STAFF PAPER

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Project	**Accounting policies and accounting estimates (Amendments to IAS 8)**
Paper topic	Analysis of feedback—definition of accounting estimates

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Introduction

1. This paper presents our analysis of, and recommendations on, the matters identified in the feedback on the definition of accounting estimates proposed in the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8) (Exposure Draft).

2. This paper is based on Agenda Paper 26B for the April 2019 International Accounting Standards Board (Board) meeting. Our analysis and recommendations in this paper have been updated to reflect feedback from Board members in that meeting. Appendix B to this paper summarises that feedback and our analysis of that feedback.

Structure of the paper

3. This paper includes:
   (a) summary of staff recommendations; and
   (b) staff analysis and recommendations.

4. There are three appendices to this paper:
   (a) Appendix A—analysis of other matters;
   (b) Appendix B—summary and analysis of feedback from Board members; and

(c) Appendix C—summary and analysis of feedback from Committee and ASAF members.

Summary of staff recommendations

5. We recommend that the Board:

   (a) revise the definition of accounting estimates to specify that:

      (i) accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty;

      (ii) these monetary amounts are outputs of measurement techniques used in applying accounting policies; and

      (iii) an entity uses judgements and/or assumptions in developing an accounting estimate.

   (b) clarify that:

      (i) the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors; and

      (ii) changes in accounting estimates that result from new information or new developments are not the correction of an error.

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

Staff analysis and recommendations

Proposed amendment

6. The Exposure Draft proposed:

   (a) adding a definition of accounting estimates and removing the definition of a change in accounting estimate. It also proposed clarifying how accounting policies and accounting estimates relate to each other by explaining that an entity uses accounting estimates in applying accounting policies.

(b) clarifying that when an item in the financial statements cannot be determined with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate.

7. Appendix A to Agenda Paper 26A for this meeting reproduces the definition of accounting estimates proposed in the Exposure Draft (proposed definition).

Key matters raised

8. Several respondents said providing a definition of accounting estimates is helpful—it would clarify the distinction between accounting policies and accounting estimates. Several respondents also said it was helpful to clarify that an entity uses accounting estimates in applying accounting policies and that selecting an estimation technique or a valuation technique constitutes making an accounting estimate. However, some respondents expressed concerns about:

(a) the role of judgements and assumptions (see paragraphs 10–16);

(b) use of the terms ‘estimation uncertainty’ and ‘precision’ (see paragraphs 17–27);

(c) deleting the definition of a ‘change in accounting estimate’ (see paragraphs 28–36); and

(d) limiting the definition of accounting estimates to measurement (see paragraphs 37–40).

9. The following paragraphs consider specific comments raised by respondents.

Role of judgements and assumptions

Summary of feedback

10. Some respondents said accounting estimates are not judgements or assumptions themselves, but rather the output (ie a numerical or monetary amount) of a measurement technique (such as an estimation technique or a valuation technique)

that requires an entity to use judgements and assumptions. Some respondents said accounting estimates should be defined as monetary amounts. This is because:

(a) other IFRS Standards (such as IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) suggest that an estimate is a monetary amount;[1] and

(b) the International Standard on Auditing 540 (Revised)[2] defines an accounting estimate as (emphasis added) 'a *monetary amount* for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty'.

11. Some respondents also said defining accounting estimates as judgements and assumptions could be confusing because in the process of applying accounting policies entities also make judgements and assumptions about matters other than determining accounting estimates. In their view, this is demonstrated by the fact that paragraph 122 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose (emphasis added) '…the judgements, *apart from those involving estimations*…, that management has made in the process of applying the entity's accounting policies...'. Some respondents said it is not clear how an entity accounts for changes to judgements, other than those involving estimates, that the entity makes in the process of applying accounting policies. Some also said additional guidance would be needed to clarify whether a judgement made by management is an accounting estimate.

Staff analysis and recommendations

12. We agree with respondents who said that accounting estimates are defined most helpfully not as judgements or assumptions themselves, but rather as the output of measurement techniques (such as an estimation technique or a valuation technique) that require an entity to use judgments and/or assumptions. This would also be more

[1] For example, paragraph 36 of IAS 37 states that '[T]he amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.'

[2] Published in October 2018.

consistent with how the term ‘estimate’ is generally used in IAS 8 and other IFRS Standards. For example:

(a) paragraph 32 of IAS 8 provides examples of estimates (monetary and non-monetary). These include bad debts, fair value of financial assets and liabilities, warranty obligations, useful lives of depreciable assets and the expected pattern of their consumption, etc.

