VMEBF
Bilanzierung in Familienunternehmen

Mr. Hans Hoogervorst
International Accounting Standards Board – IASB
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 08/01/18

Dear Mr. Hoogervorst,

RE: EXPOSURE DRAFT ED/2017/5

We appreciate the opportunity to comment on the IASB´s exposure draft ED/2017/5 “Accounting Policies and Accounting Estimates – Proposed amendments to IAS 8”. With this letter we would like to contribute to the Board´s due process and take part in the discussion on the amendments to IAS 8.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international financial reporting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter GASC and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

We agree with the fundamental purpose of the exposure draft that is to clarify the criteria to distinguish between a change in an accounting policy and a change in an accounting estimate. We believe that there is enormous diversity in practice in the

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way entities distinguish accounting policies from accounting estimates. That diversity arises because the definitions in IAS 8 of accounting policies and of a change in accounting estimates are not sufficiently clear. Moreover, the definitions seem to overlap. The distinction between accounting policies and accounting estimates is important for preparers of financial statements because IAS 8 contains different requirements on how to account for changes in accounting policies and for changes in accounting estimates.

With that in mind, we believe that IAS 8 should contain an unmistakable and generic approach differentiating between accounting policies and accounting estimates. As the definitions and amendments proposed in ED/2017/5 do not provide such an approach, we developed our own proposal to distinguish accounting policies from accounting estimates. Please refer to the appendix to this letter for our proposals and the detailed answers to the questions asked in the exposure draft.

If you have any further questions or like to talk about our answers and suggestions in a personal meeting please do not hesitate to contact us.

Kind regards,

Association for Participation in the Development of
Accounting Regulations for Family-owned Entities (VMEBF)

Andreas Janssen	Santokh Advani	Dr Michael Reuter
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Appendix:
VMEBF comments on the additional questions

<u>Question 1:</u>

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).

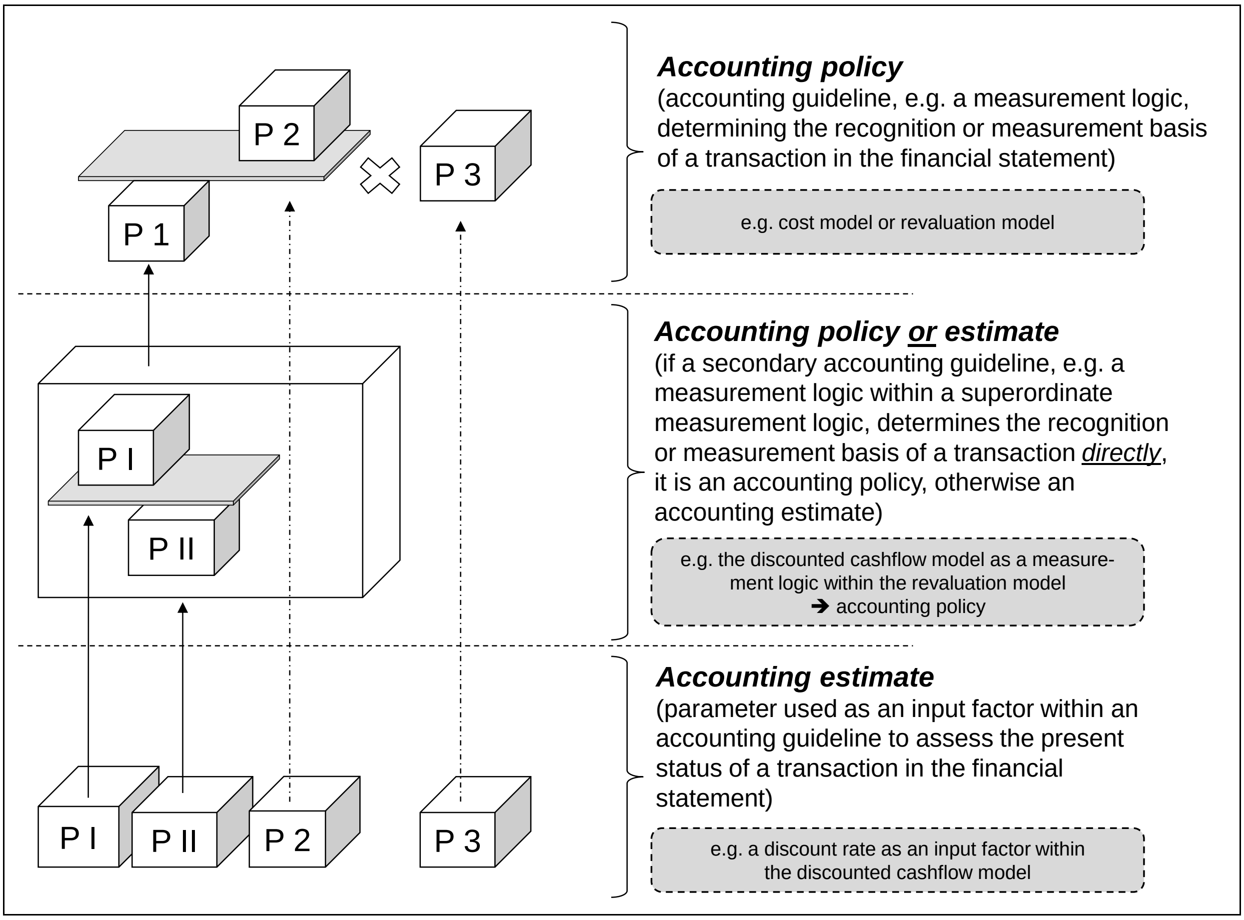
Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

