STAFF PAPER

12-13 November 2013

IFRS Interpretations Committee Meeting

Project	**IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***
Paper topic	Distinction between a change in accounting policy and a change in accounting estimate

CONTACT(S)	Koichiro Kuramochi	kkuramochi@ifrs.org	+44 (0)20 7246 6496

Purpose of this paper

1. In July 2013, the IFRS Interpretations Committee (the 'Interpretations Committee') received a request from the European Securities and Markets Authority (ESMA) (the 'submitter') to clarify the criteria to distinguish between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Paper structure

2. This paper is organised as follows:

   (a) submission received;

   (b) extract from the Standards;

   (c) summary of outreach conducted;

   (d) staff analysis of the issue;

(e) assessment against the Interpretations Committee agenda criteria; and

(f) staff recommendation.

Submission received

3. The submitter states that enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or as a change in an accounting estimate in accordance with IAS 8.

4. The submitter points out that the distinction between a change in an accounting policy and a change in an accounting estimate is particularly important because IFRS requires a different accounting treatment resulting in application of the changes prospectively or retrospectively. Moreover, IAS 8 sets out stricter criteria for changes in accounting polices than those in accounting estimates. According to paragraph 14(b) of IAS 8, in order to change an accounting policy, the issuer should be able to justify that the change provides more relevant information, whereas, there is no such requirement for a change in an accounting estimate.

5. The submitter suggests that the criteria to distinguish a change in an accounting policy from a change in an accounting estimate need to be clarified. In particular, the submitter suggests that the IASB clarifies whether the reason to justify the change should be taken into account and, if so, on what basis.

6. The submitter gives specific examples in which it claims distinguishing between a change in accounting policy and a change in accounting estimate is difficult:

   - a change in the own credit risk calculation;
   - a change in an entity’s assessment of High Quality Corporate Bonds (in relation to the recent IFRIC discussion);
   - a change in the ‘significant or prolonged’ criteria used by an entity, which trigger impairment for available-for-sale equity instruments, in accordance

with paragraph 61 of IAS 39 *Financial Instruments: Recognition and Measurement*;

- a change in the method of credit value adjustment (CVA) calculation, from historical approach to a market approach, in order to determine the probability of default and the loss given default; and
- a change in the inventory measurement formula from first-in first-out (FIFO) to weighted average method.

7. Furthermore, the submitter states that there may be a need to clarify the interaction between the following paragraphs in different Standards:

- paragraph 66 of IFRS 13 *Fair Value Measurement* states that a change in a valuation methodology is a change in an accounting estimate;
- paragraph 35 of IAS 8 notes that a change in the measurement basis applied is a change in an accounting policy; and
- paragraph 118 of IAS 1 *Presentation of Financial Statements* states that measurement bases (for example, historical cost, current cost, net realisable value, fair value and recoverable amount) are accounting policies.

Extract from the Standards

IAS 8

8. Paragraph 5 of IAS 8 gives definitions for accounting policies and a change in an accounting estimate (indirectly, accounting estimate):

> 5 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
>
> A change in an accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations

> associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

9. Paragraph 35 of IAS 8 provides specific guidance to distinguish a change in an accounting policy and a change in an accounting estimate as follows:

> 35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. 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.

IFRS 13

10. Paragraph 66 of IFRS 13 states that revisions resulting from a change in the valuation technique (for example, market approach to income approach) or its application shall be accounted for as a change in an accounting estimate as follows:

> 66 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

Summary of outreach conducted

11. We asked IOSCO and national standard-setters to provide us with information on whether the issue raised in the submission:

    (a) causes difficulties or challenges; and

    (b) indicates that there are significant divergent interpretations.

12. We asked the following three questions:

    (a) *Are you aware of any difficulties or challenges in distinguishing changes in accounting policies and changes in accounting estimates observed in your jurisdiction?*

(b) *If yes to Q 1, what are the particular issues related to the distinction between changes in accounting policies and changes in accounting estimates in your jurisdiction?*

(c) *If yes to Q 1, what is the prevalent approach/basis followed in your jurisdiction to distinguish between changes in an accounting policy from changes in an accounting estimate?*

If you see diversity in practice in respect to this, please explain how.

