STAFF PAPER

25 March 2014

IFRS Interpretations Committee Meeting

Project	**IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***
Paper topic	Distinction between a change in accounting policy and a change in accounting estimate

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Introduction

1. In November 2013, the IFRS Interpretations Committee (the 'Interpretations Committee') discussed a request to clarify the distinction between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The submitter stated that enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or a change in an accounting estimate in accordance with IAS 8.

2. Our analysis of this issue was included in Agenda Paper 14 of the November 2013 meeting.[1]

3. The Interpretations Committee tentatively decided that it would not add this topic to the agenda. The Interpretations Committee noted that the principal guidance on distinguishing a change in an accounting policy from a change in accounting

[1] Agenda Paper 14 of the November 2013 meeting http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/November/AP14_-_IAS_8_Change_in_accounting_policy_and_estimate.pdf

estimate is set out paragraphs 5 and 35 of IAS 8. It also noted that other IFRS provide additional guidance that can be helpful in making the distinction. However, the Interpretations Committee acknowledged that distinguishing between a change in an accounting policy and a change in an accounting estimate can require judgement and may be challenging. The Interpretations Committee observed that it would be helpful if more clarity was given to help entities make the distinction between a change in an accounting policy and a change in an accounting estimate, including clarity on how to deal with changes in the method of estimation. However, it considered that any amendment to the Standards would be too broad for it to be addressed within the confines of the existing Standards. Instead, the Interpretations Committee considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the *Conceptual Framework* project.

4. The Interpretations Committee's full tentative agenda decision can be found in IFRIC Update (November 2013).[2]

Comment letter summary

5. The comment period for the tentative agenda decision ended on 20 January 2014. We received four responses. These comment letters are in Appendix B.

6. One respondent, the Canadian standard-setter, agreed with the tentative agenda decision for the reasons provided in the agenda decision.

7. One respondent, Deloitte, agreed with the tentative agenda decision for the reasons provided in the agenda decision, but noted that the agenda decision should remove a sentence related to a change in a method of estimation.

8. Two respondents, ESMA and the Italian standard-setter, agreed with the tentative agenda decision for the reasons provided in the agenda decision, but provided comments that should be communicated to the IASB when the staff bring the

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[2] IFRIC Update (November 2013) http://media.ifrs.org/2013/IFRIC/November/IFRIC-Update-November-2013.html

issue to the IASB's attention for future consideration in the Disclosure project and/or the *Conceptual Framework* project.

Staff analysis of the comments received

9. The staff considered the two comments made by the respondents.

Remove a sentence related to a change in a method of estimation

10. The tentative agenda decision included the following sentence, in order to reflect the discussion at the November Interpretations Committee meeting:

> Regardless of the type of change, the Interpretations Committee thinks that a change in a method of estimation should only be made if that change produces reliable and more relevant information.

11. One respondent agreed with the sentence and requested that the IASB should clarify the point across all applicable Standards:

> ESMA strongly believes that the clarification should reiterate that any change in a method of estimation should only be made if that change produces more reliable and more relevant information.

12. Another respondent suggested removing the sentence, saying:

> whilst we would expect there to be some reason for a change in accounting estimate, we believe that the unsupported statement in the tentative agenda decision that "a change in a method of estimation should only be made if that change produces reliable and more relevant information" should be removed from the agenda decision. We do not believe it is appropriate to extrapolate this from the requirement in paragraph 14 of IAS 8 which applies only to changes in accounting policies.

13. We do not think that the Interpretations Committee's view that 'a change in a method of estimation should only be made if that change produces reliable and more relevant information' was merely extrapolated from the requirement for changes in accounting policies. Paragraph 66 of IFRS 13 *Fair Value Measurement* states that 'Revisions resulting from a change in the valuation technique or its

application shall be accounted for as a change in accounting estimate in accordance with IAS 8.' In addition, paragraph 65 of IFRS 13 states that a change in valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances, as follows:

> 65 Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (eg a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances.

