Summary note of the Accounting Standards Advisory Forum[1]

Meeting on 6 July and 7 July 2017 at the International Accounting Standards Board (the Board) office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards Board, and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF). A full recording of the meeting is available on the IASB® website.

ASAF members attending[2]

Andreas Barckow	Accounting Standards Committee of Germany (DRSC)
Alexsandro Broedel Lopes	Group of Latin American Standard-Setters (GLASS)
Kim Bromfield	South African Financial Reporting Standards Council (SAFRC)
Patrick de Cambourg	Autorité des normes comptables (ANC)
Alberto Giussani	Organismo Italiano di Contabilità (OIC)
Eui-Hyung Kim	Asian-Oceanian Standard-Setters Group (AOSSG)
James Kroeker	Financial Accounting Standards Board (FASB)
Linda Mezon	Accounting Standards Board of Canada (AcSB)
Yukio Ono	Accounting Standards Board of Japan (ASBJ)
Kris Peach/Kimberley Crook	Australian Accounting Standards Board (AASB) /New Zealand Accounting Standards Board (NZASB)
Andrew Watchman	European Financial Reporting Advisory Group (EFRAG)

Disclosure Initiative—Principles of Disclosure

1. The objective of this session was to:

   (a) provide an overview of the outreach carried out or planned to date for the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) and a summary of comments received so far; and

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[2] The China Accounting Standards Committee representative was not present at the meeting, in advance of the meeting written comments were provided. Those comments are referred to in these notes.

(b) ask ASAF members to share the feedback they had gathered so far from stakeholders in their jurisdictions. This feedback is summarised below.

Overview of the disclosure problem and objective of the project

2. The AcSB, ANC and the AASB/NZASB representatives said many stakeholders agreed the disclosure problem exists. However, the AcSB representative added that some stakeholders said the disclosure problem is partly caused by 'non-IFRS disclosures' required by regulators, which the Board cannot influence.

3. The SAFRC representative said some users in its jurisdiction agreed that disclosure overload is problematic for less sophisticated or time-constrained users, whereas other users said analysing large amounts of data is not an issue for them.

4. The DRSC representative said it is not clear to some stakeholders what the objective of the Principles of Disclosure project is: (1) to address some specific disclosure issues or (2) provide a comprehensive framework for disclosures. In the DRSC view, the principles proposed in the Discussion Paper would address the first possible objective, but not the second. The DRSC representative also said the scope of application of the principles of disclosure project is not clear (ie the financial statements, the annual report or a broader set of information).

Principles of effective communication

5. The AOSSG and the AASB/NZASB representatives said stakeholders were generally supportive of the principles of effective communication outlined in the Discussion Paper. However, the AOSSG and ASBJ representatives said that their stakeholders were concerned the communication principles are difficult to apply in practice. Hans Hoogervorst, IASB chairman, replied that the staff are working on a publication that will illustrate how some companies have applied the principles of effective communication to improve the way they communicate information in their financial statements.

Location of information

6. Some ASAF members made the following comments about proposals in the Discussion Paper to allow companies to provide information required by IFRS Standards outside the financial statements, using cross-referencing:

(a) the ANC and OIC representatives said some of their stakeholders had stated that the integrity of the financial statements as a stand-alone document should be preserved.

(b) the ANC, AOSSG, AASB/NZASB and AcSB representatives said some of their stakeholders expressed concerns about whether information required by IFRS Standards could be audited if provided outside the financial statements. The AASB/NZASB representative said some of its stakeholders are concerned that under the proposals, the boundaries of the financial statements and the audit scope would become unclear, particularly when companies report digitally. The AcSB representative said that in Canada, many users are currently unaware of the boundaries of the financial statements and that auditors are concerned about having to review more information in many different locations to form their audit opinion.

7. The AOSSG, EFRAG and AASB/NZASB representatives said their stakeholders agree with allowing the inclusion of some 'non-IFRS disclosures' in the financial statements, however:

(a) the AASB/NZASB representative said their stakeholders find it challenging to distinguish between 'IFRS disclosures' and 'non-IFRS disclosures' given the requirement in IAS 1 *Presentation of Financial Statements* to provide additional information if it is relevant to an understanding of an entity's financial statements; and

(b) the EFRAG representative recommended the Board further break down 'non-IFRS disclosures' into different categories, some of which might need to be banned from financial statements.

Use of performance measures in the financial statements

8. The AOSSG, OIC and AASB/NZASB representatives said that their stakeholders generally disagreed with the Board's preliminary view, stated in the Discussion Paper, that it should develop definitions of unusual or infrequently occurring items, and requirements for their presentation.