Responses from national standard-setters and regulators

13. We received responses from the following 14 jurisdictions: Europe (4), Asia (4), Americas (3), Oceania (1), Africa (1) and International (1).

14. Respondents' views were divided between those who noted that the issue caused difficulties or challenges and those who did not.

Prevalent approach/basis followed in jurisdictions

15. We note from the feedback that there are some similarities in approach/basis followed in jurisdictions as follows:

- some respondents noted that judgements should be made based on individual facts and circumstances.
- some respondents noted that, if there is a change in circumstances, the change is more likely to be a change in an accounting estimate.
- some respondents noted that, if there is a change in the measurement basis, the change is a change in accounting policy.
- some respondents pointed out that, 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, in accordance with paragraph 35 of IAS 8.
- some respondents noted that it is important to determine whether it is an error.
- some respondents noted that, if there are selections, alternatives or options, the change is more likely to be a change in an accounting policy.
- some respondents expressed views that a change in inventory measurement formula (for example, from FIFO to weighted average method) is a change in an accounting policy.

- some respondents pointed out that some accounting firms' books stated that a change in inventory measurement formula is a change in an accounting policy. Although it is not directly relevant to our discussion under IFRS, we also noted that many national GAAP (eg US GAAP, UK GAAP, Japan GAAP) state that this is a change in an accounting policy, for example, UK GAAP explicitly states that this is a change in an accounting policy because it is a change in the measurement basis.

Staff analysis of the issue

Distinction between a change in an accounting estimate and a change in an accounting policy under the existing Standards

16. We note that the existing Standards provide a certain level of guidance to distinguish a change in an accounting policy and a change in an accounting estimate.

Definition of a change in an accounting estimate

17. We think that the definition of a change in an accounting estimate under paragraph 5 of IAS 8 is relatively clear and changes should be assessed against the definition. However, we think that accounting policies are defined broadly and as a result the definition of a change in accounting policies appears to overlap with the definition of a change in accounting estimate. Accordingly, we do not think that the definitions themselves provide sufficient clarity to determine the distinctions between the changes.

A change in the measurement basis

18. A change in the measurement basis applied is a change in an accounting policy, according to paragraph 35 of IAS 8. The question therefore arose about what constitutes a change in measurement basis.

19. We note that there is some useful guidance on this matter in IAS 1 (paragraph 118) and in IFRS 13 (paragraph 2 and 62).

20. We note that paragraph 118 of IAS 1 states examples of measurement basis as "historical cost, current cost, net realisable value, fair value or recoverable amount." Because fair value is listed as one of the measurement basis, we think that, if the objective of fair value measurement does not change, there is not a change in measurement basis, even though there is a change in valuation technique.

21. We note that the objective of fair value measurement does not change as a result of a change in valuation technique or its application under IFRS 13. Accordingly, we do not think a change in valuation technique or its application results in a change in measurement basis. Paragraphs 2 and 62 of IFRS 13 states as follows:

> 2 For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.
>
> 62 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

22. We note that paragraph 66 of IFRS 13 states that "revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in an accounting estimate in accordance with IAS 8.", which is consistent with the above paragraphs.

23. We conclude from this that a change in measurement basis, such as a change between historical cost and fair value is a change in an accounting policy. We also note that a change in the valuation technique used or its application is a change in an accounting estimate.

24. We note that examples of measurement basis in paragraph 4.55 of the *Conceptual Framework* are different from paragraph 118 of IAS 1. Paragraph 4.55 of the *Conceptual Framework* states that measurement bases include the following:

- historical cost;
- current cost;
- realisable (settlement) value; and
- present value.

25. We think that the issue should be communicated to the IASB's *Conceptual Framework* project because the description of the measurement basis in the *Conceptual Framework* is under revision and the outcome would affect the distinction between a change in an accounting policy and a change in an accounting estimate.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate

26. 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, according to paragraph 35 of IAS 8. However, we consider that sufficient analysis should be made before reaching the conclusion.