(b) paragraph 30(a) and other paragraphs of IAS 36 *Impairment of Assets* refer to estimates of future cash flows;

(c) paragraph 21(a)(i) of IFRS 15 *Revenue from Contracts with Customers* refers to an estimate of the transaction price; and

(d) paragraph 57(a)(i) of IAS 19 *Employee Benefits* requires an entity to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service.

13. We think the definition of accounting estimates should refer only to monetary amounts in the financial statements. We considered whether the definition should also refer to non-monetary amounts (eg useful life of depreciable assets, estimate of the number of equity instruments expected to vest, timing or uncertainty of future cash flows, etc). However, we think entities use non-monetary amounts as inputs to estimate monetary amounts in the financial statements. For example, an entity determines the useful life of an asset (a non-monetary amount) in estimating the depreciation charge for that asset (a monetary amount). If accounting estimates are defined as outputs of measurement techniques, it follows that changes in inputs used, and in measurement techniques applied, to determine those outputs would result in a change in the related accounting estimate. Accordingly, we think it is not necessary to include non-monetary amounts in the definition of accounting estimates.

14. We think defining accounting estimates as monetary amounts and not as judgements or assumptions would also avoid any perceived conflict with other judgements that an entity may use in the process of applying accounting policies.

15. Paragraph 32 of IAS 8 includes some examples of accounting estimates which are non-monetary in nature, including inventory obsolescence and the useful lives of, or expected pattern of consumption of the future economic benefits embodied in,

depreciable assets. If the Board defines accounting estimates as monetary amounts, in drafting, we will make amendments to paragraph 32 of IAS 8 to remove the examples of non-monetary accounting estimates. We will also consider whether similar amendments are required to other paragraphs of IAS 8 or to other IFRS Standards.

16. As discussed in paragraph 12 of this paper, we think an entity uses judgements and/or assumptions in developing an accounting estimate. In Agenda Paper 26B of the Board's April 2019 meeting, our preliminary view was that the Board should specify that 'an entity uses judgements and assumptions in selecting and applying the applicable measurement techniques.'[3] We think this sentence could be read to imply that developing an accounting estimate requires an entity to (a) use both judgements and assumptions, and (b) use those judgements and assumptions in both selecting and applying a measurement technique. This was not our intention—our intention was to simply state that the development of accounting estimates requires the use of judgements and/or assumptions. We have revised the wording of our recommendation accordingly.

Use of the terms 'estimation uncertainty' and 'precision'

Summary of feedback

17. Some respondents said using the term 'estimation uncertainty' in defining accounting estimates would introduce an element of circularity in the definition and the term should be deleted.

18. Some respondents said paragraph 32 of IAS 8 states that, because of uncertainties inherent in business activities, 'many items in the financial statements cannot be measured with precision but can only be estimated'. For consistency, these respondents suggested that the Board use the same phrase (ie uncertainties inherent in business activities) when defining accounting estimates. However, another respondent suggested amending paragraph 32 of IAS 8 because, in the respondent's view,

[3] Paragraph 4(a)(iii) of Agenda Paper 26B of the Board's April 2019 meeting.

accounting estimates are required not just because of uncertainties inherent in business activities but also because of other uncertainties.

19. Some respondents also suggested the Board clarify when an item in the financial statements cannot be measured with precision—for example, whether a fair value measurement categorised in Level 1 of the fair value hierarchy is not an estimate because it is more precise than those categorised in Level 2 or Level 3 of the fair value hierarchy.

20. One respondent said entities sometimes do not measure items with precision because of cost-benefit reasons, rather than because of estimation uncertainty. The respondent suggested expanding the definition to also include such estimates.

Staff analysis and recommendations

21. We agree the terms 'estimation uncertainty' and 'precision' are not defined in IFRS Standards. We think the definition could be improved by using the term 'measurement uncertainty' instead of the terms 'estimation uncertainty' and 'precision'.

