

27 July 2018

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

Dear Mr Hoogervorst

## **Exposure draft 2018/1 – Accounting Policy Changes (proposed amendments to IAS 8)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft *Accounting Policy Changes (Proposed amendments to IAS 8)* ('the exposure draft').

We appreciate the IASB's initiative in addressing an issue which causes issues in practice, particularly when an agenda decision is published shortly before financial statements are finalised and/or affects the accounting for historic transactions (for example, past business combinations) which continue to affect financial statements for a number of years.

However, we do not support the proposals in the exposure draft as they do not address the root cause of these issues, being the tension between the status of agenda decisions per the IFRS Foundation's Due Process Handbook ("helpful, informative and persuasive") and their status in practice (with most securities regulators taking a position, whether publically or otherwise, that an accounting policy which conflicts with an agenda decision is, de facto, no longer acceptable). Indeed, by including multiple references to agenda decisions being 'non-authoritative' and changes in policy arising from them being 'voluntary' the proposed amendments to IAS 8 could exacerbate tensions already arising in practice. Agenda decisions fulfil, in practice, a similar and necessary function to Implementation Guidance appended to an IFRS, that of establishing an appropriate accounting treatment to be applied consistently in areas where IFRSs themselves are not explicit. If application of that treatment were treated as truly 'voluntary', the important aim of consistency in application would not be met.

We also question how frequently the proposed amendments would be of use in practice (given the potentially onerous requirement of performing a cost benefit analysis on the collection of data to calculate the retrospective effect of a change and then disclosing that analysis) and whether they could be applied consistently (given the inherently subjective nature of that analysis in the absence of direct evidence from users of the value they would place on retrospective information compared to the cost of obtaining that information).

We believe the status of agenda decisions and the practical issues of their application will continue to be problematic until this fundamental conflict is resolved and, as such, recommend that the IFRS Foundation amend the Due Process Handbook, the definition of 'IFRSs' in paragraph 5 of IAS 8 and the process required for the finalisation of an agenda decision to grant them the authoritative status they already enjoy in

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practice. The provision of explanatory guidance in a timely manner via agenda decisions is an important and necessary part of the Interpretations Committee's role, being the IFRS Foundation's primary means of responding to emerging issues on a timely basis. We would not seek to restrict this responsiveness and do not believe that this would need to be sacrificed as no fundamental change in the Committee's operations should be necessary. In terms of additional process, only ratification of an agenda decision at a meeting of the IASB may be required.

Such a process would also enable the practical difficulty of agenda decision being viewed as immediately effective to be alleviated through application of an effective date (possibly standardised as financial years beginning after IASB ratification) and appropriate transitional provisions (assumed to be fully retrospective unless there is a compelling reason to require or permit a prospective approach).

This more holistic approach to the issue, possibly accompanied by a change in terminology to reflect the fact that many 'agenda decisions' are, in reality, primarily interpretative material (a term such as 'Confirmatory Interpretation', 'Technical Guide' or 'IFRS Interpretations Committee Consensus' would more accurately reflect the nature of such guidance) will enhance the value of the IFRS Interpretations Committee's work to both users and preparers of financial statements whilst relieving the administrative burden and debate which can arise from their current, somewhat indeterminate, status.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



**Veronica Poole**  
Global IFRS Leader

## 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 as they are overcomplicated and there is no conceptual basis for treating a 'voluntary' change in accounting policy differently depending on the reason for that change. We are also concerned by the introduction of the concept of 'undue cost or effort' into IFRS Standards by means of a limited scope amendment without thorough consideration of its conceptual merits and drawbacks. Whilst the Conceptual Framework for Financial Reporting (as published in March 2018) recognises the cost constraint on financial reporting, this is (as described in paragraph 2.42) an issue to be assessed by the Board in developing a proposed Standard. Extending this test to preparers (as well as auditors and regulators) would be problematic practically (the judgement to be made would, in the absence of direct evidence from users of the value they would place on retrospective information compared to the cost of obtaining that information, be inherently subjective and hence likely to result in different conclusions by different parties) and conceptually flawed (if the requirements of a Standard have been deemed appropriate for retrospective application by the Board, it is unclear how a confirmation of those requirements by the IFRS Interpretations Committee could fail to meet that threshold). In addition, the process to make use of the relief (a cost benefit analysis of determining the retrospective effect of a change in policy together with disclosure of that analysis) is itself relatively onerous and, as such, we question how frequently the proposed amendments would be of use in practice.

The references in, for example, the proposed amendments to paragraphs 5 to 'voluntary' changes in accounting policy resulting from agenda decisions and the statement in the background to the exposure draft that "an agenda decision is non-authoritative and, therefore, any resulting change in accounting policy is not required by IFRS Standards" are troubling as agenda decisions are expected to establish an appropriate and consistently applied accounting treatment under existing IFRS Standards. For this to be the case, a contrary policy does need to be changed.

We believe that the issues arising on the application of agenda decisions in practice cannot be resolved without addressing the fundamental tension between the status of agenda decisions per the IFRS Foundation's Due Process Handbook ("helpful, informative and persuasive") and their status in practice (with most securities regulators taking a position, whether publically or otherwise, that an accounting policy which conflicts with an agenda decision is, de facto, no longer acceptable). As such, we recommend that the IFRS Foundation amend the Due Process Handbook and the process required for the finalisation of an agenda decision to grant agenda decisions the authoritative status they already enjoy in practice.

The provision of explanatory guidance via agenda decisions is an important and necessary part of the Interpretations Committee's role, being the IFRS Foundation's primary means of responding to emerging issues on a timely basis. We would not seek to restrict this responsiveness and do not believe this would be necessary as, in terms of additional process, this may require only ratification of an agenda decision at a meeting of the IASB. Such a process would also enable the practical difficulty of agenda decision being viewed as immediately effective to be alleviated through application of an effective date (possibly standardised as financial years beginning after IASB ratification) and appropriate transitional provisions (assumed to be fully retrospective unless there is a compelling reason to require or permit a prospective approach).

## 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?*

Although we agree that sufficient time is needed to implement a significant change in accounting policy, we are concerned that the proposed material in paragraphs BC18–BC22 of the exposure draft will have little effect in practice as it is unclear what parameters are drawn for a ‘reasonable’ time to apply a new policy and a discussion only in the basis for conclusions of IAS 8 would have limited authority.

As with the application (retrospective or prospective) of a change in accounting policy arising from an agenda decision, the timing of such a change is an issue that cannot be effectively addressed until the status of agenda decisions is resolved. As discussed in our response to Question 1 above, we recommend that the IFRS Foundation’s Due Process Handbook and the definition of ‘IFRSs’ in paragraph 5 of IAS 8 be amended to afford agenda decisions by the IFRS Interpretations Committee the same status as other Standards and Interpretations issued by the IASB and that the due process to implement this include identification of an appropriate effective date.

In the immediate term, a re-iteration by the IFRS Interpretations Committee itself (by means of a statement in the IFRIC Update) of the current requirements of IAS 8 in respect of changes in accounting policy, together with a recognition that a suitable period of time is needed to implement a new policy, would be likely to be at least as effective as a statement in the basis for conclusions of a Standard.