



ACT
Government

Chief Minister, Treasury and
Economic Development

ED 281 Sub 3

Ms K Peach
Chair
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Ms Peach, ^{Kris}

**Exposure Draft 281 – Accounting Policies and Accounting Estimates
Proposed amendments to AASB 108**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED 281 *Accounting Policies and Accounting Estimates – Proposed Amendments to AASB 108*.

The AASB ED 281 is based on International Accounting Standards Board (IASB) Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates – Proposed Amendments to IAS 8*. HoTARAC agrees with the IASB's proposal to clarify how accounting policies relate to accounting estimates.

HoTARAC's response to the AASB's four specific matters for comment and the IASB's five questions are set out in the Attachment below. HoTARAC is also responding directly to the IASB on its ED/2017/5.

If you have any queries regarding HoTARAC's comments, please contact Martin Smith from NSW Treasury on 02 9228 5158 or by email at martin.smith@treasury.nsw.gov.au.

Yours sincerely,

David Nicol

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

¹⁴ November 2017

HoTARAC response to AASB specific matters for comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities, including GAAP/GFS implications.

HoTARAC is not aware of any regulatory or other issues arising in the Australian environment that may affect the implementation of the IASB's proposals.

2. whether, overall, the proposals would result in financial statements that would be useful to users.

The IASB proposes clarifying the distinction between accounting policies and accounting estimates. This proposal would result in entities reporting their financial information on a more consistent basis. This, in turn, would result in users receiving more useful financial statements.

3. whether the proposals would be in the best interests of the Australian economy.

HoTARAC believes that the IASB's proposals will have no negative impact on the Australian economy.

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

HoTARAC considers that the benefits of the IASB's proposals would outweigh its cost. The main benefit would result from entities reporting their financial information on a more consistent basis. HoTARAC considers that the cost to financial statement preparers of adopting the IASB's proposals would be negligible.

HoTARAC response to IASB Questions

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?

HoTARAC agrees with the proposal to remove the terms 'conventions' and 'rules' from the IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* definition of 'accounting policies' for the reasons noted in paragraph BC5:

- 'their meanings are not clear', and
- 'these terms are not used elsewhere in IFRS Standards'.

In addition, HoTARAC agrees with the proposal to replace the term 'bases' with the term 'measurement bases' because, as noted in paragraph BC8:

- IAS 8 paragraph 35 already states that a change in 'measurement basis' is a change of 'accounting policy', and
- accordingly, the term 'measurement bases' would align with IAS 8 paragraph 35.

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?

HoTARAC agrees with the proposal to define 'accounting estimates' as 'judgements or assumptions used in applying an accounting policy when, because of estimation uncertainty, an item in financial statements cannot be measured with precision'. HoTARAC considers that this proposed definition clearly distinguishes 'accounting estimates' from 'accounting policies' and clearly explains the relationship between them.

HoTARAC agrees with the proposal to remove the IAS 8 definition of 'change in accounting estimate' because, as noted in BC10:

'The [current] combination of a definition of one item (accounting policies) with a definition of changes in another item (changes in accounting estimates) obscures the distinction between accounting policies and accounting estimates'.

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?

HoTARAC agrees with the proposed IAS 8 paragraph 32A because, as noted at BC 18, it would:

- reference the term 'estimation techniques' already used in IFRS 9 *Financial Instruments*,
- reference the term 'valuation techniques' already used in IFRS 13 *Fair Value Measurement*, and
- clarify that an 'estimation technique' or 'valuation technique' is needed 'where an item cannot be measured with precision'.

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?

HoTARAC agrees with the proposed paragraph 32B, which states that selecting one of the two cost formulas prescribed in IAS 2 *Inventories* for interchangeable inventories is an 'accounting policy' rather than an 'accounting estimate'. It is clear that selection of a cost formula for interchangeable inventories is a matter of policy rather than an estimate of value.

Question 5

Do you have any other comments on the proposals?

HoTARAC has no other comments on these proposals.