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Introduction

1. The Global Preparers Forum (GPF) held a meeting in London on 2 March 2016.

2. In this meeting, GPF members discussed the following topics:

   (a) IASB Update (paragraphs 3-7);

   (b) Update on Implementation Activities (paragraphs 8-12);

   (c) Disclosure Initiative: Principles of Disclosure Discussion Paper (paragraphs 13-16);

   (d) Preparers' experience with improving effectiveness of disclosures (paragraphs 17-20);

   (e) IFRS 2 *Share-based Payment* (paragraphs 21-30);

   (f) Improvements to the impairment requirements in IAS 36 (paragraphs 31-35);

   (g) Rate-regulated Activities (paragraphs 36-40).

IASB Update (Agenda Paper 1)

3. The Technical Director and staff provided GPF members with an update on:

   (a) the IASB February 2016 Board Meeting, which is not covered in Agenda Paper 1;

   (b) major recent staff changes; and

   (c) the current stage of the Agenda Consultation.

4. The main topics covered in the IASB February 2016 Board Meeting were as follows:

(a) The Board confirmed that it is satisfied that it has completed all the necessary due process steps on the Insurance Contracts project and instructed the staff to commence the drafting process.

(b) The Board continued its discussion of the Goodwill and Impairment project but no decisions were made. The Board will continue its discussion at future meetings and consider the steps it needs to take before holding further discussions with the US Financial Accounting Standards Board (FASB).

(c) The Board discussed a request from the Interpretations Committee for input on an issue relating to the measurement of long-term interests that, in substance, form part of the net investment in an associate or a joint venture, but to which the equity method is not applied.

(d) The Board discussed its research project on Financial Instruments with Characteristics of Equity. In particular, the Board discussed three approaches that classify claims as liabilities or equity based on different features of claims that are relevant to different assessments of the entity's financial position and financial performance. The Board's discussions focussed on one approach that distinguishes claims based on a combination of the features used to distinguish claims in the other approaches.

5. Major staff changes are as follows:

(a) Henry Rees has been appointed Director of Implementation and Adoption activities, a wider role in which he also supervises the Education Team. Patrina Buchanan has been appointed Associate Director and is supporting Henry in his new wider role.

(b) Andrea Pryde has been appointed to a broader role, being responsible for the Standard-setting process and the drafting quality of all Standards.

(c) Michael Stewart, former Director of Implementation activities, has assumed responsibility for Post-implementation Reviews (PIRs) and will also support Peter Clark on the Research Programme.

(d) The Financial Reporting Initiative has been established under the leadership of Rachel Knubley. This initiative incorporates existing activities within the Disclosure Initiative and IFRS Taxonomy as well as the Primary Financial Statements project. It also establishes a new area of work, Corporate Reporting, which will look at the future of corporate reporting and the Board's role in relation to it. The Corporate Reporting work stream was welcomed by some GPF members. The Technical Director also noted that some IFRS Advisory Council members had indicated support for this initiative.

6. Concerning the Agenda Consultation 2015, fewer comment letters were received than for the 2011 Agenda Consultation.

(a) The geographical distribution of the respondents was quite similar to that of the previous Agenda Consultation. The geographical differences reflect greater interest expressed from Africa and less interest expressed from North America.

(b) It was observed that compared to the previous Agenda Consultation, a larger number of global respondents responded on the issue of climate change and fewer interest groups, such as those from the agricultural and extractive industries sectors, gave feedback.

(c) A summary of the feedback received on the Agenda Consultation will be presented during the March 2016 Board Meeting.

7. GPF members asked questions and raised comments on the following topics:

(a) On the classification of long-term liabilities, one GPF member asked why the principles in IFRS 9 were not adopted as a classification criterion. This GPF member noted that, during the financial crisis, material long-term liabilities were reclassified to short-term liabilities. The staff responded by emphasising the complexity of incorporating these principles into the classification of liabilities. It was also emphasised that the balance sheet is only a snapshot at the end of the reporting period and, in certain cases such as when extreme financial events occur, appropriate disclosures should be provided for the users of the financial statements.

