ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

26 July 2018

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

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON ACCOUNTING POLICY CHANGES (PROPOSED AMENDMENTS TO IAS 8)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Accounting Policy Changes (Proposed amendments to IAS 8) (the ED) issued by the International Accounting Standards Board (the IASB or the Board) in March 2018.

In principle, we are supportive of the IASB's intention to facilitate voluntary changes in accounting policy that result from agenda decisions published by the IFRS Interpretations Committee (the Interpretations Committee). We appreciate the resulting benefits of improving financial reporting, facilitating greater consistency in the application of IFRS Standards, and providing transition relief in circumstances where the regulators mandate or expect the application of agenda decisions.

At the proposal level, we agree with amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to lower the threshold for relief from retrospective application of such voluntary accounting policy changes. We further agree with the IASB's proposal to address the timing of application by explaining its considerations in the Basis for Conclusions.

However, we have reservations about limiting the scope of the ED proposals to exclude other voluntary accounting policy changes, and introducing a threshold that requires entity-specific assessment of expected benefits to users of financial statements. In addition, we anticipate practical challenges in distinguishing voluntary accounting policy changes that result from agenda decisions from other voluntary accounting policy changes as well as correction of prior period errors.

**Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386**

Our comments on the specific questions in the ED are as follows:

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 agree with the IASB's proposal of, and rationale for, lowering the threshold for relief from retrospective application of voluntary accounting changes that result from agenda decisions.

However, we have the following reservations about the scope of the ED proposals and the proposed threshold:

<u>Scope of the ED proposals</u>

We see merits in applying the ED proposals to all voluntary changes in accounting policy in accordance with IAS 8.

Relevance versus comparability

One of the IASB's rationale for the ED proposals is to encourage voluntary accounting policy changes that improve usefulness of information provided in the financial statements. We note that, applying IAS 8, an entity voluntarily changes an accounting policy only if the change results in the financial statements providing reliable and *more relevant* information. Since relevance is a fundamental qualitative characteristic of useful information, it follows that the proposed threshold should apply to all voluntary accounting policy changes.

In addition, the IASB's rationale for not applying the ED proposals to a wider population is the concern over a loss of comparability between entities and a loss of information for users if other voluntary accounting policy changes were to occur frequently. Although retrospective application provides the most useful information, we note that the IASB has in response to stakeholders' feedback provided relief from some aspects of retrospective application, mainly for cost-benefit reasons, in all major IFRS Standards and many amendments to IFRS Standards that were issued in recent years. Moreover, in accordance with the *Conceptual Framework for Financial Reporting*, the enhancing qualitative characteristic of comparability may have to be diminished to maximise the fundamental qualitative characteristic of relevance.

We further note that, regardless of the scope, comparability between entities is inevitably compromised because of the following reasons: (i) the nature of voluntary accounting policy

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

changes; and (ii) the nature of agenda decisions dealing with summarised fact patterns and the subjectivity involved in determining whether an agenda decision would apply to different entity-specific fact patterns. Furthermore, we wonder whether other voluntary accounting policy changes could realistically occur frequently, with each change resulting in more relevant information. The concern about a lack of comparability and a loss of information resulting from frequent changes seems more of an issue associated with how judgement is applied, rather than a constraint to developing requirements that would result in more relevant information.

Arbitrary distinction from other voluntary accounting policy changes

In some cases, the proposed distinction between voluntary accounting policy changes that result from agenda decisions and other voluntary accounting policy changes would be arbitrary. This might be the case, for example, when a voluntary change in accounting policy reflects:

- Alternative accounting policies allowed in IFRS Standards: Such alternatives are comparable – if not superior – to agenda decisions in terms of due process and persuasiveness. The distinction would be arbitrary, or even counter-intuitive. This is because, in both cases, a voluntary change in accounting policy is required to result in more useful information.
- Other non-mandatory guidance published by the IASB (e.g. practice statements and education materials): The IASB typically develops such guidance in response to stakeholders' need for additional guidance to aid the application of IFRS Standards. The distinction would appear arbitrary because, similar to agenda decisions, such guidance facilitates greater consistency in the application of IFRS Standards.

Moreover, a distinction based on due process and persuasiveness could be perceived as giving preferential status to agenda decisions in comparison with other sources described in paragraph 12 of IAS 8. We think this would not reflect the IASB's intention and would be a matter outside the scope of this project.

Besides, the proposed distinction might result in practice diversity and a need for additional guidance – refer to below section on *Determining voluntary accounting policy change that results from agenda decision*.

Therefore, we suggest that the IASB should re-consider the alternative of applying the ED proposals to all voluntary accounting policy changes. Nevertheless, we recognise that the IASB may decide to simply address a specific issue relating to agenda decisions, despite the rule-based approach and the potential anomalies. If so, the IASB may have to be more transparent in explaining this rationale.

<u>The proposed threshold</u>

We are not supportive of the IASB's proposal to require entity-specific assessment of the expected benefits of retrospective application to users of financial statements.

