STAFF PAPER

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IASB® meeting

Project	**Accounting policies and accounting estimates (Amendments to IAS 8)**
Paper topic	Analysis of feedback—other aspects

CONTACT(S)			
	Chalani Mohotti	cmohotti@ifrs.org	+44(0) 20 7246 6436
	Gustavo Olinda	golinda@ifrs.org	+44(0) 20 7246 6481
	Jawaid Dossani	jdossani@ifrs.org	+44(0) 20 7332 2742

Introduction

1. This paper presents our analysis of, and recommendations on, the matters identified in the feedback on all aspects of the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8) (Exposure Draft) other than the proposed definition of accounting estimates.

2. This paper is based on Agenda Paper 26C for the April 2019 Board meeting. Our analysis and recommendations in this paper have been updated to reflect feedback from Board members in that meeting. Appendix B to this paper summarises that feedback and our analysis of that feedback.

Structure of the paper

3. This paper includes:
   (a) summary of staff recommendations; and
   (b) staff analysis and recommendations.

4. There are four appendices to this paper:
   (a) Appendix A—analysis of other matters;
   (b) Appendix B—summary and analysis of feedback from Board members;

(c) Appendix C—summary and analysis of feedback from Committee and ASAF members; and

(d) Appendix D—illustrative examples.

Summary of staff recommendations

5. We recommend that the Board:

   (a) not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);

   (b) clarify that if a change is a change in accounting estimate, it cannot also be a change in accounting policy;

   (c) not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft);

   (d) confirm deletion of IE3 from the *Guidance on Implementing IAS 8*; and

   (e) add to the *Guidance on Implementing IAS 8* examples that illustrate how an entity would apply the definition of accounting estimates. This material would accompany, but not be part of, IAS 8.

Staff analysis and recommendations

Proposed definition of accounting policies

Proposed amendment

6. The Exposure Draft proposed clarifying the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’ and replacing the term ‘bases’ with ‘measurement bases’. Proposed paragraph 5 of IAS 8 in the Exposure Draft states:

> *Accounting policies* are the specific principles, measurement bases, ~~conventions, rules~~ and practices applied by an entity in preparing and presenting financial statements.

Key matters raised

7. Some respondents said it was helpful to amend the definition of accounting policies to remove terms such as 'conventions' and 'rules' that were not clear. However, some respondents questioned whether the proposed changes would improve the definition. This is because the remaining terms in the definition are also not defined and are open to differing interpretations.

8. Respondents raised the following key matters in this respect:

   (a) clarity of the term 'practices' and overlap with accounting estimates;

   (b) clarity of the term 'measurement bases';

   (c) the nature of practical expedients; and

   (d) deletion of the terms 'conventions' and 'rules'.

Clarity of the term 'practices' and overlap with accounting estimates

9. Some respondents suggested that the Board define the term 'practices' and asked whether the inclusion of that term is intended to cover only accounting policies that an entity develops in the absence of an IFRS Standard that applies specifically to a particular transaction, event or condition (ie those policies that an entity develops when it applies the requirements in paragraphs 10-12 of IAS 8). One respondent asked whether the term refers to industry practices (as used in paragraph 12 of IAS 8).

10. Some respondents said many accounting estimates are also based on 'practices', therefore, retaining the term in the definition of accounting policies without providing a definition could suggest that all practices, including those used in developing accounting estimates are accounting policies.

11. Some respondents also said it is unclear how an estimation technique or a valuation technique differs from a 'practice'. For example, one respondent said the proposed definition does not make it clear whether the method of allocating overheads in determining the cost of inventories would constitute an estimation technique or whether it would constitute an accounting policy (ie a practice).

Clarity of the term ‘measurement bases’

12. Some respondents said replacing ‘bases’ with ‘measurement bases’ could unintentionally narrow the scope of an accounting policy. In their view, the term ‘bases’ in the original definition included not just measurement bases, but also for example, the basis for recognising or presenting items in the financial statements.

