STAFF PAPER

REG IASB Meeting

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

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Background and purpose of the paper

1. As described in Agenda Paper 25A, in September 2014 the Board tentatively decided that the issue of distinguishing between a change in an accounting policy and a change in an accounting estimate, and any applicable thresholds for making changes *and disclosures*, should be considered as part of the *Disclosure Initiative*.[1] The Board started its discussion of whether to add to IAS 8 any disclosure requirements for changes in accounting estimates in May 2015.

2. The purpose of this paper is to:

   (a) recommend not adding any new disclosure requirements to IAS 8 for changes in accounting estimates; and

   (b) recommend not doing any further work on the disclosure requirements for changes in accounting estimates in IFRS Standards.

3. The rest of this paper discusses:

   (a) Existing disclosure requirements for changes in accounting policies and accounting estimates—paragraphs 5-8

   (b) Recommendation in May 2015—paragraphs 9-13

   (c) Current recommendation—paragraphs 14-17

   (d) Review of disclosure requirements in IFRS Standards—paragraphs 18-22.

[1] http://media.ifrs.org/2014/IASB/September/IASB-Update-September-2014.pdf

4. The paper also has the following Appendices:

   (a) Appendix A—Relevant disclosure requirements of IAS 8 and IFRS 13

   (b) Appendix B—Accounting estimates: disclosure requirements in various Standards.

Existing disclosure requirements for changes in accounting policies and accounting estimates

5. An entity shall disclose for:

CHANGE IN ACCOUNTING POLICY	**CHANGE IN ACCOUNTING ESTIMATE**		**CHANGE IN ESTIMATION OR VALUATION TECHNIQUE** (which is a sub-set of a change in an accounting estimate)[2]	
IAS 8.29:	**IAS 8.39:**	**Disclosure requirements of a specific Standard** (eg IAS 37)	**IFRS 13.93(d) for items at fair value (Levels 2 and 3):**	**Disclosure requirements of a specific Standard*** (eg IFRS 7)
Nature of the change	Nature of the change		The change	
Amount of the change in current and prior periods	Amount of the change in current period			
Effect on periods before those presented, if practicable	Effect on future periods, if practicable			
Reasons for the change: why new policy provides reliable and more relevant information	***Discussed in this paper***		Reasons for the change: why new measurement results in equally or more representative fair value	

* It appears that only IFRS 7 contains an explicit disclosure requirement for changes in estimation techniques (for impairment of financial assets).

[2] Please see Agenda Paper 25A for more discussion.

6. The disclosure requirements of IAS 8 and IFRS 13 *Fair Value Measurement* are quoted in Appendix A of this paper.

7. For changes in accounting estimates, some IFRS Standards (for example, IFRS 2 *Share-based Payment*, IFRS 7 *Financial Instruments: Disclosures*; IFRS 15 *Revenue from Contracts with Customers*, IAS 19 *Employee Benefits*, IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) require specific disclosures—which may or may not include disclosures for *changes* in those estimates—for items within the scope of the Standard in question. The main disclosure requirements for accounting estimates are summarised in Appendix B.[3]

8. IAS 1 *Presentation of Financial Statements* includes a generic disclosure requirement for assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment (ie change) to the carrying amounts of assets and liabilities within the next financial year.[4]

Recommendation in May 2015

9. During outreach performed by the Italian standard-setter (OIC) in early 2015 we heard from users of financial statements that they would like to see more disclosures for changes in accounting estimates, because they are common in practice and might have a significant impact on entities' performance.[5]

10. In May 2015 the Board discussed a paper prepared by staff of the OIC about possible amendments to IAS 8.[6] The paper recommended amending IAS 8 to require entities to disclose reasons for changing accounting estimates. The recommendation had two intentions:

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[3] As Appendix B shows, the disclosure requirements (and formats of the requirements) for accounting estimates vary across Standards.

[4] See paragraph 125 of IAS 1.

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

[6] Agenda Paper 11B: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/May/AP11B-Disclosure-Initiative.pdf

(a) to align the requirements of paragraph 39 of IAS 8 (for changes in accounting estimates) with the requirements of paragraph 29 of IAS 8 (for changes in accounting policies); and

(b) to require more disclosure about changes in accounting estimates.

11. During the discussion, some Board members expressed a view that the recommended disclosure requirements would not result in meaningful disclosures or, in other words, would result in boilerplate disclosures; in particular, because changes in accounting estimates are routine and much more frequent than changes in accounting policies.[7]

12. Some Board members expressed a view that additional disclosure requirements about the reasons for a change in accounting estimates should apply only to changes in estimation and valuation techniques (as opposed to all changes in accounting estimates). In other words, IAS 8 should have an additional disclosure requirement similar to the one in paragraph 93(d) of IFRS 13 for changes in valuation techniques.

13. No technical decisions were made during that meeting.[8]

Current recommendation

Disclosure requirements for all changes in accounting estimates

14. Since the Board meeting in May 2015, we have developed our thinking further. We have assessed the issue of additional disclosures in IAS 8 in a broader sense, ie by looking at existing disclosure requirements for accounting estimates, including changes in accounting estimates, in IFRS Standards.

15. We now recommend not adding any new disclosure requirements for changes in accounting estimates to IAS 8 for the following reasons:

(a) in relation to users' concern that they would welcome more disclosures for changes in accounting estimates, it appears that IFRS Standards already require a sufficient volume of disclosure, as summarised in Appendix B. Consequently, adding more disclosure requirements to IAS 8 will not

[7] Having said that, IFRS 7 contains a requirement to disclose *reasons* for changes in loss allowances (see Appendix B of this paper).

[8] http://media.ifrs.org/2015/IASB/May/IASB-Update-May-2015.pdf

necessarily address the concern expressed by users. We believe that their concern seems to lie not solely in the volume of disclosures provided by entities but also in their quality;

(b) amending IAS 8 without amending other IFRS Standards might have little practical effect. This is because we have heard that in practice entities sometimes follow disclosure requirements only of those Standards that apply to specific transactions, without also looking at IAS 8;

(c) paragraph 39 of IAS 8 already requires disclosure of the nature of a change in an accounting estimate.[9] We believe that requiring an additional disclosure of a reason for the change might not make much difference in practice; and

(d) as demonstrated in paragraph 5 of the paper, the existing disclosure requirements of a reason for a change (eg in accounting policies) in IAS 8 and IFRS 13 basically aim to ensure that a certain threshold for the change is met (eg the new accounting policy provides reliable and more relevant information). There is no such threshold for changes in accounting estimates under IAS 8, as discussed in paper 25A.

16. We further believe that in this instance users' concern about the quantity of disclosure for changes in accounting estimates might be better addressed not via Standard-setting but through education of preparers and their auditors.

Disclosure requirements for changes in estimation techniques and valuation techniques

17. For the same reasons that are stated in paragraph 15, the staff recommend not adding to IAS 8 a requirement to disclose the reason for a change in an estimation technique or a valuation technique (as mentioned in paragraph 12 of the paper). In addition, we believe that changes in estimation techniques and valuations techniques rarely happen in isolation (ie without other changes in estimated amounts) in practice. Therefore, it

[9] A change in an accounting estimate and the estimated amount might have several contributing factors, for example: a change in some assumptions and a change in estimation technique.

does not appear necessary to create disclosure requirements for those changes in addition to the disclosure requirements that already exist in paragraph 39 of IAS 8.[10]

Review of disclosure requirements in IFRS Standards

18. Irrespective of what the Board decides on the amendments to IAS 8 for changes in accounting estimates, some Board members might have a concern about the extent of disclosure *requirements* for changes in accounting estimates across IFRS Standards.

19. In terms of a Standard-setting action, one of the ways forward might be, for example, to revisit existing disclosure requirements for changes in accounting estimates across Standards. The purpose of this review would be, for example, to improve the quality of disclosure the disclosure requirements more consistent across Standards.[11]

20. However, at this stage—without carrying out more investigative work—we are not in a position to say whether such a review (or any other Standard-setting activity) would result in significant benefits (ie improved disclosures about changes in accounting estimates) in practice. At the moment we are not convinced that any Standard-setting activity in this area will be effective in practice. As we said in paragraph 15(a) of this paper, we believe that the issue lies not solely in the volume of disclosures but also in their quality.

21. Besides, in respect of demand for any further Standard-setting activity in this area of disclosures, we have not heard at this stage any other concerns—apart from feedback during the CMAC meeting in April 2015—from users of financial statements. There were almost no comments about this issue in constituents', including users', responses to the *Agenda Consultation 2015*.

22. Consequently, because of the uncertainty about the effectiveness of Standard-setting activities in this area in practice and because we have not identified a strong demand from users of financial statements, the staff recommend that the Board should not do

[10] As explained in Appendix A (footnote 12), the Board addressed this issue for items measured at fair value when IFRS 13 was issued as an ED. However, in IFRS 13 the Board decided to require disclosure of the reason for the change in a valuation technique and not to require other disclosures that would have been required by IAS 8.

[11] For example, it might be concluded that some Standards should have a disclosure requirement similar to paragraph 76 of IAS 16 *Property, Plant and Equipment* (see Appendix B of this paper).

any further work on the disclosure requirements for changes in accounting estimates in IFRS Standards.

Questions
1. Do you agree with the recommendation not to add new disclosure requirements for changes in accounting estimates to IAS 8? 2. Do you agree with the recommendation not to do further work on the disclosure requirements in IFRS Standards for changes in accounting estimates?

Appendix A

Relevant disclosure requirements

A1 Paragraph 29 of **IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** states that for a voluntary change in an accounting policy:

> 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 an 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 the 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.

A2 Paragraph 39 of IAS 8 states that for a change in an accounting estimate:

> 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.

A3 Paragraph 66 of **IFRS 13 *Fair Value Measurement*** tells entities that they are not required to provide the disclosures required by paragraph 39 of IAS 8 for changes in a valuation technique because it would be difficult to determine whether a change in fair value was attributable to a change in the valuation technique used or attributable to changes in other factors.[12] Paragraph 93(d) of IFRS 13 states that an entity should disclose the reasons for making a change in a valuation technique. This means that, in effect, IFRS 13 requires only disclosures of reasons for changes in valuation techniques, and not of reasons for changes in inputs to those valuation techniques.

> 66 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. However, the disclosures in IAS 8 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.
>
> 93(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, 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. […]

[12] Paragraphs BC147-148 of IFRS 13 explain that respondents did not support the proposal to provide IAS 8 disclosures because they thought it would be difficult to determine whether a change in fair value was attributable to a change in the valuation technique used or attributable to changes in other factors (such as a change in the observability of the inputs used in the measurement). The Board concluded that requiring the disclosures in IAS 8 would not be cost-beneficial.

Appendix B

Accounting estimates: disclosure requirements in various Standards

Disclosures for *changes* in accounting estimates are highlighted in Grey.

IFRS	**Para**	
IFRS 2	47(a)(i)	For measurement of share options: the option pricing model used and the inputs to that model.
IFRS 3	B64(g)	For contingent consideration arrangements and indemnification assets: (i) the amount recognised as of the acquisition date; (ii) a description of the arrangement and the basis for determining the amount of the payment; and (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
	B67(b)	For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expired: (i) any changes in the recognised amounts, including any differences arising upon settlement; (ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and (iii) the valuation techniques and key model inputs used to measure contingent consideration.
IFRS 4	37	An insurer shall disclose: (c) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, an insurer shall also give quantified disclosure of those assumptions. (d) the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has material effect on the financial statements.
IFRS 7	35H	To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table [….].
	35G	An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9 [**Impairment**]. For this purposes an entity

		shall disclose: (a) the basis of inputs an assumptions and the estimation techniques used to: (iv) measure the 12-month and lifetime expected credit losses; (v) determine whether the credit risk of financial instruments has increased significantly since initial recognition; and (vi) determine whether a financial asset is a credit-impaired financial asset. (b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and (c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.
	B8D	It may be necessary to provide a narrative explanation of the changes. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period.
IFRS 15	110(b) & 123	**The significant judgements, and changes in the judgements, made in applying this Standard to [its contracts with customers] (see paragraphs 123-126).** An entity shall disclose the judgements, and change in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgement, and changes in the judgement, used in determining both of the following: (d) the timing of satisfaction of performance obligations (see paragraphs 124-125); and (e) the transaction price [which includes estimating variable consideration] and the amounts allocated to performance obligations (see paragraph 126).
IFRS 16	96	A lessor shall apply the disclosure requirements in IAS 36, IAS 38, IAS 40 and IAS 41 for assets subject to operating leases.
IAS 1	125	**An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:** **(a) their nature, and** **(b) their carrying amount as at the end of the reporting period.**
IAS 16	76	In accordance with IAS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to: (a) residual values; (b) the estimated costs of dismantling, removing or restoring items of property, plant

		and equipment; (c) useful lives; and (d) depreciation methods.
IAS 19	141	Each reconciliation listed in paragraph 140 shall show each of the following, if applicable: (a)-(b)... (c) remeasurements of the net defined benefit liability (asset), showing separately: (i) the return on plan assets, excluding amounts included in interest in (b). (ii) actuarial gains and losses arising from changes in demographic assumptions. (iii) actuarial gains and losses arising from changes in financial assumptions.
IAS 36	130	**An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the period:** **(a) the events and circumstances that led to the recognition or reversal of the impairment loss.** **(b) the amount of the impairment loss recognised or reversed.**
	126-137	**IAS 36 contains many disclosure requirements for impairment losses recognised or reversed**.
IAS 37	84	**For each class of provision, an entity shall disclose:** **(a) the carrying amount at the beginning and end of the period;** **(b) additional provisions made in the period, including increases to existing provisions;** **(c) amounts used (ie incurred and charged against the provision) during the period;** **(d) unused amounts reversed during the period; and** **(e) the increase during the period in the discounted amount arising from the passage of time and effect of any change in the discount rate.**
IAS 38	121	IAS 8 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in: (a) the assessment of an intangible asset's useful life; (b) the amortisation method; or (c) residual values.
IAS 40	76	**Fair value model** **…an entity that applies the fair value model … shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of**

		the period, showing the following: **(a)-(c) …;** **(d) net gains or losses from fair value adjustments;** **(e)-(f) …; and** **(g) other changes.**
	79(d)	**Cost model** **a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:** **(i)-(iii) …;** **(iv) depreciation;** **(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36;** **(vi)-(vii) …; and** **(viii) other changes.**
IAS 41	50	**An entity shall present a reconciliation of changes in the carrying amount of biological assets between the carrying amounts of investment property at the beginning and end of the period. The reconciliation shall include:** **(a) the gain or loss from changes in fair value less costs to sell;** **(b)-(f) …; and** **(g) other changes.**