Meeting summary

Accounting Standards Advisory Forum

Date **27–28 March 2023**

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This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from national organisations and regional bodies involved with accounting standard-setting. The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

ASAF members who attended the meeting

Region	Members
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Asian-Oceanian Standard-Setters Group (AOSSG)* Accounting Standards Board of Japan (ASBJ) Accounting Regulatory Department, Ministry of Finance PRC (ARD)* Korea Accounting Standards Board (KASB)
Europe (including one at large)	European Financial Reporting Advisory Group (EFRAG) Autorité des normes comptables (ANC)* UK Endorsement Board (UKEB) Accounting Standards Committee of Germany (ASCG)*
The Americas	Group of Latin American Accounting Standard Setters (GLASS)* Canadian Accounting Standards Board (AcSB)* Financial Accounting Standards Board, United States (FASB)

* Remote participation via videoconference.

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Agenda planning and feedback from previous ASAF meetings

1. This session discussed the proposed topics for the next ASAF meeting, which is scheduled to take place on 10–11 July 2023. Participants agreed to include the proposed topics on the agenda.

2. The UKEB representative indicated that she would be willing to discuss the UKEB's recent publication on intangibles alongside a future discussion of the EFRAG research on that topic.

Equity Method research project

3. The purpose of this session was:

   (a) to present the IASB's tentative decisions on the equity method of accounting in relation to application questions that involved:

      (i) changes in an investor's ownership interest while retaining significant influence; and

      (ii) recognition of losses; and

   (b) to ask ASAF members for their views on the IASB's tentative decisions on the application questions referred to in paragraph 3(a), and their potential effects (costs and benefits).

Tentative decisions on the application questions

4. Although ASAF members generally supported the IASB's tentative decisions, some members mentioned they have reservations with some of the decisions.

Measuring the cost of an investment in an associate when obtaining significant influence

5. The AOSSG representative said that one of its members disagreed with the IASB's tentative decision on measuring the cost of an investment in an associate when an investor obtains significant influence. Whereas the IASB had tentatively decided that the cost would be measured at the fair value of the consideration transferred (including the fair value of any previously held interest in the associate), the AOSSG representative suggested that the cost of the investment should be measured as an accumulation of historical purchase costs.

Measuring an additional interest in an associate while retaining significant influence

6. The GLASS representative said that the practice in his jurisdiction is to use the book value of the associate's net assets to measure the share of the additional interest when acquiring an additional interest—rather than fair value, as the IASB had tentatively decided.

7. The GLASS representative also said that an investor is often unable to assess the fair value of the associate's net assets at the date of purchasing an additional interest. Because of that, GLASS disagrees with the proposal to use the fair value on purchasing an additional interest .

8. Similarly, the AOSSG representative said that one of its members also disagreed with the tentative decision because, in his view, the cost of determining the fair value of the associate's net assets at the date of purchasing an additional interest outweighs the benefit, particularly if the purchase is an insignificant additional interest.

9. The ANC representative supported the IASB's tentative decision but noted that in his jurisdiction the practice is to revalue the whole interest in the associate to fair value at the date of the purchase of the additional interest.

Measuring an additional interest in an associate (that is a bargain) while retaining significant influence

10. The FASB representative agreed with the IASB's tentative decision to recognise a gain from a bargain purchase in profit or loss but noted that a bargain purchase and a loss on a partial disposal may indicate that the interest in the associate is impaired.

11. The ARD representative and one of the AOSSG representatives disagreed with the IASB's tentative decision to recognise the gain from a bargain purchase in profit or loss and suggested instead that the gain should be recognised as part of any goodwill recognised previously in the carrying amount of the investment in the associate. In their view, recognising that gain as part of any goodwill recognised previously in the carrying amount of the investment is aligned with the IASB's view that the investor is measuring a single investment in the associate.

Other changes in an investor's ownership interest

12. The ARD representative disagreed with the IASB's tentative decision to recognise an investor's share of other changes in an associate's net assets that affect its ownership interest as a purchase of an additional interest or a partial disposal. In her view, dilution gains and losses should be recognised in equity. The ARD representative disagreed that a dilution is economically similar to a disposal; she also said that a user's ability to assess an investor's performance is made more complicated by the inclusion of dilution gains or losses in the investor's profit or loss.

13. The GLASS representative's preliminary view was that dilution gains and losses should only be recognised in profit or loss when they arise from a partial disposal. The GLASS representative called for more illustrative examples to demonstrate how the IASB's tentative decision would be applied to a wider range of scenarios.

14. The KASB representative asked the IASB to clarify the application of its tentative decision when an investor does not take part in a transaction in which convertible preferred shares, classified as equity instruments by the associate, are converted into ordinary shares of the associate. Catch up of unrecognised losses

15. Some ASAF members disagreed with the IASB's tentative decision that an investor would not 'catch up' unrecognised losses on purchasing an additional interest in the associate where the carrying amount of the associate was nil. These members suggested immediate recognition of the unrecognised losses by reducing the cost of the additional interest.

16. The KASB, ARD and ASBJ representatives noted that the tentative decision conflicts with the IASB's view that the investor is measuring a single investment in the associate. The ASBJ representative also said that the tentative decision could create an apparent Day-2 impairment loss, which might not reflect reality because of losses that have not yet been recognised.

17. The AcSB and two AOSSG representatives suggested immediate recognition of the unrecognised losses when the investor is funding previous losses (injecting cash) into the associate, instead of purchasing additional shares from unrelated investors.

18. One AOSSG representative asked the IASB to require an entity to disclose its rationale for purchasing an additional interest when the carrying amount of the investment is nil and there are unrecognised losses.

Recognition of losses and components of comprehensive income

19. No comments were made from ASAF members on the IASB's tentative decision to require an investor that has reduced its interest in an associate to nil to recognise its share of each component of the associate's comprehensive income separately.

