IFRS Foundation
30 Cannon Street
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15 January 2018

Dear Sir/Madam

Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

We are responding to your invitation to comment on ED/2017/5 '*Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)*' on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the exposure draft (ED). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the IASB's efforts to help entities distinguish between accounting policies and accounting estimates and to reduce the current diversity in practice. Overall, we consider that the ED improves the existing standard. In particular, the new definition of an accounting policy and the replacement of the definition of a 'change in accounting estimate' with a definition of 'accounting estimates' are improvements.

However, the definitions, and the principles on which they are based, could be better explained. For example, we are unclear on what is meant by 'practices' (in the definition of accounting policies) or on why an 'estimation technique' is not a 'practice'. The selection of a cost formula under IAS 2 is prescribed as a policy choice within the standard. Although we agree that it is a policy choice, a clearer expression of the principles behind the distinction between accounting policies and accounting estimates would avoid the need to refer to IAS 2 specifically in the standard itself; examples to assist in the application of the standard would be more appropriately included in the basis of conclusions or illustrative examples sections, with explanatory text.

Looking to future standards and amendments to existing standards, it would be helpful if they indicated, where appropriate, which measurement methods are accounting policy choices and which are accounting estimates.

Our responses to the questions posed in the ED are set out in the appendix to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting Chief Accountant (+44(0)20 780 42160), or Tony Debell (+ 44(0)20 721 35336).

Yours faithfully

PricewaterhouseCoopers

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Appendix

1. The Board proposes clarifying the definition of accounting policies by removing the terms 'conventions' and 'rules' and replacing the term 'bases' with the term '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?

We agree with this proposed amendment but the definition of accounting policies could be further clarified. The definition of accounting policies continues to include 'practices', an undefined term. It is not clear, for example, how a 'practice' differs from an 'estimation technique'.

The standard could do more to describe the principle(s) behind the distinction between an accounting policy and an accounting estimate. We believe the distinction should be based on the principle that an accounting policy identifies an 'objective reality' (a fact, not a matter of opinion) whereas an accounting estimate reflects a 'subjective reality' (an uncertain position, capable of conjecture). For example, first-in, first-out (FIFO) cost and weighted average cost are each an objective reality; the selection of, say, FIFO as a method to determine inventory cost is a policy choice but determining the cost on a FIFO basis might involve making subjective estimates.

We also suggest that the definition of accounting policies should state that the definition extends to the amounts reported in the notes.

2. The Board proposes:

(a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and

(b) adding a definition of accounting estimates and removing 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?

(a) We agree with this proposed amendment.

(b) We agree with the removal of the definition of a 'change in accounting estimate' and the insertion of a definition of 'accounting estimate'.

The ED states that accounting estimates are judgements or assumptions. Accounting estimates arise in measurement and reflect the judgements and assumptions made but are not themselves judgements and assumptions.

Paragraph 34 states that a change in accounting estimate might be necessary as a result of new information or more experience. When an entity receives new information during the current year, this

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will not result in a change in accounting estimate (dealt with in the current year's financial statements) if that information was available when the previous year's financial statements were approved. An entity's failure to use the available information would be an error (dealt with retrospectively as required in IAS 8). But a change of an estimate arising from a different interpretation of the previously available information is not an error (for example, where the entity changes its assessment of the most likely outcome in a range of possible outcomes). Similarly, an entity might improve or refine its estimation techniques over time. This might arise from improvements in IT systems. An entity might refine its pension accounting by changing the pension yield curve it uses to a different one prepared by the actuary or it might change to a bond matching model. The resultant changes in estimates are not errors. The standard should make this clear.

3. The Board proposes clarifying 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 for Conclusions).

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

We agree.

4. The Board proposes 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 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?

Although we agree that the selection of a cost formula for inventories is a policy choice (see question 1 above), we question whether it should be singled out in the standard. A better approach would be for the standard to explain more clearly the principles involved in distinguishing between an accounting policy and an accounting estimate. A few examples of how these principles apply in practice would be a useful addition to either the 'basis of conclusions' or 'illustrative examples' sections of the standard. Each example should state whether the item in question is an accounting estimate or an accounting policy; explanatory text in each example should outline how the application of the standard's principles has led to that classification. The selection of a cost formula for inventories could be one of those examples.

5. Do you have any other comments on the proposals?

Where future standards permit more than one method for determining the amounts reported in the financial statements, it would be helpful if those standards stated which are policy choices and which are estimation methods. We note that IFRS 9 already does this to some extent, although not in all cases. For example, IFRS 9 states that it is a policy choice whether, for trade receivables or contract assets which contain a significant financing component in accordance with IFRS 15 and lease receivables, the entity either applies the simplified approach (that is, measures the loss allowance at an amount equal to lifetime expected credit losses (ECL) at initial recognition and throughout its life), or

applies the general model. But IFRS 9 does not specify whether the use of the practical expedient, available where the credit risk of a financial instrument is low at the reporting date, is a policy choice or an estimation method. (Under this practical expedient, the entity can measure impairment using 12-month expected credit losses.)

Also, amending an existing standard might provide an opportunity for that standard to be amended to specify the policy choices and estimation methods implicit within it, distinguishing between the two.