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International Accounting Standards Board
30 Cannon Street
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25 July 2018

Dear Board members,

Invitation to comment – Exposure Draft ED/2018/1– *Accounting Policy Changes - Proposed amendments to IAS 8*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on Exposure Draft ED/2018/1– *Accounting Policy Changes - Proposed amendments to IAS 8* (the Exposure Draft or ED) from the International Accounting Standards Board (IASB or Board).

We appreciate the objective of the Board to introduce requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that promote greater consistency in practice. However, we are not convinced that the rationale for the proposed amendments in the Exposure Draft, i.e., the reluctance among entities to comply with non-authoritative guidance published by the IFRS Interpretations Committee (IFRS IC) in the form of agenda decisions, reflects a common and pervasive concern in practice.

Furthermore, we believe that the proposed amendments, in effect, codify non-authoritative agenda decisions as authoritative guidance and introduce unnecessary complexity for preparers and auditors. We are concerned that the proposed amendments may potentially reduce the effectiveness of agenda decisions to enhance consistent application of IFRSs. Therefore, we do not support the proposal to introduce different requirements for voluntary changes in accounting policies depending on the source of the origination of the changes.

In our view, distinguishing a voluntary change in an accounting policy from the correction of an error is challenging in some cases. If the proposed amendments are finalised, in some cases, the accounting for voluntary changes in accounting policies will be different from corrections of errors resulting from agenda decisions, which, in turn, will make the challenge of distinguishing between the two more pervasive. Therefore, we propose that, if the Board decides to proceed with the project, it should: 1) provide further guidance on how to distinguish between voluntary changes in policies and correction of errors; and/or 2) consider alternative ways of providing guidance on the timing of applying a change resulting from an agenda decision (e.g., by introducing an official publishing date or by issuing an agenda decision providing similar explanations as those included in paragraphs BC18 to BC22 in the ED).

Our more specific concerns are set out in the following responses to the specific questions contained in the ED.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Appendix

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.

We do not agree with the proposed amendments for the following reasons:

- The proposed amendments address a broader standard-setting issue; agenda decisions are not part of the definition of International Financial Reporting Standards (IFRSs) (paragraph 7 of IAS 1 *Presentation of Financial Statements*). Although the Board argues otherwise (paragraph BC2 of the ED), we believe that, by introducing specific requirements in a standard (i.e., IAS 8), to address how entities must respond to non-authoritative agenda decisions, the Board effectively codifies agenda decisions as authoritative guidance. If the Board believes that the status of agenda decisions should be reconsidered, then it should do so by initiating a project addressing the scope of IFRSs.
- The introduction of specific requirements for one type of accounting policy change, in reference to the source of its origination (i.e., agenda decisions), may give rise to increased complexity in practice. For instance, in some cases, it might not be clear whether a change in accounting policy is the result of a particular agenda decision, or it is a voluntary change the entity intended to make regardless of the agenda decision. This may be relevant in cases where the timing of the change in policy does not coincide with the IFRS IC's publication of the agenda decision, when the change in policy is related to the issue addressed in the agenda decision, but it is not the exact same issue, and/or when the fact pattern of an entity is somewhat different from the one addressed in the agenda decision, although the interpretative issue is the same or similar.
- We are not convinced that the amendments will provide helpful guidance in practice. The Board assumes that the impracticability threshold in IAS 8 disregards the benefits to users. We believe that the reasonable effort dimension of the impracticability definition implicitly reflects a trade-off between costs and benefits. Therefore, replacing the impracticability test with a cost-benefit test might not have much impact. Also, the assessment of benefits and costs, as proposed in the ED, appears to be a rather theoretical/conceptual exercise, and we are concerned that it will be difficult to apply in practice. This is particularly true for the assessment of users' benefits. If the Board decides to proceed with the proposed amendments, we believe further guidance (e.g., illustrative examples) on how to balance the cost and benefits is required.

- Although we believe changes resulting from agenda decisions most often are voluntary changes in accounting policies, in some cases, such changes may be the correction of errors. We believe that a lowering of the threshold for changes in accounting policies, and the resultant difference in accounting between voluntary changes in accounting policies and correction of errors, might incentivise entities to treat corrections of errors triggered by agenda decisions as voluntary changes in accounting policies. As an agenda decision provides guidance on the interpretation of existing authoritative literature, rather than adding to the requirements of such literature, it is often unclear whether existing accounting treatments that differ from the guidance in an agenda decision represent errors or not. We note that, in practice, most changes in accounting treatment made as a result of agenda decisions are treated as voluntary changes in accounting policies.

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?

In our view, the challenge in practice is the determination of whether a change in accounting policy that results from an agenda decision is the correction of an error or a voluntary change in accounting policy. If the proposed amendments are finalised, the accounting for voluntary changes in accounting policies will, in some cases, be different from corrections of errors resulting from agenda decisions, which, in turn, will make the challenge of distinguishing between the two more pervasive.

If the Board decides to proceed with the proposed amendments, then we believe it would be helpful to provide further guidance or illustrative examples of how to distinguish between the correction of an error and a voluntary accounting policy change that results from an agenda decision.

We agree with the Board's decision not to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS IC. We have observed that the timing of the implementation of a change resulting from agenda decisions, in some cases, creates uncertainty among preparers because, albeit non-authoritative, entities are generally expected to follow the agenda decision.

We agree that the explanations provided in paragraphs BC18 to BC22 of the Basis for Conclusions may assist entities in determining the appropriate timing of a change in an accounting policy that results from an agenda decision. However, we believe that the Board should consider other ways to address the timing issue, for instance, by introducing an official publishing date (e.g., 3 or 6 months after the IFRS IC concluded the issue), or by issuing an agenda decision providing similar explanations as those included in paragraphs BC18 to BC22 in the ED.