13. Some respondents also suggested the Board define ‘measurement bases’. They said it was not clear whether the Board intended the term to be interpreted in a manner consistent with its use in the *Conceptual Framework for Financial Reporting* issued by the Board in March 2018 (Conceptual Framework)[1] (eg at the level of historical cost or current value), or whether it also includes, for example, the use or non-use of the going concern concept or the choice between an accrual approach and a cash-based approach.

14. Some respondents said including the term ‘measurement bases’ is unnecessary. This is because, in their view, measurement bases are a subset of principles and paragraph 35 of IAS 8 already states that a change in the measurement basis applied is a change in an accounting policy.

The nature of practical expedients

15. Some respondents said it was not clear from the proposed definitions of accounting policies and accounting estimates whether practical expedients, whether permitted or required by an IFRS Standard, or those applied by an entity on materiality grounds, would meet the definition of accounting policies. In their view practical expedients, particularly those permitted or required by an IFRS Standard, are generally exceptions from principles and are by nature more rules than principles.

Deletion of the terms ‘conventions’ and ‘rules’

16. Some respondents did not agree with the Board’s rationale for deleting the terms ‘conventions’ and ‘rules’ from the definition of accounting policies, ie that the meaning of the terms is not clear, and the terms are not used elsewhere in IFRS Standards. These respondents said the remaining terms in the definition, ie principles,

[1] Paragraph 6.1 of the Conceptual Framework says that ‘A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured’.

practices and measurement basis were also not defined and were open to differing interpretations. Some respondents said a preferred approach would be for the Board to define all terms used in the definition rather than delete the terms ‘conventions’ and ‘rules’.

17. One respondent said the term ‘rules’ was well understood in practice and should not be deleted. On the other hand, another respondent said it was appropriate to delete the term ‘rules’, not because the meaning of the term is not clear, but rather because, in that respondent’s view, rules are a subset of principles.

18. One respondent said a convention is generally defined as a way in which something is usually done. In the respondent’s view, it is appropriate to delete the term ‘conventions’, not because the meaning of the term is not clear but rather because it was not an appropriate basis on which to develop an accounting policy.

Staff Analysis

19. In proposing to amend the definition of accounting policies, the Board did not intend to narrow or broaden the scope of what constitutes accounting policies. Paragraphs BC6 and BC7 of the Exposure Draft state:

> BC6 In removing the terms ‘conventions’ and ‘rules’ from the definition of accounting policies, the Board does not intend to make the definition narrower or broader. Instead it wishes to provide more clarity.
>
> BC7 The Board proposes to keep the term ‘practices’. This is because it thinks that referring to ‘principles’ only may be perceived as making the definition of accounting policies too narrow.

20. Considering the feedback, we think amending the definition of accounting policies could have unintended consequences—in particular, we think some stakeholders could see the changes as narrowing the scope of what constitutes accounting policies. The main purpose of the proposed amendments to IAS 8 was to clarify the relationship between accounting policies and accounting estimates (ie that an entity uses accounting estimates in applying accounting policies) and to provide a definition of accounting estimates. The proposed amendments to the definition of accounting

policies were only incidental in nature and were intended to remove some ambiguity without narrowing or broadening the scope of what constitutes accounting policies.

21. Accordingly, we think the Board should not amend the definition of accounting policies. We also think that defining the remaining terms in the definition of accounting policies (ie principles, measurement bases and practices) is not necessary to meet the aims of this project. In addition, we think defining the remaining terms would be difficult, would broaden the scope of the project and could have unintended consequences.

22. However, as explained in Appendix B to this paper, we think that in order to avoid any perceived overlap between the definition of accounting policies and accounting estimates, the Board should clarify that if a change is a change in accounting estimate, it cannot also be a change in accounting policy.

Staff recommendation

23. We recommend that the Board:

    (a) not amend the definition of accounting policies (ie the Board retain the existing definition of accounting policies in IAS 8);

    (b) clarify that if a change is a change in accounting estimate, it cannot also be a change in accounting policy.

