

ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

26 January 2018

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

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (PROPOSED AMENDMENTS TO IAS 8)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8) (the ED) issued by the International Accounting Standards Board (the IASB) in September 2017.

We welcome the IASB's efforts to address reported diversity in the way entities distinguish accounting policies from accounting estimates due to issues with the existing definitions in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

However, we have reservations as to whether the proposed amendments would address the underlying issues in a substantive way. Although the proposed amendments would improve the existing definitions of, and guidance on, accounting policies and accounting estimates, those amendments are most helpful for items that can be determined as either accounting policies or accounting estimates without much difficulty.

Issues underlying reported diversity

Based on our observation, an underlying issue may be the attempt for binary classification between accounting estimates and accounting policies, with accounting estimates having a narrow definition and vice versa for accounting policies. Consequently, accounting policies may have been interpreted to apply beyond a population to which retrospective application would produce accounting outcomes that faithfully represent economic substance.

In particular, items that fail the definition of accounting estimates may have been interpreted to be accounting policies, even if changes in those items are more akin to changes in accounting estimates. For example, many of the changes in the judgements within the scope of paragraph 122 of IAS 1 *Presentation of Financial Statements* would arise from uncertainty

in the application of judgement or changes in the circumstances on which judgement was made. It suggests that there are merits in accounting for those changes in a way similar to changes in accounting estimates, which appears aligned with various requirements in IFRS Standards.

Accordingly, we see merits in the IASB clarifying how an entity should distinguish accounting policies from both accounting estimates and judgements within the scope of paragraph 122 of IAS 1. While we recognise that this assessment continues to require judgement, the guidance has the potential to address the issues underlying the reported diversity in a more substantive way.

Definition of accounting estimates – The notion of inability to measure with precision

We acknowledge the IASB's rationale for its proposal to include the notion of inability to measure with precision in the definition of accounting estimates. Although the existing term 'a change in accounting estimate' is defined seemingly loosely with reference to the carrying amount of assets or liabilities, the application of accounting estimates in practice has been guided more by the notion of inability to measure with precision in the accompanying explanation, which has been commonly interpreted to be measurement uncertainty.

That said, we observe that estimation uncertainty could result in a different measurement basis, even if it does not directly cause measurement uncertainty. For example, estimation uncertainty involved in estimating reasonable fair value measures for the purpose of assessing whether fair value can be measured reliably could lead to cost-based measurement for investment property or biological assets that are otherwise measured at fair value.

We do not see a compelling reason why accounting estimates should be restricted to measurement uncertainty, and exclude estimation uncertainty in the context of measurement basis, when both notions could affect measurement directly. In our view, a change in measurement basis as a result of estimation uncertainty does not necessarily have to be a change in measurement basis as envisaged in paragraph 35 of IAS 8.

Therefore, the IASB should consider refining the definition of accounting estimates, by removing the emphasis on inability to measure with precision and describing estimation uncertainty in a broader context of measurement.

If the IASB decides to proceed with its proposed definition of accounting estimates, consequential amendments should be made to the description of estimation uncertainty in paragraph 125 of IAS 1. In particular, paragraph 125 of IAS 1 describes estimation uncertainty in the context of an adjustment to the carrying amount of assets and liabilities, which could be interpreted to be different from accounting estimates in IAS 8 and to be applied differently in practice.

Specific guidance – Cost formulas for interchangeable inventories

As a matter of principle, we believe that the IASB should exercise caution in using rule-based guidance to address reported diversity in the interpretation of principles in IFRS Standards.

The diversity suggests an underlying issue with a particular principle that could require standard-setting work.

That said, we accept that distinguishing accounting policies from accounting estimates for the cost formulas for interchangeable inventories could have broad application. We further accept that the IASB's proposed clarification and its rationale are aligned with the principles in IAS 2 *Inventories*.

Therefore, we can accept the proposed clarification on cost-benefit considerations.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council