27. First of all, an assessment should be made to distinguish an error from a change in accounting policy or a change in accounting estimate. Error could arise, for example, from a selection of a wrong accounting policy, or from using wrong data in an estimate. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors, in accordance with paragraph 5 of IAS 8. In response to our outreach, one regulator pointed out that they have noted instances in which the disclosures suggested that changes characterised as changes in estimates or policies may have been corrections of errors.

28. Secondly, we note that "a change in judgement, apart from those involving estimations, that management has made in the process of applying the entity's

accounting policies" is not a change in accounting policy but triggers additional disclosure, therefore needs to be distinguished from other changes. Paragraph 122 of IAS 1 states as follows:

> 122 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

29. Paragraphs 123–124 of IAS 1 provide the examples of such judgements as follows:

- when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
- whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue;
- whether an entity controls another entity; and
- the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held-for-sale in the ordinary course of business, when classification of the property is difficult.

Sufficiency of the existing guidance

30. Although we noted that the Standards mentioned earlier provide some guidance to distinguish a change in an accounting policy and a change in an accounting estimate, the guidance does not necessarily solve issues, for the following reasons:

- the definition of a change in accounting estimate is relatively specific, however, the definition of accounting policy is broad, and thus, the two definitions overlap.
- IAS 8 states that a change in the measurement basis applied is a change in an accounting policy; however, it is not clear in all circumstances what constitutes a change in the measurement basis, in particular whether a change in historical cost bases is a change in the measurement basis (for example, FIFO to weighted average method).

Criteria for changes

31. The submitter pointed out that IAS 8 sets out stricter criteria for changes in accounting polices than for changes in accounting estimates. The submitter suggested that the IASB clarifies whether the reason to justify the change should be taken into account and, if so, on what basis.

32. We note that the criteria for changes exist for a change in an accounting policy. In addition, similar criteria exist for a change in an accounting estimate resulting from a change in the valuation technique or its application under IFRS 13. However, such explicit criteria are not given for a change in an accounting estimate:

	Changes in accounting policies under IAS 8	Changes in accounting estimates	
		A change in the valuation technique or its application under IFRS 13	Other changes in accounting estimates under IAS 8
Criteria for changes	An entity shall change an accounting only if the change results in the financial statements providing reliable and more relevant information (paragraph 14(b)).	A change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances (paragraph 65).	NA
Related disclosure requirement	The reasons why applying the new accounting policy provides reliable and more relevant information (paragraph 29(b)).	The reason for the change in the valuation technique (paragraph 93(d)).	NA

Although it is not explicit in Standards, we consider that estimations, by nature, should involve judgements similar to those for assessing a change in valuation technique under IFRS 13, and are not a free choice.

33. We note that the Feedback Statement *Discussion Forum—Financial Reporting Disclosure*, issued by the IASB in May 2013, states:

> In 2013 the IASB will start a research project reviewing IAS 1, IAS 7 Statement of Cash Flows and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The goal will be to replace those Standards, in essence creating a disclosure framework. The research will be undertaken in parallel with the work on the *Conceptual Framework*, with the goal of developing a full Standards-level proposal in time for the next Agenda Consultation.

We think that this project should consider the possible introduction of criteria for changes and related disclosure requirement for a change in an accounting estimate. Accordingly, we think that the Interpretations Committee should bring this issue to the IASB's attention for its future consideration. In particular, when an estimation method or source of estimation changes, we think that the change in estimate needs to provide equally or more relevant information and users might need disclosure of the reason for changes. However, in the short-term we note that paragraph 35 provides direction in those circumstances where it is difficult to distinguish a change in policy from a change in estimate.