Disclosure of accounting policies

9. The Discussion Paper describes three categories of accounting policies. Category 1 consists of accounting policies for material items that:

    (a) have changed during the reporting period;

    (b) are chosen from alternatives allowed in IFRS Standards;

    (c) are developed in the absence of an IFRS Standard that specifically applies; and

    (d) involve significant judgments or assumptions.

10. Category 2 consists of accounting policies for material items not in Category 1. Any other accounting policies that an entity used in preparing its financial statements and relate to items, transactions or events not material to the financial statements are included in Category 3.

11. AOSSG members generally agreed with the proposals in the Discussion Paper for the disclosure of accounting policies.

12. The EFRAG and AASB/NZASB representatives said that stakeholders generally agreed with the proposals in the Discussion Paper that Category 1 policies should be disclosed and that Category 3 policies need not be disclosed. However, stakeholders expressed mixed views about disclosing accounting policies in Category 2, with some stakeholders suggesting these accounting policies could be disclosed on entities' websites or at the back of the financial statements.

Centralised disclosure objectives and NZASB staff's approach

13. The Discussion Paper considers whether the Board should develop a central set of disclosure objectives to provide a framework for developing more unified disclosure objectives and requirements in IFRS Standards. The Discussion Paper explores possible methods for developing centralised disclosure objectives:

    (a) Method A—focus on the types of information disclosed about an entity's assets, liabilities, equity, income and expenses; and

    (b) Method B—focus on information about an entity's activities.

14. The ASBJ and EFRAG representatives stated that stakeholders in their jurisdictions have asked that the Board to clarify the implications of methods A and B for

developing centralised disclosure objectives further. The EFRAG representative added that stakeholders supported exploring the approach developed by the staff of the NZASB further.

15. In its written comments submitted before the meeting, the CASC cautioned that highly principle-based disclosure requirements might lead to a lack of comparability among entities and might be difficult to enforce.

16. The SAFRC representative stated that methods A and B for developing centralised disclosure objectives should arguably not result in different information content. For her, method B is more in line with the concept of integrated reporting, telling the story of an entity. She said the focus should be on what entities report rather than how they report it. She added that linking disclosure requirements to disclosure objectives was key to help preparers provide better information.

Other comments

17. On the basis of feedback received from stakeholders:

    (a) the AOSSG, AcSB and ANC representatives encouraged the Board, in developing solutions for the disclosure problem, to consider the implications of digital reporting, including, but not limited to XBRL. However, the ASBJ representative said the Board should first focus on improving paper-based reporting and consider digital reporting only at a later stage.

    (b) the EFRAG representative said that its stakeholders are sceptical whether the Board's approach focusing on materiality and effective communication will be enough to reduce disclosure overload. These stakeholders said simplifying or eliminating redundant or disproportionate requirements is also necessary. The EFRAG representative therefore encouraged the Board to start the Standards-level Review as part of the Disclosure Initiative project, looking at all IFRS Standards rather than only at a subset of them. However, the ANC representative stated that its stakeholders would support the Standards-level Review focusing on the Standards perceived as being the most problematic. Sue Lloyd, vice chair of the Board, said that such a review should not only focus on eliminating redundant disclosures, but should also identify where disclosure requirements can be improved, for example, by adding a disclosure objective. When IFRS 9 *Financial Instruments*—which includes disclosure objectives—becomes effective, the Board will be able assess the effectiveness of the objective-based approach to setting disclosure requirements.

Goodwill and Impairment

18. At this meeting, the ASBJ representative presented two papers and sought feedback from ASAF members. The first paper summarised analyst views on financial information about goodwill, on the basis of in-depth interviews with eleven Japanese analysts. The second paper presented a possible approach to address the concerns that impairment losses on goodwill are recognised too late or in an amount that are too small (referred to as the 'too little, too late' problem).

19. In addition, the staff asked ASAF members' advice on two possible approaches being considered in the Goodwill and Impairment research project:

    (a) *Single-model approach*—using a single method to determine recoverable amount to improve effectiveness of impairment testing.

    (b) *Indicator-only approach to impairment testing for goodwill*—providing relief from the mandatory annual quantitative impairment testing for goodwill by not requiring entities to perform that testing if there are no indicators of possible impairment.

Possible approach for addressing the 'too little, too late' issue

20. ASAF members generally did not support the ASBJ's suggestion to introduce an option to adopt an amortisation and impairment model (the optional approach), mainly because it would impair comparability.

21. In addition to sharing the concern about comparability the OIC suggested that, if the optional approach were to be adopted, further research should be conducted to consider whether the optional approach should be applied on a case-by-case basis or as an accounting policy choice.

22. The AOSSG representative having expressed concerns regarding the optional approach noted that any 'too little, too late' issues are mainly an issue of inadequate

institutional monitoring in particular jurisdictions, such as weak audit or weak enforcement.