Proposed amendment regarding inventory cost formulas

Proposed amendment

24. The Exposure Draft proposed clarifying 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 (see proposed paragraph 32B of IAS 8 in the Exposure Draft—reproduced in Appendix A to Agenda Paper 26A for this meeting). Paragraph BC19–BC20 of the Exposure Draft explain the Board's rationale for proposing this clarification. The Board concluded that selecting one of these two cost formulas does not involve the use of judgement or assumptions to determine the sequence in which those inventories are sold and accordingly, is not an attempt to estimate the actual flow of those inventories.

Consequently, selecting one of these two cost formulas does not constitute making an accounting estimate.

Key matters raised

25. Several respondents agreed with the Board's conclusion that selecting the FIFO cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy. However, several respondents did not agree with the Board's rationale and said the rationale did not align with the proposed definitions of accounting policies and accounting estimates. These respondents said:

   (a) *selecting a cost formula requires the use of judgements and assumptions and is an attempt to estimate the actual flow of inventories*

   Some respondents said even though IAS 2 allows entities a choice of selecting either the FIFO cost formula or the weighted-average cost formula, selecting an inventory cost formula is an attempt to estimate the actual flow of inventories. This is evidenced by paragraph BC10 of IAS 2 which explains the Board's rationale for eliminating the previously allowed alternative of using the last-in, first-out (LIFO) cost formula. This paragraph states that the LIFO cost formula 'is generally not a reliable representation of actual inventory flows'.

   Additionally, some respondents said paragraph 25 of IAS 2 states that an entity uses the same inventory cost formula for all inventories having a similar nature and use to the entity. However, it also states (emphasis added): '…For inventories with a different nature or use, different cost formulas may be *justified*'. This implies that entities must justify and therefore, apply judgement when determining cost formulas in this situation.

   (b) *the rationale for the proposed clarification does not align with the proposed definitions*

   Paragraph 9 of IAS 2 requires an entity to measure inventories at the lower of cost and net realisable value. An entity applies the FIFO or weighted-average cost formula when measuring inventories at cost. Applying the proposed definitions of accounting policies and accounting estimates, some respondents said cost is the measurement basis for inventory (ie the accounting policy) and the inventory cost formula an entity applies is the estimation technique or valuation technique the entity uses to determine the cost. Accordingly, selecting a cost formula would constitute making an accounting estimate rather than selecting an accounting policy.

26. Some respondents suggested the Board include the proposed clarification within IAS 2 or as part of a separate section in IAS 8 together with other illustrative examples. These respondents said including this as a separate paragraph within IAS 8 appears to create a rule which is not in line with the principles-based approach in IAS 8. Some respondents also said entities do not often change their cost formulas and questioned the need to provide this clarification particularly when the Board did not provide additional examples of accounting policies and accounting estimates. One respondent said paragraph 36(a) of IAS 2 already says that selecting a cost formula constitutes selecting an accounting policy—this paragraph requires an entity to disclose (emphasis added) ‘the *accounting policies* adopted in measuring inventories, *including* the cost formula used’.

Staff Analysis

27. The Board’s rationale for why selecting a cost formula constitutes selecting an accounting policy raised broader questions about how the proposed definitions of accounting policy and accounting estimate apply in particular situations. The Board initially proposed this clarification because it is a matter that is frequently raised in discussions about improving the definitions of accounting policies and accounting estimates. However, we agree with respondents who said entities do not often change the cost formula used to measure inventories—we are not aware of particular problems in practice in this regard. We also agree with respondents who said paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy.

Staff recommendation

28. We recommend that the Board not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft).

The proposed deletion of IE3 and request for other examples

Proposed amendment

29. The Exposure Draft proposed deleting Example 3 from the Guidance on Implementing IAS 8 (IE3). The rationale for the Board's decision was outlined in paragraphs BC25–BC28 of the Exposure Draft. The Board did not propose adding any additional illustrative examples.

Key matters raised

30. Some respondents commented on the deletion of IE3. These respondents suggested that the Board update, but not delete IE3. These respondents did not disagree with the Board's rationale for deleting the example, but nonetheless said replacing or updating the example would be helpful.

31. Several respondents suggested providing illustrative examples and supporting guidance to help entities distinguish accounting policies from accounting estimates. Some respondents said that although the proposed amendments would provide some clarity, some uncertainties would remain, and the amendments may not deliver sufficient clarification unless supported by additional illustrative examples.

