

## STAFF PAPER

July 2018

## IASB Meeting

Project	Accounting policies and accounting estimates		
Paper topic	Update and next steps		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. 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. The International Accounting Standard Board (Board) published the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8) (Exposure Draft) in September 2017.
2. The proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* aim to help entities distinguish accounting policies from accounting estimates. More specifically, the proposed amendments would clarify:
  - (a) how accounting policies and accounting estimates relate to each other, by:
    - (i) explaining that accounting estimates are used in applying accounting policies; and
    - (ii) making the definition of accounting policies clearer and more concise.
  - (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and
  - (c) that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.
3. The comment period ended on 15 January 2018. The Board received 82 comment letters and staff held one outreach meeting with the Global Preparers Forum (GPF). At

the Board's March 2018 meeting, we presented a paper summarising feedback on the Exposure Draft. This paper can be accessed [here](#).

4. Several respondents said the proposed amendments would improve clarity. However, they also suggested including illustrative examples and providing additional clarity in several areas. Some asked whether the benefits of finalising the proposed amendments would outweigh the costs of doing so.
5. This paper provides an update on the project and discusses next steps. We are not requesting any decisions from the Board.

## **Update and next steps**

### ***Consultation with ASAF members***

6. In the light of the feedback on the Exposure Draft, we sought feedback from the Accounting Standards Advisory Forum (ASAF) at their April 2018 meeting. In particular, we asked ASAF members whether, in their view:
  - (a) providing illustrative examples for the proposed amendments was feasible; and
  - (b) finalising the amendments as proposed would provide sufficient improvement for the Board to proceed with the amendments.
7. Appendix A to this paper summarises feedback from ASAF members.

### ***Next steps***

8. We are analysing the feedback on the Exposure Draft. In the light of the feedback on the Exposure Draft, we think it would also be useful to present our analysis of the feedback to the IFRS Interpretations Committee (Committee) and seek their advice on the next steps for this project. In particular, we will ask Committee members for their feedback on whether:
  - (a) the benefits of finalising the amendments would justify the cost of standard-setting; and
  - (b) finalising the amendments could have any unintended consequences.

9. We will discuss our analysis of the comment letters and other feedback with the Committee at a future Committee meeting and will then present our analysis, together with the feedback from the Committee, at a future Board meeting.
10. In March 2018, the Board published Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8). Although unrelated to the proposed amendments regarding accounting policies and accounting estimates, we think it would be beneficial to finalise any amendments that may result from both projects at the same time. The Exposure Draft *Accounting Policy Changes* (Proposed amendments to IAS 8) is open for comments until 27 July 2018.

### Question for the Board members

**Question**

Do you have any questions or comments about the next steps for the project?

## Appendix A—Summary of feedback from ASAF members<sup>1</sup>

- A1. The Board published the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) (Exposure Draft) in September 2017. The comment period closed on 15 January 2018. The Board discussed the summary of feedback on the Exposure Draft at its meeting in March 2018.
- A2. The objective of the discussion with ASAF members was to seek ASAF members' advice on the next steps in the project.
- A3. ASAF members' views were sought on whether to include illustrative examples, as requested by some respondents to the Exposure Draft. ASAF members expressed the following views:
- (a) illustrative examples for specific fact patterns can be helpful (AOSSG, EFRAG and AASB/NZASB), but they are difficult to draft because answers often depend on very specific facts and circumstances (DRSC and CASC);
  - (b) the ANC and OIC members were not supportive of specific illustrative examples in principle-based guidance; and
  - (c) the AcSB member empathised with the Board's dilemma about providing and drafting illustrative examples.
- A4. ASAF members' views regarding the example provided in the Agenda Paper 4 for this meeting were requested; the example aims to demonstrate the thought process on how to distinguish accounting policies from accounting estimates. Although ASAF members considered the example somewhat helpful, they were of the view that it would not enhance the amendments proposed in the Exposure Draft.
- A5. In relation to the next steps in the project ASAF members recommended that the Board proceed with the proposed amendments. ASAF members' advice included:
- (a) the EFRAG member stated that the proposed amendments would improve IAS 8, even though the principles-based guidance proposed in the Exposure Draft probably left some 'grey areas'. He also asked the Board to consider

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<sup>1</sup> Extracted from Summary note of the Accounting Standards Advisory Forum held on 16 April and 17 April 2018. The Summary noted can be accessed [here](#).

further defining or explaining the term ‘practices’ which is currently used in the definition of accounting policies and was proposed in the Exposure Draft to be retained;

- (b) the FASB member said that the proposed amendments would be useful. He recommended that the Board should be cautious about extending the scope of the project.