22. Paragraph 2.19 of the *Conceptual Framework for Financial Reporting* issued by the Board in March 2018 (Conceptual Framework) states that measurement uncertainty arises when 'monetary amounts in financial reports cannot be observed directly and must instead be estimated…' Paragraph 6.60 of the Conceptual Framework expands on what 'observed directly' means. It states (emphasis added) 'when a measure cannot *be determined directly by observing prices in an active market* and must instead be estimated, measurement uncertainty arises…'

23. We think using the term 'measurement uncertainty' in the definition of an accounting estimate would bring greater clarity to the definition. It would also:

    (a) be consistent with the Conceptual Framework;

    (b) remove any element of perceived circularity that could arise from using the term 'estimation uncertainty' in the definition (see paragraph 17 of this paper);

    (c) remove any perceived ambiguity of the term 'precision' (see paragraph 19 of this paper); and

(d) apply consistently to all monetary amounts in the financial statements, including amounts disclosed in the notes.

24. The term ‘estimation uncertainty’ is used in paragraph 125 of IAS 1. This paragraph requires an entity to disclose information about assumptions the entity makes about the future and other major sources of estimation uncertainty. We recommend not changing the requirements in paragraph 125 of IAS 1 to also refer to ‘measurement uncertainty’. The term ‘estimation uncertainty’ is not used in IAS 8 and is not a term that is being introduced, removed or amended as a result of our recommendations for this project. We think amending IAS 1 in this respect would go beyond the scope of the amendments and could have unintended consequences.

25. We considered whether the definition should state that accounting estimates are required because of uncertainties inherent in business activities (see paragraph 18 of this paper). This would be consistent with paragraph 32 of IAS 8 which states:

> As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated…

26. However, some respondents said using the phrase ‘uncertainties inherent in business activities’ could be seen as limiting the scope of accounting estimates. For reasons outlined in paragraph 23 of this paper, we think using the term ‘measurement uncertainty’ is more appropriate.

27. As outlined in paragraph 20 of this paper, one respondent said entities sometimes do not measure items with precision because of cost-benefit reasons, rather than because of estimation uncertainty. We think entities might, in some situations, not measure items with precision because of materiality considerations rather than for cost-benefit reasons. In our view, the definition of accounting estimates should not capture such estimates. We think expanding the definition to include these amounts would broaden the scope of accounting estimates and could have unintended consequences.

Accordingly, we think the definition should cover only those monetary amounts that are subject to measurement uncertainty.

Deleting the definition of a 'change in accounting estimate'

Summary of feedback

28. While several respondents said providing a definition of accounting estimates is helpful, some respondents said the definition of a change in accounting estimate was useful in distinguishing between the correction of an error and a change in accounting estimate. This is because the definition of a change in accounting estimate stated '…changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.' These respondents suggest the Board retain this portion of the definition.

29. Paragraph BC16 of the Exposure Draft explains the Board's rationale for deleting this portion of the definition of a change in accounting estimate. It states that paragraph 34 of IAS 8 already contains the same requirement. However, some respondents said the wording in paragraph 34 of IAS 8 uses language which is not prescriptive and accordingly, deleting this portion of the definition of a change in accounting estimate could have unintended consequences.

Staff analysis and recommendations[4]

30. Based on feedback from several respondents, we continue to think the Board should define accounting estimates and that this definition should continue to clarify that an entity uses accounting estimates in applying accounting policies.

31. The Exposure Draft proposed deleting from paragraph 5 of IAS 8 the statement that '…changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.' This is because paragraph 34 of IAS 8 already contains similar language. Paragraph 34 of IAS 8 states:

> An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result

[4] Our analysis and recommendations in this section, particularly in paragraphs 34 and 35 have been significantly revised and updated from our analysis and preliminary views presented in Agenda Paper 26B of the Board's April 2019 meeting.

of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

32. Paragraph 5 of IAS 8 identifies situations in which an entity would account for a change as a change in accounting estimate.

33. We agree that the wording in paragraph 34 of IAS 8 is not specific enough to help entities distinguish changes in accounting estimates from corrections of errors. We agree that changes in accounting estimates that result from new information and new developments are not corrections of errors and it would be useful to specify this in the amendments.

34. However, simply reinstating the statement from paragraph 5 of IAS 8 that '…changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors' could be unduly restrictive. This statement restricts changes in accounting estimates only to those resulting from new information or new developments, not capturing changes in any other situation. While consistent with existing IAS 8, we think entities can change accounting estimates even in the absence of new information or new developments as long as the change is not the correction of a prior period error. For example, an entity may change between two acceptable measurement techniques used to develop an accounting estimate without the need for new information or new developments, if such change is permitted by the applicable IFRS Standard. We think this is also consistent with the Board's decision (while developing the Exposure Draft) of not introducing a threshold requiring a change in estimation technique or valuation technique to be equally or more representative of the amount being measured[5].

