

## Accounting Standards Board of Japan (ASBJ)

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Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
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### **Re: Comments on the Exposure Draft *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)***

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)* (the “ED”), issued in September 2017.
2. We support the IASB’s objective to clarify the distinction between accounting policies and accounting estimates by amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We agree with the proposed amendments in the ED (a) to add the definition of accounting estimates and to remove the definition of a change in accounting estimate, (b) to clarify that selecting an estimation technique or valuation technique constitutes making an accounting estimate and (c) to clarify that selecting the cost formula for interchangeable inventories constitutes selecting an accounting policy.
3. However, we think that the definition of accounting policies and accounting estimates could be made clearer and more concise if the terms were defined as follows (text we suggest deleting is struck through).

Accounting policies are the specific principles, ~~measurement bases,~~ and practices applied by an entity in preparing and presenting financial statements.

Accounting estimates are judgements or assumptions used in applying an accounting policy when, ~~because of estimation uncertainty~~, an item in financial statements cannot be measured with precision.

4. In addition, regarding the term ‘practices’ used in the definition of accounting policies, we think that it is necessary to clarify the intention of the term ‘practices’ in places other than the definition, to enable stakeholders to better understand what could constitute accounting policies.
5. Finally, we think that it is difficult for all stakeholders to have a common understanding of the distinction between accounting policies and accounting estimates merely by improving these definitions. Accordingly, we believe it is necessary to add, as part of authoritative guidance, how these definitions would be applied in specific circumstances, including those that have been discussed in the past.
6. For our other comments on the specific questions to the ED, please refer to the Appendix of this letter.
7. We hope that our comments will contribute to the IASB’s deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono' with a stylized flourish at the end.

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Question 1
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<p>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).</p>
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<p>Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?</p>
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1. Within the amendments proposed in the ED, we agree with removing the terms ‘conventions’ and ‘rules’ from the definition of accounting policies. Our understanding is that these terms would be included in the scope of ‘practices’ and that this proposal would not change the scope of accounting policies.
2. On the other hand, although we agree that the selection of ‘measurement bases’ constitutes selecting accounting policies, we are concerned that describing the term ‘measurement bases’ in parallel with the term ‘principles’, may confuse stakeholders. We think ‘measurement bases’ forms part of ‘principles’ and thus is not a necessary element of the definition of accounting policies.
3. We think that paragraph 35 of IAS 8 clearly states that a change in the measurement basis applied is a change in an accounting policy, and the relationship between accounting policies and the selection of measurement bases are sufficiently explained by this paragraph. In addition, in practice, changes in measurement bases corresponding to changes in accounting policies occur only in extremely rare circumstances, such as the selection between the cost model and the fair value model in IAS 40 *Investment Property*. Accordingly, to make the definition of accounting policies clearer and more concise, we suggest removing the term "measurement basis" from the proposed definition of accounting policies.
4. In addition, regarding the point of keeping the term ‘practices’ in the definition of accounting policies, we think that the term ‘practices’ is intended to refer to accounting policies that management develops in accordance with paragraph 10 of IAS 8, in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition. However, the term ‘practice’ is not necessarily clear, and this term may make it difficult for stakeholders to have a common understanding

regarding the scope of accounting policies. Accordingly, we think that it is necessary to clarify the intention of the term ‘practices’ in places other than the 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 this proposed amendment? Why or why not? If not, what do you propose and why?

- 5. We agree with adding a definition of accounting estimates and removing the definition of a change in accounting estimate. We think this amendment promotes the understanding of accounting estimates and makes it easier to distinguish between accounting policies and accounting estimates.
- 6. We also agree with the proposed explanation in the ED stating that that accounting estimates are used in applying accounting policies. However, in the proposed definition, we are concerned that the definition of accounting estimates may not necessarily be sufficiently clear as it refers to estimation uncertainty. Specifically, by referring to estimation uncertainty in the definition of accounting estimates, we are concerned that this may raise question of (a) whether the definition is targeted only to specific circumstances where, within the cases that the item in the financial statements cannot be measured with precision, estimation uncertainty exists and (b) whether it is synonymous with the phrase ‘uncertainty inherent in business activities’ described in paragraph 32 of IAS 8.
- 7. As explained in the Basis for Conclusions of the ED, the two key elements in the proposed definition are that (a) the accounting estimates are the judgments or assumptions used in applying an accounting policy (BC9 and BC12 of the ED) and (b) a reference to the inability to measure items in financial statements with precision

(BC11 of the ED). Accordingly, we think that reference to estimation uncertainty is not necessarily needed.

