Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

67. Sitzung IFRS-FA am 04.06.2018
67_02a_IFRS-FA_ED-2018-1_SN

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Mr Hans Hoogervorst
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Berlin, 24. Mai 2018

Dear Hans,

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

Generally, we disagree with the ED proposal for the following reasons that are explained in more detail in the appendix to this letter in response to the ED questions:

- a perceived lack of evidence that the proposed amendments are necessary;
- different thresholds would create an arbitrary distinction between subsets of voluntary changes in accounting policy;
- the proposals would increase the complexity of IFRS guidance through introducing a new subset of voluntary changes in accounting policy;
- unclear IFRS guidance that results in inconsistent application and inappropriate accounting should be addressed as part of the standard setting process and should not be fixed through facilitating voluntary changes in accounting policies; and
- agenda decisions and explanatory material published by the IFRS Interpretations Committee are not subject to the EU endorsement process.

As an alternative to the ED proposals, we think that it could be carefully considered whether it is necessary to amend the threshold regarding the relief from retrospective applications for <u>all</u> voluntary changes in accounting policy to a lower cost-benefit basis as suggested in the ED. So far, we have not observed a clear and urgent need in our jurisdiction to lower the existing threshold of impracticability in IAS 8 for voluntary changes in accounting policy.

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

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Appendix – Answers to the questions of the exposure draft

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 disagree with the proposed amendments for the reasons as described below:

Perceived lack of evidence

Generally, we question whether there is a clear and urgent need to amend the threshold regarding the retrospective application to facilitate more voluntary changes in accounting policy that result from IFRS Interpretations Committee agenda decisions. The ED highlights, that the current high threshold of impracticability might dissuade a preparer of IFRS financial statements from adopting an accounting policy that would improve the usefulness of information provided to users of its financial statements. However, in our view, the ED does not provide any evidence that would support such a strong need for amending threshold guidance in IAS 8. So far, we have not been made aware by constituents in our jurisdiction, including national enforcement bodies, of any urgent need for the proposed changes in the ED.

Nonetheless, we would like to reemphasise that we consider a clear need for clarification regarding the distinction between a change in accounting policy vs. a change in accounting estimate that is currently addressed by the IASB in another project.

Different thresholds for relief from retrospective application

We disagree with the IASB's justification for proposing different thresholds regarding retrospective application of voluntary changes in accounting policy. We think that the arguments listed in BC8 of the ED to justify a different threshold for changes of accounting policy can also be used for any other sources of non-authoritative guidance, i.e. those arguments are not limited to non-authoritative guidance published by the IFRS Interpretations Committee (i.e. agenda decisions/rejections).

Similarly, in BC3a of the ED it is highlighted that – due to the existing high threshold of impracticability in IAS 8 – the expected benefits to users of financial statements from applying a voluntary change in accounting policy retrospectively may not outweigh the cost to the entity of determining the effects of the change, even though the change might result in financial statements providing more useful information overall. Therefore, preparers would not change an accounting policy on a voluntary basis in those scenarios. In our view, this argument must be applied to all voluntary changes in accounting policies and is conceptually not limited to voluntary changes in accounting policies to reflect agenda decisions and explanatory material published by the IFRS Interpretations Committee.

Furthermore, we have the same concerns as already expressed by some IASB members (see BC7b of the ED) during the due process preceding the publication of the ED that:

(i) different thresholds install an unjustified and arbitrary distinction between voluntary changes based on agenda decisions and other voluntary changes in accounting policy, and

(ii) agenda decisions and corresponding explanatory material would be viewed and treated as having authoritative status, regardless of whether it is formally declared as non-authoritative guidance.

It is for the reasons listed above that we think that the guidance in IAS 8 should continue to require a common threshold for all voluntary changes in accounting policy.

Improving unclear authoritative IFRS guidance instead of adding non-authoritative literature

We think the IASB should not be guided by the view that inconsistent application resulting from unclear authoritative IFRS guidance can be fixed through publishing additional non-authoritative guidance, including agenda decisions published by the IFRS Interpretations Committee. If the IFRS Interpretations Committee observes in its work that IFRS guidance lead to inconsistent application or inappropriate accounting, the IASB should fix this unclear guidance through proper standard-setting procedure and transitional guidance. In other words: In our view, the IASB should not facilitate voluntary changes in accounting policy as described in the background to ED but instead facilitate more robust and clear authoritative IFRS guidance.

Increasing complexity of IFRS guidance

In our view, the proposals would result in an undesirable increase of complexity of IFRS guidance by introducing a new subcategory of voluntary changes in accounting policy that could easily result in new debates and clarification requests. For example, we would already foresee a regularly arising of questions as to whether or not a voluntary change in accounting policy could be linked to a specific agenda decision, if the fact pattern underlying an agenda decision was just slightly modified. Similarly, it could be questioned whether a preparer could refer to an agenda decision and explanatory material that was published a long time ago.

Additionally, the ED proposals could be seen as representing a convenient way to circumvent discussion whether a previous application of IFRS reflects an accounting error or is considered a voluntary change in accounting policy that does not require retrospective application. But this could also open new debates among constituents with additional clarification requests and guidance to what extent a change must be considered as a correction of prior period error instead of a voluntary change in accounting policy.

No endorsement of agenda decisions in the EU

Agenda decisions published by the IFRS Interpretations Committee with corresponding explanatory material are not considered mandatory literature; hence, they are not subject to the EU endorsement process. Even if some expected preparers of financial statements to reflect explanatory material and agenda decisions in their financial statements, it should not be assumed that such unendorsed material would be generally available and closely followed and considered by IFRS preparers.

Alternative solution: A lower retrospective application threshold for all voluntary changes in accounting policies

As stated in the ED, IAS 8 sets a high threshold of impracticability for not applying a change in accounting policy retrospectively. We understand the reasons to set such a high threshold, e.g. ensuring comparability, including the consistency, of financial information. On the contrary, we agree with the line of argument used in the ED that such a high threshold of impracticability could generally dissuade preparers of financial statements from a voluntary change in accounting policy that would overall improve the usefulness of information provided to users of its financial statements. Therefore, a general trade-off exists.

We think usefulness of information should be of paramount importance. This is also stated in the Conceptual Framework that usefulness, i.e. relevance and faithful representation of information, represents the fundamental qualitative characteristics of financial information. Comparability is considered to enhance the usefulness of financial information and should, as stated in the Conceptual Framework, only be maximised to the extent possible. Therefore, we think it would be justified to lower the threshold for retrospective application, if this would improve overall the usefulness of information at the expense of comparability of financial information.

However, in our view, it would not be justified to limit this lower threshold argument only to some voluntary changes in accounting policy; rather, it should be applied to all voluntary changes in accounting policy that overall improve the usefulness of information.

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?

Since we disagree with the ED proposals for introducing different thresholds for some voluntary changes in accounting policy, we do not have strong views regarding the timing for applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee.

Nonetheless, we note that it seems odd having a discussion about the effective date of agenda decisions and corresponding explanatory materials that are formally described as non-authoritative guidance. Similarly, it appears strange to discuss time limits for the application of changes in accounting policy that are labelled as 'voluntary' changes by preparers. In our view, it seems only logical that, as is proposed in the ED, a preparer of IFRS financial statements could only apply the lower threshold after the publication of an agenda decision but would not be limited in its application to a specific annual reporting period.

Additionally, it is not entirely clear from the ED proposals whether the timing of publication of agenda decisions and explanatory material in relation to the end of the entity's reporting period should have an impact in determining the cost for retrospective application of voluntary changes in accounting policy.