35. Accordingly, we think it would be helpful to clarify that:

(a) the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors; and

[5] See discussion of matter 2(a) in appendix A to this paper for more information.

(b) changes in accounting estimates that result from new information or new developments are not the correction of an error.

36. We also think it would be helpful to specify that estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop accounting estimates. This is to avoid any ambiguity on whether a change in an estimation technique or a valuation technique is a change in accounting estimate or a change in accounting policy.

Limiting the definition of accounting estimates to measurement

Summary of feedback

37. Some respondents said it is not clear why the proposed definition of accounting estimates focuses only on measurement whereas an entity might also need to use estimates in other aspects of applying accounting policies, such as determining whether to recognise an item. For example, an entity could need to use estimates to determine the probability of outflow of resources when assessing whether to recognise a provision in accordance with IAS 37.

Staff analysis and recommendations

38. We think the definition of accounting estimates should be limited to monetary amounts which are subject to measurement uncertainty. We think this is consistent with the existing scope of IAS 8. Paragraph 5 of IAS 8 defines a change in an accounting estimates as (emphasis added) ‘an adjustment of the *carrying amount* of an asset or a liability, or the *amount* of periodic consumption of an asset…’.

39. We acknowledge that an entity could use inputs that are similar to those used in developing accounting estimates when assessing whether to recognise an item in the financial statements. However, IAS 8 does not address the recognition and derecognition of items that result from changes in inputs. For example, IAS 8 does not address whether and how an entity recognises or derecognises a provision as a result of a change in the probability of outflow of resources. An entity would, in this situation, apply the relevant requirements in IAS 37.

40. We think changing the scope of IAS 8 goes beyond the scope of this project—accordingly, we continue to think that the definition of accounting estimates in IAS 8

should focus only on measurement and should not refer to inputs used in other aspects of applying accounting policies such as recognition and derecognition.

Other matters

41. Appendix A to this paper sets out our analysis on other matters raised by respondents on the proposed definition of accounting estimates. Our recommendation is that no changes are needed in respect of those matters.

Comments from IFRS Interpretations Committee and ASAF members

42. Appendix C to this paper analyses comments raised by members of the IFRS Interpretations Committee (Committee) and the Accounting Standards Advisory Forum (ASAF) on our preliminary views on the definition of accounting estimates. Our recommendations in this paper reflect that feedback.

43. In addition, the Korean Accounting Standards Board (KASB) presented the findings of their research project 'A Revisit to the Definition of Accounting Estimates' at the October 2019 ASAF meeting[6]. The KASB recommended that:

    (a) in the short-term, the Board consider:

        (i) using terms in line with the Conceptual Framework eg measurement uncertainty; and

        (ii) discussing circumstances in which a change in accounting estimate can be permitted.

    (b) in the long-term, the Board consider defining 'accounting estimation' in the light of measurement uncertainty in the Conceptual Framework.

44. Our recommendation for the definition of accounting estimates (see paragraph 45 of this paper) uses terms in line with the Conceptual Framework. While our recommendations do not directly address circumstances in which a change in accounting estimate is permitted, they clarify situations in which a change would be a change in accounting estimate (for example, our recommendations would clarify that

[6] For further information, please refer to Agenda Paper 6 of the October 2019 ASAF meeting.

a change in an input and/or a measurement technique is a change in accounting estimate).

Summary of staff recommendations

45. We recommend that the Board:

(a) revise the definition of accounting estimates to specify that:

(i) accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty;

(ii) these monetary amounts are outputs of measurement techniques used in applying accounting policies; and

(iii) an entity uses judgements and/or assumptions in developing an accounting estimate.

(b) clarify that:

(i) the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors; and

(ii) changes in accounting estimates that result from new information or new developments are not the correction of an error.

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

Question for the Board
Does the Board agree with the recommendation set out in paragraph 45?

Appendix A—analysis of other matters

A1. The following table summarises other matters raised by respondents regarding the proposed definition of accounting estimates together with our analysis and recommendations on those matters.

