STAFF PAPER

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IASB® meeting

Project	**IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—Accounting policies and accounting estimates**
Paper topic	Project direction

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Introduction

1. As explained in Agenda Paper 26A for this meeting, this paper discusses the project direction in the light of the feedback on the Exposure Draft *Accounting Policies and Accounting Estimates*—Proposed amendments to IAS 8 (Exposure Draft).

Structure of the paper

2. This paper includes:

   (a) summary of staff preliminary views;

   (b) staff analysis and preliminary views; and

   (c) next steps.

3. Appendix A presents our analysis and preliminary views on whether the Board would need to re-expose the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Summary of staff preliminary views

4. Based on our analysis in paragraphs 6–22 of this paper, our preliminary view is that the Board could proceed with finalising the amendments to IAS 8 (subject to the

modifications set out in paragraph 6 of this paper). We think on balance, the expected benefits of doing so (expected benefits) would outweigh the cost of standard-setting (cost).

5. However, we acknowledge the amendments would not address all identified application questions. If the Board thinks the expected benefits would not outweigh the cost, our preliminary view is that the Board should not proceed with the amendments and should work no further on this project.

Staff analysis and preliminary views—Project direction

Proceeding with the amendments

6. We first considered whether the Board should proceed with the amendments to IAS 8[1]. While many respondents agreed with the direction of the project, some asked whether the benefits of proceeding with the amendments would outweigh the cost. Our analysis of the feedback in Agenda Papers 26B and 26C for this meeting shows it is possible to address many of the concerns raised. On the basis of our analysis in those papers, we think the Board could:

   (a) with respect to the proposed definition of accounting estimates:

      (i) revise the definition to specify that:

         1. accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty;
         2. these monetary amounts are outputs of measurement techniques used in applying accounting policies; and
         3. an entity uses judgements and assumptions in selecting and applying the applicable measurement techniques.

      (ii) clarify that the effects of a change in an input and/or measurement technique used to develop an accounting

[1] Throughout this paper, we have used the term ‘proceed with the amendments’ to refer to proceeding with the amendments as proposed in the Exposure Draft subject to the modifications set out in paragraph 6 of the paper.

estimate are part of the change in accounting estimate and not the correction of an error if that change results from new information or new developments.

(iii) specify that estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop an accounting estimate.

(b) not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8);

(c) not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft);

(d) confirm deletion of IE3 from the Guidance on Implementing IAS 8; and

(e) develop some examples to illustrate how an entity would apply the definition of accounting estimates.

7. In assessing whether the Board should proceed with the amendments, we think it is necessary to consider whether the expected benefits would outweigh the cost.

Expected benefits

8. As explained in paragraph 6(a) of this paper, proceeding with the amendments would help clarify the distinction between accounting policies and accounting estimates by specifying how accounting policies relate to accounting estimates. It would also remove any diversity in accounting for changes in estimation techniques and valuation techniques. Several respondents said these explanations and clarifications were helpful. We think these clarifications would lead to greater consistency in the application of the definitions, thereby improving the overall quality of financial reporting. However, we acknowledge the amendments would not solve all identified application questions.

Cost

9. Proceeding with the amendments would introduce a new definition of accounting estimates. Stakeholders would incur cost in understanding and applying that definition. Although, in our view, the amendments only clarify the distinction

between accounting policies and accounting estimates, we acknowledge the amendments could result in changes for some entities. Nonetheless, we think the definition would be simple to understand and apply; accordingly, any cost of doing so would not be unduly onerous.

10. The Exposure Draft proposed that an entity would apply the proposed amendments prospectively to all changes in accounting policies and all changes in accounting estimates that occur on or after the effective date of the proposed amendments. While the Board has not yet redeliberated the transition requirements, we think that if the Board were to confirm the transition requirements proposed in the Exposure Draft, this would further limit the cost of applying the amendments.

11. Additional cost would be incurred if the Board decides that it would need to re-expose the amendments before it finalises them. Appendix A to this paper presents our analysis and preliminary views on this matter. Based on our analysis, we think the Board may not need to re-expose the amendments.

Feedback from ASAF and Committee members

12. Many Committee members and some ASAF members suggested that the Board proceed with the amendments. Some Committee members also said the cost of proceeding with the amendments would not be significant. However, some ASAF members questioned whether the expected benefits were substantial enough for the Board to proceed with the amendments.

Staff's preliminary views

13. We acknowledge that proceeding with the amendments would not address all identified application questions. However, our preliminary view is that, on balance, the expected benefits would outweigh the cost.

Other approaches

14. If the Board disagrees with our preliminary view as discussed in paragraph 13 of this paper, and concludes that the expected benefits would not outweigh the cost, we think the Board could:

(a) develop targeted amendments that would address only particular identified application questions (targeted amendments approach)—see paragraphs 16–17 of this paper; or

(b) not proceed with the amendments (do not proceed approach)—see paragraph 18 of this paper.

15. Paragraphs 19–20 of this paper discuss some other alternative approaches suggested by some respondents.

Targeted amendments approach

16. The Board developed the proposed amendments to IAS 8 in response to a submission to the Committee which asked whether particular changes would be accounted for as changes in accounting policy or changes in accounting estimates. Some respondents suggested that the Board could develop specific requirements to address only these particular application questions.

17. This approach would address identified application questions and ensure consistent application of IAS 8 in those areas. However, we think addressing some of those questions would require the Board to develop specific rules that would apply only in those particular situations. We think this would be contrary to the principles-based nature of IFRS Standards. This approach would also require significant additional time and cost to develop. Accordingly, our preliminary view is that the Board should not consider this approach further.

