



**Australian Government**

**Australian Accounting  
Standards Board**

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26 July 2018

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

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,

A handwritten signature in blue ink that reads 'K. E. Peach'.

Kris Peach  
*Chair*

## 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.

A few AASB members do not support the comments above, arguing that the current impracticability threshold in IAS 8 for permitting transition on a partial retrospective basis or a prospective basis should be retained for all voluntary accounting policy changes, including those resulting from IFRS Interpretations Committee agenda decisions. This approach is based on the view that the IASB has not adequately justified why IFRS Interpretations Committee agenda decisions should be treated differently from other voluntary changes in accounting policy.

However, most AASB members accepted the IASB’s proposals based on the arguments set out in the Basis for Conclusions to the Exposure Draft (paragraphs BC6–BC8). This would allow more comparable financial reporting across entities – at least on a prospective basis – due to the greater likelihood that entities would voluntarily change accounting policies to follow an IFRS Interpretations Committee agenda decision. Comparability across entities is preferred to entities retaining the comparability between their own comparatives and current information through not changing voluntarily an accounting policy that differs from an agenda decision.

#### **Prohibit analogous application**

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 prohibition 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 a loss of 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 delaying application of agenda decisions**

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. This is the case in Australia, which is explained below for the information of the IASB. On this basis, the AASB agrees with the IASB's conclusion that immediate application of an agenda decision should not be required.

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* (which incorporates IAS 8) to agenda decisions of the IFRS Interpretations Committee to cover new agenda

decisions, before entities could voluntarily change policies as a result of those new agenda decisions through the lower threshold approach.

As IFRS Interpretations Committee agenda decisions are not legislative instruments in Australia, a definition of such agenda decisions in AASB 108 would not automatically update to encompass new agenda decisions of the Committee. The definition would be limited to the Committee agenda decisions on issue at the time when the AASB approved the addition of the definition to AASB 108. To extend the definition to cover new agenda decisions, the AASB would have to formally update the definition to incorporate the new agenda decisions.

Whilst preferable, it would be unduly onerous for the AASB to have to update the agenda decision definition whenever new agenda decisions were finalised by the Committee. Accordingly, the AASB would endeavour to periodically update the definition to make new agenda decisions eligible for the lower threshold approach for the principal reporting periods in Australia.