20. However, the ASBJ representative asked the IASB to clarify if the investor first recognises its share of the associate's items of other comprehensive income that are recycled or of those that are not recycled.

21. Although it is not closely related to the IASB's tentative decision referred to in paragraph 19, the GLASS representative said that the local GAAP in his jurisdiction, which is unlike the requirements in paragraphs 38–39 of IAS 28, is to recognise any negative investment as a liability representing a potential obligation of the investor to the associate. Consequently, GLASS, generally, disagrees with limiting the recognition of the interest to nil.

Supplementary comments

22. The UKEB and FASB representatives suggested that the IASB should not add requirements for fact patterns that occur infrequently.

23. The AcSB representative said users in Canada have stressed the need for disclosure requirements to accompany the tentative decisions.

24. The EFRAG representative said some of the tentative decisions are consistent with the view that the equity method is a one-line consolidation, and some are consistent with the view that it is a measurement approach. The IASB should clarify that it is not taking a position in support of either view.

25. The ASCG representative noted that, although the tentative decisions are practical answers to the application questions, they may not have a strong conceptual basis because the IASB did not clarify whether the equity method is a one-line consolidation or a measurement method. The ASCG representative also said that

there should be consistency between the IASB's decisions in the Equity Method project and those in the Primary Financial Statements project.

Costs and benefits of the IASB's tentative decisions on the application questions

26. ASAF members generally agreed that the benefits of applying the tentative decisions would outweigh the implementation and ongoing costs. The IASB's tentative decisions in response to the application questions would:

    (a) remove the diversity that has emerged in practice;

    (b) enhance comparability and provide better-quality information to users; and

    (c) not involve significant implementation costs to preparers.

27. The EFRAG representative noted that entities might hold investments in associates and joint ventures for long periods of time and asked the IASB to temper the impact of its tentative decisions with transition reliefs; otherwise, the member said, entities may be required to obtain information that is not available.

28. The AOSSG representative noted that one of its members said that there will be costs associated with tracking the fair values of the associate's net assets at each purchase date.

Rate-regulated Activities

29. The purpose of this session was:

    (a) to provide an update on the redeliberations of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft); and

    (b) to seek ASAF members' views on whether the IASB's tentative decisions in the second half of 2022 on scope and total allowed compensation help to address stakeholders' concerns about the proposals.

Scope

30. ASAF members generally welcomed the IASB's tentative decision to clarify the interaction between the final Accounting Standard (final Standard) and IFRIC 12 *Service Concession Arrangements* and to include examples to illustrate that interaction. In addition:

(a) the ARD representative said that stakeholders in her jurisdiction welcome the examples and that she expects them to help entities to understand the interaction better, and thereby to reduce diversity in practice.

(b) the UKEB representative said that she expects the examples to help the UKEB to identify whether this interaction may affect entities in the UK.

31. The EFRAG representative noted that this interaction has been a long-standing issue and that stakeholders in EFRAG jurisdictions supported the direction of the tentative decision.

Total allowed compensation

32. ASAF members generally welcomed the IASB's tentative decision to retain the proposed definition of allowable expense but to clarify that a regulatory agreement may determine the amount that compensates an entity for an allowable expense using a basis different from the basis the entity uses to measure the expense in accordance with IFRS Standards. However:

(a) the KASB representative said that the interaction between the definition of allowable expense and the IASB's tentative decision on the accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives was not clear. The staff provided an explanation.

(b) the ASCG representative acknowledged that the IASB's tentative decision would clarify that a regulatory agreement may determine the amount that compensates an entity for an allowable expense using a basis different from the basis the entity uses to measure the expense. This member was however still uncertain about how the model would treat compensation for items allowed under the regulatory agreement, but which would not have been recognised as expenses in accordance with IFRS Standards.

33. ASAF members generally supported the IASB's tentative decisions about the accounting for regulatory assets or regulatory liabilities arising from differences

between the regulatory recovery period and the assets' useful lives. However, some members expressed concerns:

(a) the ANC representative expressed support for the direct (no direct) relationship concept between an entity's regulatory capital base and its property, plant and equipment but pointed out that the concept is becoming an important aspect of the model. Stakeholders in that member's jurisdiction expect the determination of whether an entity's regulatory capital base has a direct (no direct) relationship with its property, plant and equipment will require significant judgement; and entities question the evidence that they will need to support such judgements. This member expressed uncertainty about the IASB's ability to develop disclosures that could mitigate the absence of regulatory assets and regulatory liabilities when no direct relationship exists.

(b) the ASBJ representative said that the concept of a direct (no direct) relationship was unclear and that additional guidance on this matter would be welcome.

(c) the EFRAG representative noted that stakeholders in EFRAG jurisdictions have raised some questions regarding the concept of a direct (no direct) relationship between an entity's regulatory capital base and its property, plant and equipment. For example, stakeholders have raised questions about:

   (i) the possibility of having a partially direct relationship.

   (ii) whether the application of local generally accepted accounting principles (GAAP) in the regulatory capital base by a regulator affects the assessment of the relationship between an entity's regulatory capital base and its property, plant and equipment.

   (iii) the indicators an entity would use to determine if the relationship is direct or not. Some stakeholders have said the indicators are broad. Consequently, examples illustrating how an entity could use these indicators to determine the direct (no direct) relationship would, they said, be helpful.

34. Other ASAF members made the following comments:

(a) the UKEB representative noted that the distinction between direct and no direct relationship will be helpful for jurisdictions where regulatory schemes are generally incentive-based. However, this member was concerned that if an entity's regulatory capital base and its property, plant and equipment had no direct relationship, the entity would not be disclosing its economic performance; and that users of financial statements will be dependent on the information provided by regulatory reporting. Consequently, this member suggested developing robust disclosures to make sure that entities' economic performance is understandable and comparable to users. To illustrate this concern, the UKEB representative gave an example in which different subsidiaries within a group would have different relationships between their regulatory capital base and their property, plant and equipment and therefore the consolidated financial statements would reflect the two possible outcomes of the model.

