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PDC N°26

Paris, the 6 of July 2018

**Mr Jean-Paul GAUZES**  
Chairman – EFRAG Board  
35 square de Meeûs  
B1-000 Bruxelles  
Belgium

Re: Exposure Draft ED/2018/1 – Accounting policies changes – Proposed amendments to IAS 8

Dear Mr. Gauzès,

ANC supports the IASB's objective to facilitate changes in accounting policies that result from agenda decisions (AD) since we are convinced that retrospective application of such changes has proved to be challenging in some instances. This is a real practical issue that needs to be solved as soon as possible. We think that the suggested solution based on a cost/benefit analysis is not only conceptually consistent but also practical, and therefore provides significant improvements.

We also share EFRAG's comments on the scope of the amendments because we consider that the issue is broader. It is wishful to apply the same principle not only to an AD, but also to a voluntary change and a correction of an error. It not only improves the relevance and the quality of the financial statements of the issuer, but also streamlines practices and therefore provides intelligibility and comparability for users. ANC therefore suggests extending the scope of the amendment not only to voluntary changes but further to corrections of errors.

Finally, a change in accounting policy (either voluntarily or resulting from an AD or a correction of an error) being not accompanied by transition requirements, any time constraint has to be considered in the cost/benefit analysis and explained in the notes.

Moreover, even if we share some of EFRAG's concerns about the status of ADs and believe there is a need for further clarifications in this respect, we believe that, in the meantime, the proposed amendments usefully provide a framework to ADs and their accounting consequences. Therefore, we are of the view that these concerns should be addressed separately and should not prevent the IASB from finalising the current proposals. We provide our additional comments on these concerns in appendix 2.

Kind regards,



Patrick de CAMBOURG

## **Appendix 1: detailed answer to the EFRAG's questions**

### **Question 1: new threshold for voluntary changes resulting from an agenda decision**

#### **1 Support to IASB addressing the issue related to the implementation of ADs**

ANC supports the IASB's objective to facilitate changes in accounting policies that result from agenda decisions since we are convinced that retrospective application of such changes has proved to be challenging in some instances. This is a real practical issue that needs to be solved as soon as possible, and we think that the suggested solution is an improvement.

From IASB standpoint, agenda decisions ("AD", former IFRIC "rejections") are non-authoritative. Some market regulators consider this guidance as indicative, but most of them recommend applying it "immediately" and without transition requirements. Such "recommendation" is generally taken as a must. Some market regulators even consider changes in accounting policies resulting from an AD being corrections of errors. In theory, enforcer's recommendation or qualification could deserve accompanying transition requirements.

Even if we share some of the EFRAG's concerns about the status of ADs and believe there is a need for further clarifications in this respect, we believe that, in the meantime, the proposed amendments usefully provide a framework to ADs and their accounting consequences. Therefore, we are of the view these concerns should be addressed separately and should not prevent the IASB from finalising the current proposals. We have summarized our comments on these concerns in the Appendix 2.

#### **2 Support to IASB suggested solution referring to a cost/benefit analysis**

ANC supports IASB's amendments. The solution provided, based on a cost/benefit analysis is not only conceptually consistent but also practical.

##### *2.1 Cost/benefit analysis provides a conceptual and practical solution*

The newly issued conceptual framework emphasises the cost/benefit analysis (§ 2.43) whereas it does not refer to impracticability.

Where the IASB provides relief to rely on a cost/benefit analysis when an entity decides a voluntary change on the basis of an agenda decision, the IASB implicitly acknowledges that the impracticability threshold that currently applies to all voluntary changes and to correction of errors requires retroactive application efforts that can in certain cases generate costs in excess of benefits. We note that such requirements do not satisfy the cost/benefit constraint set in the conceptual framework. As a result we believe that the IASB should take the opportunity of the proposed IAS 8 amendments to ensure that no retrospective application efforts, however they are triggered, would require costs in excess of benefits. The relief proposed should therefore equally apply to all voluntary changes and corrections of errors.

When "voluntary", a change is a "nice to have". It is therefore conceptually sound to alleviate constraints for applying a voluntary change. In fact the demonstration of impracticability as required by IAS 8 is too high a threshold, deterring change.

##### *2.2 Cost/benefit analysis is current preparer's practice to decide a voluntary change in accounting policies*

Some may fear that the assessment of the cost/benefit analysis, if performed by the entity only, could be more focussed on the costs than interested in the benefits.

The entity is however used to apply judgment and make such cost/benefit analysis in order to assess materiality for instance. In fact the decision to implement a voluntary change itself is the result of such a cost/benefit analysis.

### **3 Support to EFRAG's suggestion to extend the scope of the amendments**

We also share some of the EFRAG's comments on the scope of the amendments because we also consider that the issue is broader. We therefore suggest extending the scope of the amendment not only to voluntary changes resulting from AD to other voluntary changes and further to corrections of errors.

#### *3.1 Why consider changes resulting from ADs as a specific case of voluntary change?*

From a conceptual point of view, ANC shares the EFRAG's view that there is no specific reason to limit the cost/benefit approach to changes resulting from an AD. We see no conceptual reason supporting that changes resulting from an AD deserve a specific status compared with other voluntary changes in benefiting with the amendments from alleviated provisions.