Staff Analysis

Deletion of IE3

32. We continue to agree with the Board's rationale for deleting IE3. In developing the Exposure Draft, the Board considered a substantial rewrite of the example. However, for reasons outlined in paragraph BC27 of the Exposure Draft, the Board decided against such an approach. Paragraph BC27 of the Exposure Draft states:

> …For the following reasons, the Board considers that such a rewrite would produce little or no benefit to readers of IAS 8:
>
> (a) the example relates too closely to a particular fact pattern to be of general use in distinguishing between accounting policies and accounting estimates; and
>
> (b) paragraphs 23-27 of IAS 8 set out the required approach for cases where retrospective application of a change in accounting policy is not practicable.

Providing illustrative examples

33. We considered whether the Board should provide illustrative examples to help entities apply the amendments.

34. In developing the Exposure Draft, the Board considered developing illustrative examples—however, it concluded that any illustrative examples would either be:

(a) too obvious, and therefore not helpful; or

(b) too complex, therefore difficult to draft due to lack of guidance in underlying IFRS Standards.

35. In addition, we developed and presented an illustrative example to ASAF at its meeting in April 2018. 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.

36. To be useful, we think illustrative examples should be simple and have wide applicability across a range of different situations and different entity types. We agree with the Board that developing examples that would help entities assess whether a particular change is a change in accounting policy or a change in estimate is difficult. This is because assessing the nature of a change depends on facts and circumstances and we think it is not possible to consider all relevant facts and circumstances while at the same time keeping the example simple and ensuring it continues to be widely applicable.

37. Nonetheless, feedback (including that received from members of the Accounting Standards Advisory Forum (ASAF) and the IFRS Interpretations Committee (Committee) on our preliminary views) suggests that it would be important to provide illustrative examples that would help entities understand and apply the amendments.

38. Agenda paper 26B for this meeting presents our recommendations on how the Board could revise the proposed definition of accounting estimates. In addition, on the basis of our analysis in this paper (see paragraph 23) we think the Board should not amend the definition of accounting policies (ie should retain the existing definition of accounting policies in IAS 8). Accordingly, we think any example the Board develops should be (a) simple; and (b) limited to helping stakeholders understand how to apply

the new definition of accounting estimates. It should not necessarily be directed at addressing some or all identified application questions. The examples could simply illustrate some or all of the following:

(a) what constitutes an accounting estimate (ie an example of a monetary amount in the financial statements that is subject to measurement uncertainty);

(b) what constitutes a measurement technique (ie an example of a measurement technique used to develop that estimate); and

(c) how an entity would account for the effects of a change in an input and/or measurement technique used to develop that estimate.

39. We think it is possible to develop such examples. Appendix D to this paper includes two such examples. We think the Board should publish examples such as those included in Appendix D. These examples could be added to the *Guidance on Implementing IAS 8*. This material would accompany, but not be part of, IAS 8.

Staff recommendation

40. We recommend that the Board:

(a) confirm deletion of IE3 from the *Guidance on Implementing IAS 8*; and

(b) add to the *Guidance on Implementing IAS 8* examples that illustrate how an entity would apply the definition of accounting estimates. This material would accompany, but not be part of, IAS 8.

Other matters

41. Appendix A to this paper sets out our analysis of other matters raised by respondents. We recommend no changes in respect of those matters.

Comments from Committee and ASAF members

42. Appendix C to this paper analyses comments raised by Committee and ASAF members on our preliminary views on the matters discussed in this paper. Our recommendations in this paper reflect that feedback.

Summary of recommendations

43. We recommend that the Board:

(a) not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8);

(b) clarify that if a change is a change in accounting estimate, it cannot also be a change in accounting policy;

(c) not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft);

(d) confirm deletion of IE3 from the *Guidance on Implementing IAS 8*; and

(e) add to the *Guidance on Implementing IAS 8* examples that illustrate how an entity would apply the definition of accounting estimates. This material would accompany, but not be part of, IAS 8.

Question for the Board
Does the Board agree with the recommendations set out in paragraph 43?