(b) the ARD representative said stakeholders in that member's jurisdiction raised concerns about the cost of complying with the IASB's tentative decision that would require an entity that has concluded that its regulatory capital base and its property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion. The ANC representative requested that the IASB exercise caution when developing these disclosure requirements. This member argued that if there is no direct relationship between an entity's regulatory capital base and its property, plant and equipment, the entity would have limited quantitative information to explain differences between its regulatory capital base and its property, plant and equipment.

(c) the EFRAG representative said users of financial statements generally had questions on non-cash differences in timing. This member expected users would be keen to see a distinction made between cash and non-cash differences in timing; and the member suggested that the IASB should consider this matter when developing its disclosure requirements.

35. In addition:

(a) the KASB representative suggested that, given the increased focus on entities' regulatory capital base, it should be a defined term.

(b) the ARD representative said that stakeholders in that member's jurisdiction have suggested that the IASB should provide more guidance on determining whether an entity's regulatory capital base and its property, plant and equipment have a direct relationship.

(c) the AcSB representative suggested that examples illustrating the exercise of judgement, particularly in relation to borderline cases, would be helpful.

36. ASAF members generally supported the IASB's tentative decision on the treatment of regulatory returns on assets not yet available for use; in particular, when an entity capitalises borrowing costs to construct those assets, and there is a direct relationship between the entity's regulatory capital base and its property, plant and equipment. However:

(a) the ANC representative suggested that the IASB should undertake outreach to understand the prevalence of entities including the regulatory returns in regulated rates charged to customers during the construction period. In this case, the tentative decision would mean that an entity recognises a regulatory liability. The ANC representative said that this tentative decision seemed to contradict the IASB's tentative decision on whether an entity should reflect regulatory returns on an asset not yet available for use during the construction period. The ANC and EFRAG representatives said that stakeholders in their jurisdictions have suggested that the situation where an entity charges customers regulatory returns on an asset not yet available for use during the construction period, and the entity's regulatory capital base has a direct relationship with its property, plant and equipment, might be more common than had been thought.

(b) the ARD representative said that the IASB's tentative decision could generate significant incremental cost for preparers which could lead them to provide additional non-GAAP disclosures to explain the treatment of the regulatory returns during the construction period. This member also noted that some stakeholders in that member's jurisdiction would appreciate further explanation as to why the tentative decision differentiates between situations in which the regulatory agreement provides an entity with both debt and equity returns and when it provides the entity with only a debt return.

(c) the EFRAG representative indicated that stakeholders in EFRAG jurisdictions had mixed views on this matter with some questioning both its complexity and materiality. The member noted that the treatment of regulatory returns on an asset not yet available for use is complex and suggested that the IASB should consider how best to communicate its requirements, perhaps by way of a flow chart.

(d) the ASBJ representative noted that the terms 'debt return' and 'equity return' are not defined; he wondered whether this might give rise to some difficulties when the concepts are applied.

37. ASAF members had mixed views about the IASB's tentative decision that an entity should not recognise as a regulatory asset the inflation adjustment to the regulatory capital base. ASAF members made the following comments:

(a) the ANC and ASBJ representatives suggested that the IASB should permit an entity whose regulatory capital base has a direct relationship with its property, plant and equipment to account for inflation adjustments to the regulatory capital base as a regulatory asset. The ANC representative noted that the tentative decision reflected a view that an entity with a direct relationship between its regulatory capital base and its property, plant and equipment was unlikely to be subject to a real approach[1]; but the representative suggested that there could be more entities in this situation than had been thought.

(b) the PAFA and GLASS representatives queried the impact of the tentative decision in jurisdictions where inflation is currently high. These members said that entities in such jurisdictions tend to incorporate their expectations about inflation into their regulatory agreements. Therefore, there is a concern that the accounting might not reflect the economic reality of those entities.

(c) the ARD and EFRAG representatives indicated general support from stakeholders on this tentative decision. However, the EFRAG representative queried whether the IASB also plans to address other types of inflation adjustments.

38. The ARD and EFRAG representatives said stakeholders in their jurisdictions generally supported the IASB's tentative decision dealing with allowable expense or performance incentives included in an entity's regulatory capital base.

Other matters

39. The AcSB representative suggested that it would be helpful were the final Standard to address subsequent accounting if changes to the features of regulatory schemes alter the relationship between an entity's regulatory capital base and its property, plant and equipment. That member also noted the usefulness of decision trees in helping entities to apply requirements in the Standards.

40. IASB technical staff noted that the IASB is currently seeking feedback, via a survey, on the features of regulatory schemes and regulatory capital bases that an entity would need to consider in assessing whether its regulatory capital base has a direct (no direct) relationship with its property, plant and equipment. In order to obtain feedback from a range of jurisdictions the IASB Chair and the staff invited ASAF

[1] Under the real approach, an entity's regulatory capital base is adjusted by inflation and the entity receives a real rate of return on its inflation-adjusted regulatory capital base.

members to assist them in identifying entities interested in completing the survey. Feedback from the survey will inform the development of guidance on the concept of a direct (no direct) relationship.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

41. The purpose of the session was to ask ASAF members for their views on:

    (a) the potential effects (costs and benefits) of applying the Standard as proposed in the Exposure Draft *Subsidiaries without Public Accountability* (Exposure Draft); and

    (b) whether they agree that the benefits of applying the new Standard will outweigh the costs of applying it.

42. The staff presented the cost–benefit analysis from the Basis for Conclusions on the Exposure Draft along with additional feedback on costs and benefits from comment letters and outreach activities.

43. Most of the members agreed with the presented cost–benefit analysis and said that the benefits of applying the new Standard will outweigh the costs. Many members said they support the new Standard and made the following observations on its costs and benefits:

    (a) the EFRAG and PAFA representatives said that multinational groups and their subsidiaries would significantly benefit from the new Standard.

