Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**IASB ED/2018/1 *Accounting Policy Changes***	**Meeting**	AASB May 2018 (M164)
Topic:	**Consider whether to comment on IASB ED**	**Agenda Item:**	4.1
Contact(s):	James Barden jbarden@aasb.gov.au 03 9617 7643 Clark Anstis canstis@aasb.gov.au 03 9617 7616	**Project Priority:** **Decision-Making:** **Project Status:**	Low Low Initial considerations

Introduction and objective of this paper

1 The objective of this paper is to obtain a Board decision on whether to make a formal submission to the IASB on its Exposure Draft ED/2018/1 *Accounting Policy Changes* (proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Attachments

Agenda item 4.2 AASB ED 285 *Accounting Policy Changes*

Summary of staff recommendations

2 The staff recommend the Board make a formal submission on IASB ED/2018/1, highlighting some potential issues as outlined below. A submission should also consider any Australian respondents' feedback to the AASB on ED 285.

Overview of IASB ED/2018/1

3 IASB ED/2018/1 has been incorporated into AASB ED 285 *Accounting Policy Changes* (issued April 2018), with comments due to the AASB by 27 June 2018, which is after the June AASB meeting. The IASB has requested comments on ED/2018/1 by 27 July 2018, so the AASB will not have a meeting between our comment due date and the IASB's due date.

4 The ED proposes to amend IAS 8 to lower the impracticability threshold for retrospective application of voluntary accounting policy changes resulting from an IFRS Interpretations Committee agenda decision.

5 The AASB has not yet considered this IASB project. Staff note that this project is separate to the IASB's project on distinguishing accounting policies and accounting estimates (AASB ED 281 *Accounting Policies and Accounting Estimates*).

What is the issue?

6 Currently, where an entity makes a voluntary accounting policy change, it is required to retrospectively apply that accounting policy change unless it is impracticable to do so. If it is impracticable, the change is applied retrospectively as early as possible, depending on whether it is practicable to determine the period-specific effects or the cumulative effect of the change.

7 AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 5 states that 'applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'. This may be, for example, where data has not been collected in a prior period in a way that allows retrospective application, or it may be practically impossible to recreate the information. Further guidance on impracticability in respect of retrospective application is provided in paragraphs A2-A5 of ED 285 (attached as Agenda Item 4.2).

8 The IASB observed that when an IFRS Interpretations Committee agenda decision is published, some entities are dissuaded from voluntarily changing their accounting policy, even though applying the agenda decision might lead to more appropriate and useful financial statements. This is because entities consider the impracticability threshold noted above as onerous to apply, and the costs of retrospectively applying the accounting policy change would likely outweigh the benefits to the users.

9 Agenda decisions contain explanatory material, subject to due process by the IFRS Interpretations Committee, which explain the Committee's view on how to apply the principles and requirements of IFRS Standards (but do not change the requirements of IFRS Standards). Paragraph 5.22 of the IFRS Foundation's *Due Process Handbook* states that agenda decisions 'do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive'.

10 Despite being non-authoritative and only explaining existing requirements, agenda decisions often do facilitate greater consistency in the understanding and application of a particular IFRS requirement. Changes in accounting policy based on an agenda decision would presumably lead to higher quality financial statements for an entity.

What has the IASB proposed?

11 To facilitate voluntary changes in accounting policy resulting from IFRS Interpretations Committee agenda decisions, the IASB proposes lowering the impracticability threshold to require retrospective application only 'to the extent that the cost to the entity of determining either the period-specific effects or the cumulative effect of the change exceeds the expected befits to users'. This lower threshold would not apply to other voluntary changes of accounting policies.

12 The IASB considered what threshold, if any, it might use to provide relief to entities changing an accounting policy as a result of an Agenda Decision. The IASB concluded that a threshold where the expected cost to preparers outweighs the expected benefit to users would be most appropriate, for reasons including:

(a) when the IASB considers transition relief for new IFRS Standards, user benefits are always a key consideration;

