AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

25 July 2018

Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on *Exposure Draft ED/2018/1 Accounting Policy Changes*.

Principal authors of this comment letter were Max Eibensteiner, Erich Kandler, Christian Höllerschmid and Roland Nessmann. In order to assure a balanced Austrian view, the professional background of these authors is diverse.

GENERAL REMARKS

We welcome the Board's initiative to provide relief from the quite restrictive impracticability threshold associated with the (retrospective) application of voluntarily changed accounting policies. We think that a less cumbersome process for preparers, while keeping in mind the benefits to user on a reasonable level, has the potential to improve the usefulness of financial reporting.

However, we have identified several areas in the ED which - from our point of view - will need further discussion and most probably adjustments in order to achieve the objective envisaged by the Board. Please find our detailed comments below.

SPECIFIC REMARKS

<u>Question 1</u>

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.

Principally, we support the Board's proposal to lower the threshold for voluntary changes in accounting policies. However, we doubt whether it is appropriate to limit the application of the proposed threshold to changes triggered by the IFRIC's agenda decisions as it gives the agenda decisions an authoritative status which they – according to the Board's own opinion – should not have. Alternative and additional triggers for voluntary changes of an accounting policy could be the outcome of academic discussions, of findings by auditors or of statements made by (competent) enforcement authorities in the course of their work. All these sources would have less authority than the IFRIC's agenda decisions although the potential outcome – the improvement of the usefulness of the information provided by the entity – will probably be of similar or higher relevance to users. We are of the opinion that the consequences of the change and not the process through which the change has been caused should justify a change in accounting policy.

Although we understand the Board's concern that too many voluntary changes might result in a loss of comparative information for the user, we believe that reasonable preparers of IFRS financial statements - in their own best interest - will not change their basic approaches to accounting light-heartedly. Moreover, a material loss of information resulting from the change of accounting policies usually relates to frequent changes in one area of accounting (e.g. valuation of property, plant and equipment, changes between valuation at fair value and historical costs, changes in the composition of operating segments...). In any case, it would be very hard to prove that a change improves the usefulness of information (and this is the sole justification for a voluntary change of an accounting policy). Moreover, our suggested approach would still make it difficult for preparers to engage in any form of earnings management through voluntary restatements as the requirements to apply changes retrospectively continue to be substantial.

As far as the proposed threshold (benefits to users versus cost for the preparer) for the relief from full retrospective application is concerned, we agree with the Board's point of view that stringent requirements have to be met before the application of the strong "impracticability" approach that forms the basis of IAS 8 can be envoked. However, we want to draw the Board's attention to some issues accompanying the arguments set out in the ED, especially in the paragraphs A8 b), d) and e), which are critical from our point of view. All three paragraphs deal with factors, which the preparer should consider when assessing the potential benefits to the user arising from the retrospective application .

- A8 b) refers to the magnitude of the effect triggered by a change of an accounting policy; the more significant the effect is, the greater the deemed likelihood that users might benefit from retrospective application. This would mean that the preparer will have to bear the costs for assessing the magnitude before being able to judge whether the magnitude will be significant. This in turn would lead to the fact that at first the costs will have to be born before the "additional costs" (and only these can be compared with the benefits users) are assessed. From our point of view this results in an unnecessary burden to preparers, because costs might be incurred which at the end might turn out to be unnecessary.

- A similar argument holds true for trend information outlined in A8 d). In order to be able to simulate whether full retrospective application might provide better and more stable trend information, the cost for this assessment has to be born before the judgement can be made. Moreover, there is no unique trend information that is common to all users as, depending on their primary focus, the centre of attention might differ.

- The extent of departure from retrospective application in A8 e) automatically gives a significantly higher weight to the users' benefits. If more periods are adjusted retrospectively, the burden for the reporting entity will be "more expensive", i.e. the expected additional costs must be higher for each of the prior periods not being adjusted.

In addition to the specific arguments outlined above, we see a more fundamental problem. Benefits to users cannot easily be expressed in figures (i.e. usually, they are not directly measurable in financial terms) as the broad spectrum of user needs is hardly expressible in one single figure that - in turn - can be compared with the preparers' cost. In contrast to that, the costs for the entity are (almost directly) measurable as e.g. consulting costs (when implementation guidance is acquired externally) or additional internal costs (hourly wages multiplied by the additional time spent). Even if the Board's guidance outlined in paragraphs A6-A10 is followed, this basic problem of a missing common measurement basis remains.

In addition to the topics addressed above, we propose that the following issues should be added to the ED:

- The Board should make clear that cross-references between agenda decisions are not new agenda decisions that could trigger a voluntary change of an accounting policy. This means that a current agenda decision that refers to one, which was maybe taken a couple of years ago, is not a new agenda decision. Accordingly, an entity should have made the change at that time.

- The agenda decision (or any other trigger mentioned above) by which the voluntary change has been initiated should be disclosed. Besides the fact that this provides the starting point for the adjustment it also shows whether a potential "first-time-application date" (see our answers to question 2 below) has been properly met.

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 order to avoid too long time-lags between an agenda decision and its impact on a voluntary change of an accounting policy, a uniform approach should be found. It could be feasible to give all entities a standard implementation period of 12 months after the publication of an agenda decision. Alternatively "implemented in financial years beginning not later than twelve months after the publication of the agenda decision" could be used.

Twelve months should be sufficient in any case. If an agenda decision is triggering changes with a considerably longer implementation period, this should have been recognized by IFRIC when collecting information for its decision and, accordingly, should have either caused an interpretation or even a call to the Board to amend the IFRS(s) affected by the matter under consideration. Both, an interpretation and a call to the Board, would have longer implementation timelines, depending on the complexity of the issue concerned.

Kind regards

Romuald Bertl
Chairman