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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

15 January 2018

Dear Mr Hoogervorst,

on behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *Exposure Draft ED/2017/5 Accounting Policies and Accounting Estimates – Proposed amendments to IAS 8*, issued by the IASB on 12 September 2017 (the 'ED').

Principal authors of this comment letter were Max Eibensteiner, Christian Höllerschmid, Erich Kandler, Roland Nessmann, and Robert Reiter. In order to assure a balanced Austrian view on the EP, the professional background of these authors is diverse.

Our detailed comments and responses to the five questions raised in the DP are set out below.

If you would like to discuss our comments further, please do not hesitate to contact us.

Kind regards,

Romuald Bertl,
Chairman

Exposure Draft ED/2017/5 Accounting Policies and Accounting Estimates – Proposed amendments to IAS 8

General Comments

In general, AFRAC is of the opinion that the IASB properly addresses the issue of accounting policies and accounting estimates and the changes thereto by proposing modifications to IAS 8 and related standards. From experience in practice, we are aware that there are sometimes difficult and borderline decisions about whether - in a specific circumstance - a change in accounting policies or a change in accounting estimates occurred. Such decisions quite frequently involve highly material matters that may have a significant impact on key performance indicators in the current period and in the future.

Our main concern relates to the distinction between accounting policy and accounting estimate, which we would like to see clarified not only for one standard (IAS 2 Inventories), as considered by the Board's proposal, but rather on a principles-based approach, thereby including classification and presentation as well.

Specifically, we do not agree with the IASB's suggestion that selecting a certain cost formula is indeed the selection of an accounting policy (from our perspective a change in accounting policy would be "lower of cost and net realizable value"). The system of allocating costs to interchangeable items of inventory is already a valuation technique, as it represents the preparer's best estimate of those items in inventory that are most likely the ones to physically remain in inventory or to best represent the applicable cost basis. We cannot readily identify the difference between e.g. changing from straight-line depreciation to other depreciation methods (e.g. accelerated or proportionate) in comparison to changing to/from FIFO from/to weighted average cost as per IAS 2.

We suggest to proceed as follows: If it is the opinion of the IASB that - whenever IFRS provide for an accounting choice - a preparer's decision to change his approach from one permitted to another permitted accounting method always constitutes a policy change and not a change in estimate, the IASB should explain why and state this opinion clearly. This definition, in turn, requires the explicit inclusion of as many as possible choices in IFRS (new and old) in order to avoid ambiguity resulting from implicit choices or undefined matters.

Specific Comments

<u>Question 1</u>

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?

AFRAC agrees that the definition of accounting policies (vis-à-vis accounting estimates) requires clarification. We believe that the proposed definition helps to improve the concept, but does not yet fully achieve a clear differentiation between the two questions 'what is a change to an accounting policy' versus 'what is a change to an accounting estimate'.

We agree with the Board’s proposal to remove the terms “conventions” and “rules”, as the meaning of both can be found in the word “principles” that forms a leading part of the revised definition. It might have been even worth considering the removal of the term “practices”, as from our understanding the term "practices" already refers to the specific methods applied when following those principles, which are defined as an accounting policy.

As to adding the term “measurement” in front of “bases”, we are of the opinion that this narrows the focus in a way that considerably limits the scope of the definition of an accounting policy, e.g. in the area of assets this would result in either fair value or (amortized) cost valuation. Any other decision would then be part of the “accounting estimate” category. For further details, see our comments to questions 2-4.

We fully support the approach to a positive definition of the term accounting estimate, thereby replacing the old indirect definition by “changes of an accounting estimate”. However, we propose to remove the term ”…, because of estimation uncertainty,…” as it is to some extent self-referencing (to explain the need for an estimation with estimation uncertainty). The following part of the sentence “…an item in financial statements cannot be measured with precision.” should be sufficient for a proper definition.

Question 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?

Principally, we agree with the Board’s proposed way to clarify the interrelation between accounting policy and accounting estimate. A crucial aspect in this respect is covered by the term “overall objective” used in BC9, which provides a further specification of the role of an accounting policy. Referring to the “asset example” outlined above, the objective would be to measure an item at cost (e.g. a tangible asset) and the estimate would be used to find a proper way to assign a specific value to the item. Although the Board’s intention has been made sufficiently clear, the decision taken in respect of the valuation of inventories contradicts to some extent this approach. According to IAS 2.9 inventories are measured at the lower of cost and net realizable value (i.e. this constitutes the applicable accounting policy as it clearly defines the measurement basis). The cost assessment is usually done via a cost formula, which would, in our understanding, rather fall within an accounting estimate than under the definition of a policy (= objective). If we accepted the Board’s idea within the decision to define the inventory cost formulas as an accounting policy, the same should hold true for the depreciation methods used for tangible assets, following the regulations in IAS 16. Accordingly, a change from straight-line to proportional depreciation would be considered as a change of accounting policy (in contrast to its current explicit designation as an estimate in IAS 8.32d). Only the expected useful life or the proportional multiplier would then be real estimates. Therefore, we recommend reviewing the decision on the inventory cost formulas and define them rather as estimates than policies.

Question 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. Nevertheless, as outlined above, the decision related to inventory cost formulas defines a valuation technique as an accounting policy, thereby contradicting the stipulations in paragraph 32A and BC18.

Question 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?

We do not agree with the Board's proposal. From our point of view, the FIFO as well as the weighted-average cost formula are assumptions about an expected pattern of consumption, quite similar to depreciation methods of tangible assets. The latter are specifically addressed as being accounting estimates in IAS 8.32d.

Moreover, the fact, that - before the proposed amendment - diversity existed in practice in the area of inventory valuation, does not necessarily mean that such diversity will continue after the revised definitions of accounting policy and estimate. If the terms used are properly defined (and we are of the opinion that they are now), it should not be necessary to use the fall-back solution of a casuistic decision within a principles-based framework. We recommend to use an observation period after the amendments will become mandatory in order to check, whether diversity in practice is persistent or has been eliminated. Even in case of the former, we support the approach of defining the inventory cost formulas as accounting estimates rather than accounting policies. In addition to that, such a decision should be included in IAS 2 and not in IAS 8, as it is solely referring to inventories.

Question 5

Do you have any other comments on the proposals?

We note that, heretofore, it has been good practice by preparers and all other parties involved to treat changes in classification/presentation as an accounting policy change, as in substantially all cases prior period figures have been adjusted accordingly. We, therefore, suggest to the IASB to clarify that the changes in classification and presentation should be dealt with in accordance with the rules established for accounting policy changes.