    (b) the ANC representative said that the new Standard is primarily designed to reduce preparers' costs (in response to concerns about the cost of preparing financial statements). The member added that the new Standard will provide benefits for preparers while ensuring users receive the appropriate information. In contrast, the KASB representative said that, although subsidiaries may experience a reduction in preparation costs, this may diminish the information available to users of financial statements, and that it was crucial to balance the reduced costs and users' information needs.

(c) the AOSSG representative stated that the new Standard will save audit costs, and that this will help to relieve the pressure on resources in the audit and accounting profession.

(d) the PAFA representative said that the time and effort saved in preparing financial statements for subsidiaries can be reallocated to other areas of the relevant business.

(e) the AcSB representative said in his jurisdiction the new Standard will be useful for eligible subsidiaries with a foreign parent company. However, the benefit for subsidiaries with a local parent would be limited because, in his jurisdiction, such subsidiaries are not required to prepare financial statements.

(f) The ARD, FASB, EFRAG and AOSSG representatives said the validity of the cost–benefit analysis will depend on the eligible subsidiary's specific circumstances, such as its previous financial reporting framework, its importance to the group and its interactions with local regulations. The AOSSG representative said that some stakeholders from AOSSG jurisdictions think the ongoing costs of implementing the new Standard could outweigh the ongoing benefit of reduced disclosures.

(g) The GLASS and AOSSG representatives said that the benefit of applying the new Standard would be reduced for subsidiaries that prepare a reporting package. For example, if the parent requires information about the disclosures required by all IFRS Accounting Standards, rather than just those that will be required by the new Standard.

44. The AOSSG and UKEB representatives shared their experience of reduced disclosure frameworks in their jurisdictions and said that the benefits of a reduced disclosure framework are generally well understood in practice.

45. The ANC, AOSSG, ARD, EFRAG and FASB representatives supported the proposal set out in the Exposure Draft under which application of the new Standard would be

optional. This, they said, will allow an entity to make its own cost–benefit assessment in deciding whether to apply the new Standard.

46. The AcSB, ASBJ and KASB representatives asked if the IASB would consider expanding the scope of the new Standard. The AcSB representative said that permitting entities that are planning an initial public offering to apply the new Standard would provide a first step towards these entities applying full IFRS Accounting Standards.

47. The EFRAG representative noted that there is a concern whether the new Standard will cover all minimum disclosure requirements that are currently in the EU Accounting Directive; the European Commission has said that it will consider this in considering whether to endorse the new Standard.

48. The UKEB representative supports the project and noted that the UK already has a similar reduced-disclosure Standard. The member questioned the extent to which the new Standard will be permitted in other jurisdictions because whether the UK will adopt the Standard is likely to depend on the number of other jurisdictions adopting the new Standard.

IASB and ISSB connectivity

What do the IASB and the ISSB mean by the term 'connectivity'?

49. In this session ASAF members received an update on the work of the IASB and ISSB as it relates to connectivity. The session was intended to complement 'Connectivity—what is it and what does it deliver?', a recent article by IASB Chair Andreas Barckow and ISSB Chair Emmanuel Faber.

50. The Vice-Chair of the IASB and the Vice-Chair of the ISSB delivered a presentation to members setting out the current perspective that the two boards have about connectivity, both in terms of process (eg sharing information and, when appropriate, sharing technical staff and other resources) and product (eg ensuring that IFRS Accounting Standards and IFRS Sustainability Disclosure Standards use language consistently and that the requirements work well together). Furthermore, the two chairs signalled to members how their two boards may work closely together in the future. They noted, in particular, that the ISSB will publish a request for information

on its agenda consultation in the second quarter of 2023; they also highlighted the IASB's recent decision to add a project to its work plan to explore whether and, if so, how companies can provide better information about climate-related risks in their financial statements.

Discussion with ASAF members

51. ASAF members shared their thoughts on the topic of connectivity, and provided some comments relating to their jurisdictions:

(a) The UKEB representative welcomed the update. It was helpful to know that a substantial amount of dialogue has been taking place between the two boards, and at various levels. However, she noted that a potential risk with 'connectivity', as described, might be that it becomes driven more by process than output. From the perspective of satisfying investor's information needs with the output, she suggested that connectivity can be 'supported through communications that are effective at signposting in financial statements how sustainability and financial reporting work together'. She also highlighted that, in her opinion, connectivity is an iterative process.

(b) The KASB representative viewed connectivity in relation to short-, medium- and long-term time horizons; integrated reporting would, he commented, represent connectivity in the long term. The ISSB Vice-Chair noted that the topic of integrated reporting will be included in the forthcoming ISSB agenda consultation. In response to a query, the IASB Chair clarified that the recent article represents the views of the chairs of both boards.

(c) The ASCG representative commented that the material on connectivity appeared organisation driven for the IFRS Foundation and noted that it is encouraging to see the practical results of 'connectivity' in the IASB's new project on Climate-related Risks in Financial Statements. Nevertheless, he was not convinced that all stakeholders share a common understanding of what financial sustainability reporting is meant to address, noting that the connection between 'financial' and 'sustainability' remains to be figured out.

(d) The ASBJ representative updated ASAF members on developments in Japan. He noted that the SSBJ has been established as a sister board to the ASBJ, and that it can be regarded as a counterpart to the ISSB. He explained how the ASBJ decided that two board members of each board should also serve on the respective other board. Doing so would, it was hoped, promote consistent in decision-making and would help to clarify each board's areas of responsibility. With this in mind, the ASBJ representative noted that the ISSB may want to think further about the potential implications of 'GAAP-agnostic' sustainability reporting standards.