Do not proceed approach

18. The amendments to IAS 8 would help clarify the distinction between accounting policies and estimates. Our analysis of the feedback shows that while these clarifications would be helpful, they would not address all identified application questions. If the Board thinks the expected benefits would not outweigh the cost, it could decide not to proceed with the proposed amendments and work no further on this project.

Other alternative approaches suggested by respondents

19. Some respondents suggested other alternative approaches the Board could consider to address this matter. In particular, some respondents said the Board could:

(a) revisit the requirements in IAS 8 for retrospective application by considering whether and when retrospective application provides useful information;

(b) define either an accounting policy or an accounting estimate and use a residual approach for all other changes; or

(c) remove the requirement for retrospective application of changes (ie entities would apply all changes prospectively), and permit changes only if they provide more relevant information. One respondent said the Board could also strengthen disclosure requirements for all changes.

20. We think considering these alternative approaches is beyond the scope of these narrow-scope amendments and would require a more fundamental review of IAS 8. Accordingly, we have not considered these approaches further.

Staff preliminary views

21. On the basis of our analysis, our preliminary view is that the Board could proceed with finalising the amendments. We think that on balance, the expected benefits would outweigh the cost.

22. However, we acknowledge the amendments would not address all identified application questions. If the Board thinks the expected benefits would not outweigh the cost, our preliminary view is that the Board should not proceed with the amendments and should work no further on this project.

Question for the Board
Do you have any comments or questions on our analysis and preliminary view in this paper?

Next steps

23. We expect to bring a paper to a future Board meeting that would (a) incorporate feedback and advice from this meeting; and (b) include a recommendation for the Board's consideration.

Appendix A—Re-exposure of the proposed amendments to IAS 8

A1. If the Board decides to proceed with the amendments, it would need to assess whether the modifications proposed in paragraph 6 of this paper would warrant re-exposing the amendments. This appendix presents our preliminary analysis on this matter.

A2. Paragraphs 6.25–6.28 of the IFRS Foundation's *Due Process Handbook* (Handbook) set out the criteria the Board considers when assessing the need for re-exposure. These paragraphs state:

> 6.25 In considering whether there is a need for re-exposure, the IASB:
>
> (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
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> (b) assesses the evidence that it has considered;
>
> (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
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> (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.
>
> 6.26 It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the IASB to re-expose the proposals. The IASB needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the Basis for Conclusions accompanying the Exposure Draft. The IASB also needs to consider whether it will learn anything new by re-exposing the proposals. If the IASB is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any

new concerns, it should proceed to finalise the proposed requirements.

6.27 The more extensive and fundamental the changes from the Exposure Draft and current practice the more likely the proposals should be re-exposed. However, the IASB needs to weigh the cost of delaying improvements to financial reporting against the relative urgency for the need to change and what additional steps it has taken to consult since the Exposure Draft was published. The use of consultative groups or targeted consultation can give the IASB information to support a decision to finalise a proposal without the need for re-exposure.

6.28 The IASB should give more weight to changes in recognition and measurement than disclosure when considering whether re-exposure is necessary.

A3. We acknowledge some might say that the Board should re-expose the proposed amendments, particularly because applying our preliminary views would result in:

(a) using terminology that is different from that proposed in the Exposure Draft (for example, the use of ‘measurement uncertainty’ rather than ‘estimation uncertainty’);

(b) including some examples illustrating the application of the proposed definition of accounting estimates; and

(c) removing some of the clarifications initially proposed (such as the proposed changes to the definition of accounting policies and clarification relating to the inventory cost formula) which changes the ‘package’ of proposed amendments included in the Exposure Draft.

A4. However, we think the modifications only address matters raised by respondents and would not constitute fundamental changes on which respondents have not had the opportunity to comment. In particular:

(a) the substance of the definition of accounting estimates would not change from the proposal in the Exposure Draft. Although the definition would no longer define accounting estimates as judgements and assumptions themselves, but rather as the output of measurement techniques used in applying accounting policies, it would retain the key aspects of the definition included in the Exposure Draft—ie that accounting estimates (i) are used in applying an accounting policy; and (ii) involve the use of judgements and assumptions. The examples would simply illustrate the application of the definition. We will test any examples developed with some external reviewers to ensure the examples are understandable and would not have unintended consequences.

(b) our proposals not to proceed with some of the clarifications that were initially proposed (such as the proposed changes to the definition of accounting policies and clarification relating to the inventory cost formula) are simply because we think those clarifications (a) raised more questions than answers, and (b) are not required to achieve the objectives of this project. We also think that our proposal not to proceed with changing the definition of accounting policies (eg to retain the terms rules and conventions in the definition of accounting policies) would not create any new overlap with the proposed definition of accounting estimates.

A5. Furthermore, feedback we received from Committee and ASAF members on our preliminary views was useful in confirming our understanding and analysis of the feedback but did not highlight any significant new concerns.[2] Therefore, we think the consultation with Committee and ASAF members (a) provides information to support the Board in a decision to finalise the amendments without re-exposure, and (b) indicates that re-exposure may not reveal any new concerns.

Staff's preliminary view

A6. On the basis of our analysis, our preliminary view is that, on balance, the Board may not need to re-expose the amendments.

[2] Appendix B to Agenda Papers 26B and 26C for this meeting analyse the feedback received.