Meeting summary

Accounting Standards Advisory Forum

Date	**8–9 December 2022**
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This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from both National Standard-Setters (NSS) and regional bodies involved with accounting standard-setting (regional bodies). The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

ASAF members who attended the meeting

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

[a] Remote participation via videoconference.

Agenda planning and feedback from previous ASAF meetings

1. Participants in this session discussed the proposed topics for the next ASAF meeting, which is scheduled for 27–28 March 2023. ASAF members agreed to include the proposed topics on the agenda.

2. The UKEB member suggested scheduling a discussion on the relationship between the work of the IASB and the International Sustainability Standards Board (ISSB), considering the ISSB's forthcoming consultation on agenda priorities.

3. The EFRAG member said that EFRAG would be willing to give an update on its research on intangibles, if available.

4. The ASCG member asked whether an ad-hoc ASAF meeting (virtual format) could be scheduled during the first quarter of 2023 to discuss the IASB project that proposes narrow-scope amendments to IAS 12 *Income Taxes*. The proposed amendments respond to stakeholders' concerns about the potential implications of the imminent Pillar Two model rules for reforming international corporate taxation proposed by the Organisation for Economic Co-operation and Development (OECD).

5. The ASCG member and the EFRAG member shared concerns raised by some stakeholders that the IASB's approach to combining four amendments in the forthcoming Exposure Draft on narrow-scope amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* might slow the pace of standard-setting. The IASB Chair updated ASAF members on the rationale for the combined approach to the amendments, clarifying that this approach has caused no delay in the due-process and confirming that the Exposure Draft will have a 120-day comment period).

Primary Financial Statements

Targeted outreach

6. This session's purpose was to provide ASAF members with an update on the targeted outreach held between September and December 2022.

7. The staff thanked members for their involvement in organising, attending and summarising meetings with stakeholders in their jurisdictions. The staff provided a summary of the principal messages received during the meetings, which were:

(a) overall, members agreed with the direction of the IASB's redeliberations and said that they would prefer for the project to be completed as soon as possible.

(b) most members said the revised approach to the financing category is generally clearer and easier to apply than the approach proposed in the Exposure Draft, but some members had questions about how it would apply to specific transactions, and stated that more application guidance will be necessary to clarify how the approach will apply in practice.

(c) some members questioned whether interest expenses on lease liabilities for all entities belonged in the financing category. In particular, they asked whether such interest expenses should be classified in the operating category instead of the financing category for entities with specific main business activities such as providing financing to customers or subleasing.

(d) a few members raised concerns that some entities that provide financing to customers and do not invest in financial assets would be affected if the choice of how to classify income and expenses from cash and cash equivalents were removed. Such entities might include financial institutions, specific structured entities and conglomerates.

(e) members representing some jurisdictions and industries debated whether income and expenses from associates and joint ventures accounted for using the equity method belonged in the investing category. A few members suggested that in some circumstances such income and expenses should be included in the operating category.

(f) members generally favoured the revised proposal that operating expenses be disclosed by nature, saying the proposal was a practical solution and a compromise between providing useful information and the costliness of that information. However, some members raised concerns over the costs of applying the revised proposal and some said the extent of the disclosure in the revised proposal would be too limited compared with that in the Exposure Draft.

(g) some members favoured expanding the list of items in the revised approach with a few more items such as impairment and inventory write-downs. However, very few members favoured a more principle-based approach that would apply to all expenses disclosed by nature in the notes.

(h) many members said they agreed with the IASB’s tentative decision to remove the prohibition on mixing presentations by function and by nature that was proposed in the Exposure Draft. Some members suggested that additional guidance would help an entity to understand the circumstances in which each presentation would provide useful information and how such presentation would relate to the proposals for disaggregation.

(i) many members agreed that a rebuttable presumption should be added to the management performance measure requirements—with the caveat that, for the proposal to be effective in practice, the IASB would need to provide guidance clarifying when the presumption could be rebutted.

(j) many members also favoured the proposal to simplify the tax calculation applicable to the disclosure requirement for the management performance measure reconciliation. However, some members questioned how useful the information provided by the simplified approach would be and some said that cost concerns remained.