Matter	Staff analysis and recommendations
1. Suggested changes to the proposed definition	
Some respondents made the following suggestions to change the definition of accounting estimates: (a) one respondent suggested using the term ‘accuracy’ rather than ‘precision’ in defining an accounting estimate – this is because a precise measurement may not necessarily be relevant or faithfully representative. (b) one respondent suggested specifying in the definition that estimates are inputs used to achieve objectives (ie include in the definition the discussion which is in the Basis for Conclusions to the Exposure Draft). (c) one respondent said the definition could imply that all inputs used in selecting and applying an accounting policy are estimates—this is because the Basis for Conclusions to the Exposure Draft states that an accounting policy is the overall objective and accounting estimates are inputs used in achieving that objective.	*We recommend no change.* We will consider wording suggestions when drafting the final amendments. Nonetheless, applying our recommendations in paragraph 45 of this paper, the definition would no longer use the term ‘precision’. We also think the definition should not be amended to specify that an accounting estimate is an input to achieve an objective—this discussion is better placed in the Basis for Conclusions because it explains the rationale for the definition. We think the definition proposed in the Exposure Draft and the related discussion in the Basis for Conclusions do not imply that all inputs in selecting and applying accounting policies are estimates. The proposed definition simply notes that estimates are inputs to achieving an objective (accounting policy).
2. Estimation techniques and valuation techniques	
(a) Some respondents said IFRS 13 *Fair Value Measurement* allows an entity to change its valuation technique only if the change results in a measurement that is equally or more representative of fair value in the circumstances. They suggested introducing similar requirements in IAS 8 for changes in estimation	*We recommend no change.* The Board considered introducing this requirement when it developed the Exposure Draft. However, at its meeting in September 2016 the Board decided not to do so. This is because introducing such a threshold could prevent preparers of financial statements from switching to a measurement technique that is less costly but still results in a measurement that is sufficiently representative of the

Matter	Staff analysis and recommendations
techniques and valuation techniques.	measurement basis. We continue to think the Board should not introduce this requirement.
(b) One respondent said paragraph 66 of IFRS 13 does not state that a change in valuation technique is a change in accounting estimate, only that such a change be accounted for as a change in accounting estimate. Further, they said paragraph BC147 of the Basis for Conclusion accompanying IFRS 13 can be read as suggesting that if it had been easy to distinguish between a change in technique and a change in inputs, the Board would have characterised the change in technique as a change in accounting policy.	*We recommend no change.* On the basis of our recommendation in paragraph 45 of this paper, the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate would be changes in accounting estimates. This clarification would also specify that estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop an accounting estimate. We think this clarification would not conflict with the requirements in IFRS 13.
(c) Some respondents said an entity uses judgements and assumptions not just in selecting an estimation technique or valuation technique but also in applying that technique. In addition, one respondent suggested clarifying why judgement is required in selecting an estimation technique or valuation technique.	*We partially agree.* Based on our recommendation in paragraph 45 of this paper, our recommended definition of accounting estimates would clarify that an entity uses judgements and assumptions in developing an accounting policy—this would include not just the selection of a measurement technique but also the application of that technique. We think it is not necessary to specify why an entity uses judgement in developing an accounting estimate.
(d) Some respondents suggested explaining the terms estimation techniques and valuation techniques.	*We recommend no change.* We think these terms are well understood in practice. We think defining them could have unintended consequences because they are also used in other IFRS Standards.
(e) One respondent asked whether the reference to estimation techniques or valuation techniques limits accounting estimates to only techniques within the conventional valuation methodologies.	*We recommend no change.* We think our recommended definition does not limit accounting estimates to techniques within conventional valuation methodologies. It simply identifies estimation techniques and valuation techniques as examples of measurement techniques used to develop accounting estimates.

Appendix B—summary and analysis of feedback from Board members

B1. Most Board Members supported the analysis and preliminary views on the definition of accounting estimates. However, some Board members raised comments regarding specific aspects of our analysis and preliminary views. The following table summarises those comments, together with our analysis and recommendations:

