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Introduction

1. The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a joint meeting in London on 15–16 June 2017.

2. In this meeting, CMAC and GPF members discussed:

   (a) IASB update (paragraphs 4—5);

   (b) Discussion Paper *Principles of Disclosure* (paragraphs 6—19);

   (c) Primary Financial Statements (paragraphs 20—31);

   (d) IFRS 13 *Fair Value Measurement* (paragraphs 32—44);

   (e) Impairment testing of goodwill (paragraphs 45—58).

   CMAC and GPF members discussed items (b) to (e) in break-out groups before coming together to discuss the feedback on each item.

3. The GPF members discussed also Exposure Draft *Improvements to IFRS 8* Operating Segments (paragraphs 59—75).

IASB Update (Agenda Papers 1 and 1A)

4. The IASB staff provided an overview of the work of the International Accounting Standards Board (the Board) since the last meeting of the GPF about:

   (a) the completion of the insurance contracts project in May;

   (b) the end of the discussions regarding the conceptual framework project and its targeted publication by the end of this year;

   (c) the new website and the new way of subscribing to e-alerts;

   (d) the changes in the Board's membership;

   (e) the release of the 2017 Pocket guide;

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/groups/capital-markets-advisory-committee/
Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/groups/global-preparers-forum/

(f) the current implementation activities' milestones:

  (i) IFRIC 23 *Uncertainty over Income Tax Treatments*; and

  (ii) narrow-scope amendments to IAS 16 *Property, Plant and Equipment*.

5. The focus of the discussion was on wider corporate reporting issues:

(a) In light of IASB's revision of *Management Commentary* Practice Statement (MCPS) an IASB member explained that management commentary needs updating in the light of recent IASB standard-setting developments and a key question to be addressed is how many people use it directly. However, he emphasised that, even if the management commentary is used indirectly, it can be a good starting point and additional guidance for wider corporate reporting issues as the Conceptual Framework is for IFRS standards.

(b) One GPF member wondered what the IASB's mission is regarding wider corporate reporting issues. In addition:

  (i) another GPF member expressed his belief that IASB should be involved in both accounting and wider financial reporting issues but should put more emphasis on accounting issues. This is because investors look at both the financial statements and management's report.

  (ii) another GPF member suggested that the Accounting Regulatory Committee[1] should take the leading role of addressing wider reporting issues.

  (iii) another GPF member supported priorities set on the agenda and therefore IASB has been working on the appropriate accounting issues over the last years.

(c) Regarding sustainability reporting a GPF member wondered how easy it will be for sustainability reporting to cover all the industries and suggested that ARC should take over this role.

[1] The ARC provides opinions to the European Commission on proposals adopting IFRSs.

One GPF member wondered what is the latest update on the research pipeline project regarding Pollutant Pricing Mechanisms. In addition, another GPF member stressed the urgency of the tax implications for this project such as for example what amounts should be expensed, recovered as a tax etc. He thought that the taxes on emission trading schemes can be an area that can be gamed. On that point, an IASB member clarified that IASB is not actively working on the research pipeline projects now but will do in the future because, according to Agenda Consultation, these issues were not top priority.

Discussion Paper *Disclosure Initiative—Principles of Disclosure* (the Discussion Paper—Agenda Paper 2)

6. The purpose of this session was to gather feedback from members of the CMAC and the GPF about some of the disclosure issues and suggested approaches to addressing those issues discussed in the Discussion Paper, namely:

    (a) location of IFRS information outside the financial statements and 'non-IFRS information' within the financial statements;

    (b) disclosure of accounting policies; and

    (c) centralised disclosure objectives to provide a framework for developing more unified disclosure objectives and requirements in IFRS Standards.

Location of information

7. Some CMAC members said that the location of information matters, particularly if the location affects whether that information is audited, as audited information provides higher assurance to investors. Most CMAC members preferred to have access to information within a single reporting package on the same terms as the financial statements and at the same time. There was little appetite for locating information elsewhere, for example, on an entity's website.

