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Comments should be submitted no later than Friday 13 July 2018.

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

XX August 2018

Dear Mr Hoogervorst,

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

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* issued by the IASB on 27 March 2018 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG does not support the proposals in the ED insofar as EFRAG disagrees with introducing a distinction between voluntary changes in accounting policies arising from agenda decisions and other voluntary changes in accounting policies. This is for the following two main reasons:

- Firstly, EFRAG considers 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. EFRAG therefore suggests that the IASB considers revising IAS 8's impracticability threshold for relief from retrospective application for all voluntary changes. 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.
- Secondly, although EFRAG supports the objective of improving the quality of financial reporting by encouraging entities to carefully consider the explanatory material included in agenda decisions published by the IFRS Interpretations Committee (IFRS IC), EFRAG considers that the proposals in the ED raise broader questions about the status and the objectives of agenda decisions.

In relation to the second point, EFRAG observes that the IASB and IFRS IC are increasingly developing non-mandatory guidance in a variety of ways. This can include implementation guidance, illustrative examples and educational material as well as

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explanatory material in agenda decisions. By addressing only voluntary changes resulting from agenda decisions, the proposed amendments could be seen as elevating the status of agenda decisions above these other sources of guidance and above the “other accounting literature” referred to in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

EFRAG also considers that the proposals in the ED may give rise to practical challenges if finalised in their current form. EFRAG considers 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 reiterates the suggestions made in its January 2018 comment letter on ED/2017/5 *Accounting Policies and Accounting Estimates* to:

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

EFRAG’s detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix - EFRAG's responses to the questions raised in the ED

QUESTION 1 - New threshold for voluntary changes resulting from an agenda decision

Notes to constituents – Summary of proposals in the ED

- 1 *The objective of the proposed amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is to promote greater consistency in the application of IFRS Standards, reduce the burden on companies when they change an accounting policy as a result of an IFRS Interpretations Committee (the 'IFRS IC') agenda decision and, thus, improve the overall quality of financial reporting.*
- 2 *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 which generally includes explanatory material outlining the IFRS IC's view on how to apply the applicable principles and requirements.*
- 3 *Agenda decisions are non-authoritative in formal terms although they clearly carry some weight in practice. 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 (be it as a correction of error or a voluntary change in policy), it is currently required to apply the new policy retrospectively unless it is impracticable to do so. Paragraph 5 of IAS 8 states that 'applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'.*
- 4 *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. To facilitate voluntary changes resulting from agenda decisions, the IASB proposes to amend IAS 8 to include entity-specific consideration of costs to the entity of determining retrospective application and benefits to users of financial statements from applying the new accounting policy retrospectively.*
- 5 *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.*

Question 1

The IASB 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.

EFRAG's response

EFRAG does not support the proposals in the ED insofar as EFRAG disagrees with introducing a distinction between voluntary changes in accounting policies resulting from agenda decisions and other voluntary changes in accounting policies. EFRAG considers that the proposals in the ED raise broader questions about the status and the objectives of agenda decisions.

EFRAG does however suggest 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 considers that, if finalised, further guidance will be needed to clarify the scope of the proposed amendments (and in particular the potential application of agenda decisions beyond the specific fact pattern addressed in the submissions to the IFRS IC) and to help preparers assess the benefits for users.

Lastly, EFRAG reiterates its suggestion 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.

- 6 EFRAG acknowledges that, although agenda decisions are not authoritative, it is expected that preparers consider them carefully. Enforcers in many jurisdictions expect entities to apply accounting policies in line with the explanatory material in these decisions¹. EFRAG supports the objective of improving the overall quality of financial reporting by encouraging entities to further consider the explanatory material included in agenda decisions published by the IFRS IC.
- 7 EFRAG does not however support introducing a distinction between changes in accounting policy arising from an agenda decision and other voluntary changes in accounting policies. EFRAG notes that voluntary changes in accounting policies (whether they stem from an agenda decision or not) are allowed only insofar as they result in the financial statements providing reliable and more relevant information. EFRAG considers that this principle works well in practice for all voluntary changes and questions whether a distinction should be made for a subset of voluntary changes.
- 8 EFRAG considers that if retrospective application is a hindrance to voluntary changes in accounting policies, then that is likely to be the case for all voluntary changes. Accordingly, EFRAG suggests that the IASB considers revising the threshold for relief from retrospective application of all voluntary changes in accounting policies based on the entity's assessment of costs and benefits.