Comments	Staff analysis and recommendations
1) Some Board members said it could be beneficial to align the terminology used in paragraphs 125–133 of IAS 1 with the amendments. However, another Board member said that given the narrow scope of the amendments, revisions to other Standards should be made only when necessary.	*We recommend no change.* We continue to think the Board should not amend paragraphs 125–133 of IAS 1 for the reasons explained in paragraph 24 of this paper.
2) Some Board members asked why the definition of accounting estimates should not also capture situations in which an entity does not measure an item with precision because of cost-benefit reasons (for example, by applying a practical expedient)—see paragraph 27 of this paper. They also said entities sometimes apply practical expedients required or permitted by an IFRS Standard in developing an accounting estimate and asked whether the proposals would address practical expedients.	*We recommend no change.* For the reasons explained in paragraph 27 of this paper, we continue to think the definition of accounting estimates should not capture items not measured with precision because of cost-benefit reasons. We also think it is not necessary to specifically address the use of practical expedients required or permitted by IFRS Standards. If an IFRS Standard explicitly permits a practical expedient, the entity may choose to measure the item using the practical expedient. To the extent that a practical expedient changes the underlying objective, the practical expedient represents an accounting policy.
3) We provided an analysis of why the wording in paragraph 34 of IAS 8 (see paragraph 31 of this paper) on distinguishing changes in accounting estimates from errors was insufficient to help entities make a distinction between a change in accounting estimate and the correction of a prior period error. One Board member said this analysis was unclear. Another Board member agreed with our view that the wording of paragraph 34 of IAS 8 is insufficient in this respect.	*We recommend no change.* We have updated our analysis and recommendation regarding this matter (see paragraphs 30–35 of this paper).
4) One Board member said the proposals should clearly articulate the different elements of the definition. For example, they should clarify	*We recommend no change.* The recommended definition of accounting estimate clarifies that accounting estimates are 'outputs of measurement techniques used'.

Comments	Staff analysis and recommendations
that inputs are used in developing an accounting estimate.	Although the definition does not explicitly refer to 'inputs', the clarification we recommend in paragraph 35 of this paper would explain that the effects of a change in an input used to develop an accounting estimate are changes in the accounting estimate. Therefore, we think the recommended definition of accounting estimates articulates each element of the definition.
5) One Board member suggested explaining in the Basis for Conclusions that the term 'monetary amount' is different from the term 'monetary item' used in IAS 21 *The Effects of Changes in Foreign Exchange Rates* to avoid any confusion.	We will consider this suggestion in drafting the final amendments.

Appendix C—summary and analysis of feedback from Committee and ASAF members

C1. Many Committee and ASAF members expressed support for our preliminary views on the proposed definition of accounting estimates. Nonetheless, some expressed concerns about:

(a) using the term ‘monetary amount’;

(b) limiting the definition to measurement; and

(c) applying the recommended definition to fair value measurements.

The following paragraphs present a summary of the feedback, together with our analysis.

Using the term ‘monetary amount’

Summary of comments

C2. One ASAF member suggested considering whether the definition should be limited to monetary amounts or whether it should also include non-monetary amounts (see paragraph 45 of this paper for our recommendation).

C3. Some ASAF members said they were not convinced of the need to use the term ‘monetary amounts’ as proposed in our recommendation. Some committee members said stakeholders might confuse the term ‘monetary amount’ in the staff proposal with the term ‘monetary item’ in IAS 21.

C4. Some Committee members said the explanation of why the definition is limited to monetary amounts and how that interacts with non-monetary items (see paragraph 13 of this paper) is helpful and should be included in the Basis for Conclusions to the amendments. One Committee member suggested the Board amend paragraph 32 of IAS 8 to explain how the examples of non-monetary items in that paragraph would relate to accounting estimates.

Staff Analysis

C5. The use of the term ‘monetary amount’ in the recommended definition of accounting estimates is consistent with its use in the definition of ‘measurement uncertainty’ in the Conceptual Framework—measurement uncertainty is used in, and is central to, our proposed definition of accounting estimates (see paragraphs 21–23 of this paper). We therefore continue to think the definition should refer to 'monetary amounts' and propose no change to our recommendations in this respect. We will consider other suggestions when drafting the amendments.

Limiting the definition to measurements

Summary of comments

C6. Like some respondents to the Exposure Draft (see paragraph 37 of this paper), some Committee members asked why the definition of accounting estimates addresses only measurement and does not extend to other aspects such as recognition and derecognition. These Committee members said there could be unintended consequences because other IFRS Standards use the term estimates in respect of these other aspects.

C7. One ASAF member said limiting the definition of accounting estimates to measurement could create an additional category of change in accounting estimates that would not be addressed in IAS 8 (eg changes in estimates used in recognition decisions).

Staff Analysis

C8. As explained in paragraph 38–40 of this paper, IAS 8 addresses only changes in accounting estimates related to measurement. Accordingly, using the term 'measurement uncertainty' to define accounting estimates is consistent with the existing requirements in IAS 8. We think extending the scope could result in unintended consequences. Consequently, we propose no changes to our recommendations as a result of this matter.