23. The ANC representative said that the Board should not go back and forth on whether to require amortisation of goodwill. The representative also said that amortisation could further increase the gap between market capitalisation and the net assets in the financial statements. In addition, the representative noted that in his jurisdiction decisions about whether an impairment exists are taken seriously by the audit committee.

24. The SAFRC representative did not support the optional approach. She said amortisation would be ideal but there are practical challenges in determining the amortisation period.

25. EFARG, AOSSG and AASB/NZASB said that the optional approach was inconsistent with principle-based standards and that it would be better to develop a robust principle.

26. The FASB representative noted that differences in views on goodwill amortisation were due to the differences in how people viewed the economics of goodwill. To reach a consensus on goodwill amortisation, fundamental questions regarding the nature of goodwill should be addressed first.

27. The DRSC representative said that allowing an accounting option can create a problem in certain entities or industries and make it difficult to reconcile between entities adopting different options.

28. The AOSSG, AASB/NZASB did not support prescribing a uniform fixed amortisation period, saying prescriptions conflict with principle-based accounting standards.

Possible approaches to simplifying and improving goodwill impairment testing

Single model approach

29. The ASBJ representative suggested the Board not limit the discussion on a single-model approach only to goodwill, but should also discuss other non-current non-financial assets within the scope of IAS 36.

30. The EFRAG representative stated there is not enough evidence on whether there are significant differences in practice between value in use (VIU) and fair value less costs

of disposal (FVLCD). The EFRAG representative suggested that VIU better reflects the value of assets that an entity plans to use in its business and questioned whether VIU is any less objective than a Level 3 fair value.

31. The AASB/NZASB representative said that there are different views on the usefulness of VIU and FVLCD. For instance, the mining industry supports FVLCD because of the restrictions on the cash flows included in VIU in relation to estimating future cash flows for the asset in its current condition.

32. The ANC representative did not support the single-model approach because the facts and circumstances would usually determine which method is appropriate.

33. The OIC representative supported VIU as a single method unless there is an exceptional circumstance, such as planning to dispose of an asset.

Indicator-only approach

34. Neither ANC nor OIC supported an indicator-only approach. They suggested retaining the current mandatory annual impairment testing because goodwill is a significant and sensitive asset and because it accounts for a large portion of intangible assets.

35. The EFRAG representative supported further exploration of an indicator-only approach, rather than considering partial relief for only a limited number of years.

Accounting policy changes (amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

36. ASAF members were asked for their views on:

    (a) the Board's tentative decision to lower the impracticability threshold for voluntary changes in accounting policy that result from IFRS Interpretations Committee agenda decisions (agenda decisions); and

    (b) whether the proposed threshold should include a consideration of the benefits and costs of retrospectively applying such a change in accounting policy.

Overall

37. ASAF members were generally supportive of addressing the matter and of the direction proposed by the Board. Several members said enforcers in their jurisdictions expect entities to apply accounting policies in line with explanatory material in agenda decisions, creating challenges for entities whose policies are not aligned with that explanatory material. The DRSC representative said its stakeholders generally consider any material explaining how to apply IFRS Standards published by the IFRS Foundation as mandatory, including agenda decisions.

38. The DRSC representative also emphasised that agenda decisions can be viewed as effective immediately upon publication, creating transition challenges for entities.

Lowering threshold for voluntary changes resulting from agenda decisions

39. Most ASAF members agreed with the Board's tentative decision to lower the impracticability threshold. However, members had mixed views on whether a lower threshold should apply to all voluntary changes in accounting policy or only to accounting policy changes resulting from agenda decisions.

40. EFRAG, DRSC, ANC and SAFRC representatives said it would be inappropriate to create a distinction between changes resulting from agenda decisions and other voluntary changes. In the representatives' view, such a distinction could imply that agenda decisions have authoritative status. The EFRAG representative said in some situations, it could be difficult to assess whether a change in accounting policy results exclusively from an agenda decision or from other circumstances.

41. The AASB/NZASB representative agreed with the Board's tentative decision, saying it strikes the right balance and is practical. The AcSB representative said given the circumstances, the Board's tentative decision on this matter is probably the best solution. Other members did not express a view.

42. Most ASAF members generally supported a proposed threshold that would involve consideration of the benefits and costs of applying a change retrospectively. The following statements were made:

    (a) the AcSB and the AASB/NZASB representatives cautioned against setting a low threshold, noting the importance of providing appropriate application guidance;

(b) the FASB representative said it would be difficult for entities to assess the benefits, consequently entities would place more emphasis on costs which are less difficult to assess. That representative also suggested the Board consider whether it needs to retain the impracticability threshold if it proposes a new threshold;

(c) the AOSSG representative said the Board, and not entities, should assess the benefits of applying a change retrospectively. That representative noted the explanation in paragraph BC24 of the Basis for Conclusions on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in this respect; and

(d) the EFRAG representative suggested a threshold of excessive cost, thus removing the need for entities to assess benefits.