First of all, we agree with the IASB that the definitions provided in IAS 8.5 are not clear enough to lead to a distinct differentiation between accounting policies and accounting estimates. However, we do not think that the mere elimination of single terms in the definition of an accounting policy and the partly feature-based definition of an accounting estimate will lead to sufficient clarification to solve the problems caused in practice when distinguishing between accounting policies and accounting estimates. From our point of view, an accounting policy should instead be understood in a rather generic way. We believe that an accounting treatment (which e.g. could be a measurement logic) directly determining the recognition or measurement basis of a transaction in the financial statement should be defined as an accounting policy. By contrast, an accounting estimate could then be defined as a parameter used as an input factor to a specific accounting treatment to assess the present status of the underlying transaction (e.g. an asset) in the financial statement.

We are aware of the fact that especially in multi-level routines, where e.g. a measurement routine is an input factor to another measurement routine, this might not always be easy to handle. Nonetheless, when defining an accounting policy as *directly* determining the recognition or measurement basis of a transaction, a clear distinction should be possible in most cases.

Example: When determining the book value of an asset within property, plant and equipment, an entity can choose the revaluation model. As the revaluation model describes an accounting treatment in terms of a measurement logic determining the measurement basis of the asset, we assume it to be an accounting policy. Within the revaluation model an entity can use different secondary measurement logics, e.g. the discounted cashflow model, to still *directly* determine the measurement basis of the asset (on a secondary level). As a consequence, the use of the discounted cashflow model should also be qualified as an accounting policy. Finally, the entity uses a specific discount rate as an input factor to the discounted cashflow model. As this input factor is used as a parameter within the measurement logic to assess the present status of the asset, it has to be qualified as an accounting estimate. This would also be true, if the discount rate is calculated by the entity itself, as this measurement logic would only *indirectly* determine the measurement basis (DCF) of the asset.

The following graphic shall clarify the coherencies as defined above.



Moreover, we believe that the IASB should add more guidance and illustrative examples to the standard in order to discuss inconclusive issues that lead to diversity in practice using the current definitions in IAS 8.

<u>Question 2:</u>

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 agree with the proposal to define the term “accounting estimate” instead of “changes in accounting estimates”. Moreover, we believe it to be crucial to the usability of the standard to further clarify the interaction between accounting estimates and accounting policies. In this context please also refer to our answer to question 1 above. Again, we believe that the IASB should add more guidance and illustrative examples to the standard in order to discuss inconclusive issues that lead to diversity in practice distinguishing between an accounting policy and an accounting estimate. In this context, we would like to refer to ESMA´s agenda item request on the application of IAS 8 from July 2013. ESMA discussed – among others – whether a change in the definition of high quality corporate bonds would be a change in an accounting policy or a change in an accounting estimate. Applying the above-mentioned generic definition, a change in the definition of high quality corporate bonds would be a change in an accounting estimate as the composition of the basket of high quality corporate bonds would only indirectly determine the measurement basis of the underlying transaction (i.e. be an input factor to the secondary measurement logic in terms of the measurement of the discount rate).

However, we believe that on balance – even in the future – managerial judgement will play an important part when distinguishing between an accounting policy and an accounting estimate.

<u>Question 3:</u>

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?

As already pointed out above, we would define an accounting policy in a more generic way. We believe that an accounting treatment (which e.g. could be a measurement logic) *directly* determining the recognition or measurement basis of a transaction in the financial statement should be defined as an accounting policy. By contrast, an accounting estimate could then be defined as a parameter used as an input factor to a specific accounting treatment to assess the present status of the underlying transaction (e.g. an asset) in the financial statement.

With regard to the proposed amendment in IAS 8.32A we believe that not each and every estimation or valuation technique used to measure an item in the financial statements without precision can be defined as an accounting estimate (also see our answer to question 1) if applying that technique would *directly* determine the recognition or measurement basis of the underlying transaction in the financial statement.

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 agree with the result obtained by the clarification proposed in IAS 8.32B. However, we do not agree with the argumentation leading to that result. In accordance with our decision model as described in our answer to question 1, selecting a cost formula in IAS 2 would directly determine the measurement basis of ordinarily interchangeable inventories and therefore should be defined as an accounting policy.

Additionally, if the overriding principles to distinguish between an accounting policy and an accounting estimate as proposed in ED/2017/5 would lead to definite results, adding a specific rule for the example as described in IAS 8.32B would not be necessary.

Question 5:

Do you have any other comments on the proposals?

We have no further comments on the proposals.