Applying the recommended definition of accounting estimates to fair value measurement

Summary of comments

C9. One ASAF member asked whether, applying our preliminary views, a change from measuring fair value using level 1 inputs to using level 2 inputs would be accounted for as a change in accounting estimates.

Staff Analysis

C10. IFRS 13 states that the objective of a fair value measurement is (emphasis added) '… *to estimate* the price at which an orderly transaction to sell the asset or to transfer the liability *would* take place'. This is regardless of whether that fair value is determined using observable inputs. Accordingly, we think any fair value measurement (regardless of whether that measurement uses level 1 inputs) in the financial statements is an accounting estimate. This is because an entity may use observable inputs in determining a fair value but cannot *observe* the fair value itself.

C11. Accordingly, we think in applying our recommendations (see paragraph 45 of this paper), a change from measuring fair value using level 1 inputs to using level 2 inputs would be a change in accounting estimate.

Other comments from Committee and ASAF members

C12. The table below summarises other comments from Committee and ASAF members together with our analysis and recommendations on those matters.

Comment	Staff analysis and recommendations
(a) Some Committee members also said entities sometimes change accounting estimates for reasons other than new information or new developments and the wording in the staff proposals would not address these situations. One ASAF member said the Board should clarify what constitutes new information and new developments. One Committee member suggested using the term 'more experience'.	*We partially agree.* Our analysis in paragraph 34 of this paper (and the resulting recommendation) specifically considers situations in which entities might change accounting estimates for reasons other than new information or new developments. We think clarifying what constitutes new information and new developments goes beyond the scope of the project. The existing definition of a 'change in accounting estimate' in paragraph 5 of IAS 8 explains that changes in accounting

	estimates results from new information or new developments and, accordingly, are not correction of errors. Paragraph 34 of IAS 8 also uses the term ‘more experience’ in that same context. We are also not aware of significant difficulties in applying these requirements.
(b) One ASAF member suggested the Board define the process of accounting estimation, and then define an accounting estimate as an output of the process of accounting estimation.	*We recommend no change.* We think defining the process of accounting estimation would add unnecessary complexity.
(c) One Committee member suggested the Board amend the requirement in paragraph 35 of IAS 8 so that when it is difficult to distinguish a change in accounting policy from a change in accounting estimate, the change is treated as a change in accounting policy, not as a change in accounting estimate. This is because the proposed amendment would clarify the definition of accounting estimates.	*We recommend no change.* We think the Board should not amend the requirements in paragraph 35 of IAS 8. The amendments would help entities distinguish accounting estimates from accounting policies. In agenda paper 26D for this meeting, we explain that although the amendments would clarify the definition of accounting estimates, they would likely not solve all identified application questions. Accordingly, the requirements in paragraph 35 of IAS 8 would still be applicable for situations in which it is difficult to distinguish accounting policies from accounting estimates.
(d) One Committee member suggested the Board explain how the proposed definition of accounting estimates interacts with the requirements in IAS 1.	*We recommend no change.* Paragraph 24 of this paper documents our considerations in this respect.
(e) One Committee member said it would be helpful to ensure the staff proposal is consistent with the definition used in the International Auditing Standards issued by IAASB.	*We recommend no change.* The International Standard on Auditing (ISA) 540 (Revised), published in October 2018, defines an accounting estimate as ‘a monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty’. Paragraph A14 of ISA 540 states ‘Accounting estimates are monetary amounts that may be related to classes of transactions or account balances recognized or disclosed in the financial statements. Accounting estimates also include monetary amounts included in disclosures or used to make judgements about recognition or disclosure relating to a class of transactions or account balance.’ In addition, the Public Company Accounting Oversight Board (PCAOB) published Auditing Standard AS 2501 (Revised) in December 2018.

	AS 2501 defines an accounting estimate as '…a measurement or recognition in the financial statements of (or a decision to not recognize) an account, disclosure, transaction, or event that generally involves subjective assumptions and measurement uncertainty. For purposes of this standard, a fair value measurement is a form of accounting estimate.' Applying our recommendations in this paper, accounting estimates would be defined as 'monetary amounts in the financial statements that are subject to measurement uncertainty'. We think our recommendation reduces potential differences with the definition of accounting estimates in ISA 540 (Revised) and AS 2501 (Revised). Paragraphs 38–40 of this paper explain why the definition of accounting estimates in IAS 8 should focus on measurement and should not also extend to inputs used when assessing whether to recognise items in the financial statements.