43. In written comments submitted before the meeting, the CASC stated that investors, creditors and regulators would be concerned that the proposed threshold would be subjective and difficult to apply. This could reduce comparability and could be misused by entities.

Other comments

44. Some members commented on the treatment of agenda decisions as follows:

(a) the OIC representative said it would be difficult for entities to demonstrate that a change in accounting policy resulting from an agenda decision is not the correction of an error. The AOSSG representative said that, in his jurisdiction, such a change is treated as the correction of an error; and

(b) the AASB/NZASB representative noted that IAS 8 already contains requirements to help assess whether a change is a voluntary change in an accounting policy or a correction of an error. Thus, in her view, nothing further is needed in this respect.

45. The SAFRC representative questioned the appropriateness of treating voluntary changes in accounting policies differently from the corrections of errors.

46. The ASBJ representative said agenda decisions should be authoritative and ideally would include an effective date and transition requirements for any resulting changes.

Post-implementation Review of IFRS 13 *Fair Value Measurement*

47. The staff updated ASAF members on the recent publication of the Request for Information (RFI) for the Post-implementation Review (PIR) of IFRS 13. The staff also informed the ASAF members of the focus areas and the outreach plan for phase 2 of the PIR. ASAF members provided initial feedback received on the focus areas of the RFI and any outreach plans they have for the consultation.

48. Generally, all of the ASAF members agreed with the focus areas of the RFI, with many members noting that outreach activities with stakeholders are just commencing.

49. Several ASAF members provided initial feedback about the disclosure of the quantitative sensitivity analysis for significant unobservable inputs in Level 3 measurements. Members' comments included:

    (a) the ASBJ representative questioned usefulness and comparability of this disclosure as it is not required under US GAAP;

    (b) the AOSSG's representatives said the preparers reported that this disclosure was complex, confusing and costly to prepare; and

    (c) the GLASS representative noted that users in South America do not seem to use this information in analysis of financial statements. Thus the representative questioned its purpose.

50. In response the staff said many users had stated this disclosure is very useful. The staff suggested further discussions with users to better understand how this information is used.

51. ASAF members provided further feedback and outreach plans as follows:

    (a) the EFRAG representative stated that they have launched two questionnaires on the impact of IFRS 13; one for users and another one for general stakeholders. The questionnaires and various outreach will also investigate whether it is feasible to simplify IFRS 13. The EFRAG representative stated the feedback received so far includes suggestions for expanding the scope of the unrealised gains and losses disclosures so that they also apply to Level 1 and Level 2 measurements. The EFRAG representative also stated that stakeholders are questioning both the application of judgements in making valuation adjustments and the quality of information disclosed about these adjustments;

(b) the FASB representative stated that they have already completed a substantial amount of outreach in their review as a part of the disclosure framework work, which included fair value measurement disclosures, and offered for the FASB staff to share their findings. The FASB representative also offered to share experience with the use of examples in outreach; and

(c) the AASB/NZASB representative stated that since fair value measurements are commonly used in the public sector in her jurisdiction, stakeholders have a lot of experience with this. She said that outreach being undertaken by the AASB will also include review of restricted assets and obsolescence in relation to fair value measurements.

52. In its written comments the CASB stated it has already completed an outreach on fair value, and believed the topics in the RFI are relevant. It requested the IASB provide solutions on a timely basis.

Next steps

53. The staff will remain available to participate in outreach organised by ASAF members. The staff plans to present a preliminary summary of feedback received at the September 2017 ASAF meeting.

Primary Financial Statements

54. The purpose of this session was to seek ASAF members' views on staff proposals for addressing the competing needs for comparability and flexibility in reporting financial performance. The package of staff proposals consisted of proposals for the presentation in the statement(s) of financial performance of:

(a) earnings before finance income/expenses and tax (EBIT);

(b) a management performance measure and adjusted earnings per share; and

(c) the share of profit or loss of associates and joint ventures.

55. The staff provided a summary of the June 2017 Board discussions on these proposals.

Earnings before finance income/expenses and tax (EBIT)

56. Many ASAF members supported the presentation of an EBIT subtotal in the statement(s) of financial performance, but some acknowledged that defining EBIT would be a challenging undertaking for the Board.

57. Some members challenged the proposed definition for EBIT, raising specific operational issues:

    (a) the FASB representative queried whether:

        (i) right-of-use assets under a lease contract and derivatives in an asset position—including those not qualifying for hedge accounting but used as an economic hedge—would meet the definition of 'assets arising from financing activities';

        (ii) some interest would be excluded from EBIT—for example on zero coupon bonds; and

        (iii) EBIT would exclude capitalised interest—for example, interest capitalised in inventories and included in profit or loss as part of the cost of goods sold.