(e) The PAFA representative commented that some regional stakeholders with a strong interest in integrated reporting may be concerned about whether the topics of that corporate-reporting system are sufficiently addressed by sustainability reporting in its current format. Although the clarification on the meaning of 'connectivity' is appreciated, it may not immediately address such concerns. Consequently, the representative noted, it will be important to use the forthcoming agenda consultation as an opportunity to tell stakeholders in the region how issues outside the scope of S2 and S2 will be addressed. Were this opportunity to be taken, it could, she said, help these concerned stakeholders to understand the benefits of connectivity between the IASB and the ISSB. Responding to these comments, the ISSB Vice-Chair noted that, in deciding to apply ISSB Standards and/or the Integrated Reporting Framework, an entity's decision was not of an 'either/or' kind. Rather, an entity can view the application of ISSB Standards as providing an opportunity to bring rigour and specificity into its reporting. Indeed, the IASB and ISSB chairs have emphasised that those applying the Integrated Reporting Framework should continue to do so.

(f) Following up on comments about the interrelationship between integrated reporting and the ISSB's work, the UKEB representative noted that further consultation would help to allay some confusion about what the IFRS Foundation seeks to achieve with integrated reporting. Addressing this issue, the IASB Chair told ASAF members that a discussion about the

Integrated Reporting Framework and the IASB's *Management Commentary* will take place at the next IFRS Advisory Council meeting in April 2023.

(g) The EFRAG representative emphasised the importance of establishing an approach that finds points to connect financial and sustainability reporting; but he cautioned that integrated reporting would represent a longer-term approach to this work. In the short term, aligning the terminology used by the two boards is important because, the representative commented, a lot of work needs to be done in order to achieve agreement among stakeholders on what 'connectivity' is supposed to be.

(h) The ANC representative offered practical suggestions in relation to the description of IASB and ISSB 'connectivity on output' as it relates to some projects on the IASB work plan that may, she said, have points of connectivity. The representative queried, in particular, whether thought should be given to connectivity in relation to the IASB's project on targeted improvements to IAS 37 *Provisions*. The UKEB representative agreed that the projects cited could be useful examples to help stakeholders think about connectivity in outputs.

Primary Financial Statements

52. The purpose of this session was:

(a) to update ASAF members on the Primary Financial Statements project; and

(b) to obtain input from ASAF members:

(i) on factors that the IASB should consider in determining the transition period and effective date of the forthcoming IFRS Accounting Standard *General Presentation and Disclosures*; and

(ii) to understand the expected costs and benefits for stakeholders of the forthcoming IFRS Accounting Standard to help develop the effects analysis that will be published with the Accounting Standard.

Update on the project

53. IASB technical staff updated ASAF members on the project's status. The staff explained that the IASB plans to complete its redeliberations this year and it will then make a decision on re-exposure as a part of its due process.

Transition period and effective date

54. In this session, ASAF members provided observations on:

    (a) whether the information needed to apply the new IFRS Accounting Standard is readily available, easily obtainable or would require entities to make changes to their systems and processes;

    (b) whether any entities in their regions plan to apply the new IFRS Accounting Standard prior to the effective date; and

    (c) other factors the IASB should consider in determining the transition period and effective date of the new IFRS Accounting Standard.

Information that is likely to be readily available or easily obtainable

55. The ARD representative said that information about income and expenses from associates and joint ventures accounted for using the equity method is likely to be readily available; as is information for the disclosure of some operating expenses by nature (depreciation, amortisation and employee benefits).

56. The GLASS representative said that information for the disclosure of operating expenses by nature is likely to be readily available because disclosure of operating expenses by nature is already the current practice in Latin American countries.

57. The FASB representative said the FASB's proposals for the disclosure of operating expenses by nature are based on the IASB's project proposals. The member said that entities are not likely to be required to gather new data in order to apply the FASB's proposals, but entities may be required to capture existing data in new ways.

58. The ANC, EFRAG and AcSB representatives said that, generally, it should not be challenging to gather most of the information required to meet the disclosure requirements for management performance measures because of the existing regulatory requirements in their regions to disclose alternative performance

measures. In addition, the ANC representative said that the simplified approach to calculating the tax effect on reconciling items would make it easier for entities to gather the information required for the disclosures.

Information that would require changes in systems and processes to gather

59. The ANC representative said that applying the requirements in the new IFRS Accounting Standard would not be just a matter of remapping items in an IT system; rather, entities may incur significant costs in order to make the necessary changes to those IT systems to collect new data. The member also noted that the change in the starting point for the presentation of cash flows from operating activities using the indirect method in the statement of cash flows may require a further change to IT systems.

60. The ARD and GLASS representatives said that changes in systems and processes are likely to be required for entities to classify income and expenses in the operating, investing and financing categories in the new structure for the statement of profit or loss, and that this would involve entities making judgements. The ASCG representative added that the allocation of foreign exchange differences to categories in the statement of profit or loss would also require changes to IT systems.

61. The EFRAG representative said that entities would need to establish appropriate processes and internal controls for the disclosures related to management performance measures because, in accordance with the new IFRS Accounting Standard, these disclosures will be included in the financial statements and, generally, also subject to external audit.

62. The AOSSG, ARD and KASB representatives said that, for entities in their regions, the proposals for management performance measures are new and will require them to gather new information. The AcSB representative said that the requirement to disclose the tax effect and the effect on non-controlling interests for each reconciling item would also require entities to gather new information.

63. The KASB, ANC and UKEB representatives said that some subtotals given by entities in their regions may fall within the scope of management performance

measures and this would increase preparers' costs. Examples of such measures include subtotals currently given by entities in specific industries and subtotals provided in public communications that are only of interest to a minority of users.

64. The EFRAG, ANC and AcSB representatives said that the requirement for an entity to disaggregate some expenses by nature when the entity reports operating expenses by function in the statement of profit or loss would require entities to gather new information. However, the EFRAG and ANC representatives noted that the changes made to the proposal help to alleviate the cost and effort that would be required to gather this new information and would make transition easier.