8. Some CMAC members also said that investors generally expect all material information to be placed within the financial statements and would not support material information being placed outside the financial statements, for example, in

the management commentary. Indeed, some CMAC and GPF members said that in addition to material information required by IFRS Standards they would expect material 'non-IFRS information' to be included in the financial statements.

9. However, a few GPF and CMAC members expressed concerns about allowing 'non-IFRS information' to be included in the financial statements. These members were concerned that this could affect the primacy of IFRS information and potentially undermine the credibility or quality of some of the information provided within financial statements. They were also concerned about the degree of assurance that could be provided for non-IFRS information (ie whether this information would be audited).

10. Some CMAC members differentiated duplicating information from providing information about different aspects of a topic in different locations. They said that the different roles of the sections of an annual report may mean that it is useful to highlight different aspects of a topic in different sections of the report. Some CMAC members said that entities duplicating information already provided within the financial statements elsewhere in the annual report (for example, some entities repeat accounting policy disclosures in the management discussion and analysis section of the annual report) does not provide users with additional value.

Disclosure of accounting policies

11. CMAC and GPF members generally agreed that when an entity considers disclosure of accounting policies it should take into account the needs of the users of the financial statements. Most CMAC and GPF members stated that disclosing accounting policies for immaterial items, transactions and events is not useful. However, there were different views about which accounting policies should be disclosed:

    (a) Some CMAC and GPF members argued that entities should only be required to disclose accounting policies that were labelled as category 1 in the Discussion Paper, ie those that:

        (i) have changed during a reporting period;

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

        (iii) are developed in the absence of an IFRS Standard; and

(iv) require an entity to make significant judgements and/or assumptions.

(b) Other CMAC and GPF members stated that in addition to category 1 accounting policies, entities should be required to disclose accounting policies that relate to items, transactions and events that are material.

12. Both CMAC and GPF members agreed that management is best placed to decide on the most appropriate location for accounting policy disclosures within the annual report including whether to include information about significant judgements and assumptions next to the accounting policy disclosures.

Centralised disclosure objectives

13. Both CMAC and GPF members expressed support for the Board's approach to developing disclosure requirements in recent IFRS Standards whereby overall disclosure objectives are supported by detailed disclosure requirements. They noted that this approach helps preparers decide the nature and the level of detail of the information to be provided.

14. Some GPF members said that prescriptive disclosure requirements do not prevent preparers from disclosing relevant information as long as guidance reinforcing the application of materiality is provided.

15. A few GPF members said that they consider checklist of disclosure requirements a helpful internal tool to ensure completeness of the information provided within the financial statements.

16. Most CMAC members disagreed with developing centralised disclosure objectives on the basis of an entity's activities. They were concerned that this approach could lead to less comparable financial statements across entities. These members said that the Board should refine its current approach for drafting disclosure requirements to allow entities to apply more judgement when disclosing information.

17. Some CMAC members and a few GPF members stated that they prefer the structure of the notes to reflect an entity's activities rather than the nature of the entity's assets, liabilities, income and expenses. However, they commented that this can be achieved by appropriate organisation of the information and that there is no need to develop centralised disclosure objectives that are based on activity.

18. Some GPF and CMAC members were not sure how effective the approach for drafting disclosure objectives and requirements developed by the staff of the New Zealand Accounting Standards Board would be in practice. This approach emphasises the need for entities to apply judgement when deciding how and what information to disclose to meet the disclosure objectives of a Standard and aims to use a less prescriptive style in the drafting of the disclosure requirements.

Next steps

19. The comment period for the Discussion Paper ends on 2 October 2017. The Board's re-deliberations are expected to take place in 2018.

Primary Financial Statements (Agenda Paper 3)

20. The purpose of this session was to seek the views of CMAC and GPF members on staff proposals to introduce two subtotals in the statement(s) of financial performance:

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

    (b) a management performance measure.