14. Although we do not think that the Interpretations Committee's view was merely extrapolated from the requirement for changes in accounting policies, we noted that the wording of the tentative agenda decision was not necessarily consistent with the criteria in paragraph 65 of IFRS 13; because paragraph 65 of IFRS 13 states that a change in valuation technique or application is also appropriate if the change results in a measurement that is **equally** representative of fair value. Accordingly, we would like to propose a revision to the wording of the agenda decision as follows (new text is underlined):

> Regardless of the type of change, the Interpretations Committee thinks that a change in a method of estimation should only be made if that change produces reliable and <u>equally or</u> more relevant information.

Comments that should be communicated to the IASB when the staff bring the issue to the IASB's attention

15. Two respondents, ESMA and the Italian standard-setter, provided comments that are to be communicated to the IASB when the staff bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the *Conceptual Framework* project:

- As indicated in our submission, ESMA strongly believes that additional guidance is needed and references to a change in an accounting policy and a change in an accounting estimate should be aligned across various Standards.

- Paragraph 35 of IAS 8 states that, in situations where it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate, the change should be treated as a change in an accounting estimate. In ESMA's view, this preference for the treatment of 'difficult cases' as changes in an accounting estimate would justify more robust disclosures in order to better align the incentives of preparers of financial statements to consider all circumstances when such an assessment is made.
- ESMA supports the IFRS Interpretations Committee request to the IASB to deal with changes in the method of estimation. Whereas we agree with the IFRS Interpretations Committee that information about the change in method of estimation would need to be disclosed in accordance with paragraph 39 of IAS 8, ESMA is of the view that further clarification in this area is needed.
- Furthermore, we believe that requiring disclosures analogous to those currently required by paragraph 29 of IAS 8 related to change in an accounting policy for a change in a method of estimation could provide more relevant information to the users.
- Given that we have observed significant divergence in practice, ESMA is of the view that this issue should be considered and addressed speedily as part of the Disclosure project.
- We [the Italian standard-setter] believe that IASB should address it in an ad hoc project, because the lack of a clear distinction could lead to an inconsistent application of the IAS 8.

16. We will communicate the respondents' comments to the IASB in one of its future meetings.

Staff recommendation

17. We recommend confirming the tentative agenda decision with some minor drafting changes. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

Question for the Interpretations Committee

Question for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda? 2. Does the Interpretations Committee agree with the wording for the final agenda decision shown in Appendix A?

Appendix A—Final agenda decision

A1. We propose the following wording to finalise the agenda decision (new text is underlined and deleted text is ~~struck through)~~:

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Distinction between a change in an accounting policy and a change in an accounting estimate

The Interpretations Committee received a request to clarify the distinction between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The submitter stated that enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or as a change in an accounting estimate in accordance with IAS 8.

The Interpretations Committee noted that the principal guidance on distinguishing a change in accounting policy from a change in accounting estimate is set out paragraphs 5 and 35 of IAS 8. It also noted that other IFRSs provide additional guidance that can be helpful in making the distinction. For example, paragraph 66 of IFRS 13 states that revisions resulting from a change in the valuation technique (for example, from market approach to income approach) or its application shall be accounted for as a change in an accounting estimate.

The Interpretations Committee acknowledged that distinguishing between a change in accounting policy and a change in accounting estimate can require judgement and may be challenging. However, it observed that paragraph 35 of IAS 8 states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. Consequently, the Interpretations Committee expected that an entity would follow this guidance in circumstances in which it is unclear whether a change is a change in accounting policy or a change in accounting estimate, although the Interpretations Committee adds that sufficient analysis should be made before reaching the conclusion.

The Interpretations Committee noted that a change in accounting estimate may encompass a change in method used to develop an estimate, as well as a change in inputs to the method, both of which result in a change in the amount of the estimate. Regardless of the type of change, the Interpretations Committee thinks that a change in a method of estimation should only be made if that change produces reliable and equally or more relevant information. The Interpretations Committee noted that paragraph 39 of IAS 8 requires disclosure of the nature and amount of a change in accounting estimate, and that such disclosure would include information about a change in the method applied. The Interpretations Committee observed that information about the change in method would need to be disclosed in accordance with paragraph 39 of IAS 8 or, in case of a change in valuation technique, in accordance with paragraph 93(d) of IFRS 13.