Early application of the new IFRS Accounting Standard

65. The ASCG representative said that some entities might consider early application of the new IFRS Accounting Standard. The ARD, UKEB, GLASS and PAFA representatives are not aware of entities that are considering an early application of the new IFRS Accounting Standard. The PAFA representative added that guidance on management performance measures might be the main driver that would prompt an entity to apply the new IFRS Accounting Standard early.

66. The AcSB representative said a few users do not want entities to apply the new IFRS Accounting Standard early due to concerns about a loss of comparability between entities.

67. The UKEB representative said that investors would like to see the financial statements based on the new IFRS Accounting Standard as soon as possible. The member added that making the IFRS Accounting Taxonomy for the new IFRS Accounting Standard available at the same time as the new IFRS Accounting Standard would be important for early application because entities in the representative's region are required to issue digital reports. Staff explained that the IFRS Accounting Taxonomy will be published in time for them to apply it with the new IFRS Accounting Standard.

Other factors the IASB should consider in determining the transition period and effective date

68. The ANC, ARD, EFRAG, AcSB and AOSSG representatives suggested that the IASB should provide sufficient time for all entities to apply the new IFRS Accounting

Standard. The AcSB representative said 18 months might not be sufficient for transition, while the AOSSG representative suggested a transition period of at least two years.

69. The ARD representative asked that the IASB provide sufficient time and flexibility for local standard-setters to adjust their current practice and regulations. The ANC representative said that there are other projects that entities need to prioritise in the next few years, such as sustainability reporting. This member also mentioned that time would be required to endorse the IFRS Accounting Taxonomy for the new IFRS Accounting Standard.

70. The AcSB representative said that preparers will need time to learn the new structure of the statement of profit or loss and users will need time to understand how the changes affect their analyses.

71. The ARD representative said that conglomerates might require more time to apply the new IFRS Accounting Standard because of the judgements an entity is required to make in order to classify income and expenses in the statement of profit or loss at the consolidation level.

72. The ARD, ANC and AcSB representatives said that in determining the effective date the IASB should consider that entities are required to prepare comparative information, including comparative information for interim financial reports.

73. The ANC representative suggested that the IASB should consider a staggered approach to applying the new IFRS Accounting Standard. However, the ASCG representative said it would not be feasible because most entities want to apply the whole IFRS Accounting Standard at the same time.

74. The UKEB representative said that some users have requested that, when an entity first applies the new IFRS Accounting Standard, and in order to maintain the time series of information, it should be required to provide a reconciliation from the old to the new presentation in the statement of profit or loss.

Expected costs and benefits

75. In this session, ASAF members provided observations on:

(a) the expected costs and benefits of the new IFRS Accounting Standard to preparers and users in their regions; and

(b) the benefits for digital reporting.

Overall expected costs and benefits to preparers and users

76. Most ASAF members agreed with the staff's analysis of the costs and benefits of the new IFRS Accounting Standard for preparers and users. The UKEB member suggested the IASB consider the costs of the proposals compared to current practice rather than the proposals in the Exposure Draft as explained in the slides shared with members prior to the meeting. The ARD member said that the IASB should consider whether the benefits outweigh the costs up to the implementation of the new IFRS Accounting Standard.

Expected benefits to preparers and users

77. EFRAG, UKEB and GLASS members said that users welcome the project proposals, especially those about subtotals and for management performance measures, because they will be subject to audit.

78. The EFRAG member said that this project will benefit users because it will enable the statements of profit or loss of entities in different industries to be compared. The ANC member said that for some industries, such as the pharmaceutical industry, the incremental benefits of this project would be limited because the statements of profit or loss, including operating profit, and non-GAAP measures used by entities in these industries are already comparable.

79. The ANC member said that the requirement to disaggregate certain operating expenses by nature may reduce the concerns of users about the lack of transparency over what is included in function line items in the statement of profit or loss.

80. The ANC representative said that, although the Primary Financial Statements project would introduce more discipline in the classification of income and expenses in the statement of profit or loss, preparers might not necessarily think that it would bring many benefits; and they are more likely to see it merely as a compliance exercise.

Expected costs to preparers

81. The ANC and EFRAG representatives said that preparers might incur some costs to refine or change compensation policies as a result of the changes to operating performance metrics in the statement of profit or loss that are linked to compensation policies. The ANC representative said that preparers would incur some costs in order to change their forecasting and budgeting processes and to update their documentation for internal controls.

82. The ASCG representative said that the proposals related to the disaggregation of operating expenses by nature would result in entities incurring some costs even after the proposed changes. The member said that, although there would also be some one-off costs for setting up the categorisation system for classifying income and expenses in the statement of profit or loss, the long-term costs are not expected to be significant.

Expected costs to users and other stakeholders

83. The ARD and UKEB representatives mentioned that users would incur some costs to adjust the models they used in their analysis.

84. The ARD representative said that auditors will incur costs to introduce new audit programmes, particularly for management performance measures. The member also said that the local regulator would need to make significant changes to its regulations and that these changes would increase implementation costs.

Expected costs for training and education

85. The ANC representative said that preparers are expected to incur costs to train staff. However, the GLASS and UKEB representatives said that the training costs for the new IFRS Accounting Standard are not expected to be significant because the change is related to presentation and disclosure and there are no changes to recognition and measurement.

86. The ARD representative said that costs will be incurred to train users about the new IFRS Accounting Standard.

Benefits for digital reporting

87. The EFRAG, ASCG and GLASS representatives acknowledged the importance of digital reporting and think that the benefits of the proposals for digital reporting would exceed the costs.

Business Combinations—Disclosures, Goodwill and Impairment

88. The purpose of this session was to seek members' views on some suggestions made by respondents to the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* for changes to the impairment test of cash-generating units containing goodwill (impairment test). Staff asked the members about:

    (a) the criteria used to select suggestions to be explored further (paragraphs 88–91);

    (b) suggested changes to improve the application of the impairment test by reducing management over-optimism (paragraphs 92–114);

    (c) suggested changes to improve the application of the impairment test by reducing shielding (paragraphs 115–124); and

    (d) suggested ways to reduce the cost and complexity of the impairment test (paragraphs 125–129).