(b) One GPF member asked how strong the feedback received on the Agenda Consultation was with regard to Corporate Reporting. He congratulated the Board on taking this initiative to emphasise issues such as climate change and technology. It was noted that climate risk had been discussed at the IFRS Advisory Council.

(c) Some GPF members commented that the International Integrated Reporting Council (IIRC) identified six types of capitals, however currently too little attention is given to some of them, for example intellectual and human capital. They further suggested that the IASB could raise awareness of the importance of all of them.

(d) Lastly, there was a discussion of the IFRS Taxonomy. The staff noted that ESMA's Consultation Paper on the European Single Electronic Format has been considered by the Board. In this paper, ESMA is proposing to mandate the use of the IFRS Taxonomy for consolidated IFRS financial statements of European listed companies. Various other aspects of the IFRS Taxonomy were also discussed.

Update on Implementation Activities (Agenda Paper 2)

8. The Technical Director responsible for implementation activities provided an update on the Board's activities to support the implementation of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

9. Regarding IFRS 15, the Technical Director highlighted:

(a) that the Board expects to issue amendments to IFRS 15, which clarify various aspects of the requirements in IFRS 15, by early April 2016.

(b) the recent announcement by the Board that it does not plan to schedule any further meetings of the Transition Resource Group for Revenue Recognition (TRG). However, the TRG has not been disbanded and will be available for consultation by the Board if needed. The Board and the staff will continue to monitor and observe any future activities of the FASB's TRG. In addition, there is still scope for IFRS stakeholders to submit issues through the website.

10. A GPF member asked whether the two GPF members that are also members of the TRG would be willing to comment on that recent announcement by the Board:

   (a) One TRG member (an IFRS preparer) supports the decisions taken by the Board regarding the TRG, and the Board's emphasis on stability.

   (b) The other TRG member (a US GAAP preparer) thinks that, in the US environment, it is helpful for the TRG to continue to meet. He noted that, in his view, TRG meetings would not create instability in the US. This is because, regardless of whether the TRG meets, there will continue to be a considerable amount of ongoing discussion about the revenue recognition requirements in the US (for example, relating to the development of AICPA industry-specific guides).

11. Regarding IFRS 16, the Technical Director highlighted the IFRS 16 implementation page on the website[1], which summarises the Board's activities to support the implementation of IFRS 16.

12. GPF members did not comment on the activities of the Interpretations Committee.

Disclosure Initiative: Principles of Disclosure Discussion Paper—Approaches to drafting disclosure guidance (Agenda Paper 3)

13. The staff sought feedback on possible approaches to the Board's drafting of its disclosure requirements. These approaches will be discussed in the forthcoming Principles of Disclosure Discussion Paper ('the DP'). Ultimately, the feedback on this topic will be used to help the Board develop a guide to drafting disclosure requirements in Standards. The session also included an update about the progress of the overall Disclosure Initiative.

14. All members supported the general direction of the approaches to drafting disclosure requirements and the concepts being discussed. However, some members were sceptical that these proposals would have much impact in practice. A corresponding change in the behaviour of other stakeholders in financial

[1] http://www.ifrs.org/Current-Projects/IASB-Projects/leases-implementation/Pages/IFRS-16-Leases-Implementation.aspx

reporting would also be needed, especially by regulators and auditors. Within this context, a few members stated that:

(a) for the approach of including disclosure objectives to be effective, the objectives themselves need to be specific enough to help preparers establish what is relevant to investors. Preparers need to be able to distinguish summary information that they are required to disclose from additional information that they are required to consider disclosing. They also need to be able to justify to auditors and regulators the omission of any immaterial disclosures.

(b) drafting the disclosure sections within Standards to convey the preparer's ability to excise judgement will be challenging, but also critical for this approach to have any effect. Use of wording such as 'shall consider' would, in many cases, not provide enough of a basis for an entity to avoid having to compile the information as evidence to the auditors or regulators on why a particular disclosure has not been included within financial statements.

