Warsaw, 11 January 2018

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

Dear Mr. Hoogervorst,

RE: Exposure Draft ED/2017/5 – Accounting Policies and Accounting Estimates

The Polish Accounting Standards Committee (PASC – Komitet Standardów Rachunkowości) is pleased to respond to the request for comments on the *Exposure draft: Accounting Policies and Accounting Estimates (the 'ED').*

PASC supports the IASB's efforts to improve the IAS 8 (the 'Standard') and believes the proposals in the Exposure Draft clarify the current guideline.

Our answers to the specific questions in the Exposure Draft are included in the Appendix.

Yours sincerely,

Joanna Dadacz
Chairman
Polish Accounting Standards Committee

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c/c EFRAG

Appendix

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?

While some PASC members support the amendments, others do not share the IASB’s view to introduce changes in the definition of accounting policy in the version proposed by the IASB in para BC5-BC8. They have doubts whether the proposed amendments may contribute to the better understanding or improvement of the quality of the prepared financial statements. They see an incomprehensible departure from the current terminology developed by accounting literature and widely accepted and well understood by all interested parties (issuers and users of the financial statements and auditors).

PASC supports the Board’s efforts to clarify the term *"bases*" by replacing it with the phrase "*measurement bases*", although the new term of "*measurement bases*" can also be considered as ambiguous. "*Measurement bases*" can be further understood in terms of choosing between the cost approach (historical) and the fair value approach, but also in terms of the choice between accrual and cash-based approach or even in terms of the choice between the use or non-use of the going concern concept.

Further, PASC believes that it should be explained either in the Standard itself or in the Basis for conclusions what *“specific principles, measurement bases, practices applied”* are. In our view, due to the lack of adequate and comprehensive explanations, the proposed amendment may not improve the quality of the definition of accounting policy, including its full understanding.

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 support the proposed amendments. In our opinion, the replacement of the definition of ‘a change in accounting estimate’ with the definition of ‘accounting estimates’ is an improvement; however, we would suggest to start a discussion on the new definition of the accounting estimates. For the accounting estimates, it is essential to ensure “reliability” measuring e.g. events, resource or obligation that are to ensure their faithful representation. As proposed, the uncertainty related to the accounting estimates is triggered by the difficulties in measurement with **precision**. We find it more appropriate to use a phrase **accuracy** as the precise measurements is a measurement that results in a slight deviation in the obtained measurements; however, it can be far

from the "real" picture being measured. As a consequence, it would be inconsistent with the concept of a faithful presentation which, in addition to its relevance, ensures the usefulness of the information to be presented in the financial statements.

We would like to emphasize that in IFRS, a reliable measurement is considered to be one in which *either (a) the variability in the range of reasonable measurements is not significant for the item or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring the value* (based on IAS 16 para 25). The extract mentioned above indicates that precise measurement is not the only way to achieve reliability in measurement. It can also be replaced by an accurate measurement.

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?

PASC generally accepts the proposed changes (subject to the comments indicated in the Question 2 above).

However, we would like to point out that the introduction of a distinction between estimation techniques and valuation techniques, without explaining what techniques are involved or what the difference between these techniques is, may raise doubts about the nature of these techniques and their impact on accuracy of estimates. The guidelines provided by IASB in para BC18 are not sufficient and they do not solve the issue, especially since “the estimation techniques” are mentioned in IFRS very rarely (IFRS 9 para BC5.195 and IFRIC 4 para 14) while “the valuation techniques” are used quite often (over 110 times). Therefore, we consider that it is necessary to clarify what the estimation techniques are and how they differ from the valuation techniques. It would be also appropriate to clarify whether the choice between these groups of techniques affects the reliability of the measurement (in our view it does not affect the measurement results).

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?

We support the amendment proposed by IASB which provides a clear explanation that costs formulas set out in IAS 2 are qualified as accounting policy and are not accounting estimates.

However, we would recommend to replace the wording „inventories are sold" with a phrase „inventories are sold, used or exchanged". Limiting the case to the sale of inventories may raise doubts whether the approach would be similar in case of exchange of inventories for other resources or their usage, e.g. for production or settlement of liabilities (in circumstances other that those described in IAS 2 para 23).

Some PASC members suggested placing IAS 2 FIFO /WAC example outside the standard, possibly with a few other examples, each explaining the rationale for classification as a policy or estimate.

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

As a consequence of the proposed amendments to the standards, we would suggest changing its name on „Accounting Policies, Accounting Estimates and Errors".

"New information" should be described as information that was not readily available in the previous period; failure to use available information is an error.