Assessment against the Interpretations Committee agenda criteria

Agenda criteria	
We should address issues (5.16 of the *Due Process Handbook*):	
that have widespread effect and have, or are expected to have, a material effect on those affected;	**Yes.** On the basis of our analysis of the outreach results received from standard-setters and regulators, we can indicate that this issue is considered to be widespread and diversity in practice exists.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**Yes.** We think that financial reporting would be improved if the Standards were to be modified to: (a) clarify the definition of accounting policy; (b) clarify the measurement basis; or (c) introduce criteria for change (and related disclosure) to a change in estimate. In the short-term, paragraph 35 of IAS 8 provides direction until any further guidance is developed.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**No.** It relates to the *Conceptual Framework* project and the Disclosure project.
In addition:	
Is the issue sufficiently narrow in scope that	**No.** Revision to the definition of accounting policy would

the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	widely affect financial reporting. Interpretation of the term “measurement basis” would affect the *Conceptual Framework*. Introducing criteria for change (and related disclosure) for a change in estimate would widely affect financial reporting.
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	**No.** Chapter 4 of the *Conceptual Framework* will be updated when the IASB has considered the elements of financial statements and their measurement bases. In addition, the Disclosure project will address IAS 1 and IAS 8 from the broader perspective.

Staff recommendation

34. We recommend that the Interpretations Committee should not add this issue to its agenda.

35. We acknowledge that the Standard would benefit from greater clarity and guidance to help distinguish a change in policy from a change in estimate. We also think that users would benefit if entities explained changes in estimates in which the change was as a consequence of a change in the method used to make the estimate. We note that there is already a requirement to disclose sources of significant estimation uncertainty. However, we think that if changes are to be made in respect of these areas, we think it would be best to make them as part of a broader piece of work within the IASB's disclosure initiative, or in the context of the *Conceptual Framework* project. In the short-term we note that paragraph 35 provides clear direction in those circumstances where it is difficult to distinguish a change in policy from a change in estimate. Consequently we do not think that an amendment or an interpretation is needed in the short-term.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff's recommendation that this issue should not be added to its agenda?

2. Does the Interpretations Committee agree that this issue should be brought to the IASB's attention for its future deliberation on the Disclosure project and the *Conceptual Framework* project?

- clarification of the definitions for accounting policy and estimate (in relation to the Disclosure project);
- clarification of what is a measurement basis (in relation to the *Conceptual Framework* project); and
- consideration as to whether criteria for change (and related disclosure) should be introduced for a change in estimate (in relation to the Disclosure project).

3. If the Interpretations Committee agrees with the staff recommendation, does it agree with the proposed wording for the tentative agenda decision in Appendix A?

Appendix A—Proposed wording for the tentative agenda decision

The staff propose the following wording for the tentative agenda decision:

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Distinction between a change in an accounting policy and a change in an accounting estimate

The Interpretations Committee received a request to clarify the distinction between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The submitter stated that enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or as a change in an accounting estimate in accordance with IAS 8.

The Interpretations Committee noted that the principal guidance on distinguishing a change in accounting policy from a change in accounting estimate is set out paragraphs 5 and 35 of IAS 8. It also noted that other IFRSs provide additional guidance that can be helpful in making the distinction. In particular:

- paragraph 66 of IFRS 13 states that revisions resulting from a change in the valuation technique (for example, market approach to income approach) or its application shall be accounted for as a change in an accounting estimate

The Interpretations Committee acknowledged that distinguishing between a change in accounting policy and a change in accounting estimate can require judgement and may be challenging, however, it observed that paragraph 35 of IAS 8 states that 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. Consequently it expected that an entity would follow this guidance in circumstances where it is unclear whether a change is a change in accounting policy or a change in accounting estimate.

The Interpretations Committee observed that it would be helpful if more guidance was given to help entities make the distinction between a change in accounting policy and a change in accounting estimate but it considered that any amendment to the Standards is too broad for it to address within the confines of existing IFRSs and the *Conceptual Framework*. Instead, the Interpretations Committee considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the *Conceptual Framework* project.

On the basis of the analysis above, the Interpretations Committee [decided] not to add this issue to its agenda.