Some may argue that a preparer chooses whether and when to make a voluntary change, whereas a change pursuant to an AD has often an immediate effect. We note that there are other hurdles (operational, communication) than timing that deter an entity to voluntarily change its policy.

Finally, assuming a change is not mandatory but actually voluntary (because of an entity's assessment of its relevance or because of an AD) it is wishful that it applies on a timely basis and therefore IFRS standards should encourage this change instead of deterring it.

#### *3.2 Why not consider corrections of errors?*

By creating an alleviated procedure on ADs, amendments will stress the accounting gap with corrections of errors that would not benefit from it. Even though, as an AD, a correction of an error is an unexpected event that preparers have to deal with.

Finally, it is wishful to apply the same principle not only to the application of an AD, but also to a voluntary change and a correction of an error. It would not only improve the relevance and quality of the financial statement of the issuer, but also streamline practices and therefore provide intelligibility and comparability for users. ANC therefore suggests extending to voluntary changes policies and to corrections of errors the proposed threshold based on a cost/benefit analysis instead of referring to impracticability.

### **Question 2: timing of applying changes in accounting policy that results from an agenda decision**

A change in accounting policy (either voluntarily or resulting from an AD or a correction of an error) being not accompanied by transition requirements, any time constraint has to be considered in the cost/benefit analysis and explained in the notes.

For instance, when an AD has been issued close to the end of the year, the time constraint would probably increase costs. Further, if the application of the change was not possible at the closing date due to time constraint, this situation has to be explained in the notes. Finally, entities may for instance consider more appropriate to implement a change later but retrospectively rather than immediately but prospectively.

Moreover, we support the acknowledgment made in BC 22 that an immediate application would generally be unreasonable and suggest that this statement be included in the standard instead of in the basis for conclusions.

## **Appendix 2: Additional comments on EFRAG’s concerns about the status of ADs**

As mentioned above, ANC is supporting the IASB’s intention and practical solution conveyed in the amendments tackling with issues related to the implementation of ADs.

Discussing the EFRAG’s comments on ADs, ANC raised some points on their very nature, form or status that the IASB could usefully investigate further and clarify, for instance in the frame of the current update of the Due process Handbook.

Please find hereunder these additional comments.

### *Clarifying the scope and nature of agenda decisions*

An AD is often the IFRS-IC conclusion that IFRS standards do already provide an appropriate answer to the question raised. Accordingly, they decide not (in the past “reject”) to call the IASB for providing additional standard setting. Depending on the kind of question and on its analysis, the decision may lead to different outcomes, which not necessarily deal with an accounting policy. An AD may also conclude on accounting estimates. Moreover, the IFRS-IC analysing process may be more valuable than the conclusion itself (which could depend upon facts and circumstances). In the latter situation, the “AD” is depicting how to read standards, for educational purposes rather than providing a conclusion.

Accordingly, considering that changes implemented by entities following any AD are changes in accounting policy could either restrict the existing variety of AD or create confusion by assimilating AD dealing with estimates or with educational material.

### *Clarifying the form of agenda decisions*

In order to conclude, the IFRS-IC generally analyses different existing practices (or potential ones) in order to sort out which one is the most appropriate. In emphasising in its decision the practice meeting the compliance criteria, it generally does not conclude on the other dismissed practices. In fact, other non-retained practices are usually described in agenda papers prior to the IFRS-IC meeting. However in the decision itself, only the retained practice is mentioned. Actually, the conceptual basis for dismissing the other ones is part of the decision to sort out.

Mentioning in the decision the reasons why some arguments cannot be retained would actually support the decision not to add or modify standards, and would consequently support why that selection process is different from an interpretation. Conversely, when the purpose of an AD is to provide guidance on how to apply standards and judgement rather than providing any conclusion (eventually depending on judgment on facts and circumstances), how different is that from other educational material (webinars, presentations and communications)?

### *Clarifying the status of agenda decisions*

The amendments suggest creating a specific status of AD or elevating it among the current non-authoritative guidance.

A dedicated status may require a more robust due process and improved communication. In fact, even if ADs are published on the IFRS website and in the “green book”, awareness on them may improve.

ADs are already subject to a due process (even if poorly detailed in the due process handbook) which includes at least a specific decision process as well as a consultation process. That due process deserves a higher acknowledgment of AD compared to other IFRS educational material (webinars...). However the due process alone does not legitimate such “non-authoritative” source becoming mandatory. Indeed practice statements (which are non-compulsory) are subject to an extensive due process.

Some may also question whether the “late” application of an AD (for instance 3 years after its publication) should not lead to its qualification as a correction of an error. This would assume that an AD has to apply anyway and would be contradictory with a “voluntary” change.

A decision tree could be very helpful in analysing an AD in comparison with authoritative sources, with non-authoritative one (providing genuine options) and with educational material (not supposed to add or modify existing sources). It would not only address the status of the retained solution (if any), but also clarify how to deal with the rejected ones. The current updating of the due process handbook could be derived from that tree since there is an expectation that the more authoritative a source is, the most robust the due process should be (*inter alia* revisiting the current imbalance between a practice statement and an AD).