(c) when applying materiality to determine whether information should be disclosed in the financial statements, the current draft wording still suggests that materiality is a judgement that is made relative to a specific topic or to a group of similar transactions, rather than to the financial statements as whole.

(d) IFRS 2 *Share-based Payment* provides a good example of excessively prescriptive wording (see discussion below).

15. A few members suggested that in order to articulate the drafting of the disclosure requirements correctly and to clearly distinguish which disclosures are summary and which are additional (see paragraph 14(a)), the Board could:

(a) obtain direction on how to refine the drafting from the recent guidance issued by the International Auditing and Assurance Standards Board (IAASB) on auditors' considerations in reporting on audited financial statements. Auditors can now use greater judgement in determining what information needs to be disclosed within the audit report.

(b) work with auditors and regulators to establish what information they consider to be a minimum level of disclosure in order to achieve fair presentation of financial statements. This may reflect the core/summary disclosures that should be included in a set of financial statements.

(c) consider providing relief from extensive disclosures under full IFRS Standards where such detailed disclosures are established as not being useful for investors or other external parties (for example, allowing a reduced disclosure regime for financial statements of fully owned subsidiaries).

Next steps

16. The Board plans to publish the DP in Q2 2016.

Preparers' experience with improving effectiveness of disclosures (Agenda Paper 4)

17. Three GPF members shared their experience in improving the effectiveness of disclosures and in removing unnecessary disclosures. These experiences were shared in breakout groups and summarised in a public feedback session. These GPF members discussed how they had introduced additional disclosures or tailored the existing disclosures in a way that better reflected the entity's operations.

18. One of the GPF members explained some of the specific measures taken in restructuring the financial statements, including:

(a) grouping disclosures together for easier reference (for example, combining the description of significant accounting policies that explain the recognition and measurement of particular transactions or balances together with other disclosures about those transactions or balances);

(b) when the financial statements include the financial results of a wide range of dissimilar activities, providing segmented information about the primary financial statement line items on the face of the primary statements and in the notes;

(c) reassessing annually, with the help of the auditors, whether disclosures could be omitted from the financial statements because they do not provide useful information to investors; and

(d) highlighting at the very beginning of the disclosures section of the financial statements the accounting policies that the entity views as critical.

19. GPF members also cited instances in which the current drafting of the disclosure requirements in IFRS Standards made it challenging to make disclosures more effective. Within this context, the GPF members asked:

(a) while acknowledging the flexibility already provided in IAS 1 *Presentation of Financial Statements,* whether it would be possible to include in IFRS Standards specific guidance on alternative performance measures. GPF members suggested that providing such guidance would legitimise the use of measures which many believe provide useful information to investors;

(b) whether it would be worthwhile to make narrow-scope amendments in the short term to those disclosure requirements that have been identified as creating barriers to effective communication, rather than waiting until the Principles of Disclosure project is finished;

(c) whether it would be more effective for the Board to focus on reviewing the disclosure requirements of those Standards preparers have identified as requiring excessive disclosure (for example, IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payment*); and

(d) whether the Board could change the drafting of disclosure requirements to provide a two-tier system: one set of core disclosures that communicate matters of high relevance to the entity’s financial position and financial performance; and a second tier of non-core disclosures that are less relevant, perhaps available as an appendix on the entity’s website.

Next steps

20. The Board should consider the points raised in this discussion in planning the next steps of the Disclosure Initiative; especially the Principles of Disclosure project.

IFRS 2 *Share-based Payment*—Next steps (Agenda Paper 5)

21. The objective of this research project on IFRS 2 *Share-based Payment* is twofold:

    (a) to identify whether it is IFRS 2 that is causing the perceived complexity, and if it is, to identify the most common areas of complexity; and

    (b) to analyse why IFRS 2 has attracted many interpretation requests.

22. As part of the research project, in March 2015 staff discussed with the GPF members issues that arise in applying IFRS 2. The main objective of the discussion was to identify the main application issues that preparers face.

23. During this meeting staff discussed with GPF members their views on whether the Board should carry out further research on this topic.