Status of agenda decisions

- 9 EFRAG considers that the proposals in the ED raise broader questions about the status and objectives of agenda decisions. EFRAG questions the appropriateness

¹ 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."

of identify a separate category of voluntary changes in accounting policy resulting from agenda decisions without first addressing these questions.

- 10 EFRAG observes that the IASB and IFRC IC are increasingly developing non-mandatory guidance in a variety of ways which can include implementation guidance, illustrative examples, educational material, or agenda decision explanations. By limiting its proposed amendments to changes resulting from agenda decisions, the proposed amendments could be seen as somewhat elevating the status of agenda decisions above these other sources of guidance and above “other accounting literature” as referred to in paragraph 12 of IAS 8.
- 11 Some agenda decisions provide direct responses to the specific questions and fact patterns in the submission (e.g. the three agenda decisions on IFRS 15 *Revenue from Contracts with Customers* approved by the IFRS IC in March 2018²). In other cases, the agenda decision essentially identifies the relevant guidance and literature applicable to the fact pattern and provides explanatory material without indicating a specific accounting treatment in response to the fact pattern.
- 12 In a 2013 comment letter³, EFRAG urged the IFRS IC not to issue agenda decisions that would prescribe an accounting treatment or be akin to an Interpretation as agenda decisions are not subject to a full due process. Concerns about the agenda decision due process have also been recently raised by some constituents in response to agenda decisions issued on the IFRS 15 issues referred to above.⁴

Determining whether a change ‘results’ from an agenda decision

- 13 EFRAG has also identified a number of practical issues with the proposed amendments that we consider need to be addressed if they are finalised.
- 14 Assessing whether an accounting change ‘results’ from an agenda decision may be challenging. This is because there is necessarily a limited amount of information on fact patterns disclosed in agenda decisions and it is not always straightforward for preparers to assess whether an entity’s facts and circumstances align with that fact pattern in all respects. Conversely, other factors than the ones described in the agenda decision may exist that may need to be considered: for example, the preparer’s situation may involve more complexity than the factors discussed in the agenda decision.
- 15 EFRAG observes that the ED does not clearly specify whether the proposed ‘lowered threshold’ is intended to apply only to situations strictly aligned with the fact pattern described in an agenda decision or could also be applied by analogy to similar situations:
 - (a) On the one hand, if the proposed amendments were only applicable to situations exactly matching the often narrowly-defined fact patterns considered in agenda decisions, this would limit their overall reach and usefulness to promote better information.
 - (b) On the other hand, if they are meant to apply to a broader set of circumstances, the absence of clear guidance on the scope has the potential to either create diversity in application or an inflation in the submission to the IFRS IC to consider different permutations of the same fact patterns.

² IFRS IC’s agenda decisions - [IFRIC Update March 2018](#).

³ EFRAG’s comment letter on tentative agenda decision on IAS 39 *Financial Instruments: Recognition and Measurement - Negative interest rates*.

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- 16 EFRAG considers that professional judgment will need to be applied when the facts or circumstances differ and encourages the IASB to provide further guidance to help exercise that judgement.

Distinguishing changes in accounting policies from correction of errors

- 17 EFRAG agrees with the IASB's analysis that it would not be appropriate to characterise all changes resulting from agenda decisions as corrections of errors or as voluntary changes in accounting policies as this characterisation would depend on facts and circumstances.
- 18 In some circumstances, the explanatory information that is published in an agenda decision can provide new 'reliable' and 'more relevant' information that was not available previously and could not reasonably have been expected to be obtained by an entity. In other situations, the accounting policy previously applied could simply have resulted from the entity failing to apply an IFRS Standard when the application was clear and fail to use reliable information that was available or could reasonably be expected to have been obtained.
- 19 However, EFRAG considers that the difference in financial reporting resulting from the proposed amendments in the ED will inevitably add more tension to the characterisation of changes resulting from agenda decisions as either corrections of errors or changes in accounting policies.
- 20 In its comment letter in response to the IASB's Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates*, which proposed changing the definition of accounting policy and estimates while removing some of the existing guidance on corrections of errors, EFRAG suggested that the IASB should consider further clarifications of that distinction. EFRAG reiterates that suggestion for additional guidance that would be all the more needed if the proposed amendments are completed.