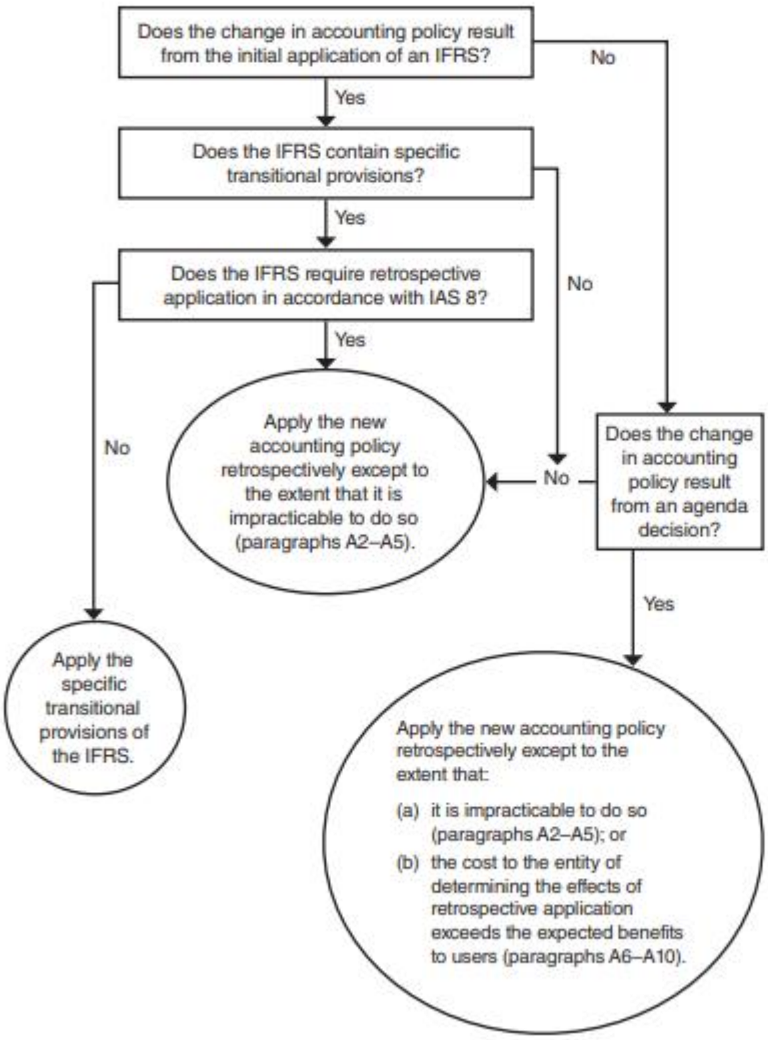
(b) this concept is not entirely new in IFRS Standards – for example it is used in making materiality judgements, and IFRS 9 *Financial Instruments* in applying the expected credit loss impairment model; and

(c) the loss of information caused by providing relief would exist only to the extent that the cost of preparation outweighs the benefits.

13 In summary, the requirements for applying accounting policy changes would be as follows (extract from application guidance proposed in IASB ED/2018/1):

Applying changes in accounting policy (paragraphs 14–27A)

A1 The following flow chart may assist an entity in applying a change in accounting policy:



14 The IASB did not propose an effective date for amendments resulting from the proposals.

International feedback

15 The European Financial Reporting Advisory Group (EFRAG) has published its draft comment letter[1] in response to IASB ED/2018/1.

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

17 EFRAG also considers 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.

18 Staff generally support the IASB's objective in IASB ED/2018/1, to encourage voluntary changes in accounting policies based on an IFRS Interpretations Committee agenda decisions. Staff consider that this change would improve the comparability of financial statements across entities. However, there are a number of issues to consider before concluding whether to support the ED's proposals.

19 As noted by EFRAG, why should voluntary changes in accounting policies based on IFRS Interpretations Committee agenda decisions be afforded a lower threshold for determining the impracticability of full retrospective application than other voluntary changes? For example, other voluntary changes could be based on other non-mandatory materials prepared by the IASB, such as implementation guidance and illustrative examples. These materials also go through a due process, which the IASB refers to as a distinguishing point for agenda decisions.

20 Should voluntary changes in accounting policies based on agenda decisions of other standard setters (such as the AASB) that have followed a due process also be treated in the same way, since the agenda decisions would not change the requirements of an authoritative pronouncement? This could potentially be the subject of domestic amendments. However, 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 financial users if voluntary changes were more frequent. Therefore, it could be appropriate for the IASB to explicitly prohibit any analogous application of agenda decision amendments to IAS 8.

21 Staff are also concerned that referring to IFRIC Interpretations Committee agenda decisions in such a manner in AASB 108 might elevate their standing in the Australian financial reporting framework. Under the proposals, agenda decisions would be defined in paragraph 5 of AASB 108 as decisions published by the IFRS

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1 See the draft comment letter at this link.

Interpretations Committee. As such, they may be regarded as ‘external documents’ referred to in an Australian Accounting Standard. In this case, the reference to agenda decisions would be limited to those agenda decisions on issue when the amendment to AASB 108 was made.

22 References in the Standards (which are legislative instruments) to external documents such as Interpretations (which are not legislative instruments) are updated when those documents change by amending or reissuing AASB 1048 *Interpretation of Standards* to refer to the revised external document. A similar approach might therefore be required to update a reference in AASB 108 to agenda decisions of the IFRS Interpretations Committee. This could be done in time for financial year and calendar year reporting dates, for example, which would mean additional standard-setting effort to ensure that new agenda decisions were eligible for the lower-threshold impracticability assessment.

Staff recommendations

23 Staff recommend that the Board make a formal submission on IASB ED/2018/1, highlighting issues outlined above. A submission should also take into account any Australian respondents’ feedback to the AASB on ED 285.

24 If the Board decides to make a submission, the process for approving a submission would need to be determined given that there is no Board meeting after the closing date of submissions to the Board on ED 285 and before the IASB’s comment deadline. Staff recommend a sub-committee of interested Board members to finalise a submission.

Q1	Are Board members aware of any other issues that might arise from the IASB’s proposals?
Q2	Do Board members agree with the Staff recommendation to make a formal submission to the IASB on IASB ED/2018/1 *Accounting Policy Changes*?
Q3	Do Board members agree with finalising a submission via a Board sub-committee, if a submission is to be made?