21. Many CMAC and GPF members supported the general direction of the staff proposals.

Earnings before finance income/expenses and tax (EBIT)

22. Many CMAC and GPF members supported requiring an EBIT subtotal in the statement(s) of financial performance and agreed that its objective should be to provide a comparable starting point for users' analysis. Many members also agreed that a principle-based approach to defining finance income/expenses (ie the 'I' in EBIT) in terms of an entity's capital structure would be appropriate. However, many members observed that introducing a comparable EBIT subtotal was a difficult undertaking for the Board and some had reservations about whether it would be successful, particularly across different industries.

23. CMAC and GPF members commented on the staff proposal to define capital structure as ‘equity, assets and liabilities arising from financing activities, and cash and cash equivalents’:

(a) CMAC and GPF members debated whether decommissioning liabilities and net defined benefit liabilities are part of an entity’s capital structure:

(i) some members argued that, unlike decommissioning liabilities, net defined benefit liabilities result from an explicit ‘financing choice’ made by the entity—ie the entity decided not to transfer the liability to an insurer or fully fund the plan—and are therefore part of an entity’s capital structure.

(ii) in contrast, a GPF member argued that in the mining industry, decommissioning liabilities are considered a more important source of financing than net defined benefit liabilities. This member said that entities often do have a ‘financing choice’ for decommissioning liabilities because they often have some flexibility to decide when to start restoration and hence when the cash outflows will occur.

(b) Some CMAC and GPF members said that using cash and cash equivalents as a proxy for cash and temporary investments of excess cash in the definition of capital structure was too narrow. For example, some CMAC and GPF members observed that other assets are held for the specific purpose of settling liabilities. One GPF member commented that when they issue loans, they invest a specific amount of cash in financial assets as a liquidity reserve. In this member’s view, the income and expenses related to these financial assets should be presented as finance income and expenses.

24. One break-out group explicitly supported the staff proposal to exclude all interest expenses from EBIT, even when the interest expense does not relate to the entity’s capital structure. One GPF member said that we should just use interest on long-term liabilities as the ‘I’ in EBIT.

25. A few GPF members questioned whether the benefits of an EBIT subtotal would outweigh the costs preparers would incur in changing their reporting systems.

26. Some CMAC and GPF members highlighted issues that the Board would have to address when defining EBIT:

(a) the presentation of EBIT for financial institutions and groups that have captive finance subsidiaries (this issue was not addressed in the June 2017 Board papers however, the staff intend to address the issue at a later Board meeting); and

(b) the presentation of the share of the profit or loss of associates and joint ventures (this issue was not presented at the CMAC/GPF meeting but was discussed at the June 2017 Board meeting). Some CMAC members supported presentation of the share of the profit or loss of associates and joint ventures outside of EBIT, because investors value investments in associates and joint ventures separately from other operations. However, some CMAC and GPF members said the Board should consider including in EBIT the results of associates and joint ventures that are integral to the entity's strategy.

Management performance measure

27. Three of the four break-out groups supported the proposal to present a management performance measure in the statement(s) of financial performance. CMAC and GPF members from those groups supported the discipline (including bringing the measure within the scope of the audit), transparency, consistency over time and additional disclosures (eg the proposed historical summary of infrequent items) that would be required for management performance measures under the staff proposal. One GPF member added that the relevance of IFRS financial statements would be enhanced by including management performance measures.

28. However, CMAC and GPF members from one break-out group opposed the presentation of a management performance measure in the statement(s) of financial performance. They argued that management-defined (non-IFRS) measures do not belong in IFRS financial statements and that the Board should not try to regulate these measures. This group supported more disaggregation above EBIT in the statement(s) of financial performance, including separate presentation of infrequent items and better disaggregation by nature of expenses.

29. Many of the CMAC and GPF members who supported the presentation of a management performance measure in the statement(s) of financial performance agreed with staff suggestions that the Board should not place too many constraints on what can be excluded from the management performance measure —rather the management performance measure should be 'self-constrained' by requiring entities to:

(a) define their management performance measure in the financial statements; and

(b) apply this definition consistently over time.