Appendix A—analysis of other matters

A1. The following table summarises other matters raised by respondents together with our analysis and recommendation on those matters.

Matter	Staff analysis and recommendation
(a) Some respondents suggested the Board consider enhancing disclosure requirements, particularly for changes in accounting estimates.	*We recommend no change.* We are not aware of particular problems with the existing disclosure requirements for changes in accounting estimates and we think providing additional disclosure requirements in this respect is beyond the scope of this project.
(b) Some respondents suggested the Board consider whether the first sentence of paragraph 35 of IAS 8[2] is required, particularly because the proposed definition of accounting policies in the Exposure Draft clarifies that measurement basis are accounting policies.	*We recommend no change.* Based on our analysis, we recommend that the Board not change the definition of accounting policies (see paragraph 23 of this paper). Accordingly, we think the Board should not delete the first sentence of paragraph 35 of IAS 8.
(c) Some respondents said the proposed definition of accounting policies focuses on presentation and appears to exclude other elements such as recognition and measurement.	*We recommend no change.* The existing definition of accounting policies refers to 'preparing and presenting financial statements' and does not only refer to 'presenting individual elements in the financial statements'. We think the definition includes accounting policies relating to recognition, measurement, presentation and disclosures.
(d) Some respondents requested the Board clarify other aspects of IAS 8 such as: (i) how entities account for changes in classification and presentation; (ii) the meaning of 'new information' in the definition of a change in accounting estimate; and (iii) whether the second sentence of paragraph 35 of IAS 8[3] applies only in the context of measurement bases or more generally.	*We recommend no change.* We think clarifying other aspects of IAS 8 is beyond the scope of the narrow-scope amendments.

[2] The first sentence of paragraph 35 of IAS 8 states: 'A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate…'

[3] The second sentence of paragraph 35 of IAS 8 states '...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.'

Matter	Staff analysis and recommendation
(e) Some respondents suggested that when the Board develops new or amended requirements in future projects, it should specify whether a change is a change in accounting policy or a change in accounting estimate.	*We recommend no change.* Although we agree with respondents that in developing new requirements, the Board should consider specifying whether a change is a change in accounting policy or a change in accounting estimate, we think that recommending this would be beyond the scope of this project.
(f) Some respondents suggested aligning the timing of finalising these amendments with other proposed changes to IAS 8.	To the extent feasible, we will co-ordinate the timing of publishing any amendments to IAS 8.
(g) Some respondents provided some wording suggestions to improve the clarity of the proposed amendments. For example, some respondents suggested that (i) the wording in paragraph 32 of IAS 8 be amended to conform with the amendments; (ii) the wording in paragraph BC9 of the Exposure Draft could be improved; and (iii) the title of the Standard and other headings be amended to conform with the amendments.	We will consider wording suggestions when drafting the final amendments.

Appendix B—summary and analysis of feedback from Board members

B1. Most Board members supported the analysis and preliminary views on matters addressed in Agenda Paper 26C of the Board's April 2019 meeting. Specific matters raised together with our analysis and recommendations are discussed below.

Feedback	**Analysis and recommendation**
Definition of accounting policies	
(a) One Board member said replacing bases with measurement bases as proposed in the Exposure Draft was helpful and suggested staff consider making this change to the definition of accounting policies in IAS 8.	*We recommend no change.* We agree with respondents who said replacing the term bases with measurement bases could have unintended consequences—in particular, it could be seen as narrowing the definition which was not the Board's intention. Paragraphs 12–14 of this paper provide further information on respondents' concerns in this respect.
(b) One Board member suggested we address any perceived overlap in the definition of accounting policies and accounting estimates by clarifying that if a change is a change in accounting estimate it cannot also be a change in accounting policy.	*We agree.* As discussed in paragraph 22 of this paper, we recommend that the Board make the clarification suggested.

Appendix C—summary and analysis of feedback from Committee and ASAF members

C1. Many Committee and ASAF members expressed support for our preliminary views. Nonetheless, some expressed concerns about:

(a) a perceived overlap between the definitions of accounting policies and accounting estimates; and

(b) not providing illustrative examples.

