



**KPMG IFRG Limited**  
15 Canada Square  
London E14 5GL  
United Kingdom

Tel +44 (0) 20 7694 8871  
reinhard.dotzlaw@kpmgifrg.com

Mr Hans Hoogervorst  
International Accounting Standards Board  
1st Floor  
30 Cannon Street  
London  
EC4M 6XH

Our ref RD/288

13 July 2018

Dear Mr Hoogervorst

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

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Accounting Policy Changes - Proposed amendments to IAS 8* (ED). We have consulted with, and this letter represents the views of, the KPMG network.

We commend the Board for trying to address the practical issue of implementing agenda decisions published by the IFRS Interpretations Committee (referred therein as "agenda decisions").

Although technically not authoritative, many view agenda decisions as in-substance mandatory. Coupled with the fact that agenda decisions do not (and cannot) have an effective date or transition provisions, they are often expected to be applied (a) immediately; and are applied (b) retrospectively.

We consider the fundamental issue in practice to be the issue of timing - i.e. entities may have very limited time to implement / apply a change in accounting policy following publication of the final agenda decision if the publication date is close to the entity's reporting date. This is even more challenging for entities that report on an interim basis and are subject to quarterly reporting requirements. However, the proposed amendments seem to focus primarily on the latter issue – i.e. the issue of retrospectively applying agenda decisions – while only indirectly addressing the more fundamental issue of applying the decisions within a short period of time.

We agree with the Board that the issue of time cannot be easily solved through standard-setting (as acknowledged in paragraph BC19 of the ED). In fact, we are of the view that the issues in question are not related to the existing requirements of IAS 8 but rather a concern with the authority and process of issuing agenda decisions. We are also concerned that the proposed amendments may result in significant unintended consequences – in particular the status of agenda decisions might be diminished if

described as a voluntary change in accounting policy. We also question the introduction of cost-benefit considerations in the standard as it effectively transfers powers that currently lie with the Board to the preparer, and may be challenging to operationalise and to audit. These concerns are described in detail in our response to Question 1.

**In light of the above, we are not supportive of the approach taken by the Board to address the issue.**

Moreover, if the Board decides to pursue amendments to IAS 8 to address the issue, then in our view those amendments should also address the lack of clarity that may arise in distinguishing between changes in accounting policy and errors. Making this judgement may be especially difficult when considering agenda decisions. We disagree with the Board's conclusion (as described in paragraph BC17 of the ED) that the requirements of IAS 8 provide an adequate basis for making such judgements, especially in light of the Board's current project<sup>1</sup> to provide greater clarity in distinguishing between changes in accounting policy and estimates (i.e. amendments are proposed to the current definition of accounting policies).

*Proposed way forward*

As we consider this issue to be a process issue, it might be most effectively addressed by changing the process of publishing agenda decisions - i.e. allowing more time for entities to recognise the decision or otherwise solving the problem through the Due Process Handbook.

For example, the Board could include the expectations described in paragraph BC22 of the ED regarding the timing of implementing agenda decisions as part of the Due Process Handbook. Alternatively, the Board may wish to further consider whether any such expectations could be formally introduced into IAS 8 itself.

The Appendix to this letter contains our detailed responses to the questions on the proposals.

Please contact Reinhard Dotzlaw or Gabriela Kegalj at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

---

<sup>1</sup> ED/2017/5, *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8)

## Appendix

This appendix contains our detailed responses to the proposals.

<b>Question 1</b>
<p>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.</p> <p>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.</p>

We disagree with the proposal to introduce a new threshold for voluntary changes in accounting policy that result from agenda decisions.

### *Distinguishing agenda decisions from other voluntary changes in accounting policies*

In our view, any attempt to fix the issue through amendments to IAS 8 risks either:

- (1) providing some authoritative status to agenda decisions by explicitly distinguishing them from other voluntary changes in accounting policy (thereby, discriminating against other voluntary changes in accounting policy that, by definition, are intended to provide reliable and more relevant information to users); or, to the contrary
- (2) diminishing the status of agenda decisions as a helpful source of guidance by explicitly including them with the guidance for voluntary changes in accounting policy.