24. GPF members seemed to be in agreement with the findings of the research project (the findings were presented to the Board in November 2015).[2] More specifically, some GPF members agreed that the variety and complexity of share-based payment arrangements contribute significantly to the overall perception of complexity that is 'caused' by IFRS 2.

25. Moreover, GPF members agreed that the use of the *grant date* fair value measurement model for share-based payment arrangements that are settled in shares or in share options (ie equity-settled share-based payment arrangements) causes complexity.

26. They further believed that the Board should not perform further research and reconsider the *grant date* fair value measurement model, for the following reasons:

    (a) most implementation issues have now been resolved;

[2] The full paper can be found at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/November/AP16-IFRS-2-Share-based-payment.pdf

(b) replacing the grant date fair value measurement model with the current date fair value measurement model would lead to increased volatility of recognised share-based payment expenses; and

(c) they are now used to the Standard's requirements.

27. Some GPF members believed that the disclosure requirements of IFRS 2 were still an area for improvement because the Standard contained too prescriptive language. For example, it talks about disclosure for **<u>each</u>** plan existing at **<u>any</u>** time during the year. A GPF member suggested that the cumulative effective of this kind of wording reinforces a feeling that preparers are required to provide every single disclosure mentioned.

28. One GPF member suggested that—in order to reduce complexity—individual group entities should be exempted from applying IFRS 2.

Next steps

29. In April 2016 staff will discuss with the members of the Accounting Standards Advisory Forum (ASAF) their views on whether the Board should carry out further research on this topic.

30. Staff will provide feedback from both meetings to the Board. The Board will decide on the future of this research project once it has reviewed responses to the Agenda Consultation 2015.

Improvements to the impairment requirements in IAS 36 (Agenda Paper 6)

31. The staff sought the views of GPF members on improving the disclosure requirements about goodwill and impairment to provide better, more timely information, to users of financial statements. In particular, the staff asked the GPF for feedback on a possible requirement to disclose:

(a) the key assumptions or targets supporting the purchase price paid for an acquisition, and hence supporting the amount of goodwill recognised; and

(b) a basic annual comparison of actual performance of the acquisition against those key assumptions and targets for a period of time following the acquisition.

32. Nearly all GPF members expressed some concerns about preparing the disclosures. However one member agreed that something should be done in this area to improve management stewardship and the information provided to financial statement users. That member stated that significant amounts of shareholder money are being spent on acquisitions without proper monitoring of whether an acquisition is successful. Furthermore, some academic research concludes that the majority of acquisitions are destructive to shareholder value. That member encouraged the staff to continue to pursue their proposals, and in particular to keep asking companies how they track whether an acquisition has been successful.

33. The following concerns were expressed by GPF members about disclosing key performance assumptions and targets supporting the purchase price paid:

(a) This would require disclosure of sensitive information that could give away the company's competitive advantage. Examples of sensitive information provided by GPF members included profit-related information and internal metrics on what the company is willing to pay and accept in an acquisition.

(b) It would be difficult to make the key targets measurable and auditable. This is because the key targets are not necessarily figures such as sales, operating profit, etc. but rather factors that are difficult to measure such as acquisition of human competencies.

(c) Entities are already required to do a purchase price allocation and explain what goodwill is composed of. This information is sufficient.

34. The following concerns were expressed by GPF members about disclosing a basic comparison of actual performance of the acquirer against the key performance targets:

(a) Often the acquiree is integrated quickly into the acquirer's business. This means it is difficult to determine, going forward, what relates to the acquisition and what relates to the existing business. Consequently, such a comparison would not be practical. For example, it is difficult to identify which cost savings or revenue increases are as a result of the acquisition and which would have been made anyway.

(b) Often the targets that are anticipated are not met but this does not mean that the acquisition is not successful. For example:

(i) often changes to expected plans and targets are made after the acquisition is made, to maximise the value of the business and also in response to other factors, for example changes in the economy; and

(ii) sometimes other unexpected positive outcomes arise from the acquisition.

(c) This kind of monitoring is generally not performed unless acquisitions are very significant or are isolated from the rest of the acquirer's business. However some GPF members stated that there should be a duty for companies to provide updates on acquisitions to shareholders.