    (b) the SAFRC representative:

        (i) asked whether all income and expenses representing time value of money—eg interest on a significant financing component under IFRS 15 *Revenue from Contracts with Customers*—would be excluded from EBIT;

        (ii) said the current diversity in practice in the presentation of foreign exchange differences and fair value gains and losses on derivatives should be addressed; and

        (iii) queried whether it is appropriate to require a different presentation for income and expenses on interest-bearing investments than for income and expenses on non-interest bearing investments.

58. Other ASAF members expressed more general concerns about defining and requiring an EBIT subtotal:

    (a) the DRSC representative argued that, because users are likely to continue adjusting any subtotal the Board defines and because no consensus exists around the definition of EBIT, the Board should focus on improving disaggregation, rather than on defining EBIT. A Board member said that, nevertheless, many users support introducing a comparable EBIT subtotal as a starting point for their analysis.

(b) the GLASS representative expressed the view that the Board should not encourage users to use EBIT as a starting point for discounted cash flows (DCF) analysis, because EBIT is not a good proxy for free cash flows. However, a Board member said that EBIT is a common and legitimate starting point for DCF analysis. He added that users adjust EBIT in their model to correct for any cash-accruals differences.

(c) the ASBJ and GLASS representatives said presenting an EBIT subtotal is inappropriate in some industries, such as financial services. The ASBJ and AOSSG representatives said the presentation of an EBIT subtotal should be optional, rather than mandatory.

59. The FASB representative encouraged the Board to consider different terminology going forward. The FASB representative said the label 'earnings before interest and tax' is inappropriate, because the staff proposes to exclude more than just interest (eg foreign exchange differences) and to exclude only income taxes (eg not revenue-based taxes) from the subtotal.

60. In written comments submitted before the meeting, the CASC requested that the Board consider another term for 'capital structure', as it is already widely used in some jurisdictions with different meanings, so using that term might lead to confusion.

61. The EFRAG representative suggested the staff should investigate how entities define capital structure in practice by reviewing the disclosures required by IAS 1 paragraphs 134–136.

62. Other suggestions included:

(a) some ASAF members said the Board should introduce an investing category and/or have three parts to the statement(s) of financial performance (operating, investing, and financing); and

(b) the AOSSG and ASBJ representatives supported the Board considering a broadly-defined operating profit subtotal.

Management performance measures and adjusted earnings per share

63. ASAF members had some concerns about the staff proposals for introducing a management performance measure in the statement(s) of financial performance. Few comments were made about the staff proposals for an adjusted earnings per share in the statement(s) of financial performance.

64. Some ASAF members had concerns about allowing too much flexibility in presenting the management performance measure and said there was a need to develop strict guidance about the measure. However, other ASAF members cautioned that the management performance measure might not represent management's view of performance if it is subject to restrictions—for example if some items, such as the share of profit or loss of associates and joint ventures, are required to be presented below EBIT. The AASB/NZASB representative said that the existing guidance in IAS 1, combined with the suggested principles in the *Principles of Disclosure* Discussion Paper might be sufficient to ensure fair presentation of such measures. The AcSB representative encouraged the Board to engage with securities regulators about the management performance measure, given the regulatory guidance on non-GAAP measures.

65. The AASB/NZASB representative encouraged the Board to focus on the predictive value of income and expenses, rather than considering a distinction between frequent and infrequent items.

Share of the profit or loss of associates and joint ventures

66. The AcSB and ASBJ representatives expressed support for a single location for the presentation of the share of profit or loss of all associates and all joint ventures. In contrast, most other ASAF members expressed support for the Board considering whether the location should depend on whether the associate or joint venture is integral to the entity's operations. The AASB/NZASB representative cautioned that—for determining the presentation of associates and joint ventures, but also more generally—the Board should not confuse comparability with uniformity, ie it should not 'make unlike things look alike', referring to paragraph QC23 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

67. The AOSSG and SAFRC expressed the view that the presentation of the share of profit or loss of associates and joint ventures should be treated similarly to the

presentation of the fair value changes in other investments the entity has no control over.

Property, Plant and Equipment – Proceeds before Intended Use

68. ASAF members were asked for their preliminary views on the proposed amendments to IAS 16 *Property, Plant and Equipment* in Exposure Draft *Property, Plant and Equipment - Proceeds before Intended Use* (ED) published in June 2017.

69. Some ASAF members had not encountered the issue of how to account for the proceeds before intended use in their jurisdictions, whilst others indicated the issue is prevalent for some industry sectors such as extractives. The ANC representative suggested an effects analysis to assess whether there is a need for standard-setting to address the issue.

70. A number of ASAF members indicated support for the proposed amendments. The FASB representative highlighted that the proposed amendments would result in requirements similar to those in US GAAP.