Criteria for considering suggestions

89. In order to identify which of the suggested changes to the impairment test should be explored further within this project, staff considered whether the suggestion:

    (a) improves the effectiveness of the impairment test by mitigating, at a reasonable cost, either management over-optimism or shielding; or

    (b) reduces the cost and complexity of the impairment test, without significantly reducing its effectiveness.

90. Staff asked the members for their comments on the criteria.

91. The ASBJ representative said any changes to the impairment test made in this project should focus on improving the rigour of the test; or on reducing the cost of applying the test without reducing its rigour.

92. Many members (ANC, ASBJ, EFRAG and UKEB) suggested that there should be a sharper focus on shielding rather than on management over-optimism. In the view of those members, reducing shielding will result in a greater improvement in practice.

Possible changes to reduce management over-optimism

Comparison with past forecasts

93. Members discussed a suggested requirement for an entity to disclose a comparison of the cash flow forecasts it used in impairment tests that were performed in prior years with its actual cash flows. In the view of respondents to the Discussion Paper, this proposed requirement could enable users of financial statements (users) to assess the accuracy of those past forecasts.

94. Members expressed mixed views on the usefulness of such a comparison. The AcSB, AOSSG, ARD and GLASS representatives reported that some stakeholders in their jurisdictions said that the comparison would provide useful information.

95. However, many members (AcSB, ANC, AOSSG, ASCG, EFRAG, FASB, PAFA and UKEB) questioned whether the comparison would provide useful information that would help reduce management over-optimism, because:

    (a) cash flows are not the only input into the impairment test and without further information (for example, on the discount rate used), it would be difficult for users to assess whether management has appropriately reflected risk in the impairment test.

    (b) there are many reasons why actual cash flows could differ from past forecasts—variances do not necessarily indicate management over-optimism.

    (c) if the size and scope of a cash-generating unit changes over time, information about past forecasts for that cash-generating unit might not be useful.

    (d) past performance does not necessarily correlate to the ability to predict future performance.

96. The KASB representative said paragraph 134(d)(ii) of IAS 36 *Impairment of Assets* already requires an entity to disclose information about whether the values its management assigns to key assumptions used in the impairment test reflect past experience, and, if not, how and why they differ from past experience. Accordingly, in the KASB representative's view, entities should already be disclosing this information.

97. Many members commented on the cost of disclosing this comparison. The AOSSG and ARD representatives reported that some stakeholders said the cost of disclosing this information should be low because IAS 36 already requires management to assess the accuracy of past forecasts. However, other members (ANC, AOSSG, ARD, EFRAG, GLASS and UKEB) highlighted potential costs of disclosing the comparison:

    (a) the quantitative comparison on its own would not provide useful information and entities would be compelled to provide some qualitative information to explain any variances. Some members said preparing and auditing this comparison would require additional resources.

    (b) stakeholders in many jurisdictions said that disclosing the comparison could result in the disclosure of commercially sensitive information.

98. The ANC, ASCG, EFRAG and FASB representatives said that comparing past forecasts to actual performance is a question of audit procedure and enforcement, and that the disclosure of the information resulting from such a comparison should not be required in financial statements.

99. The ARD representative said that stakeholders in her jurisdiction have mixed views on how long the comparison period should be—stakeholders suggested, 2 years, 3 years, 3 years or more and 3–5 years.

100. The ANC representative suggested that there should be a review of the information entities disclose in applying the requirements to provide a sensitivity analysis and to document best practice.

Reasonable and supportable assumptions

101. Members discussed a suggestion to clarify the interaction between the requirements in paragraph 33 of IAS 36 to base cash flow projections on: (a) reasonable and supportable assumptions; and (b) the most recent financial budgets or forecasts approved by management.

102. There were mixed views about whether these requirements conflict. The ANC and ARD representatives said they do not, whereas the EFRAG and UKEB representatives said they do.

103. The ASCG, EFRAG and FASB representatives said that the interaction of these two requirements is more of an enforcement or governance issue than something that requires standard-setting.

104. The ARD and GLASS representatives suggested providing additional guidance. The EFRAG representative suggested that any additional guidance could be based on the guidance on reasonable and supportable cash flows in IFRS 9 *Financial Instruments*.

105. However, the ASCG, FASB and UKEB representatives questioned whether any additional guidance would help to deter management over-optimism. The ANC representative questioned whether such guidance could be developed.

106. The representative from the AOSSG said its members had mixed views on whether additional guidance would be helpful.

107. The ANC and EFRAG representatives suggested that the IASB should instead consider providing application guidance on how to capture uncertainty in cash flows. The AcSB representative said that, rather than clarifying the interaction between the two parts of paragraph 33 of IAS 36, the IASB should provide additional guidance on the interaction between the cash flow forecasts and discount rates used.

Segments to which goodwill is allocated

108. Members discussed a suggestion to supplement the disclosure of goodwill allocated to cash-generating units with information about the reportable segments to which the goodwill is allocated.

109. Respondents to the Discussion Paper had said that this information might help users better assess the reasonableness of assumptions used in impairment tests by improving their ability to compare the assumptions with the information disclosed about reportable segments.

110. Most members who commented suggested that this idea should not be pursued. The ANC representative said that this information is often already disclosed. The ANC, ARD and UKEB representatives questioned whether this information would be useful. The AOSSG, ARD and GLASS representatives said segment information is not comparable to information about cash-generating units.

111. However, the AcSB representative noted that users in his jurisdiction said this information would be useful; the GLASS representative said the views in his region on its usefulness were mixed.

112. The ARD, GLASS and UKEB representatives said the cost of disclosing this information should be low.

Indicators of impairment

113. Members discussed a suggestion to improve the list of indicators of impairment set out in paragraph 12 of IAS 36.

114. The AcSB, ANC, AOSSG, ASCG, GLASS and UKEB representatives said there is little need to consider amending the list. In particular, many of those members said the list is non-exhaustive, and that adding items to the list might result in entities using it as a checklist.