Appendix B—Original agenda request

B1. On 1 July 2013 the IFRS Interpretations Committee received a request for clarification to distinguish between a change in an accounting policy and a change in an accounting estimate from ESMA as follows:

Mr Wayne Upton
IFRS IC
Cannon Street 30
London EC4M 6XH United Kingdom

Agenda item request: Application of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors to distinguish between a change in accounting estimate and a change in accounting policy

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active coordination of national supervisory activity.
As a result of the enforcement activities carried out by national competent authorities ESMA has identified an issue related to the application of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors,* which we would like to bring to the attention of the IFRS Interpretations Committee for adding it to its agenda.

A detailed description of the issue is set out in the appendix to this letter. We would be happy to further discuss this issue with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

APPENDIX- DETAILED DESCRIPTION OF THE ISSUE

1. Enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or as a change in an accounting estimate in accordance with IAS 8, as illustrated in the examples below.

Description of the issue

2. The distinction between a change in accounting estimate and a change in accounting policy is particularly important because IFRS requires a different accounting treatment resulting in application of the change prospectively or retrospectively.

3. Moreover, IAS 8 sets out stricter criteria for changes in accounting policy than for changes in accounting estimate. According to paragraph 14(b) of IAS 8, in order to change an accounting policy the issuer should be able to justify that the change provides more relevant information, whereas there is no such requirement for a change in accounting estimate.

4. Recent debates at the IFRS IC on the request for guidance on the determination of the rate used to discount post-employment benefit obligations show that IFRS IC members were divided on the qualification of a change of the way to determine a discount rate. The November 2012 IFRS IC Update[1] states that *"the Interpretations Committee briefly discussed, but did not conclude, on whether a change to the way in which an entity determines the discount rate would be a change in accounting policy or a change in estimate".*

5. ESMA is concerned that diversity in practice may exist regarding this qualification. ESMA provides the following examples to illustrate the ambiguities arising from the assessment whether a change qualifies as a change in accounting policy or as a change in accounting estimate.

Example A - Change in the own credit risk calculation

6. Historically, bank A computed its own credit risk for the measurement of its financial liabilities at fair value using credit default swap (CDS) curves. Following the financial crisis and the dislocation of the CDS market, bank A modified its methodology and assessed its own credit risk at year-end based on the spread of its most recent debt issuance.

[1] IFRS IC Update — November 2012, IFRS Foundation, November 2012

View1

7· Supporters of view 1 believe that this change is a change in accounting policy, as the basis for deter- mining the own credit risk changed from CDS curve method to a methodology based on the spread of the historical debt issuances.

View2

8. Supporters of view 2 argue that this is a change in accounting estimate because the objective of the accounting policy related to the measurement of own credit risk has not changed. The method of valuation was modified as the CDS curve was no longer relevant. Hence, according to this view, this change is due to *"changes which occurred in the circumstances on which the estimate was based"* as referred to in paragraph 34 of IAS 8.

Example B - Change in the definition of High Quality Corporate Bonds

9. The subject was briefly discussed during the November IFRS IC meeting as part of the discussion on high quality corporate bonds (HQCB) in IAS 19 and IFRS IC members expressed diverging views on whether such change would qualify as a change in accounting policy or a change in accounting estimate.

View1

10. 10Proponents of view 1 believe that a change in the reference used to determinate the discount rate is a change in accounting policy because the measurement basis used in determining the discount rate changed. If an issuer used in the past the yield of AA-rated bonds, switching to the yield of EBB- rated bonds is a change in the measurement basis.

11. They argue that the change is not a change in accounting estimate because the issuer had chosen AA-rated bonds as a definition for HQCB. Changing the definition of a concept cannot be a change in estimate.

View2

12. Proponents of view 2 argue that this change is not a change in accounting policy because the objective which is to determine the discount rate with the reference to the yield of HQCB did not change (i.e. there was no change in measurement basis). The fact that the yield of HQCB was formerly evaluated using AA-rated bonds and is now evaluated using BBB rated bonds is a change in accounting estimate. The number of AA-rated entities is no longer sufficient and consequently it is more relevant to use BBB-rated bonds. Hence, this change is due to *"changes which occurred* in *the circumstances on which the estimate was based"* as referred to in paragraph 34 of IAS 8.