71. The OIC representative agreed that an entity should recognise as revenue proceeds from selling items produced before an item of property, plant and equipment (PPE) is available for use.

72. The AOSSG representative, however, said that the cost of items produced and sold before an item of PPE is available for use is a directly attributable cost as described in paragraph 16(b) of IAS 16. Therefore, the proposed amendment might create a conflict within IAS 16.

73. ASAF members also suggested the Board consider the following:

    (a) the AASB/NZASB, ANC, OIC, AOSSG and SAFRC representatives mentioned there might be practical difficulties in allocating costs between (i) those that relate to items produced and sold before an item of PPE is available for use, and (ii) those that an entity includes as part of the cost of the asset. Some members suggested highlighting that an entity should consider the requirements in IAS 2 *Inventories* when allocating costs. The SAFRC representative also suggested considering (i) the appropriate unit of account and (ii) when an item of PPE is available for use (an approach that the Board has already considered and is explained in the Basis for Conclusions on the ED);

(b) the AcSB representative noted that disclosure would be particularly important. Investors might be misled if they were to use the proceeds and margin generated from testing activities as a prediction of what an entity's future revenue and margin will be when the item of PPE is available for use; and

(c) the EFRAG representative questioned the need to provide a definition of testing activities as part of this amendment.

74. The EFRAG representatives mentioned that, in its draft comment letter, EFRAG has asked its stakeholders whether a similar question arises regarding intangible assets.

Project updates and agenda planning

75. The staff updated the ASAF on investor engagement activities following the publication of IFRS 17 *Insurance Contracts*, and shared highlights of the investors' feedback obtained during those meetings. Overall, investors welcome the prospect that implementing the new Standard will enhance transparency about insurance contract liabilities.

76. The session included an update on *Prepayment Features with Negative Compensation* (proposed amendments to IFRS 9). The staff advised ASAF that the target issue date of the amendments was still October 2017.

77. The staff presented an update on the Board's technical projects and a summary of how the Board had used the ASAF advice from the previous meeting.

78. The staff also presented topics for inclusion on the agenda of the September 2017 ASAF meeting.

Wider Corporate Reporting (WCR)

79. In this session ASAF members received an update on the work being carried out by the staff on wider corporate reporting (WCR). ASAF members were asked for their views on two specific questions. The first was whether ASAF members agreed with the staff conclusion that WCR was growing in prominence and importance and, thus,

the Board should consider playing a more active role in this area. The second was whether the Board should pursue the idea of taking on a project to revise and update its 2010 Practice Statement *Management Commentary* (MCPS).

Growing support for WCR and the Board's role

80. ASAF members generally agreed with the staff conclusion that WCR was growing in prominence and importance. The GLASS representative expressed the view that the momentum towards WCR was even stronger than that portrayed in the staff presentation.

81. ASAF members also generally supported the Board playing a role in this area, although they expressed mixed views as to how far that role should extend beyond the Board's current approach of co-ordination and co-operation with other bodies active in the WCR arena and in continuing to monitor developments.

82. The SAFRC representative suggested that the Board could develop guidance on how financial information should be reflected in Integrated Reporting (IR). In South Africa, companies often included just the Income Statements and Balance Sheets in their integrated reports and there was a lack of guidance to determine what summarised financial information could or should be included in such reports. The Board could look to fill that gap. There was a risk that the full set of financial statements could lose its relevance, although this view was not shared by others (for example, the EFRAG representative).

83. The DRSC representative noted that the distinction between financial reporting and what was labelled as non-financial reporting (NFR) was blurred and this, together with the fact that the corporate reporting landscape had changed dramatically in recent years, meant that the Board should be doing something in this area. In his view, companies - in their wider reporting - were regarding society at large as their user base. He suggested that, given this, the Board should look again at its definition of the primary user in the *Conceptual Framework*, together with the objectives and qualitative characteristics, to assess whether they applied equally to NFR. An IASB member noted that an alternative approach to the user perspective was for the Board to keep its current focus on primary users as defined but to acknowledge that decision-useful information for them was not only traditional financial information.

84. The ASBJ representative said that the Board should focus its limited resources on financial reporting. The AOSSG representative noted similar comments from Malaysia and Korea.

85. The GLASS representative suggested that, the Board had a number of strategic options it could consider for playing a more active role, beyond any project to revise and update the MCPS. A narrow strategy would be to look to make life easier for the preparer, looking at issues such as materiality and the extent of disclosures, and whether the same concepts could be applied for both financial reporting and NFR. A broader strategy would be to change the focus of the Board's work and think about wider reporting issues in the context of developing IFRS Standards (ie not just thinking about the accounting). The ANC representative agreed that this broader strategy was worth considering. In a similar vein, a number of representatives (including those of the SAFRC and the AASB/NZASB) saw merit in linking work on WCR with other related projects, such as the disclosure initiative.

