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International Organization of Securities Commissions
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12 July 2018

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

RE: Exposure Draft: Accounting Policy Changes – Proposed amendments to IAS 8 (March 2018)

Our ref: 2018/PK/C1/IASB/59

Dear International Accounting Standards Board Members:

The International Organization of Securities Commissions ("IOSCO") Committee on Issuer Accounting, Auditing and Disclosure ("Committee 1") thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board ("IASB" or the "Board") Exposure Draft: *Accounting Policy Changes– Proposed amendments to IAS 8 (March 2018).*

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

We do not agree with the Board's proposed amendments to establish a new threshold for retrospectively applying voluntary changes in accounting policies that result from IFRS Interpretations Committee ("IC") agenda decisions ("IC Agenda Decisions"). We are generally supportive of the existing guidance that applies to all voluntary changes in accounting policies which requires changes to be applied retrospectively, unless impracticable. We observe that limiting the scope of the proposed amendments to IC Agenda Decisions implies an authoritative level of guidance for IC Agenda Decisions and creates a distinction between the non-authoritative agenda decisions published by the IC over other non-authoritative guidance. Some members further observe that such a distinction for non-authoritative agenda decisions published by the IC may have the unintended consequence of expanding, or appearing to expand, the IC's role. In contrast to the IC's current role of deciding whether standard-setting is

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needed to address a particular issue, the future role of the IC upon issuance of an IC Agenda Decision could be viewed itself as standard setting.

We understand the Board's goal of the proposed amendments is to improve consistency by encouraging application of agenda decision matters. While some members are opposed to extending the proposed retrospective transition relief guidance to all voluntary changes in accounting policy given the potential for loss of comparability, other members believe if the Board decides to amend the standard, a broader reconsideration of the changes in accounting policy guidance as a whole would be appropriate to improve consistency in application of IFRS. If the Board decides to pursue broader changes, we believe it will be necessary for the Board to develop a thoughtful analysis of the benefits and challenges of such changes and publish a new exposure draft for further comment.

Our detailed feedback on certain aspects of the proposal is provided below.

Responses to the Board's Questions

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.

Response:

While we understand the objective that the Board is trying to accomplish with the changes proposed in the exposure draft (i.e., improve consistency in the application of IFRS), we do not agree with the Board's proposed amendments to establish a new threshold for retrospectively applying voluntary changes in accounting policies applicable to changes resulting from IC Agenda Decisions. Committee 1 members are concerned by the introduction of a distinction between voluntary changes in accounting policies resulting from IC Agenda Decisions and other voluntary changes in accounting policies. We observe that to the extent retrospective application hinders an entity from making voluntary changes in accounting policies resulting from IC Agenda Decisions, it likely would also be the case for other voluntary changes.

While we do not agree with the proposed changes by the Board, if the Board decides to move forward with amendments to the standard, additional concerns raised by committee members are discussed below:

Scoping:

Committee 1 members observe that the exposure draft does not clearly specify whether the proposed "lowered threshold" is intended to apply only to situations strictly aligned with the fact pattern described within an IC Agenda Decision or whether the lower threshold could also be applied by analogy to voluntary changes made by an entity resulting from consideration of an IC Agenda Decision. Paragraph 5 states in part (***emphasis added***): "an agenda decision ***may result*** in a voluntary change in accounting policy...." It is unclear if the phrase "may result" could be interpreted broadly and allow an entity to consider accounting conclusions not specifically addressed in an agenda decision but for which an agenda decision on one issue causes the company to reconsider another accounting policy (and look to this language to apply the lower cost / benefit threshold in assessing whether retrospective presentation is necessary). As indicated above, some members believe any change in threshold should be applied to all changes in accounting policy. If the Board retains the proposed amendments only for IC Agenda Decisions, consider clarifying how and when a change would fall within this guidance.

Enforceability of Cost / Benefit Analysis:

Committee 1 members believe the proposed changes will be difficult from an enforcement perspective, given the subjective nature of applying the proposed cost / benefit requirements. Some members are concerned that entities will be biased to achieve a desired result (whether that be full retrospective, or "limited" retrospective as set forth in proposed amended paragraphs 25A and 25B of IAS 8 in the exposure draft).

