International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Geneva, 15 January 2018

Re: ED/2017/5 Accounting Policies and Accounting Estimates

Dear Mr. Hoogervorst,

On behalf of the International Air Transport Association ("IATA") Industry Accounting Working Group ("IAWG"), I am writing to comment on ED/2017/5 Accounting Policies and Accounting Estimates, issued by the IASB in September 2017 (the 'IASB ED').

IAWG fully supports the objectives of IASB's ED to address the diversity in practice with regard to changes in accounting policies and estimates. We do not support all of the changes made to the standard as we do not believe that they provide enough clarity.

IAWG's response to the specific questions included in the IASB ED follows.

If you would like to discuss our comments further, please do not hesitate to contact Thomas Egan at egant@iata.org.

Yours sincerely,

On behalf of:

Severine Guffroy	*Oran Har Nevo*
Chairwoman	*Vice-Chairman*
IATA IAWG	*IATA IAWG*

<u>Question 1</u>

The IASB proposes to change the definition of accounting policies by removing the terms 'conventions', 'rules' and amending bases to 'measurement bases' (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions). Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

<u>IAWG's response:</u>

IAWG supports these changes as the remaining terms fully encompass the concept of accounting policies including those terms that would be removed (conventions and rules). The addition of the word "measurement" to bases provides a measure of clarity, but we believe that even "measurement bases" needs to be further clarified by guidance and illustrative examples. For example, measurement basis could be narrowly viewed as historical cost, fair value and disposal value. It could also be viewed to include depreciation methods and inventory consumption methods. Even further a change in valuation method that involves a change in a measurement bases such as a movement from a bid price to a mid-price or a New York price to a London price could be viewed as a measurement bases. Many of these also would be seen as valuation techniques. Under the language of the standard a reporting entity could view a change from historical cost to a revaluation model as both a change in estimation technique and a change in measurement bases, if the issue was looked upon from a net value standpoint. As such, it could be treated as a change in estimate as that is the default position if a situation is unclear. Seemingly, that situation would very clearly be a change in accounting policy. Perhaps clarity is needed in terms of what a measurement basis is and whether a change in measurement basis is always a change in accounting policy even if it may also meet the definition of a change in accounting estimate.

<u>Question 2</u>

The IASB proposes to:
(a) clarify how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and
(b) add a definition of accounting estimates and remove the definition of a change in accounting estimate (see paragraph 5, and paragraphs BC9–BC16 of the Basis for Conclusions).
Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?

<u>IAWG's response:</u>

IAWG supports providing clarity with regard to how accounting policies and accounting estimates relate to each other.

IAWG also supports adding a definition of 'accounting estimates' to IAS 8 and removing the definition of a 'change in an accounting estimate' as this will create consistency in paragraph 5 and the rest of the standard.

We do not agree with the definition provided in the draft. We agree that accounting estimates are judgements or assumptions, but they are also the values derived from the estimation techniques. The definition should reflect that accounting estimates are the inputs (judgements or assumptions) and outputs (the value), but not the methods used to create the accounting estimates. For example, the carrying value of an aircraft is an accounting estimate (output) based on inputs (assumptions of useful life and residual value) using a methodology (straight-line or accelerated depreciation).

We believe the definition would be improved if stated as follows:

> **Accounting estimates are judgements or assumptions used and the values derived when an item in financial statements is reported using an estimated value. Accounting estimates are used in applying accounting policies.**

<u>Question 3</u>

The IASB proposes to clarify that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate to use in applying an accounting policy for that item (see paragraph 32A and paragraph BC18 of the Basis of Conclusions).
Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

<u>IAWG's response:</u>

IAWG broadly supports the proposed amendment, but would prefer that the standard provides greater clarity. IAWG believes the distinction between an accounting policy and an accounting estimate would be improved by adding supporting guidance and illustrative examples.

IAWG also suggests further illustrative examples clarifying when the selection of a valuation method or technique is a change in estimate if the accounting policy has not changed, the measurement basis has not changed and that this is not an accounting error.

For example:

- **A change from the a historical cost basis of valuation to a revaluation approach would involve a change in the valuation technique used and the judgements and** assumptions made, but also reflect a change in measurement basis and should be treated as a change in accounting policy.**

- **A change from the Black-Sholes model to the binomial model for valuing options would not be a measurement basis difference as both as fair value measures. The issue would be what was the reason for the change in valuation technique? If an inappropriate method was used, then this would be an accounting error and not a change in estimate.**

- **A change in the method of estimating a credit valuation adjustment (CVA) from historical default rates to an approach based on the cost to transfer the credit risk to another market participant would involve a change in the methodology used and the judgements and assumptions made, but also reflect a change in measurement bases from historical default rates to fair value, suggesting a change in accounting policy is appropriate. Further complicating the situation is that a historical cost rate method would not reflect a market rate as required by the IFRS and therefore would appear to be an accounting error, and not a change in estimate.**

- **A change in depreciation policy using a more granular components approach should be an accounting policy change as it does not relate to the method used to measure depreciation, but what asset is being measured. For example, if an airline separated maintenance components (performance restorations and limited life parts) from the engine core and started depreciating those during the expected maintenance interval that is not a change in methodology, but what is being measured. This approach was covered by example 3 of IAS 8, which is proposed to be removed. While we agree with removing the example as it creates other issues, we believe that this issue stills needs to be addressed specifically.**

<u>Question 4</u>

The IASB proposes to clarify that, in applying IAS 2 Inventories, selecting a cost formula for interchangeable inventories, is selecting an accounting policy (see paragraph 32B, and paragraphs BC19–BC20 of the Basis for Conclusions).
Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

<u>IAWG's response:</u>

IAWG agrees that the use of FIFO or weighted average cost are methods to estimate the cost as they are not simply techniques used to estimate the value of the inventory, but rather the pattern of use of the inventory. The value of each item of inventory is measured identically under both methods and therefore no change in estimate as defined in the standard has taken place.

We do not believe that this is the only case where a change in the method of estimation is a change in accounting policy and not a change in estimate. For example, some portfolios of financial instruments carried at amortised cost may qualify to use weighted average cost. A change from a weighted average to actual cost, would be similar to the inventory example and should be treated as a change in accounting policy. A single example proposed in the standard may suggest that it is the only exception.

We also noted that IFRS standards use a format where the "principles" are separated from the "guidance". We therefore suggest that this guidance be placed with the other relevant guidance.

As explained under Question 3, the IAWG believes that IAS 8 should provide further guidance on how to differentiate between a change in estimate, change in counting policy, accounting error and fraud through principles and illustrative examples.

IAWG also recommends that the rule be included in IAS 2 as well as IAS 8, or referenced in IAS 2.

Question 5

Do you have any other comments on the proposals?

IAWG's response:

No.