86. The ANC representative also commented that financial information should continue to be pivotal. Wider (NFR) reporting needed to be coherent with financial information. Accounting standard-setters had a competitive advantage in that they had a good methodology and process for developing standards, but the challenge was that they had no mandate for NFR. This sovereignty issue needed to be discussed.

87. The FASB representative advocated a limited approach and recommended that the Board should not become involved in developing Standards on WCR issues. She agreed that the Board needed to think about where it had a competitive advantage as well as its authority to impose change.

Revising and updating the MCPS

88. ASAF members expressed mixed views on the possibility of the Board taking on a project to revise and update the MCPS. Some (including representatives of the ASBJ and AOSSG) did not support such a proposal, for a variety of reasons, including whether it would represent a good use of the Board's limited resources, the implications of continuing with a non-mandatory approach, and the risks of simply adding to the extensive material already published in this area, as well as how it might fit/conflict with existing jurisdictional and other requirements.

89. The AASB/NZASB representative supported the staff view that there was merit in the Board taking on a project to revise and update the MCPS. The AcSB representative noted that the ability of the Board to raise awareness, influence others, and use its competitive advantage to educate others, should not be underestimated. The Board's influence in this area could help to raise the bar of reporting. That said, in looking to revise and update the MCPS, it was important for the Board to liaise with securities regulators.

Exposure Draft: Improvements to IFRS 8 *Operating Segments* (Amendments to IFRS 8 and IAS 34)

90. At this session the ASAF discussed the ED of proposed amendments to IFRS 8 and IAS 34 published in March 2017. The proposals aim to address the feedback the Board received in its post-implementation review of IFRS 8.

91. There are nine proposals in the ED. The staff selected four of the proposals for discussion:

(a) emphasis that the chief operating decision maker (CODM) makes operating decisions;

(b) linking IFRS 8 segments with the annual reporting package;

(c) aggregating operating segments; and

(d) changes in segmentation - provide earlier interim information.

Emphasis that the chief operating decision maker (CODM) makes operating decisions

92. The ED contains a proposal to emphasise that the CODM makes operating decisions. ASAF members had different views on whether that amendment was necessary. The AScB noted that in Canada generally the entity's Board is considered to be a governance mechanism, the CODM is therefore identified at a level below the Board. In contrast the AASB/NZASB representative noted unlike in Canada no such clear distinction exists in Australia and requested more guidance on what constitutes an operating decision. The SAFRC and EFRAG representatives supported the request for more guidance.

93. The DRSC representative noted that different Board structures existed depending on jurisdiction and hence there is differing practice in identifying the CODM. He also noted that the decision about who the CODM is at a group level is often arbitrary because operating decisions were made at subsidiary level.

94. The FASB representative provided a brief update on the FASB's thinking in the area of identification of CODM. The FASB considered introducing the 'governance approach' idea for identification of CODM. The FASB had rejected this idea because the disadvantage of the 'governance approach' is that - although it would provide more uniformity and clarity in identification of CODM - it would also result in entities reporting fewer segments.

Linking IFRS 8 segments with the annual reporting package

95. The vice chair of the Board noted that IFRS 8 is based on the management approach, which presumes that an entity's activities are reported as if 'through the eyes of management' in a consistent way. The aim of this amendment proposed in the ED is to explain differences in instances when segments identified in the financial statements differ from segments identified in other parts of the entity's annual reporting package.

96. The FASB representative asked Board members to clarify the problem the Board was trying to solve. For example, whether entities combined operating segments too much for the purpose of financial statements or whether entities identified operating segments in different ways in different parts of the annual reporting package.

97. SAFRC and AASB/NZASB representatives noted that in their jurisdictions regulators are addressing the consistency of information reported by an entity in its financial statements with segments identified in other parts of the entity’s annual reporting package.

98. Although many ASAF members (AcSB, SAFRC, AASB/NZASB, ANC, AOSSG and DRSC representatives) said that they could see the merit of this proposal, they shared a concern that the proposal went beyond the boundaries of financial statements. ASAF member comments included:

    (a) the DRSC, EFRAG, AASB/NZASB and ANC said it is the role of market regulators and auditors to monitor ‘non-GAAP’ information;

(b) the ANC said entities should place explanations of differences, if any, outside financial statements; and

(c) the AcSB representative questioned whether information provided by entities in accordance with this proposal could be audited.

99. The ASBJ and AOSSG did not support the proposal because they considered the proposal to be too broad and impracticable. The AOSSG representative recommended narrowing the proposal to cover only consistency with information within the annual report.

100. The OIC, GLASS, AcSB, SAFRC, AASB/NZASB suggested if there may be fewer instances of differences between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package if the CODM were identified at an appropriate level, and if there was appropriate aggregation of operating segments into reportable segments.