The Interpretations Committee observed that it would be helpful if more clarity were given to help entities make the distinction between a change in accounting policy and a change in accounting estimate, including clarity on how to deal with changes in the method of estimation. However, it considered that any amendment to the Standards would be too broad for it to address within the confines of existing IFRSs. Instead, the Interpretations Committee considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the *Conceptual Framework* project.

On the basis of the analysis above, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Comment letters received

European Securities and Markets Authority

Date: 30 January 2014
ESMA/2014/135

Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH L
United Kingdom

The IFRS Interpretations Committee's tentative agenda decision on lAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors:* Distinction between a change in an accounting policy and a change in an accounting estimate

Dear Mr. Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IFRS Interpretations Committee's tentative decision not to add to its agenda the request for clarification it received on the application of lAS 8 in relation to the distinction between a change in an accounting policy and a change in an accounting estimate.

ESMA welcomes the Interpretations Committee's decision to bring the issue to the IASB's attention for future consideration as part of the *Disclosure* project and/or the *Conceptual Framework* project. As indicated in our submission[1], ESMA strongly believes that additional guidance is needed and references to a change in an accounting policy and a change in an accounting estimate should be aligned across various standards.

[1] Letter: Application of lAS 8 – *Accounting Policies, Changes in Accounting Estimates and* Errors to distinguish between a change in accounting estimate and a change in accounting policy, European Securities and Markets Authority, ESMA/2013/854, 1 July 2013

Paragraph 35 of IAS 8 states that, in situations where it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate, the change should be treated as a change in an accounting estimate. In ESMA's view, this preference for the treatment of '*difficult* cases' as changes in an accounting estimate would justify more robust disclosures in order to better align the incentives of preparers of financial statements to consider all circumstances when such an assessment is made.

ESMA supports the IFRS Interpretations Committee request to the IASB to deal with changes in the method of estimation. Whereas we agree with the IFRS Interpretations Committee that information about the change in method of estimation would need to be disclosed in accordance with paragraph 39 of IAS 8, ESMA is of the view that further clarification in this area is needed. ESMA strongly believes that the clarification should reiterate that any change in a method of estimation should only be made if that change produces more reliable and more relevant information. Furthermore, we believe that requiring disclosures analogous to those currently required by paragraph 29 of IAS 8 related to change in an accounting policy for a change in a method of estimation could provide more relevant information to the users.

In view of these considerations, ESMA concurs with the IFRS Interpretations Committee's assessment that the IASB is the body that is the most able to address this issue. Given that we have observed significant divergence in practice, ESMA is of the view that this issue should be considered and addressed speedily as part of the Disclosure project.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steve Maijoor

Chair

European Securities and Markets Authority

CC: Hans Hoogervorst, Chairman International Accounting Standards Board (IASB)

Accounting Standards Board
AcSB
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Conseil des normes comptables

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January 20, 2014

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Distinction between a change in an accounting policy and a change in an accounting estimate

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the distinction between a change in accounting policy and a change in an estimate. This tentative agenda decision was published in the November 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kingram@cpacanada.ca).

Yours truly,

PMartin

Peter Martin, CPA, CA
Director, Accounting Standards

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18 February 2014

Re: Interpretation Committee tentative agenda decisions

Dear Wayne,

We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in November 2013) on IAS 8 – "Distinction between a change in accounting policy and a change in accounting estimate" and on IAS 39 – "Accounting for Repo transaction".
Moreover we would like to provide our comments on IFRS 11 – "Accounting for interests in joint operations structured through separate vehicles", even if no contribution is required on this item.

We are writing to communicate some concerns about the tentative decisions reached on the above-mentioned issues and on IFRS 11.

