

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <https://www.asb.or.jp/en/>



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Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comments on the Exposure Draft *Accounting Policy Changes* **(Proposed amendments to IAS 8)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8) (the “ED”), issued in March 2018.
2. We support the IASB’s initiative to identify and resolve the issues related to changes in accounting policies that result from agenda decisions, such as the concern that the entity may bear significant costs to retrospectively apply the changes in accounting policies that result from agenda decisions and the issue regarding the timing of applying the changes in accounting policies that result from agenda decisions.
3. However, we believe that the fundamental cause of these problems related to changes in accounting policies that result from agenda decisions is the ambiguous status of agenda decisions, where they do not provide mandatory requirements, they are nevertheless considered to be useful, informative and persuasive. Accordingly, in order to fundamentally resolve this issue, we think the IASB needs to revisit the status of agenda decisions.
4. We think that there are two possible approaches to revisit the status of agenda decisions, that is, (a) to make agenda decisions authoritative and to include guidance on transition and effective dates, just like IFRS Standards, or (b) to continue to treat agenda decisions as non-authoritative but to clarify that whether an entity chooses to

apply the guidance provided in agenda decisions is completely optional. Whichever approach is taken, we think that the principle should be to promote consistent application of IFRS Standards through authoritative guidance.

- (a) If the IASB were to make agenda decisions authoritative, it would be necessary to fundamentally revisit matters such as the status of agenda decisions in the Due Process Handbook. The IASB will need to revisit the due process required for agenda decisions and to clarify the relationship with other non-authoritative guidance such as the Illustrative Examples and the Basis for Conclusion accompanying IFRS Standards. It would also be necessary to gain understanding from many stakeholders including those in jurisdictions where agenda decisions are considered non-authoritative.
 - (b) If the IASB were to treat agenda decisions as non-authoritative but to clarify that whether an entity chooses to apply the guidance in agenda decisions is completely optional, it would be necessary to improve the current situation in some jurisdictions where, by regulations or otherwise, agenda decisions are considered to be authoritative in substance. We are concerned that even if the entity states that “the financial statements are prepared in conformity with IFRS Standards”, comparability of financial statements across entities may be impaired if the requirements entities follow are different when regulations in each jurisdiction is taken into account. If it is difficult for the IASB to control how non-authoritative guidance is applied, for issues which diversity in practice exists and the IASB needs to provide interpretations to reduce such diversity (in particular, those issues that have the potential of requiring many entities to change their accounting policies when an agenda decision were to be issued), we think the IASB should, in principle, address such issues through the standard-setting process, rather than non-authoritative guidance such as agenda decisions.
5. As mentioned above, we think that the issue related to changes in accounting policies that result from agenda decisions should be resolved by revisiting the status of non-authoritative documents, such as the Illustrative Examples and the Basis for Conclusion accompanying IFRS Standards as well as agenda decisions, rather than amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
 6. If the status of non-authoritative guidance including agenda decisions were to be revisited, it is likely that it would require some time to make the necessary changes.

If the IASB were to address the existing issues by amending IAS 8, we believe that there are some items in the ED that warrant additional consideration. Our views are presented in the Appendix in the form of responses to individual questions.

7. We hope that our comments will contribute to the IASB's deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', written in a cursive style.

Yukio Ono

Chairman

Accounting Standards Board of Japan

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 agree that changes in accounting policies that result from agenda decisions impose a heavy burden on the entity due to requirement to retrospectively apply that change and thus support the IASB's initiative to resolve the issue. However, we have reservations with the proposal to introduce the benefits and costs threshold for changes in accounting policies that result from agenda decisions.
2. Specifically, we have reservations in the following areas:
 - (a) the scope of to which the new threshold applies;
 - (b) practicability of the benefits and costs threshold; and
 - (c) operational costs of requiring individual entities to assess the benefits and costs.

The scope to which the new threshold applies

3. If agenda decisions are non-authoritative, we think that is would be inappropriate to define agenda decisions in IAS 8 and to allow special treatment under IFRS. In principle, the same threshold should apply to all voluntary changes in accounting policies.
4. We also question why only agenda decisions are provided with special treatment, when the IASB issues other non-authoritative guidance, such as the Illustrative Examples and the Basis for Conclusions accompanying IFRS Standards.

5. If the IASB were to amend IAS 8 to solve the issues in practice, we believe the amendments must be able to be applied easily by all entities.

