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Berlin, 3 January 2018

Dear Jean-Paul,

IASB Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's ED/2017/5 *Accounting Policies and Accounting Estimates* (herein referred to as the 'ED'). We appreciate the opportunity to respond to the DCL.

Please find attached our comment letter to the IASB, containing our detailed comments on the questions raised in the ED.

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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Berlin, 03 January 2018

Dear Hans,

IASB Exposure Draft ED/2017/5 Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)* (herein referred to as 'ED'). We welcome the IASB's efforts to clarify the distinction between a change in accounting policy and a change in accounting estimates and appreciate the opportunity to comment on the ED.

Generally speaking, we think that providing clarification regarding the terms 'accounting policy' and 'accounting estimate' is addressing a symptom but not the root cause. We are of the opinion that the real issue for clarification should be the question in which circumstances – if any – retrospective adjustments to prior periods are required to address information needs of users of financial statements. The ED does not provide any insights to this question, and we suggest the IASB consider developing principle based-guidance regarding the circumstances for making retrospective adjustments to prior periods.

Notwithstanding this general comment, we have answered the questions contained in the ED in order to contribute to helpful interim solutions. In summary, we consider the proposals being capable of clarifying some issues that were subject of clarification requests in the past. However, we do not think that the proposals will help to clarify all of these issues. Therefore, we think further clarification is necessary regarding the distinction between the definition of accounting policy and accounting estimates, should the IASB decide to go down that path.

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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Appendix – Answers to the questions of the exposure draft

Question 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 think the proposed amendments represent partial improvements but do not completely remove the ambiguity about the term ‘accounting policy’ and its interpretation.

On the one hand, we agree with the proposal to replace the term ‘bases’ by the term ‘measurement bases’. In our view, this will help to address the question as to whether a change of measurement basis would be considered as a change in accounting policy.

On the other hand, we do not agree with the Basis for Conclusion in BC5 that removing the terms ‘convention’ and ‘rules’ makes the definition any clearer and more concise, because their meaning is not clear and the terms are not used elsewhere in IFRS Standards. We believe the remaining terms ‘principles’ and ‘practice’ are also not clear in the absence of a clear definition in IFRS Standards and, therefore, are subject to different interpretations. Furthermore, we think the term ‘rules’ is commonly understood by constituents and also used in IFRS Standards, e.g. IAS 37. Consequently, it should not be removed but defined in IAS 8. Additionally, we think the remaining terms ‘principles’, ‘measurement bases’, and ‘practice’ reflect very different aspects and hierarchies of accounting guidance.

We therefore think that, overall, the proposed changes do not make the definition much clearer and concise, i.e. different interpretations relating to the term ‘accounting policy’ are likely to remain.

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??

We think the proposed amendments can be helpful to clarify the distinction between a change in accounting policy vs. a change in accounting estimate in some circumstances. However, we have doubts that the proposals provide sufficient clarifications for all the issues that were addressed to the IASB as clarification requests in the past, in particular the issues relating to:

- a change in the own credit risk calculation;
- a change in an entity's assessment of High Quality Corporate Bonds; and
- a change in the method of credit value adjustment (CVA) calculation, from a historical approach to a market approach, in order to determine the probability of default and the loss given default.

Considering that the main source of clarification requests arose from the different accounting consequences, i.e. the retrospective application of a change in accounting policy vs. the prospective application of a change in accounting estimates, we think it could be more helpful to clarify that:

- A change relating to the recognition, measurement or presentation of items in financial statements based on an explicit accounting option in IFRS Standards, i.e. a change in an eligible alternative accounting treatment that should be applied to similar items consistently across reporting periods, or a change in an accounting rule, represent a change in accounting policy; and
- Application of judgement that is necessary to comply with accounting guidance does not represent a change in accounting policy.

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?

Whilst we agree with the proposed amendment, in addition, we suggest clarifying that a change in eligible estimation techniques or valuation techniques across reporting periods constitutes making an accounting estimate in accordance with paragraph 32A.

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?

While we agree with the clarification that a change in the selection of cost formula for interchangeable inventories represents a change in accounting policy, we do not agree that the clarification should be included in the main body of IAS 8. In our view, the clarification should



be added to IAS 2 instead. Alternatively, we think providing the clarification as illustrative example to IAS 8 would be a suitable solution.

Furthermore, we believe that the clarification regarding a change in the selection of cost formula for interchangeable inventories is the least controversial issue in comparison to those issues that were part of the original request for clarification (see our response to question 2). Thus, we think the IASB should also provide clarification on those issues, ideally as illustrative examples.

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

We are of the opinion that the root cause of discussing the distinction between an 'accounting policy' and an 'accounting estimate' lies in the accounting consequences that follow from that distinction (retrospective adjustments to prior periods in case of the former, in particular). In this respect, the ED does not address the conceptual justification for treating changes in accounting policy differently from changes in accounting estimates. In our opinion, clarification about the two terms can therefore only be an interim solution. We suggest the IASB consider developing principle-based guidance on the circumstances in which retrospective adjustments to prior periods are required (if any).