30. Some CMAC and GPF members were concerned that the term 'infrequent' could be interpreted too narrowly as 'one-off' items. In their view, volatile or 'lumpy' items should also be separately presented, to help investors make better forecasts. One CMAC member noted that in one country a recurring operating profit subtotal (with a limited number of non-recurring items below it) was presented by a significant number of companies and well understood by users.

Next steps

31. The staff reported the feedback received from CMAC and GPF members at the June 2017 Board meeting, when the Board discussed the staff proposals to introduce EBIT and management performance measure subtotals.

Post-implementation Review of IFRS 13 *Fair Value Measurement* (Agenda Paper 4)

32. The purpose of this session was to obtain CMAC and GPF members input to supplement the feedback received on the Request for Information (RFI) on IFRS 13 Post-implementation Review.

33. CMAC and GPF members discussed users' and preparers' perspectives on the usefulness of fair value measurement disclosures, including usefulness, cost and possible improvements to fair value measurement disclosures.

Usefulness of information

34. CMAC and GPF members found tables on reconciliation from opening to closing balances and sensitivity analysis for Level 3 measurements most helpful, and these were the starting point for analysis by CMAC members. The next information CMAC members said they used in their analysis was the narrative description of the valuation techniques. Many CMAC members indicated that materiality is a factor when reviewing the Level 3 fair value disclosures, the most useful disclosures being those focussing on high level messages.

35. Some CMAC and GPF members described the narrative included in disclosures, for example describing valuation techniques, to be boilerplate, with narrative disclosures in general described as long and unsuited for an average user of financial statements.

36. As a part of the session, the members completed an online survey on the Level 3 fair value measurements with the following results:

    (a) Most CMAC and GPF members thought that the level of disaggregation in fair value measurement disclosures provided by entities is appropriate, with the rest almost equally divided between those who thought there was too much or too little disaggregation. In discussion, some members questioned whether the manner in which the information was disaggregated provided useful information.

    (b) The most useful disclosures about Level 3 instruments were indicated as the following:

        (i) description of valuation technique and inputs used;

        (ii) quantitative information about significant unobservable inputs;

        (iii) reconciliation of changes in the FVM from beginning to end of reporting period;

        (iv) description of sensitivity to reasonably possible change in assumptions;

        (v) the methods and assumptions used in preparing the sensitivity analyses;

        (vi) quantitative information about transfers between Level 3 and Level 2 of FVM hierarchy; and

(vii) description of changes to valuation technique and reasons.

Cost of providing information

37. GPF members indicated that the concern is not so much about the cost of providing the fair value disclosures, but the risk that disclosure of assumptions and sensitivities for example could lead to lawsuits for an entity or show commercially sensitive information, for example for assets held for sale.

38. Some GPF members said that sometimes information required for disclosures about investments measured at fair value may not be available to an entity.

39. Some CMAC and GPF members also questioned if any cost is justified when preparing fair value disclosures for property, plant and equipment as fair value disclosure for these types of assets are not seen as useful.

Possible improvements

40. CMAC and GPF members thought that entities could improve the presentation of information about fair value measurement by using more tables and possibly even graphs, focussing on material items. The members thought that guidance on better communication in Principles of Disclosures project might help.

41. Some CMAC and GPF members indicated that there are not enough Level 2 disclosures and that this would be more helpful in their analysis.

42. Some CMAC members suggested to improve disclosures on sensitivity analysis to provide more information about the range of values that was possible, which would help users understand where in the range is the value the entity chose, similar to disclosures currently provided to bank regulators.

43. Some CMAC and GPF members thought that labels of Level 1, 2 and 3 measurements could be improved to be easier to understand.

Next steps

44. The staff will consider the feedback received as it undertakes further outreach activities during phase 2 of the PIR, and will incorporate it in the feedback

provided to the Board after the RFI consultation period ends on 22 September 2017.

Impairment testing of goodwill (Agenda Paper 5)

45. The staff sought feedback from CMAC and GPF members on the following possible approaches that the staff is considering as part of the Goodwill and Impairment research project.