Other examples

13. ESMA notes other examples where the assessment whether a change qualifies as a change in accounting policy or as a change in accounting estimate is difficult:

    a. a change in the *"significant or prolonged"* criteria which trigger impairment for Available for Sale equity instruments in accordance with paragraph 61 of IAS 39 - *Financial Instruments: Recognition and Measurement,*

    b. a change of method of credit value adjustment (CVA) calculation, from historical approach to determine the probability of default and the loss given default to market based approach,

    c. a change in the measurement formula of the cost of the inventories from first-in-first-out (FIFO) to weighted average cost.

Request

14. ESMA would suggest that the criteria to distinguish a change in accounting policy from a change in accounting estimate need to be clarified. In particular, ESMA suggests the IASB to clarify whether the reason to justify the change should be taken into account (e.g. voluntary change or change due to external circumstances) and if so on what basis.

15. Furthermore, ESMA finds that there might be a need to clarify the interaction between the following paragraphs in different IFRSs:

    - paragraph 66 of IFRS 13 -*Fair Value Measurement* which states that a change in a valuation methodology is a change in accounting estimate,
    - paragraph 35 of IAS 8 which notes that a change in the measurement basis applied is a change in accounting policy, and
    - paragraph 118 of IAS 1 – *Presentation of Financial Statements* which states that measurement bases (e.g. historical cost, current cost, net realisable value, fair value and recoverable amount) are accounting policies.

Appendix C—Questions sent for outreach

C1. We asked IOSCO and the members of International Forum of Accounting Standard-Setters (IFASS) for information about this submission. The entire email request is noted below:

1. Summary of the issue

The submitter pointed out that the distinction between changes in accounting estimates and changes in accounting polices is particularly important because IFRS requires a different accounting treatment resulting in application of the changes prospectively or retrospectively. Moreover, IAS 8 sets out stricter criteria for changes in accounting polices than for changes in accounting estimates. According to paragraph 14(b) of IAS 8, in order to change an accounting policy the issuer should be able to justify that the change provides more relevant information, whereas there is no such requirement for a change in accounting estimate. The submitter is concerned that diversity in practice may exist regarding the distinction in certain transactions and presented specific examples as follows:

Example A – Change in the own credit risk calculation

> Historically, bank A computed its own credit risk for the measurement of its financial liabilities at fair value using credit default swap (CDS) curves. Following the financial crisis and the dislocation of the CDS market, bank A modified its methodology and assessed its own credit risk at year-end based on the spread of its most recent debt issuance.

Example B – Change in the definition of High Quality Corporate Bonds

> The subject was briefly discussed during the November IFRS IC meeting as part of the discussion on high quality corporate bonds (HQCB) in IAS 19 and IFRS IC members expressed diverging views on whether such change would qualify as a change in accounting policy or a change in accounting estimate.

Other Examples

- A change in the "significant or prolonged" criteria which trigger impairment for Available for Sale equity instruments in accordance with paragraph 61 of IAS 39 - Financial Instruments: Recognition and Measurement.
- A change of method of credit value adjustment (CVA) calculation, from historical approach
  to determine the probability of default and the loss given default to market based approach.
- A change in the measurement formula of the cost of the inventories from first-in-first-out (FIFO) to weighted average cost.

2. Questions

I would very much appreciate your observations in your jurisdiction, regarding the following aspects of the concerns raised:

Q1. Are you aware of any difficulties or challenges in distinguishing changes in accounting policies and changes in accounting estimates observed in your jurisdiction?

Q2. If yes to Q1, what are the particular issues related to the distinction between changes in accounting policies and changes in accounting estimates in your jurisdiction?

Q3. If yes to Q1, what is the prevalent approach/basis followed in your jurisdiction to distinguish between changes in accounting policy form changes in accounting estimate?

If you see diversity in practice in respect to this, please explain how.