Aggregating operating segments

101. The aim of this proposed amendment is to strengthen the criteria for aggregating operating segments into reportable segments. Most ASAF members agreed with the proposal.

Changes in segmentation - provide earlier interim information

102. The ED proposes that in the first interim report which follows a change in the composition of an entity's reportable segments, the entity should present restated segment information for interim periods for both the current year and prior years, unless the information is not available and the cost to develop it would be excessive. Most ASAF members agreed with the proposal.

Rate-regulated Activities

103. At this meeting, ASAF members received an update on recent Board discussions about a possible new accounting model for activities subject to 'defined rate regulation' (the model). ASAF members discussed an analysis in the papers of the rights and obligations arising from a rate-adjustment mechanism in a regulatory agreement. Such rights and obligations arise when the regulated rate in one period includes amounts related to specified activities the entity carries out in a different

period. The analysis suggests that those rights or obligations are assets or liabilities, as those terms are expected to be defined in the forthcoming revised *Conceptual Framework.*

104. Most ASAF members generally supported the direction of the project and the outcome of the model when applied to the simple examples presented in Agenda Paper 8B. The SAFRC representative appreciated the clarification given in the meeting that the model does not account for a right to increase, or obligation to decrease, the rate reflecting *future* services. Instead, the model accounts for a right to increase a future rate as a result of the services already provided, or for an obligation to reduce a future rate as a result of compensation already received for services to be provided in the future. ASAF members agreed that this needed to be clear in future papers.

105. The ANC and AASB/NZASB representatives would prefer more emphasis on the decision-usefulness of information in the statement of financial performance being the driver of the accounting adjustments. They accept the need to provide the information to users of financial statements but are not convinced that the resulting balances in the statement of financial position meet the definitions of assets and liabilities in the *Conceptual Framework.*

106. The AASB/NZASB representative stated that the NZASB views the right to increase, or obligation to decrease, the rate as creating changes in the value of a larger, unrecognised, intangible asset. Consequently, the AASB/NZASB are not convinced that the resulting balance can be classified as an individual asset or liability. Particular problems would arise when recognising a liability because the AASB/NZASB regards the resulting balance as a reduction in the larger unrecognised asset, rather than a liability. The AASB/NZASB representative expressed concern that recognising the balance may contradict the definitions of asset and liability and cause confusion about what economic resource is being accounted for, especially given the interdependencies between the recognised and unrecognised components. The AASB/NZASB representative also expressed concern that this confusion could cause a ‘contagion effect’ in financial reporting, with entities trying to draw analogies that could result in recognising ‘smoothing’ adjustments through the statement of financial performance.

107. The staff commented that the model views the regulatory agreement as a package of rights and obligations. One part of the package is the regulatory adjustment mechanism. This creates a right to increase future rates, or an obligation to decrease future rates, as a result of a past event. The model treats those rights or obligations as a unit of account separate from the rest of the package of rights and obligations. This is because those rights and obligations:

(a) by originating in one period and reversing later, behave in a manner that is different from the rest of the package;

(b) have an identifiable and measurable effect on the timing and amount of the entity's cash flows; and

(c) do not interact significantly with the rest of the package.

108. The staff also highlighted that the model identifies the rights and obligations created by the rate adjustment mechanism as rights or obligations to increase or decrease rates, not as receivables or payables.

109. The FASB representative commented that the outcomes of the model are similar to those under US GAAP and that there is no evidence of a contagion effect in its jurisdiction. The FASB representative suggested the risk of contagion could be reduced by clarifying the scope of the model. In particular, the FASB representative suggested clarifying whether an agreement with a government binds the government if the government has the power to change aspects of the agreement.

110. The AOSSG and ANC representatives expressed concern that the term 'customer base' had been removed from the descriptions in the model. They suggested that the underlying concept of the customer base is still an important part of the model, especially when looking at the ability to recover regulatory assets. The staff confirmed that considering the customers collectively is important but the term 'customer base' was no longer being used because it had caused some confusion. In addition, it is not needed if the rights and obligations identified are rights to increase a rate as a result of the services already provided, and obligations to decrease a rate as a result of compensation already received for services to be provided in the future, rather than receivables or payables.

111. Many ASAF members supported a 'supplementary' presentation approach that presents the regulated rate accounting adjustment as a separate line item (or items) in

the statement of financial performance. They recommended that it be presented close to the IFRS 15 revenue and related expenses line items but asked for a more detailed analysis to be presented at a future meeting. The SAFRC representative stated a preference for the adjustment to be netted against revenue but could also see the usefulness of a separate line item adjacent to the IFRS 15 revenue line.

112. Generally, ASAF members understood how the model works for the simple examples in Agenda Paper 8B but some questioned how robust the model is for more complex examples.