In particular, existing IFRS Standards do not require entity-specific assessment of the relative costs and benefits of applying particular IFRS requirements. For example, the existing notion

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

of ‘undue cost or effort’ requires only an assessment of costs and efforts from an entity’s perspective. At present, the task of balancing costs and benefits rests with the IASB when it develops IFRS requirements, rather than with entities when they apply IFRS requirements.

Moreover, significant subjectivity is expected in assessing the expected benefits from a user’s perspective. It could be interpreted to require a quantitative assessment of the relative costs and benefits, and if so, it raises the question of whether quantitative assessment of the expected benefits from a user’s perspective would be operational.

The proposed threshold also raises the question of potential interactions between the assessment of expected benefits and the assessment of materiality. In particular, an entity first determines that the effect of retrospective application is material, before it subsequently applies the proposed threshold and assesses the relative costs and benefits of retrospective application. However, the proposed guidance on expected benefits describes factors similar to those applicable to the assessment of materiality. It seems unclear whether and how similar factors in the first-level assessment of materiality should be applied differently to the second-level assessment of expected benefits.

We recommend that the IASB should consider a threshold that includes only existing concepts in IFRS Standards. An example is the notion of ‘undue cost or effort’, which is used in IFRS 9 *Financial Instruments* and the recently issued *Amendments to References to the Conceptual Framework in IFRS Standards*.

<u>Determining voluntary accounting policy change that results from agenda decision</u>

In determining whether a change is a voluntary accounting policy change that results from an agenda decision, an entity assesses whether:

(i) The agenda decision provides information that would not otherwise be available, and could not otherwise reasonably be expected to have been obtained (i.e. the change is not a correction of prior period error); and

(ii) The agenda decision results in a change that is a voluntary accounting policy change (i.e. the change is not just any voluntary change in accounting policy).

However, there may be potential diversity in the above assessment, as explained below.

Agenda decisions often address issues for which the Interpretations Committee has concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting. Nevertheless, the IASB explains that the process of developing agenda decisions often provides information that would not otherwise be available and could not otherwise reasonably be expected to have been obtained. With the ED proposals, entities may have greater incentive to treat error corrections triggered by agenda decisions as voluntary accounting policy changes that result from agenda decisions.

We note that the above incentive exists regardless of the scope of the ED proposals. This is because of the different transitions between error corrections and voluntary accounting policy changes.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

In addition, the fact patterns described in agenda decisions are typically summarised and simplified. It is not always clear whether a voluntary accounting policy change is a change that an entity has intended regardless of agenda decisions. This may be the case, for example, when the change relates to similar, but not the same, issues or fact patterns addressed in an agenda decision. Even if common factors are present in both fact patterns of an entity and an agenda decision, it is likely that other factors exist that the entity would have to consider.

If the ED proposals are intended to apply to a broader population than the fact pattern addressed in an agenda decision, different practices may emerge in how entities analogise an agenda decision to different variants of the fact pattern.

Therefore, to facilitate greater application consistency, we recommend that the IASB should consider developing additional guidance to help entities make the necessary assessment, for example:

(i) Distinguishing error corrections from voluntary accounting policy changes, particularly aspects involving subjectivity such as changes that arise from agenda decisions; and

(ii) Determining whether a voluntary accounting policy change has resulted from an agenda decision, if the IASB decides to proceed with the proposed scope.

Moreover, such guidance would make it more difficult to defend potential errors on the basis of an agenda decision providing new information that, taking into consideration the existing practice diversity, could not reasonably be expected to have been obtained.

<u>Effective date and transition</u>

In our view, entities should be permitted to apply the amendments to voluntary accounting policy changes that result from agenda decisions occurring between the publication date and the effective date of the amendments.

We recommend that the IASB should refine the current drafting of effective date and transition accordingly.

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 with the IASB's conclusion in paragraph BC19, in that agenda decisions are non-authoritative and it would be difficult for the IASB to address the timing of voluntary accounting policy changes that result from agenda decisions.

Therefore, we are supportive of the IASB providing useful explanation in the Basis for Conclusions to address this issue. In particular, the IASB's explanation in paragraph BC22 would help to ease expectation on entities to voluntarily change an accounting policy to reflect an agenda decision immediately after its publication.

It follows that we consider the alternatives described in paragraph BC20 to be at odds with the non-authoritative status of agenda decisions. In theory, the IASB should not specify, particularly in IFRS Standards, the timing of when an entity could apply a voluntary change in accounting policy. That said, in response to stakeholders' concern, we can accept the IASB providing an effective date for an agenda decision, with earlier application permitted, outside IFRS Standards such as in the individual agenda decisions. Conversely, the IASB should not place a time limit after which an entity could no longer voluntarily change its accounting policy to reflect a valid agenda decision. The entity should be permitted to decide when it would align its accounting policy with an agenda decision, and to defend its position for not doing so after a reasonable period of time.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council