introducing a new subset of voluntary changes in accounting policy would increase the complexity of IFRS guidance;
- Having two subsets of voluntary changes in accounting policy with different thresholds would lead to ambiguous and arbitrary judgment calls as to whether or not an issue was dealt with by the IFRS Interpretations Committee; and
- Significant doubts as to whether an observed inconsistency in applying IFRSs caused by unclear authoritative guidance can be fixed by adding non-authoritative literature.

In our view, considerations to amend the threshold regarding the relief from retrospective applications should apply to all voluntary changes in accounting policy.

We provide our views above in more detail in the appendix to this letter in response to the ED questions. If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Answers to the questions of the exposure draft

Question 1
The Board proposes to amend IAS 8 to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. Do you agree with the proposed amendments? Why or why not? If not, is there any particular aspect of the proposed amendments you do or do not agree with? Please also explain any alternatives you would propose, and why.

As stated in the ED, IAS 8 sets a high threshold of impracticability for not applying a change in accounting policy retrospectively. We understand the reasons to set such a high threshold, e.g. ensuring comparability, including the consistency, of financial information. On the other hand, we agree with the IASB's line of argument that such a high threshold of impracticability could generally dissuade preparers of financial statements from a voluntary change in accounting policy that would overall improve the usefulness of information provided to users of its financial statements. Therefore, a general trade-off exists.

We think that increasing the usefulness of information should be the ultimate driver of any standard-setting activity. For information to be useful, it must meet the fundamental characteristics of relevance and faithful representation. In turn, comparability is considered to enhance the usefulness of financial information and should, as stated in the Conceptual Framework, only be maximised to the extent possible. Therefore, we think it would be justified to lower the threshold for retrospective application, if this would improve overall the usefulness (at the expense of comparability) of financial information.

However, it would not be conceptually justified and highly undesirable to limit this lower threshold argument only to those voluntary changes in accounting policy that can be linked to agenda decisions and explanatory literature published by the IFRS Interpretations Committee. For the following reasons, we think that lowering the cost threshold regarding the relief from retrospective application should be applied to <u>all</u> voluntary changes in accounting policy that would overall improve the usefulness of information in financial statements:

Different thresholds for relief from retrospective application

We disagree with the IASB's justification for proposing different thresholds regarding retrospective application of voluntary changes in accounting policy. We think that the arguments listed in BC8 of the ED to justify a different threshold for changes of accounting policy can equally be used for any other sources of non-authoritative guidance, i.e. those arguments are not limited to non-authoritative guidance published by the IFRS Interpretations Committee (i.e. agenda decisions/rejections).

Similarly, in BC3a of the ED it is highlighted that – due to the existing high threshold of impracticability in IAS 8 – the expected benefits to users of financial statements from applying a voluntary change in accounting policy retrospectively may not outweigh the cost to the entity of determining the effects of the change, even though the change might result in financial statements providing more useful information overall. Therefore, preparers would not change an accounting policy on a voluntary basis in those scenarios. In our view, this argument should be applied to all voluntary changes in accounting policies and, conceptually, is not limited to voluntary changes in accounting policies to reflect agenda decisions and explanatory material published by the IFRS Interpretations Committee.

Furthermore, we have the same concerns as already expressed by some IASB members (see BC7b of the ED) during the due process preceding the publication of the ED that:

(i) different thresholds install an unjustified and arbitrary distinction between voluntary changes based on agenda decisions and other voluntary changes in accounting policy, and

(ii) agenda decisions and corresponding explanatory material would be viewed and treated as having authoritative status, regardless of whether it is formally declared as non-authoritative guidance.

Increasing complexity of IFRS guidance

In our view, the proposals would result in an undesirable increase of complexity of IFRS guidance by introducing a new subcategory of voluntary changes in accounting policy that could easily result in new debates and clarification requests. For example, we would already foresee an increase in questions as to whether or not a voluntary change in accounting policy could be linked to a specific agenda decision, if the fact pattern underlying an agenda decision was just slightly modified. Similarly, it could be questioned whether a preparer could refer to an agenda decision and explanatory material that was published a long time ago.

Additionally, the ED proposals could be seen as representing a convenient way to circumvent discussion whether a previous application of IFRS reflects an accounting error or is considered a voluntary change in accounting policy that does not require retrospective application. However, this could also open new debates among constituents with additional clarification requests and guidance to what extent a change must be considered as a correction of prior period error instead of a voluntary change in accounting policy.

Improving unclear authoritative IFRS guidance instead of adding non-authoritative literature

We think the IASB should not be guided by the view that inconsistent application resulting from unclear authoritative guidance can be fixed through publishing additional non-authoritative guidance, including agenda decisions published by the IFRS Interpretations Committee. If the IFRS Interpretations Committee observes in its work that mandatory guidance lead to inconsistent application or inappropriate accounting, the IASB should fix this unclear guidance through proper standard-setting procedure and transitional guidance. In other words: In our view, the IASB should not facilitate voluntary changes in accounting policy as described in the background to ED but instead facilitate more robust and clear authoritative IFRS guidance.

Furthermore, we think it would be unrealistic to expect that entities closely follow any non-authoritative publication, including agenda decisions and explanatory material published by the IFRS Interpretations Committee that are not subject of EU endorsement and therefore not translated for EU constituents. And even if an entity would take notice of agenda decisions and explanatory material published by the IFRS Interpretations Committee, it should equally not be expected that an entity would change an eligible accounting policy on a voluntary basis to reflect the views expressed by the IFRS Interpretations Committee in non-authoritative agenda decisions and explanatory material. Thus, it would be inappropriate to consider that agenda decisions and explanatory material published by the IFRS Interpretation Committee are robust and effective tools for encouraging greater consistency of IFRS application.

Question 2

The Board decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee. Paragraphs BC18–BC22 of the Basis for Conclusions on the proposed amendments set out the Board's considerations in this respect.

Do you think the explanation provided in paragraphs BC18–BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not? If not, what do you propose, and why? Would you propose either of the alternatives considered by the Board as outlined in paragraph BC20? Why or why not?

Since we disagree with the ED proposals for introducing different thresholds for some voluntary changes in accounting policy, we do not have strong views regarding the timing for applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee.

Nonetheless, we note that it seems odd having a discussion about the effective date of agenda decisions and corresponding explanatory materials that are formally described as non-authoritative guidance. Similarly, it appears strange to discuss time limits for the application of changes in accounting policy that are labelled as 'voluntary' changes by preparers. In our view, it seems only logical that, as is proposed in the ED, a preparer of IFRS financial statements could only apply the lower threshold after the publication of an agenda decision but would not be limited in its application to a specific annual reporting period.

Additionally, it is not entirely clear from the ED proposals whether the timing of publication of agenda decisions and explanatory material in relation to the end of the entity's reporting period should have an impact in determining the cost for retrospective application of voluntary changes in accounting policy.