115. However, the ARD representative suggested improving the list—in particular, by including a list of indicators specific to goodwill and by giving more prominence to internal indicators.

Possible changes to reduce shielding

Allocating goodwill to cash-generating units

116. Members discussed suggestions to reduce shielding by means of providing additional guidance on allocating goodwill to cash-generating units.

117. In particular, staff asked the members whether and, if so, how:

(a) to clarify that the requirement in paragraph 80(b) of IAS 36—that the group of cash-generating units to which goodwill is allocated is not larger than an 'operating segment'—is intended as a safeguard to prevent goodwill being tested at too high a level (for example, at an entity level), rather than a default level;

(b) to clarify the meaning of the expression 'goodwill is monitored for internal management purposes' used in paragraph 80(a) of IAS 36; or, alternatively, to replace it with 'the business associated with the goodwill is monitored'; and

(c) to link the level at which goodwill is tested for impairment with the level at which the business combination is monitored for the purpose of the proposed disclosures about the subsequent performance of business combinations (tentatively decided on by the IASB in September 2022).

118. The AcSB, ANC, EFRAG representatives said that in practice many entities allocate goodwill to operating segments as a default, rather than considering it as a safeguard. Those members and the ARD representative suggested clarifying what 'monitoring goodwill' means or replacing the phrase with another form of words.

119. Members made other suggestions for the IASB to consider:

(a) the EFRAG representative suggested requiring an entity to allocate goodwill for impairment testing at a lower level than an operating segment, similar to what is required in US GAAP.

(b) the ANC representative said that entities consider management for the purposes of the impairment test to be an entity's chief operating decision maker and that is why goodwill is tested for impairment at the segment level, and suggested addressing that fact.

(c) The AcSB representative suggested that the IASB should provide guidance on the initial allocation of goodwill to cash-generating units on acquisition.

120. The EFRAG representative said that it would not be helpful to link the level at which goodwill is tested for impairment to the level management monitor the business

combination for disclosure purposes because such disclosures would only be provided for a limited amount of time. The ARD representative suggested explicitly prohibiting entities from testing goodwill at a level higher than the level at which the related business combination is monitored.

Impairment testing on reorganisation

121. Members discussed a suggestion to require an entity to perform an impairment test based on the previous reporting structure that existed before the entity reallocated goodwill to different cash-generating units following, for example, a reorganisation of that reporting structure. A few respondents to the Discussion Paper had said that entities may decide to reallocate goodwill opportunistically in order to avoid impairments of goodwill.

122. The AcSB, ANC and EFRAG representatives said that in practice a reorganisation is often considered an indicator of impairment; and the AOSSG representative reported that one member said that, when a reorganisation occurs, an entity often performs an impairment test based on its old reporting structure.

123. The AOSSG, ARD and KASB representatives questioned whether conceptually an impairment should be recognised based on an old reporting structure; they said that such a test would not provide useful information. These members also said that testing a cash-generating unit based on an old reporting structure would not be consistent with the requirement to perform the impairment test on an asset in its current condition. The AcSB representative said that impairment tests should be based on reasonable and supportable assumptions and questioned whether forecasts based on an old reporting structure would be reasonable and supportable.

124. However, the AOSSG representative reported that stakeholders in one member's jurisdiction said the suggestion to require an entity to perform an impairment test based on its previous reporting structure would help to reduce shielding.

125. The ARD representative said that it might be difficult to obtain a forecast of cash flows for a cash-generating unit based on an old reporting structure, and that significant incremental costs would be incurred in doing so.

Possible changes to reduce cost and complexity

126. Members discussed the application of paragraph 99 of IAS 36. Paragraph 99 offers relief to help reduce the costs of performing an impairment test annually, without compromising its integrity. Feedback from respondents to the Discussion Paper suggested that the relief might not be working as intended; and that the relief is used infrequently because some of its criteria seem to be unclear. Some respondents to the Discussion Paper had said that making the relief easier to apply could reduce cost and complexity, and that it could be an alternative to removing the requirement for an annual quantitative impairment test.

127. All members who commented on this topic (AcSB, ANC, AOSSG, ARD, ASCG and GLASS) said paragraph 99 of IAS 36 is rarely applied when preparing annual financial statements. However, the ANC and ASCG representatives said they are aware of paragraph 99 of IAS 36 being applied when preparing interim financial statements.

128. Members highlighted different reasons for this paragraph not being applied:

    (a) the existence of the relief is not obvious because of its location in IAS 36;

    (b) entities in their jurisdictions prefer to perform the annual impairment test for governance purposes;

    (c) auditors apply the criteria for the relief very stringently; and

    (d) it is difficult to demonstrate that the criteria for the relief have been met—for example, it is difficult to demonstrate that the assets and liabilities of the cash-generating unit have not changed significantly since the most recent calculation of recoverable amount.

129. The AcSB representative said additional guidance (for example, guidance on what is a significant change and what is a substantial margin) would make paragraph 99 easier to apply. Some members (ANC, AOSSG and GLASS) said the criteria for relief from performing an annual quantitative impairment test should be stringent; and they were concerned that impairment losses could be recognised too late through the application of paragraph 99.

130. The ARD representative said clarifications or amendments similar to those made to paragraph 99 should also be made to paragraph 24 of IAS 36 which provides a comparable relief for the impairment test of intangible assets with indefinite useful lives. The ARD representative also said that entities should be required to disclose how they met the criteria in paragraph 99. However, the ANC representative said no additional disclosure should be required if an entity applied paragraph 99.

Next steps

131. The IASB will decide at a future meeting whether to explore any of these suggestions further. In reaching its decisions, the IASB will consider feedback from ASAF members, its other consultative groups and the IFRS Interpretations Committee.