(a) *additional disclosures about acquired businesses*—requiring entities to disclose the following information in the financial statements:

(i) key assumptions or targets supporting the purchase consideration and consequently the goodwill acquired in an acquisition (disclosure 1);

(ii) comparison of actual performance vis-à-vis the assumptions or targets for a specified number of years following the acquisition (disclosure 2); and

(iii) breakdown of carrying amount of goodwill by past acquisitions (disclosure 3).

(b) review of existing disclosure requirements in IAS 36 *Impairment of Assets*.

(c) *indicator-only approach to testing goodwill for impairment*—providing relief from the mandatory annual quantitative impairment testing of goodwill by removing the requirement for entities to test goodwill for impairment when there are no indicators of possible impairment.

Additional disclosures about acquired businesses

Disclosures 1 and 2

46. CMAC members generally supported the possible requirement to disclose more information about acquired business. However, many GPF members expressed concerns that for those disclosures to be meaningful an entity would have to disclose commercially sensitive information. Consequently, if the Board requires those disclosures, entities are likely to disclose only boilerplate information.

47. A few GPF members argued that providing the disclosures for each individual acquisition would be difficult because post-acquisition integration could make it difficult for management to track those targets or assumptions vis-à-vis actual performance.

Disclosure 3

48. CMAC members stated that disclosing a breakdown of goodwill by past acquisition can provide useful information. That information helps them in identifying the carrying amount of goodwill relating to acquisitions that they consider unsuccessful. However, GPF members questioned the usefulness of this information, especially long after an acquisition.

Review of existing disclosure requirements in IAS 36

49. CMAC and GPF members generally supported the view that disclosure of a pre-tax discount rate is not useful as that rate is not observable and is generally not used for valuation purposes.

50. One GPF member suggested that disclosure of sensitivity analysis should be removed because this disclosure could make it easy to derive an entity's budgets. However, other members did not support deletion of disclosure of sensitivity analysis.

Indicator-only approach to testing goodwill for impairment

51. GPF members generally supported introducing an indicator-only approach. Some of them preferred removing entirely the requirement for a mandatory annual quantitative impairment test. Those members thought that requiring the quantitative test for the first few years after an acquisition is not useful because there is generally no impairment of goodwill during those initial years.

52. Some GPF members suggested that the Board could require entities to perform the quantitative test less frequently than annually, for example every three years, and to use the indicator-only approach during the intervening periods. Those members think that this approach would be more robust than removing entirely the mandatory annual quantitative test.

53. A few GPF members questioned the need for revisiting the basis in IAS 36 for the mandatory annual quantitative impairment test.

54. A few CMAC members supported the indicator-only approach, together with a disclosure of the reasons that triggered the quantitative impairment test.

55. Individual members suggested adding the following indicators of possible impairment:

(a) a steady decline in the ratio of market value to book value and a comparison of that ratio with those of peer group;

(b) loss of market share of key products; and

(c) change in key management personnel.

Other suggestions

56. A few CMAC members suggested that the Board could consider requiring an entity to disclose a measure of total assets and liabilities for each reportable segment. That information would allow them to assess the return generated in each reportable segment and compare it with the average cost of capital. Currently, IFRS 8 *Operating Segments* requires an entity to report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. A few GPF members thought that such disclosures would be relevant only in certain industries.

57. A few GPF members suggested that the staff should focus on the headroom (the amount by which the recoverable amount of a cash-generating unit, or of a group of units, exceeds the carrying amount) to improve effectiveness of the impairment test. A simple approach could be to require entities to disclose the headroom annually. Investors can identify whether there is a declining trend in the headroom and perform their own impairment assessment. Currently, the headroom is disclosed only when a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause its (their) carrying amount to exceed its (their) recoverable amount. During this discussion, some members of CMAC and GPF advocated that the amortisation of goodwill be reintroduced.

Next steps

58. The staff will consider the comments from the members in their research and present them to the Board at a future meeting.

Exposure Draft: Improvements to IFRS 8 *Operating Segments* (Amendments to IFRS 8 and IAS 34) (Agenda Paper 6)

59. This session was held with GPF only because CMAC discussed the proposed amendments to IFRS 8 and IAS 34 *Interim Financial Reporting* at its meeting in March 2017.