Assessing costs and benefits

- 21 EFRAG is concerned that, by requiring entities to assess the costs (for preparers) and benefits (for users) of retrospective application, the proposed amendments may introduce an element of high subjectivity, in particular regarding the assessment of benefit for users.
- 22 This subjectivity was clearly acknowledged by the IASB when it decided to maintain an impracticability criterion (rather than introduce an 'undue cost' criterion) as explained in paragraph BC24 of IAS 8:

The [IASB] decided that an exemption based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities. Moreover, the [IASB] decided that balancing costs and benefits is a task for the [IASB] when it sets accounting requirements rather than for entities when they apply those requirements.

- 23 EFRAG notes that the proposed amendments include some elaboration on factors that an entity may consider when assessing the cost/benefit trade-off (paragraphs A6 to A10). However, EFRAG considers that this guidance is too generic and could be usefully supplemented by emphasising the interactions between the assessment of benefits to users with the assessment of materiality of the information. EFRAG observes that many of the factors described (nature and magnitude, effect of trends...) are common to the two assessments.

QUESTION 2 – Timing of applying changes in accounting policy that results from an agenda decision

Notes to constituents – Summary of proposals in the ED

- 24 *The IASB 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.*
- 25 *In the Basis for Conclusions (paragraphs BC18–BC22), the IASB explains that it has considered, and rejected the following alternatives:*
- (a) *requiring the application only from the beginning of the next annual reporting period after publication of the agenda decision or*
 - (b) *requiring the application, no later than the beginning of the next annual reporting period) would work in practice.*
- 26 *The IASB is of the view that an entity should be entitled to sufficient time to prepare for a change in accounting policy that results from an agenda decision. But determining what ‘sufficient time’ to implement a change is requires judgement and will depend on the nature of the change.*
- 27 *The IASB also notes that ‘it would generally be unreasonable to expect an entity to apply a change in accounting policy that results from an agenda decision immediately upon publication of that agenda decision’.*

Question 2

The IASB 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 IASB’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 IASB as outlined in paragraph BC20? Why or why not?

EFRAG’s response

EFRAG agrees 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 paragraph BC20 would work in practice as they may conflict with local regulation.

EFRAG considers 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. The IASB could, for instance, reconsider whether in such cases a specific consultation document could be published on its website rather than relying only on constituents reading the IFRIC Update.

- 28 EFRAG acknowledges that the timing of changes resulting from agenda decisions may cause specific challenges for preparers. The explanatory material contained in an agenda decision might be viewed as being effective immediately upon publication, because the IFRS IC often addresses the application of IFRS Standards that are already effective.

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- 29 EFRAG agrees with the IASB's decision not to prescribe a general application date for accounting changes resulting from agenda decisions. This is because this may conflict with local regulations that may mandate the immediate application of the agenda decision. Additionally, determining what an appropriate and general 'sufficient time' to implement a change is requires judgement and depends on the nature of the change. For instance, the 'timing' of agenda decision published close to the effective date of an IFRS Standard may warrant a different consideration.
- 30 For these reasons, EFRAG is not persuaded that either of the alternatives considered in paragraph BC20 (that is, either (a) requiring the application only from the beginning of the next annual reporting period after publication of the agenda decision or (b) requiring the application no later than the beginning of the next annual reporting period) would work in practice.
- 31 EFRAG also notes that the language used in paragraph B2, referring to '*require the application of a voluntary change in accounting policy...*', is inherently inconsistent: how could the IASB 'require' the application of a 'voluntary' change?
- 32 EFRAG considers that, to address the issue about the timing of changes resulting from agenda decisions, the IASB could explore whether they are ways to improve the awareness of constituents; in particular for agenda decisions addressing issues that could have pervasive effects. The IASB could, for instance, reconsider whether, in such cases, a specific consultation documents and press releases could be published on its website rather than relying only on constituents reading the *IFRIC Update*.
- 33 The IASB could also consider limiting the benefit of the lower threshold for a certain period of time after the publication date of the agenda decision (for instance three years) to promote prompt and consistent application and avoid opportunistic decisions.

Transition requirement of the proposed ED

- 34 EFRAG does not agree with the statement in paragraph BC14 that there is '*no reason to either allow or require an entity to change its accounting for changes in accounting policy made before that date*'.
- 35 EFRAG suggests, instead, permitting early application of the amendments resulting from the ED. 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.

Other comments

- 36 In its January 2018 comment letter, EFRAG suggested that the final amendments resulting from ED/2017/5 *Accounting Policies and Accounting Estimate* are delayed and then grouped with the amendments resulting from the present ED. EFRAG reiterates this suggestion that will avoid making two amendments to IAS 8 in a short period of time.