STAFF PAPER

May 2015

IASB Meeting

Project	**Disclosure Initiative–Principles of Disclosure (POD)**
Paper topic	Changes in accounting estimates: new disclosures

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OIC STAFF PAPER prepared for the May IASB meeting

Project	**Review of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***
Paper topic	Changes in accounting estimates: new disclosures

This paper has been prepared by the staff of the OIC for discussion at a public meeting of the IASB and does not represent the views of the OIC or any individual member of the OIC.

Purpose of the paper

1. This paper recommends that the *Principles of Disclosure* discussion paper include a proposal to amend the current disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when an entity changes an accounting estimate.

Background information

2. In respect of changes in accounting *policies*, paragraph 29 of IAS 8 states that:

> When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
>
> (a) the nature of the change in accounting policy;
>
> (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
>
> (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
>
> > (i) for each financial statement line item affected; and
> >
> > (ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;

> (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
>
> (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
>
> Financial statements of subsequent periods need not repeat these disclosures

3. In respect of changes in accounting *estimates*, paragraph 39 of IAS 8 states that:

> An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

4. In November 2013, the IFRS Interpretations Committee ('the Interpretations Committee') issued a tentative agenda decision on the issue of the distinction between a change in an accounting policy and a change in an accounting estimate.[1] The relevant extract of this tentative agenda decision that deals with disclosures for changes in accounting estimates is as follows:

> 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.

5. The European Securities and Marketing Authorities (ESMA), in its comment letter to the Interpretations Committee's tentative agenda decision, suggested the following:

[1] See the November 2013 IFRIC *Update*: http://media.ifrs.org/2013/IFRIC/November/IFRIC-Update-November-2013.html#4. The tentative agenda decision was not finalised because the issue was added to the Disclosure Initiative project in September 2014.

> … 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.

6. The main difference between the disclosure requirements for changes in accounting policies in paragraph 29 of IAS 8 and what is already in paragraph 39 for changes in accounting estimates is the requirement to disclose the reason(s) for the change.

7. According to paragraph 93(d) of IFRS 13 *Fair Value Measurement*, an entity shall disclose:

> … a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it …

8. During the Capital Markets Advisory Committee (CMAC) meeting in February 2015, some CMAC members said that they would like to see more disclosures for changes in accounting estimates, because they are common in practice.[2]

Our proposal

9. On the basis of the feedback received, we think that when an entity changes an accounting estimate and the change has a material effect on the entity's financial statements, IFRS should require that the entity provide disclosures similar to those required in paragraph 93(d) of IFRS 13 and paragraph 29 of IAS 8.

10. We can see no basis for having a disclosure difference between a change in policy or a change in estimate if the effect is material. This creates a financial reporting difference which is artificial.

11. We recommend that paragraph 39 of IAS 8 should be amended as follows (new text is underlined, deleted text is struck through):

[2] See the summary of the CMAC meeting: http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/past-meetings/Documents/CMAC-February-meeting-summary-April-2015.pdf.

> An entity shall disclose information that enables users of its financial statements to evaluate the effect of a change in accounting estimate on its financial position and financial performance. To meet this objective an ~~An~~ entity shall disclose the nature of the change, the amount(s) of the financial reporting effects and ~~amount of~~ the reason for a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

12. Depending on the effect of the change, an entity will need to consider the level of detail that is necessary to satisfy the disclosure objective and how much emphasis to place on each of the proposed disclosure requirements.

13. This proposal would be included in the *Principles of Disclosure discussion paper* and not as a separate exposure draft ahead of the discussion paper.

Question to IASB members

Do you agree with our proposal that when an entity changes an accounting estimate that has a material effect on the entity's financial statements, it should disclose the reason(s) for making it?