

July 26, 2018

Submitted electronically via [www.ifrs.org](http://www.ifrs.org)

International Accounting Standards Board  
30 Cannon Street, 1<sup>st</sup> Floor  
London EC4M 6XH  
United Kingdom

Dear Sirs:

**Re: Accounting Policy Changes (ED/2018/1)**

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Accounting Policy Changes (Proposed amendments to IAS 8)", issued in March 2018.

**Our process**

As part of our due process for these proposals, we consulted with our [IFRS<sup>®</sup> Discussion Group](#) and took into account the results of this discussion when developing this letter.

**Our views**

We support the inclusion of explanatory material in agenda decisions published by the IFRS<sup>®</sup> Interpretations Committee (agenda decisions) and agree that agenda decisions can help facilitate greater consistency in the application of IFRS<sup>®</sup> Standards. However, we disagree with the proposals in the Exposure Draft to lower the impracticability threshold for retrospective application of voluntary changes in accounting policy resulting from an agenda decision. If the objective is to make it easier for preparers to make such changes, we think it makes more sense to change the process around agenda decisions than to amend IAS 8, which appears to be meeting its objectives as written.

It is not clear why IAS 8 should distinguish between accounting policy changes that result from agenda decisions and other voluntary changes in accounting policies in terms of the impracticability threshold applied. Further, we think the proposals essentially elevate the authority of agenda decisions (by

amending IAS 8), without the extent of due process we would expect for such an outcome. Lastly, although accounting policy changes resulting from agenda decisions are voluntary in the sense that they are not required by IFRS Standards, we observe that in practice this is not the case. In many jurisdictions, including Canada, securities regulators expect entities to apply accounting policies in line with explanatory material in agenda decisions. We think that in such jurisdictions, the proposals could exacerbate the very issues they are intended to address (including the timing issue the Basis for Conclusions on the Exposure Draft speaks to) and lead to unintended consequences.

### **Our responses to your questions**

The [Appendix](#) to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email [rvillmann@acsbcanada.ca](mailto:rvillmann@acsbcanada.ca)) or Lucia Lee, Principal, Accounting Standards (+1 416 204-3343 or email [llee@acsbcanada.ca](mailto:llee@acsbcanada.ca)).

Yours truly,



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### **About the Canadian Accounting Standards Board**

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

### **Our standards**

We have adopted IFRS<sup>®</sup> Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

**Our role vis-à-vis IFRS Standards**

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

## 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.

1. We do not agree with the proposal 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.
2. It is not clear why accounting policy changes that result from agenda decisions should have a different impracticability threshold than other voluntary changes in accounting policy. We do not find the rationale provided in paragraph BC8 of the Basis for Conclusions on the Exposure Draft to be persuasive in this regard. Limiting the application of the proposed threshold to this subset of voluntary accounting policy changes in order to contain any resulting loss of comparability between entities and loss of information for financial statement users seems more like an attempt at mitigating the potential undesirable effects of the proposals than a theoretical justification. Moreover, we are unable to comment on whether this narrower scope would have the mitigating effect described without data on the frequency with which entities make voluntary changes in accounting policy other than changes that result from an agenda decision.
3. Further, we disagree with the statement in paragraph BC8(c) that the narrower scope would not change the non-authoritative status of agenda decisions. In our view, the proposals essentially elevate the authority of agenda decisions by amending IAS 8, with a lower degree of due process than we would expect for such an outcome.
4. We understand why the Exposure Draft characterizes accounting policy changes that result from agenda decisions as voluntary changes, in that such changes are not required by IFRS Standards. However, we observe that these changes are often not treated as voluntary in practice. In many jurisdictions, including Canada, there is an expectation, including on the part of securities regulators, that an entity will make a change in accounting policy to reflect explanatory material in

agenda decisions. We think that in these jurisdictions, the proposals could put more pressure on entities to make the accounting policy change more quickly. Such an outcome is of particular concern for Canada, where reporting issuers are required to file financial statements on a quarterly basis.

5. As described in BC17 of the Basis for Conclusions on the Exposure Draft, assessing the nature of a change that results from an agenda decision can require judgment, in terms of whether the change is a correction of a prior period error, a voluntary change in accounting policy or a change in accounting estimate. We think that a potential unintended consequence of the proposals is that they could put greater pressure on the determination of whether a change is a correction of an error or a voluntary change.
6. We think the proposed amendments also introduce the risk of an entity applying the lower impracticability threshold by analogy to a fact pattern that deviates slightly from the one in the agenda decision.
7. We think that the proposals could also give rise to practical challenges, given the subjective nature of the underlying cost-benefit approach. For example, it may be challenging to demonstrate that expected costs exceed expected benefits, and to audit the impracticability threshold.
8. We strongly encourage the IASB to consider another mechanism to achieve its objectives for this project — one that does not involve amendments to IAS 8, which appears to be meeting its objectives as written. Such a mechanism could involve a change in the process (including the timing) for finalizing agenda decisions, or the way in which agenda decisions are communicated.

**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?

9. As noted in our response to Question 1, we disagree with making changes to IAS 8 to address issues we think are better dealt with via a process-related mechanism.
10. However, should the IASB decide to finalize the proposed amendments in the Exposure Draft, we recommend that information of the type contained in paragraphs BC18-BC22 be included elsewhere than in the Basis for Conclusions accompanying the final amendments. We agree that the timing of applying a change in accounting policy that results from an agenda decision is a core issue. To the extent the IASB thinks it can assist stakeholders with this issue, we think this assistance is best provided outside the Basis for Conclusions, which is intended to summarize the IASB’s considerations in reaching its standard-setting conclusions and may not be top of mind for stakeholders when applying such changes in accounting policy. We think the application guidance in Appendix A to the Exposure Draft is better suited for this purpose.