The following paragraphs present a summary of the feedback, together with our analysis.

Overlap between the definitions of accounting policies and accounting estimates

Summary of comments

C2. Some Committee members and one ASAF member said there will still be some overlap between the definitions of accounting policies and accounting estimates (for example, because of the use of the term ‘practice’ in the definition of accounting policies). To resolve this, some suggested that the Board revisit the definition of accounting policies (including defining the terms used in the definition). In particular, one ASAF member said it would be difficult to eliminate the overlap without ‘shifting the boundaries’ between accounting policies and accounting estimates. However, some ASAF members explicitly supported our preliminary view of not amending the definition of accounting policies.

Staff analysis

C3. As explained in our analysis of this matter in paragraphs 19–23 of this paper, in removing the terms ‘conventions’ and ‘rules’ from the definition of accounting policies, the Board did not intend to make the definition narrower or broader. Instead the Board wished to provide more clarity.

C4. We think eliminating any perceived overlap between the definitions of accounting policy and accounting estimates would require either a more fundamental rethinking of the definition of accounting policies or defining each of the terms used in that definition. We think this would be beyond the scope of this narrow-scope project.

C5. Our proposal to revise the proposed definition of accounting estimates would:

(a) state that estimation techniques or valuation techniques are applied in developing accounting estimates; and

(b) clarify that if a change is a change in accounting estimate it cannot also be a change in accounting policy.

C6. We think these recommendations help reduce any perceived overlap between the definitions.

Illustrative examples

Summary of comments

C7. Many Committee members suggested providing examples to illustrate (a) the thought process an entity would apply when distinguishing accounting policies from accounting estimates and (b) how an entity would apply the revised definition of accounting estimates.

C8. Some Committee members agreed with our analysis and preliminary view that developing illustrative examples would be challenging. However, they said even simple examples would be helpful. They said not providing examples could make it difficult to apply the amendments and could lead to misapplication of the definitions. Some ASAF members said that if the definitions are clear, the Board should be able to develop illustrative examples. However, one ASAF member said the Board should not provide illustrative examples.

C9. Some ASAF members and Committee members said the Board could provide examples either as part of the amendments or as separate educational materials that would accompany the amendments. However, some said the Board should provide examples as part of the amendments, because entities would be able to access the material more easily.

C10. One Committee member suggested that the Board could seek help from national standard-setters to develop the illustrative examples.

Staff analysis

C11. Our analysis in paragraphs 33–40 of this paper reflects this feedback.

Other comments from the Committee and ASAF members

Summary of comments

C12. One ASAF member said the Board should be careful not to characterise a change in inventory cost formulas as a change in accounting estimates—because entities might then change cost formulas frequently. One ASAF member suggested including the clarification originally proposed in the Exposure Draft, but in IAS 2, rather than in IAS 8.

Staff analysis

C13. As explained in paragraph 27 of this paper, paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy and therefore think no further clarification is needed in this respect.

Appendix D—illustrative examples

D1. This appendix presents two examples—the objective of the examples is to illustrate the application of the definition of accounting estimates.

Example A—Fair value measurement of an investment property

Fact pattern

D2. Entity A owns land that it holds for long-term capital appreciation—the land meets the definition of investment property in IAS 40 *Investment Property*.

D3. IAS 40 allows an entity to choose as its accounting policy either the cost model or the fair value model to measure investments properties after initial recognition. The entity generally applies the chosen accounting policy to all of its investment property. Entity A chooses to apply the fair value model to all its investment properties.

D4. Applying the fair value model in IAS 40, an entity measures its investment property at fair value (with some exceptions specified in IAS 40). IFRS 13 *Fair Value Measurement* defines fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'

D5. Paragraph 61 of IFRS 13 requires an entity to 'use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.'

D6. IFRS 13 describes three valuation techniques: the market approach, the cost approach and the income approach. Entity A uses a valuation technique consistent with the income approach to measure the fair value of the investment property. In applying that valuation technique, Entity A estimates what cashflows market participants would use in determining the fair value of the investment property, and then discounts those cash flows using an appropriate discount rate.