(d) Acquisitions of smaller companies will be very difficult to track in a large corporation. Often the acquisition is part of a very big operation and information about the effect of that individual acquisition is not tracked.

(e) The link between this disclosure requirement and the impairment test is not clear; for example, it is not clear how the information provided would be used in considering impairment. Some members acknowledged that there is a stewardship aspect to the proposals discussed, but noted that merely because an entity does not meet the key performance targets, this does not mean that there is an impairment loss. This is because even if an acquisition performs worse than expected, that may not result in impairment under the current test because of the headroom provided by the acquirer's existing CGUs to which the goodwill is allocated (ie the amount by which the recoverable amount of the CGU exceeded its carrying amount before the allocation). In addition, the acquisition might be part of a larger investment plan and the performance of individual acquisitions within that plan might not be tracked.

Next steps

35. At its March 2016 meeting the Board discussed the feedback received by GPF members on the disclosure requirements for goodwill and impairment. The Board will continue this discussion at a future meeting and determine what further outreach with preparers is required.

Rate-regulated Activities (Agenda Paper 7)

36. The IASB staff sought input from GPF members to help inform future discussions with the Board about:

    (a) how to define ‘performance’ within the context of defined rate regulation; and

    (b) how to identify which activities should lead to the recognition of revenue.

37. Appendix 1 of Agenda Paper 7 set out an illustrative example in which a government (through a rate regulator) requires the construction of a new water treatment plant. The rate regulator was considering four options for the funding of the construction. A water utility company has an exclusive licence to provide water services in a defined geographical area. The staff asked GPF members to consider what assets, liabilities, income and expenses they thought the rate-regulated water company should recognise under each option.

38. Before discussing the detail of the illustrative example of the Agenda Paper, the following aspects were pointed out by some GPF members as important factors to be considered when deciding an appropriate accounting treatment of the rate-regulated activities.

    (a) who is carrying a risk, such as a demand risk (ie risk that the demand for the water services would be lower than expected);

    (b) similarities and differences seen in practice between a rate-regulated industry and transactions in other industries, such as the mining industry, in which the government grants an exclusive licence to an entity; and

(c) who is the customer from the perspective of IFRS 15 *Revenue from Contracts with Customers*; is it the rate regulator or the recipients of the water services?

39. Regarding the illustrative example in the Agenda Paper, GPF members commented as follows.

(a) The economic differences between the transaction mentioned in the Agenda Paper and a concession arrangement within the scope of IFRIC Interpretation 12 *Service Concession Arrangements* seem limited. Consequently, some members thought that perhaps instead of recording the property, plant and equipment on the balance sheet the entity could recognise a financial asset.

(b) Delivery of water services to the new residential area is considered a revenue-generating activity for the water utility company. On the other hand, the construction of the new water treatment plant is considered as a condition of the licence given by the regulator instead of a revenue-generating activity. Consequently, the cash inflow that the water utility company receives in exchange for delivering the water service is considered to include a reimbursement of the construction cost and should not be reported as its revenue.

(c) Some GPF members could accept that the permitted option in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* would be to deduct the grant from the carrying amount of the asset. In the illustrative example, the resulting carrying amount of those assets would be nil. However, others considered it inappropriate for the balance sheet not to reflect property, plant and equipment that is being used in the business. Instead, they suggested that the recognition and depreciation of the water treatment plant and the funding of its construction should be considered separately.

(d) In the example outlined in the Agenda Paper, the entity is obliged to provide water services as a condition of its exclusive licence. Exclusivity is considered to have an accounting consequence. Consequently, it was considered important to identify the period over which the water utility company is obliged to provide water services under the terms of the exclusive licence when deciding an appropriate period over which the government grant or other funding mechanism is recognised.

Next steps

40. In April 2016 staff will discuss with the members of the ASAF their views on the illustrative example discussed by GPF members.

Next meeting

41. The next meeting will be a joint GPF and Capital Markets Advisory Committee (CMAC) meeting and it will be held on 15 and 16 June 2016.