



Australian Government

**Australian Accounting
Standards Board**

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear Hans

IASB ED/2018/1 Accounting Policy Changes

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on ED/2018/1 *Accounting Policy Changes* (Proposed amendments to IAS 8).

Overall, the AASB supports the proposed amendments to facilitate voluntary changes in accounting policy that result from agenda decisions published by the IFRS Interpretations Committee. Whereas full retrospective application can be a barrier to entities making such changes, introducing a new threshold provides a practical way of encouraging entities to align their accounting policy with the agenda decision and reduce diversity in practice.

Nevertheless, we have some concerns about the proposed amendments, which are explained in the Appendix to this letter.

If you have any questions regarding this letter, please do not hesitate to contact Danielius Valuckas (dvaluckas@asb.gov.au) or me.

Yours sincerely,

Kris Peach
Chair and CEO

APPENDIX

AASB responses to the Questions for Respondents on IASB ED/2018/1

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.

The AASB supports the proposed amendments to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee.

The scope of the proposals

The AASB supports limiting the scope of the proposals to voluntary changes that result from agenda decisions published by the IFRS Interpretations Committee only. Voluntary changes driven by IFRS Interpretations Committee agenda decisions can be distinguished from other voluntary changes in accounting policy. In many respects, agenda decisions published by the IFRS Interpretations Committee are similar to mandatory changes in accounting policy, particularly in practice. Being issued by an authoritative body after a due process, these agenda decisions are often viewed as ‘persuasive’ and being ‘effective immediately’, which cannot be said about the basis for other voluntary changes in accounting policy. Accordingly, providing a lower threshold for voluntary changes that result from IFRS Interpretations Committee agenda decisions can be likened to providing transitional relief for mandatory changes in accounting policy.

The AASB suggests explicitly prohibiting the analogous application of the new threshold in IAS 8 – paragraphs 10-12 refer entities to consider a range of sources when developing and applying an accounting policy. This would clarify the approach to voluntary changes that result from agenda decisions published by national standard-setters, such as the AASB, or enforcement views of regulators. The IASB noted in paragraph BC8 in the ED that applying the new threshold to a wider population of voluntary accounting policy changes than just those arising from IFRS Interpretations Committee agenda decisions might result in a loss of comparability between entities and information for users if voluntary changes were more frequent.

Entity-specific cost-benefit considerations

When the IASB develops new or amended Standards, or the IFRS Interpretations Committee develops Interpretations, these pronouncements may contain transitional provisions to relieve entities from some aspects of retrospective application of new requirements. However, these provisions are an exception to the general principle of full retrospective application and are based on the standard-setter’s cost-benefit considerations.

Permitting entities to apply a cost-benefit consideration is unusual, given their inherently subjective nature, as noted in paragraph 2.43 of the revised *Conceptual Framework for Financial Reporting*. The requirement for full retrospective application and the

impracticability threshold exist to make voluntary changes in accounting policy less frequent and thus improve comparability. Widening the circumstances in which entities are permitted to apply their own cost-benefit considerations may be inappropriate, and thus the AASB supports the proposed limited scope for the lower threshold.

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?

The AASB agrees with the IASB’s decision not to address the timing of application of voluntary changes in accounting policy that result from an agenda decision. It is difficult for the IASB to address this matter because of the non-authoritative nature of agenda decisions. The AASB finds the explanation provided in the Basis for Conclusions to be helpful for entities implementing such voluntary changes in accounting policy. Just as IAS 8 does not elaborate on the timing of other voluntary changes, it is not necessary to amend IAS 8 to address the timing of voluntary changes in accounting policy resulting from agenda decisions.

Local regulations – agenda decisions as ‘external documents’

Paragraph BC20 notes that local regulations may make it difficult for entities to apply voluntary policy changes immediately after the publication of an agenda decision. For example, in Australia the AASB would have to approve a Standard to update a reference in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to agenda decisions of the IFRS Interpretations Committee to cover new agenda decisions, before entities could voluntarily change policies as a result of those agenda decisions through the lower threshold approach.

In Australia, defining IFRS Interpretations Committee agenda decisions in paragraph 5 of AASB 108 would classify them as ‘external documents’, in which case the references to agenda decisions would be limited to those agenda decisions that were on issue when the amendment to AASB 108 was made. References in Australian Accounting Standards (which are legislative instruments) to external documents (which are not legislative instruments) are updated when the external documents change by the AASB amending or reissuing AASB 1048 *Interpretation of Standards*, so that it refers to the revised external documents. Amending or reissuing AASB 1048 could be done in time for normal financial year (30 June) and calendar year (31 December) reporting dates, for example, which would mean additional standard-setting effort is required to ensure that voluntary policy changes resulting from new IFRS Interpretations Committee agenda decisions were eligible for the lower-threshold assessment.