D7. At 31 December 20X1, Entity A changes the discount rate it applies to the valuation technique used to measure the fair value of the land. The change results from changes during the period in market conditions and is not the correction of a prior period error.

Applying the revised definition of accounting estimates

D8. The fair value of the investment property would meet the recommended definition of accounting estimates.[4] This is because:

(a) the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that *would* be received or paid in a hypothetical purchase or sale transaction—accordingly, it cannot be observed directly and instead must be estimated.

(b) the fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (fair value model); and

(c) in developing its estimate of the fair value of the investment property, Entity A needs to use judgements and assumptions. For example, Entity A uses judgments and assumptions in:

(i) selecting the valuation technique that is appropriate in the circumstances (selecting the measurement technique).

(ii) developing the inputs that market participants would use in applying the valuation technique, such as discount rates and growth assumptions (applying the measurement technique).

D9. A change the entity makes to the measurement technique, or to the inputs to that measurement technique would not be a change in accounting policy. The accounting policy—to measure the land at fair value—does not change.

D10. In the fact pattern, the change in the discount rate would be a change in an input used to estimate the fair value of the investment property. The effect of this change would be a change in accounting estimate.

[4] See paragraph 5 of Agenda Paper 26B for this meeting.

Example B—Share-based payments

Fact pattern

D11. At 1 January 20X0, Entity A grants 100 share appreciation rights (SARs) to each of its employees, on condition that the employee remains in its employment for the next three years. The SARs entitle the employees to a future cash payment based on the increase in the entity's share price from the price on 1 January 20X0 over the three-year vesting period. Entity A accounts for the SARs it grants to its employees as cash-settled share-based payment transactions.

D12. IFRS 2 *Share-based Payment* requires an entity to recognise services received in a share-based payment transaction when the services are received. In the case of a cash-settled share-based payment transaction, it requires an entity to also recognise a liability. Applying IFRS 2, the entity measures the services and the liability at the fair value of the liability (as determined applying IFRS 2). The entity remeasures the liability to its fair value at the end of each reporting period and at the date of settlement, with any changes in that fair value recognised in profit or loss. An entity may need to apply a pricing model to estimate the fair value of a cash settled share-based payment transaction.

D13. Entity A applies the Black-Scholes-Merton formula (a pricing model) to measure the fair value of the SARs at 1 January 20X0 and at the end of that reporting period. However, during 20X1, Entity A grants new SARs for which the Black-Scholes-Merton formula is not appropriate—therefore, it applies a binomial pricing model to measure the fair value of these new SARs. The binomial pricing model is also an appropriate technique that the entity can use to measure the fair value of the SARs granted on 1 January 20X0. Accordingly, in order to use a single pricing model for all SARs, Entity A decides to change the model it uses to measure the fair value of the SARs granted on 1 January 20X0 to the binomial pricing model. The change in the pricing model is not the correction of a prior period error.

Applying the revised definition of accounting estimates

D14. The fair value of the SARs (as determined applying IFRS 2) would meet the recommended definition of accounting estimates. This is because:

(a) the fair value of the SARs is a monetary amount in the financial statements that is subject to measurement uncertainty. That fair value is the amount for which the SARs could be settled in a hypothetical transaction—accordingly, it cannot be observed directly and instead must be estimated.

(b) the fair value of the SARs is an output of a measurement technique (pricing model) used in applying the accounting policy (measuring a cash-settled share-based payment liability at fair value as determined applying IFRS 2); and

(c) to estimate the fair value of the SARs, Entity A needs to use judgements and assumptions. For example, Entity A uses judgments and assumptions in:

(i) selecting the pricing model (selecting the measurement technique).

(ii) developing the inputs that market participants would use in applying that pricing model, such as the expected volatility of the share price and dividends expected on the shares (applying the measurement technique).

D15. A change the entity makes to the measurement technique, or to the inputs to that measurement technique would not be a change in accounting policy. The accounting policy—to measure the fair value of the SARs—does not change.

D16. In the fact pattern, the change in the pricing model would be a change to the measurement technique applied to measure the fair value of the SARs granted on 1 January 20X0 (accounting estimate). The effect of this change would be a change in accounting estimate.