IAS 8 - Distinction between a change in accounting policy and a change in accounting estimate

The issue relates to the distinction between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 Accounting Policies, Changes in accounting Estimates and Errors.
The IFRS IC decided not to add this issue to its agenda because it noted that the principal guidance on distinguishing a change in accounting policy from a change in accounting estimate is set out in paragraphs 5 and 35 of IAS 8 and any amendment to the Standard would be too broad for it to address within the confines of existing IFRSs. Therefore, the IFRS IC considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the Conceptual Framework project.
We agree with the IFRS IC's tentative decision to bring the issue to IASB's attention, but we believe that IASB should address it in an ad hoc project, because the lack a of a clear distinction could lead to an inconsistent application of the IAS 8.

IAS 39 – Accounting for Repo transaction

The issue relates to the separate or aggregate accounting for three transactions and to the application of paragraph B.6 of Guidance on Implementing IAS 39 Financial Instruments: Recognition and Measurement ('IG B.6 of IAS 39') in addressing the first issue.

It is our understanding that the tentative conclusion of the IFRS IC to reject the request for interpretation stems from the difficulty of finding a common solution to the accounting for the transactions, as it may vary according to the specific contract clauses. Such a conclusion seems to be corroborated by the fact that the business purpose is, in the opinion of the IFRS IC, unclear.

The position of the IFRS IC triggers the following considerations:

- The lack of clarity about the business purpose may have been determined by the absence of elements in the submission. However, we believe that in the staff paper presented to the IFRS IC in November there was a substantive description of the business purpose based on the text of submission (see para. 25 of the agenda paper 16). Analyzing carefully such a description of the business purpose, it is clear that the intention of the transaction was certainly not to simulate the effects of a derivative, such as a CDS.
- The relevance of the business purpose. The spotlight on the unclarity of the business purpose indicates that special attention should be given to such an indicator among those listed in para. B.6 of the IAS 39 IG.

Having considered such aspects, we are convinced that the IFRS IC should reconsider its conclusions in the light of a better understanding of the business purpose.

We acknowledge that application of the guidance in paragraph IG B.6 of IAS 39 requires judgement and that the presence or absence of any single specific indicator alone may not be conclusive. However, the issue is widespread and the absence of specific guidance on how to consider the indicators listed in para. IG B.6 could lead to the serious risk of a difference in practice. The IFRS IC should not underestimate this situation and should sooner rather than later provide preparers with adequate indications. We understand that the IASB may not want to develop further guidance in the application of the IAS 39. However, we note that the issue under consideration is identical in IFRS 9 and therefore it is expected that the IASB will deal with it sooner rather than later in the finalization of the IFRS 9.

IFRS 11 – Accounting for interests in joint operations structured through separate vehicles

The issue relates to the accounting for interests in joint operations structured through separate vehicles. IFRS 11 Joint Arrangements requires a joint operator, in its separate financial statements, to account for its interest in a joint operation structured through a separate vehicle in the same manner as in the consolidated financial statements. This is the case regardless of whether the joint operation is structured through a separate vehicle or not.

Applying the requirements in IFRS 11 in the separate IFRS financial statements of a joint operator has created significant concerns in some jurisdictions, particularly those that require listed companies to present separate financial statements in accordance with IFRS. The issue arises when a joint operation is structured through a separate vehicle (for example a legal entity).

The OIC appreciates the IFRS IC's efforts to address many accounting issue related to the application of IFRS 11.
The OIC considers to be worthy of further analysis the issue identified by IFRS IC as "Additional Issue 4: Nature of obligation for the liabilities". Such an issue is very important especially in the cases in which the joint operation assessment is based on a "contractual arrangement". It is very important that IFRS IC give priority to this issue.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

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Wayne Upton
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21 January 2014

Dear Mr Upton

Tentative agenda decision – IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Distinction between a change in an accounting policy and a change in an accounting estimate

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the distinction between a change in an accounting policy and a change in an accounting estimate.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. However, whilst we would expect there to be some reason for a change in accounting estimate, we believe that the unsupported statement in the tentative agenda decision that "a change in a method of estimation should only be made if that change produces reliable and more relevant information" should be removed from the agenda decision. We do not believe it is appropriate to extrapolate this from the requirement in paragraph 14 of IAS 8 which applies only to changes in accounting policies.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader