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Mr Hans Hoogervorst
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RSM Submission on ED/2018/01 – Accounting policy changes: Proposed amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Dear Mr S Hoogervorst,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2018/01 – Accounting policy changes: Proposed amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Error ('the ED').

Responses to Request for Specific Comment

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 believe that the proposed amendments represent an improvement and would encourage the IASB to complete the project. We are, however, concerned that the amendments are too theoretical in nature and may be difficult to apply in practice. The proposed wording used in the exposure draft does not identify specific steps which are required to be followed in performing the cost-benefit analysis. Given the non-specific nature of the wording proposed in the exposure draft this assessment would be subjective and open to challenge. It is unclear whether entities are expected to quantify the expected costs and benefits and prepare a formal report which contains this information and the conclusions reached. It is likely that auditors and regulators would set a high bar for preparers to demonstrate that the expected costs of the entity would exceed the expected benefits to users. In the absence of quantified information, it may be difficult for auditors to obtain sufficient and appropriate audit evidence to determine whether IAS 8 has been complied with which would likely result in stringent requirements from auditors. On the other hand, preparers may find it difficult to quantify the additional costs to obtain the required information. Even more difficult may be the ability of the preparers to assess the expected benefits to users. Financial statements which are available to the general public may be used for a variety of purposes, some of which management may not be aware. As such, management would be unable to assess the expected benefits to users.

Therefore, we do not expect this amendment to be widely used by listed entities or other public interest entities. Although it may be easier to perform the cost-benefit analysis for private companies, it may be argued that the users in this environment do not utilise financial statements for purposes of decision-making, rather, the financial statements are prepared to comply with legislative requirements. In these instances, entities may be reluctant to disclose this as the reason for the determination that the expected costs to the entity would exceed the expected benefits to the users as this may be embarrassing.

Another matter which we believe requires clarity is the determination as to whether the application of an agenda decision would result in a prior period error or change in policy. In most instances the IFRIC concludes that a standard does not require amendment as the requirements of the standard are clear. This suggests that entities should consider whether they have previously misapplied the standard, thus representing a prior period error, prior to assessing whether they wish to change their accounting policy.

We would therefore suggest that reference to a cost-benefit analysis within the standard is replaced with wording to the effect that retrospective restatement is not required where, in the opinion of those charged with governance, the benefits of restatement are not greater than the costs to the entity.

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 believe that the proposed guidance is subjective and will require the application of judgement which may be open to challenge. We recommend the inclusion of more specific requirements. We agree that it would not be reasonable to expect preparers to apply the change immediately upon publication of the agenda decision, however, a time-limit should be imposed within which preparers should make the change for the change to fall within the scope of a voluntary change in accounting policy as a result of an agenda decision. As an alternative, the variation outlined in paragraph B20 of the standard, that the accounting policy be applied not later than the beginning of the next annual reporting period after publication of the decision, may be a suitable suggestion.

We would be pleased to discuss our comments further with members of the Board or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsm.global).

Yours sincerely

Robert Dohrer

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