60. The Board published an Exposure Draft (the ED) of proposed amendments to IFRS 8 and IAS 34 in March 2017. The proposals in the ED aim to address the feedback the Board received to its post-implementation review of IFRS 8.

61. There are nine main proposals in the ED. The staff selected four of the proposals, considered to be most relevant to preparers of financial statements, for discussion:

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

    (b) requirement to link IFRS 8 segments with the annual reporting package;

    (c) clarified criteria for aggregating operating segments; and

    (d) when there are changes in segmentation – provide earlier interim information.

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

62. GPF members commented on all the proposed amendments that aim to clarify the role of CODM, which include:

    (a) introduced emphasis that CODM makes operating decisions;

    (b) clarification that CODM may be an individual or a group;

    (c) clarification that the role of non-voting members; and

(d) requirement to disclose the CODM's identity.

63. There were mixed views on how the proposed amendment could change identification of the CODM:

(a) Some GPF members considered the proposed amendment would result in the CODM being identified at a lower level than it currently is; for example, a level below the board of directors.

(b) Other GPF members considered the wording in the ED which states 'a group, such as a board of directors, may include some members whose primary responsibility is governance and who consequently do not participate in all decision making' could result in the CODM being identified at a higher level than it currently is. This is because it is often a group, such as a board of directors, includes non-voting members.

64. Staff noted that the intention of the proposed amendment is to clarify that a board of directors may be the CODM even if it includes non-voting members.

65. GPF members discussed the difference between making and ratifying decisions. For example, GPF members discussed if approval of budgets is a resource allocation decision or ratification of the operating plan.

66. One GPF member stated it is impossible to generalise who the CODM is because jurisdictions and entities' structures vary.

Link IFRS 8 segments with the annual reporting package

67. Staff explained 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'. Users expect an entity's activities are reported consistently across various communications. The aim of this amendment is to improve the consistency across various communications.

68. GPF members discussed the proposal in the ED to disclose the difference between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package. Most GPF member shared the concern that the proposal went beyond the boundaries of the financial statements.

Some GPF members said that it was a role of market regulators and auditors to monitor 'non-GAAP' information.

69. Two GPF members suggested that instead of including the disclosure requirement in IFRS 8, the Board could include a recommendation in IFRS 8 that preparers identify reportable segments consistently across various communications.

70. GPF members raised the following detailed points:

(a) Does the annual reporting package include regulatory reports?

(b) How to interpret in practice 'at approximately the same time'?

71. One GPF member, who represented private companies, said that the proposed definition of the annual reporting package was drafted with public companies in mind. For example, it referred to publicly available information. The GPF member hoped that the staff would be able to consider this matter during future deliberations.

Clarified criteria for aggregating operating segments

72. Staff explained the aim of this proposed amendment was to strengthen the criteria for aggregating operating segments into reportable segments. There were several detailed amendments to paragraph 12 of IFRS 8 with the most significant amendment saying that operating segments need to be similar across a range of similar long-term economic characteristics.

73. Most GPF members agreed with the proposal. In addition, GPF members raised the following detailed points:

(a) Consider inserting the notion of materiality in paragraph 12 by saying 'two or more *material* operating segments may be aggregated…'. A Board member explained that the notion of materiality applies equally across all Standards.

(b) Consider deleting 'if, and only if' in saying that 'two or more operating segments may be aggregated into a single segment *if, and only if*' because it makes aggregating too restrictive.

Changes in segmentation – provide earlier interim information

74. Currently when an entity changes the composition of its segments during the year, users of financial statements must wait until the end of the reporting period to see the full effect of the change on comparative interim information. Under the proposed amendment, in the first interim report that follows a change in the composition of an entity's reportable segments, the entity shall 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.

Next steps

75. We plan to report the feedback to the Board later this year.

Next meeting

76. The next GPF meeting will be held on 4 October 2017 and the next CMAC meeting will be held on 20 October 2017.