8. Accordingly, to make the definition of accounting estimates clearer and more concise, we suggest removing the description "because of estimation uncertainty" from the proposed definition.

<b>Question 3</b>
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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).
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Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?
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9. We agree with the proposed amendments for the reasons described in the Basis for Conclusions of the ED.

<b>Question 4</b>
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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).
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Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?
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10. We agree with the proposed amendments for the reasons described in the Basis for Conclusions of the ED. However, we think it is difficult to understand the relationship between the description that the selection of the cost formulas is not an attempt to estimate the actual flow of the inventory in paragraph BC19 of the ED and the description that the last-in, first-out (LIFO) method imposes an assumption of unrealistic cost flow in paragraph 20 of the ED, and the description concerning the assumption of the cost flow of the first-in, first out (FIFO) method in paragraph 27 of IAS 2. Our understanding is that these descriptions is intended to state that the

cost formulas allowed under IFRS Standards should reflect a realistic cost flow, but when an entity selects a cost formula from the cost formulas defined in IFRS Standards, any cost formula can be selected regardless of the actual flow of the inventories. If our understanding is correct, we think that a supplementary explanation should be provided to clarify this point.

11. In addition, we suggest that the description in paragraph 32B of the ED be included in IAS 2. Our understanding is that, historically, the explanation of whether the changes in the accounting treatment constitutes changes in accounting policies or changes in accounting estimates under IAS 8 has been included in the related IFRS Standards (for example, the change in residual value or useful life for fixed assets (paragraph 51 of IAS 16) and the change in the depreciation method (paragraph 61 of IAS 16) and we believe IFRS Standards would be easier to use in that way.
12. At the same time, we think the contrast between paragraphs 32A and 32B of the ED facilitates the understanding of the distinction between accounting policies and accounting estimates. Accordingly, even if the description in paragraph 32B of the ED is moved to IAS 2, we request that IAS 8 continues to state that the selections made by an entity that do not involve judgment or use of assumptions made in preparing financial statements constitutes the selection of an accounting policy.

Question 5
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Do you have any other comments on the proposals?
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13. We think that it is difficult for all stakeholders to have a common understanding of the distinction between accounting policies and accounting estimates merely by improving these definitions. Accordingly, we believe it is necessary to add, as part of authoritative guidance, how these definitions would be applied in specific circumstances, including those that have been discussed in the past. An example would be the change in the determination of the discount rate for defined benefit obligations.
14. We also believe that most of the issues that have been discussed in the past will be classified as changes in accounting estimates in accordance with the ED. Accordingly, when adding guidance on specific circumstances, we think that it would be useful to include cases related to voluntary changes in accounting policies other than the changes in the cost formula for inventory.

15. In addition, we suggest defining “measurement basis” and “estimation technique or valuation technique” or at least including examples provided in other IFRS Standards (such as the example of the measurement basis in paragraph 118 of IAS 1) be included in IAS 8. This is because the distinction between a measurement basis and an estimation technique or valuation technique is important in distinguishing between accounting policies and accounting estimates.
16. In our discussions, some members of our Technical Committee stated that the relationship between the measurement basis and the estimation technique or evaluation technique was unclear, especially in the context of the cost formula for inventory. Our understanding is that the cost formulas would be none of these, and we think that it would be useful to clarify this point.
17. Finally, regarding the proposed paragraph 32 (c) of IAS 8 in the ED, we believe that it is unnecessary to limit the example of fair values to assets or liabilities and, accordingly, we suggest removing these terms and simply say ‘fair value’.