This could be construed as contradicting their in-substance mandatory status among preparers, auditors and many regulators and has the potential to result in entities downplaying the role of agenda decisions in the application of IFRS and not applying them or delaying their application due to explicit labelling as “voluntary” in the standard; as a consequence, risking diversity in practice.

Furthermore, in paragraph BC8 of the ED the Board notes that one of the reasons for introducing the threshold only to accounting policy changes that result from agenda decisions is the process to which agenda decisions are subject (i.e. being open for comments before they are finalised). However, other voluntary changes in accounting policies may also be subject to rigorous processes.

For example, according to paragraph 12 of IAS 8, an entity may consider pronouncements of other standard-setting bodies (e.g. US FASB) with a similar conceptual framework to develop its accounting policy. If an entity subsequently changes its accounting policy due to a change in the underlying pronouncements, that may be considered a voluntary change in accounting policy. However, the entity would not benefit from the cost-benefit relief although the change was driven by a full standard-setting process which may be more rigorous than the process for agenda decisions.

#### *Cost-benefit considerations*

We believe that the introduction of the cost-benefit considerations in the standard is not helpful because:

- (1) It effectively transfers powers to preparers that currently lie with the Board when determining transition requirements of new standards and may be viewed as in conflict with the Conceptual Framework for Financial Reporting<sup>2</sup>.

Instead of the Board making a collective assessment of how entities should apply a new requirement (as it is usually best positioned to make such assessment), this decision is now given to each and every preparer according to its own circumstances and judgements. This has the potential to significantly hinder comparability given the variations in judgments that will be made by different entities. This seems to be contrary to one of the Board's objectives in introducing the cost-benefit threshold only to changes resulting from agenda decisions – which is reducing the loss of comparability (see BC8(a) of the ED);

- (2) We are concerned that the cost-benefit test could not be easily operationalised. It poses new difficult judgement calls for preparers and auditors, thereby adding unnecessary complexity to financial reporting.

Specifically, we question whether benefit considerations are, in fact, different from materiality considerations, as we find that many of the attributes of “benefits” resemble those of “materiality” (e.g. nature, magnitude).

We also note that while the concept of “undue cost or effort” exists in some IFRSs, the cost/benefit test does not exist in extant standards. We believe that introducing this new test into IFRSs just for the sake of deciding whether to retrospectively apply agenda decisions may be unnecessary.

---

<sup>2</sup> This is recognised in paragraphs 2.42-2.43 of the new Conceptual Framework for Financial Reporting and paragraph 37 of Practice Statement 2 *Making Materiality Judgements*.

**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?

We agree that the explanation provided in paragraphs BC18-BC22 is helpful in addressing the timing issue of implementing agenda decisions but we note that BC guidance is not authoritative. As noted in the introduction to this letter, we consider the timing issue to be the fundamental issue in practice.

As explained above, we consider that the issue relates to the authority and process of issuing agenda decisions. Consequently we would prefer that the Board’s expectations conveyed in BC20-BC22 to allow entities sufficient time to prepare for changes in accounting policies resulting from agenda decisions are reflected in the Due Process Handbook. However, we recognise that this solution may require time.

Alternatively, the Board may evaluate if the solution considered in paragraph BC20 - i.e. to require the application of voluntary changes in accounting policy that result from agenda decisions no later than the beginning of the next annual reporting period - could be introduced as an amendment to IAS 8. Should such an amendment be introduced via the standard itself, we would support also a requirement for disclosures in the financial statements similar to those contained in IAS 8.30-31. This would enable entities to alert users of their financial statements to the expected impact of any upcoming change in accounting policies resulting from published agenda decisions before the application of those changes.