Practicability of the benefits and costs threshold

6. Although the ED proposes guidance on benefits and guidance on costs, the guidance on how to compare the benefits and costs is insufficient and, accordingly, it would be difficult for the entity to demonstrate that the costs exceeds the benefits.
7. In addition, because there is no specific guidance on how to compare the benefits and costs, while we can sense that, in the ED, the IASB is proposing the benefits and costs threshold as a threshold that is lower than the impracticability threshold, we believe that it is unclear as to how low the IASB intends to lower the threshold. As a result, we are concerned that entities may reach different conclusions in their judgments regarding whether retrospective application is needed when the benefits and costs threshold is applied.
8. We believe that description in paragraph A7 of the ED such as “An entity applies judgement when assessing whether the expected benefits to users exceed the cost to the entity of determining the effects of the change. An entity makes this assessment by considering all relevant facts and circumstances (see paragraphs A8–A10).” is insufficient to resolve these issues and, accordingly, it is necessary to provide more specific judgement criteria.
9. However, we believe that it would be difficult to develop judgement criteria to compare the benefits and costs and, therefore, we think practicability issues would arise if the benefits and costs threshold were to be applied in practice.

Operational costs of requiring individual entities to assess the benefits and costs

10. We understand that, when entities change their accounting policies, the expected benefits to users of applying the change retrospectively and the cost to the entity of determining the effects of the change would be different for each entity, due to the inherent factors of such entities.
11. However, we believe that, in many cases, the expected benefits to users of applying the change retrospectively and the cost to the entity of determining the effects of the change are more significantly affected by the nature of the issue in question, rather than the inherent factors of the entity. In fact, when developing new IFRS Standards

or amending existing IFRS Standards, the IASB provides uniform transition requirements for all entities after considering the costs and benefits of the change, although the effects of applying new requirements in IFRS Standards would affect differently to entities.

12. Given this situation, we think that it would be inefficient for individual entities to assess whether to apply the change in an accounting policy retrospectively when such as change is caused by a single event, such as the issuance of an agenda decision, that would affect the accounting policies of many entities.
13. In addition, if the judgment made by each entity regarding whether the change in an accounting policy should be applied retrospectively varies, it may impair the comparability of financial statements and thus may impose additional costs to users to make adjustments when analyzing financial statements and impose other difficulties.

Conclusion

14. Our understanding is that the IASB thinks that agenda decisions indicate how IFRS Standards should be applied and that it would be desirable for entities to follow the guidance provided in such agenda decisions, and it would be useful to provide special treatment for changes in accounting policies that result from agenda decisions. If that were the case, we think it would be easier to apply the requirements and would facilitate comparability among entities if the following guidance were provided:
 - (a) Each agenda decision should indicate whether the change in an accounting policy that results from that agenda decision should be applied retrospectively (similar to transition requirements under IFRS Standards).
 - (b) Paragraph 23 of IAS 8 should clarify that an entity does not need to apply the change in an accounting policy that results from an agenda decision retrospectively if it is stated as such in the specific agenda decision, instead of referring to costs and benefits as proposed in paragraph 23(b) of the ED.

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?

15. We agree with the IASB’s view that it would generally be unreasonable to expect that an entity immediately applies the change in an accounting policy that results from an agenda decision. However, we think that the proposals in the ED are insufficient to address the timing of applying the changes in an accounting policy that results from an agenda decision.
16. Paragraph 14(b) of IAS 8 states “An entity shall change an accounting policy only if the change... results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on an entity's financial position, financial performance or cash flows.” Therefore, we think that it would be difficult for entities to prepare financial statements without making the change in an accounting policy that results from an agenda decision immediately after the agenda decision is issued, if those entities determine that the financial statements would provide more reliable and more relevant information about by changing the accounting policy.
17. We believe that the above issue arises because the requirements related to voluntary changes in accounting policies required under IAS 8, including paragraph 14(b), was not necessarily intended to address situations where an entity changes its accounting policy due to external factors such as agenda decisions. If the IASB were to explicitly address changes in accounting policies that result from agenda decisions in IAS 8 and deal with these changes as part of voluntary changes in accounting policies, we think that the existing requirements in IAS 8 that relate to this matter should be revisited and the timing of applying the changes in an accounting policy should be addressed in the requirements that form the main text of the IFRS Standards.
18. Specifically, we think that by providing the following guidance for each agenda decision, the IASB could reduce diversity in the timing of applying the change in an

accounting policy and, at the same time, meeting the needs of entities that prefer to apply agenda decisions early as well as entities that prefer to have time to prepare for the changes:

- (a) Each agenda decision should provide guidance regarding the timing of applying the change in an accounting policy that results from that agenda decision, similar to the effective date in IFRS Standards.
- (b) Paragraph 14(b) of IAS 8 should clarify that an entity does not need to apply the change in an accounting policy that results from an agenda decision until the date specified in the specific agenda decision.