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International Organization of Securities Commissions
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9 January 2018

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft: Accounting Policies and Accounting Estimates – Proposed amendments to IAS 8

Our ref: 2018/PK/C1/IASB/1

Dear International Accounting Standards Board Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Accounting Policies and Accounting Estimates – Proposed amendments to IAS 8*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

We support the Board's undertaking of this project to clarify the definitions in IAS 8 of accounting policies and accounting estimates to reduce current diversity in the way entities distinguish between accounting policies and accounting estimates in practice. We agree with the Board's proposal to amend the definition of accounting policies and provide a definition of accounting estimates to improve clarity of the respective terms. We support the Board's intent, while improving clarity of the terms, to not narrow or broaden the scope of changes currently viewed as accounting policies. However, as described in more detail below, we observe that further clarification of the definitions and additional illustrative examples should be considered to provide necessary clarity between the terms and aid in an entity's ability to distinguish between accounting policies and accounting estimates.

Our detailed feedback on certain aspects of the proposal is provided below.

Responses to the Board's Questions

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Question 1

The Board proposes clarifying the definition of accounting policies by removing the terms 'conventions' and 'rules' and replacing the term 'bases' with the term 'measurement bases' (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions)

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

Response:

We are supportive of the Board's proposal to clarify the definition of accounting policy and agree with the Board's intention not to narrow or broaden the current definition. While we believe the proposed clarification to remove the terms "conventions" and "rules" from the definition and reference "measurement bases" represents an improvement over the current definition, Committee 1 observes that retaining the term "practices" in the definition may lead to continued confusion and diversity in application of the standard. The term "practices" is not defined in the standard and in application might be interpreted to apply more broadly to an estimation or valuation technique.

More specifically, Committee 1 members believe that use of the term "practices" in the definition may result in added diversity given the proposed amendments to paragraph 32A indicating the selection of an "estimation technique or valuation technique constitutes making an accounting estimate." We observe that the difference between valuation technique and a "practice" is not clear. See additional discussion with respect to question 3 below.

Question 2

The Board proposes:

(a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and

(b) adding a definition of accounting estimates and removing the definition of a change in accounting estimate (see paragraph 5 and paragraphs BC9–BC16 of the Basis for Conclusions).

Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?

Response:

Committee 1 members are supportive of the Board's proposal to provide a definition of accounting estimates and are supportive of the Board's clarification that accounting estimates relate to financial statement items that *cannot be measured with precision* because of *measurement uncertainty* as the proposed definition provides an improved understanding of an accounting estimate. However, some members have observed that the proposed definition explains that accounting estimates are "used in applying accounting policies." As drafted, the definition may be interpreted to limit accounting estimates only to those estimates or judgements directly linked to, or "used in" applying an accounting policy. Some members observe in practice that estimates may be made separately from any individual accounting policy. The Board could consider instead amending the definition to refer to judgements or assumptions, *often used* in applying an accounting policy to ensure that the identification of an accounting estimate is not unintentionally limited.

Members further observe that the proposed definition focuses on estimation uncertainty related to financial statement items that cannot be measured with precision. While members generally agree with this statement, some members have observed that the definition focuses exclusively on measurement, without reference to accounting estimates used to determine whether recognition of a financial statement element is required.

Question 3

The Board proposes clarifying that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate to use in applying an accounting policy for that item (see paragraph 32A and paragraph BC18 of the Basis for Conclusions).

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

Response:

Members are supportive of additional guidance to further clarify the distinction between changes in accounting policies and accounting estimates, but believe the proposed guidance will result in added confusion given the reference to estimation techniques and valuation techniques as changes in accounting estimates. It is unclear how a valuation technique differs from a "practice," which is included in the proposed definition of an accounting policy. For example, consider an entity currently using a Monte Carlo model for valuation which adopts a new practice to use the Black-Scholes model for valuation (assuming both are acceptable models under the circumstances). It is unclear from the proposed guidance whether the Board believes the entity should view this as a change in practice (and thus a change in accounting policy) or a change in estimate. Furthermore, proposed paragraph 32A states that the *selection* of an estimation or valuation technique constitutes making an accounting estimate. It is unclear from the proposed amendments whether the end result itself from the application of a valuation technique (i.e., the output of a valuation model) would be captured by the proposed definition of an accounting estimate. Similarly, in circumstances where an entity changes the inputs used in application of its valuation model, it is unclear whether the Board believes the entity should view the change as a change in policy or estimate. Unless clarified, we believe it would be challenging to consistently enforce this guidance (especially when considering the guidance in paragraph 35).

Additionally, the guidance in paragraph 32 refers to uncertainties "inherent in business activities." Some members observe that many items in financial statements cannot be measured with precision and believe the reasons for imprecision extend beyond business activities. For example, during the financial crisis it was difficult to observe the fair value of certain financial instruments, due to a lack of observable transactions. We would encourage the Board to consider further amendments to paragraph 32, to remove 'inherent in business activities."

Members generally believe additional illustrative examples, like the one referenced above, would be helpful to clarify the expected accounting treatment and improve consistent application of the standard.

Question 4

The Board proposes clarifying that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy (see paragraph 32B and paragraphs BC19–BC20 of the Basis for Conclusions).

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

Response:

Committee 1 members generally believe that paragraph 32B should be restructured to more effectively clarify the distinction between an accounting policy and an accounting estimate. Members agree that the guidance should be amended to first provide the principle for how an entity should consider the distinction between a change in accounting policy and a change in accounting estimate, and then subsequently provide an example to illustrate the principle.

With respect to the example added (i.e., cost formulas prescribed by IAS 2), some members observe that the guidance in IAS 2 *Inventories* clarifies that the selection of an inventory cost formula represents an accounting policy.[1] Accordingly, those members question the necessity of specifying in IAS 8 that a change in cost formulas would represent a change in accounting policy. Additionally, members observe that the two inventory cost formulas are each prescribed formulas. To better illustrate the principle, we recommend that the Board consider adding an example that involves accounting policies that are not prescribed.

Question 5
Do you have any other comments on the proposals?

Response:

Committee 1 members observe that the proposed removal of the definition of a change in accounting estimate may result in uncertainty with respect to making a distinction between the correction of an error and a change in an accounting estimate. The Board should consider further clarification as to how an entity should evaluate whether a change in accounting estimate represents the correction of an error rather than an acceptable change in accounting estimate. In this regard, members suggest clarifying in the Basis for Conclusions, or body of the standard, that a modification in an estimate that results from a failure to use, or a misuse of, reliable information that was available or could reasonably be expected to have been obtained is a correction of an error. We believe this clarification is necessary given the language in IAS 8.34 (i.e., "by its nature, a change in an accounting estimate…is not the correction of an error") could be interpreted inconsistently.

We appreciate your thoughtful consideration of the responses provided in this letter. If you have any questions or need additional information, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300. In case of any written communication, please mark a copy to me.

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Sincerely,

Parmod Kumar Nagpal
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions

[1] IAS 2, paragraph 36(a) states: "The financial statements shall disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used."