If the Board were to decide to amend the standard, some members suggest that the IASB include examples to illustrate how to apply the guidance related to assessing the expected benefits for users. These members also believe it will be difficult to determine the earliest period for which the expected benefits to users of applying the change retrospectively exceed the cost to the entity of determining the effects of the change (as in proposed amended paragraph 25A(a) of IAS 8). Other members question whether the cost / benefit analysis could be aligned to existing principles in IFRS. For example, those members reference IFRS 9's notion of undue costs and efforts[1] and the guidance in IFRS 8.29 that the information shall be restated "unless the information is not available and the cost to develop it would be excessive."

Voluntary Change vs Error Correction:

Committee 1 members generally disagree with the Board's decision not to provide additional guidance to help determine whether a change that results from an IC Agenda Decision is the correction of a prior period error, a voluntary change in accounting policy or a change in accounting estimate. In paragraph BC16 of the Basis for Conclusions to the exposure draft, the Board states that "*This process [Agenda decision due process] often provides information that would not otherwise be available and could not otherwise reasonably be expected to have been obtained.*" Members observe that this language appears to imply the Board's leaning that changes resulting from an IC Agenda Decision will typically be treated as a voluntary change in accounting policy. However, given the varying nature of IC Agenda Decisions, it is unclear whether the accounting policy that results from any individual agenda decision is the only accounting policy in accordance with IFRS or if there are other acceptable policy choices. Members believe if the Board were to decide to amend the standard, further guidance would be helpful to conclude whether a change is the correction of an error or a change in an accounting policy. Some members believe this additional guidance would be necessary given the increased relevance of the assessment, as an entity's determination of whether the change is voluntary or the correction of an error may impact the level of retrospective information presented by the entity.

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[1] Paragraph 5.5.9 of IFRS 9 requires an entity to consider reasonable and supportable information that is available without undue cost or effort when determining significant increases in credit risk. Paragraph 5.5.17(c) of IFRS 9 requires an entity to reflect reasonable and supportable information that is available without undue cost or effort when measuring expected credit losses.

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?

Response:

While Committee 1 members do not agree with the overall proposed changes by the Board, if the Board decides to move forward with amendments to the standard, we believe the Board should include a timeframe within which an entity could avail itself of the relief of the proposed lowered threshold. We believe the Board should consider incorporating a required end date for application of the proposed amendments, linked to the date of a respective IC Agenda Decision to establish a limit on when this guidance could be applied (e.g., to be applied no later than the reporting date XX years from the date of the IC Agenda Decision). While we appreciate the Board's view that it is difficult to address the timing of a voluntary change, we would observe that a voluntary change applied significantly after an IC Agenda Decision is reached (e.g., five years) likely does not relate to a change resulting from the IC Agenda Decision, but rather is an elective change subsequently considered by management and subject to paragraph 14 of IAS 8.

We note that establishing a required timeframe for application of the proposed amendments would not preclude an entity from electing a change in accounting policy in accordance with paragraph 14 of IAS 8, only limit the application of the new threshold for retrospectively applying voluntary changes in accounting policies that result from IC Agenda Decisions.

Other Observations:
Some Committee 1 members have further expressed concern that the exposure draft may incorrectly be interpreted to elevate the status of IC Agenda Decisions. These members are concerned, given the varying nature of IC Agenda Decisions, that the exposure draft may imply 1) that to the extent the decision is relevant for the entity, an IC Agenda Decision should result in a change in accounting policy rather than the correction of an error and 2) that to the extent the IC Agenda Decision discusses more than one acceptable alternative, an accounting policy consistent with an IC Agenda Decision would be viewed as preferable to an alternative accounting policy (rather than simply an acceptable alternative). While members do not agree with these inferences in all instances, they are concerned with how the exposure draft will be interpreted in practice.

We appreciate your thoughtful consideration of the responses provided in this letter. If you have any questions or need additional information, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300. In case of any written communication, please mark a copy to me.

Sincerely,

Parmod Kumar Nagpal
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions