

Project	Review of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors		
Paper topic	Distinction between changes in accounting policies and changes in accounting estimates: cover paper		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) by the staff and the OIC staff. It does not represent the views of the Board or the OIC or any individual member of the Board or the OIC. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Background

1. In September 2014 the IFRS Interpretations Committee informed the Board about divergent practices in assessing whether a change constitutes a change in an accounting policy, or a change in an accounting estimate, in applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. At that time the Board added this issue to its agenda.¹
2. During outreach performed by the staff of the Italian Standard Setter (OIC staff) during this joint project in early 2015, we heard from preparers that the definition of accounting policies appeared to overlap with the definition of a change in accounting estimate.
3. In April 2016 the Board discussed a paper containing recommended amendments to IAS 8 (Agenda Paper 25A).² The focus of the recommended amendments was to clarify—in a principle-based way—that accounting estimates are means of applying accounting policies. In other words, an accounting policy is the end, and making an accounting estimate is the means of achieving that end.
4. More specifically, staff recommended that the Board should amend IAS 8 as follows:

¹ <http://media.ifrs.org/2014/IASB/September/IASB-Update-September-2014.pdf>

² <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/April/AP25A-Disclosure-Initiative-accounting-estimates.pdf>

- (a) clarify the definitions of accounting policies and of changes in accounting estimates with the objective of making them more concise and distinctive;
 - (b) clarify how accounting policies and estimates relate to each other;
 - (c) add guidance about whether changes in valuation techniques and in estimation techniques are changes in accounting estimates; and
 - (d) update examples of estimates provided in IAS 8.
5. The Board tentatively decided to amend IAS 8 as recommended by staff.³ During the Board meeting some Board members provided comments on the recommended amendments. The most significant comment related to the staff's recommendation to introduce a threshold for changes in estimation techniques and valuations techniques (ie that the resulting measurement should be equally or more representative).
6. In July 2016, staff sought feedback on the recommended amendments at a meeting of the Accounting Standards Advisory Forum (ASAF). More specifically, staff asked ASAF members:
- (a) whether ASAF members believe that the amendments will provide sufficient improvement to justify publishing an Exposure Draft (ED);
 - (b) whether the amendments should introduce a threshold for changes in estimation techniques and valuations techniques; and
 - (c) for other comments on the wording.⁴
7. During the discussion, almost all ASAF members believed that the Board should proceed with publishing the ED because, in their view, the amendments would clarify the definitions of accounting policies and a change in accounting estimates in IAS 8. Most of the discussion on the wording revolved around the issue of whether to introduce a threshold that entities would have to pass in order to justify changes in estimation techniques and valuation techniques (ie the resulting measurement should be equally or more representative of the amount being estimated).

³ https://s3.amazonaws.com/ifrswebcontent/2016/IASB/April/IASB_April_Update.pdf

⁴ <http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2016/July/1607-ASAF-07-IAS-8.pdf>

8. There was also some discussion about:
 - (a) the definition of accounting policies; and
 - (b) whether to address changes in cost formulas for interchangeable inventories (ie FIFO and Weighted Average Cost).

Papers XA-C

10. Papers 26A-C address:
 - (a) changes to the recommended amendments;
 - (b) transition; and
 - (c) Due Process and staff's request for the permission to begin the balloting process.