(k) some members welcomed the IASB’s tentative decision to withdraw the proposals for unusual income and expenses—a decision made in response to stakeholder concerns over applying the proposed definition. Some members shared the IASB’s disappointment that no consensus had been reached on a definition. However, overall, most, though not all, accepted the IASB’s tentative decision because the work necessary to achieve a consensus on a definition of ‘unusual’ posed too great a risk to the project completion and they would like to see the improvements expected from this project as soon as possible.

8. The ASCG member said that stakeholders had needed to be reminded of the proposals in the Exposure Draft due to the long period between its issue and the outreach. This member suggested that the IASB provide educational materials to keep stakeholders informed in the period between the IASB completing redeliberations and issuing the Accounting Standard.

9. A few IASB members reflected on their communications with stakeholders and suggested that, when considering the effective date of the Accounting Standard, the IASB will need to consider factors such as smaller entity resources, jurisdictional endorsement processes and regulatory requirements.

EFRAG Discussion Paper *Accounting for Variable Consideration*

10. EFRAG presented research published in September 2022 in its Discussion Paper *Accounting for Variable Consideration*.

11. The Discussion Paper's objective was to consider possible accounting requirements that could solve challenges related to the accounting for variable consideration and to provide the IASB with information on potential future standard-setting activities on this topic.

12. The research considered:

    (a) when to recognise a liability within the scope of IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments* for variable consideration that depends on the purchaser's future actions—the liability recognition issue; and

    (b) whether and when to update the cost measurement of an acquired asset for changes in estimates of variable consideration—the measurement of the acquired asset issue.

13. The Discussion Paper also assessed the requirements for accounting for variable consideration in IFRS Accounting Standards and explored possible standard-setting responses that could resolve inadequate or inconsistent requirements.

14. ASAF members discussed EFRAG's research and shared their views on the accounting for variable consideration and on possible standard-setting responses.

Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

15. This session's purpose was to hear ASAF members' overall views on IFRS 15 *Revenue from Contracts with Customers*, and, in particular, on:

    (a) the application matters on which the IASB should seek feedback as part of the Post-implementation Review (PIR) of IFRS 15;

(b) the transition to IFRS 15; and

(c) the benefits and costs of implementing and applying the Standard.

Overall assessment of IFRS 15

16. All ASAF members said that overall IFRS 15 is working well and has achieved its objective although applying the Standard can still be challenging. The ANC, AcSB, AOSSG, ASCG and GLASS members said that the five-step revenue recognition model has been helpful, in particular, by providing a robust basis for analysing complex transactions. The EFRAG member reported feedback from academics who said that IFRS 15 is well written and provides a good foundation for teaching.

17. The ANC and KASB members said that IFRS 15 had improved the comparability of information among entities. The ANC, AcSB and KASB members reported feedback from users of financial statements who appreciated the new disclosures required by IFRS 15. However, the GLASS member said that users often find it challenging to compare entities' information because some entities provide too few disclosures.

18. Some ASAF members commented on the complexity of IFRS 15 or expressed other concerns about the Standard:

    (a) the ANC member said the Standard may be too complex for entities with simple business models and that implementation required such entities to pay substantial training costs to explain the changes and to enable the increased collaboration required between the operations and accounting teams;

    (b) the AcSB and FASB members reported that despite extensive implementation efforts the effect on revenue for many entities was minor. The FASB member asked whether, in developing future Accounting Standards, the IASB could do more to alleviate the transition effort for least-affected entities.

    (c) the KASB and ARD members commented that an entity is required to use judgement to apply IFRS 15. The KASB member said the need to apply judgement increases preparers' costs and reduces users' perception of the reliability of information. The ARD member said the use of judgement leads to diversity in practice among entities; the member called for more application guidance and illustrative examples for specific transactions.

19. The AcSB, FASB, ARD, and ASBJ members stressed the importance to their stakeholders of convergence between IFRS 15 and the US generally accepted accounting principles' (GAAP) Topic 606. The EFRAG member reported that many of their stakeholders viewed convergence as important although some said that it should not be an aim in itself. The AcSB and ASBJ members called for cooperation between the IASB and the FASB if more extensive changes to their respective standards are considered.

Application matters

20. ASAF members suggested the IASB seek feedback on these topics as part of the PIR of IFRS 15:

    (a) the relationship between IFRS 15 and other IFRS Accounting Standards—ASAF members reported challenges in assessing whether a transaction is within the scope of IFRS 15 or another Standard. In particular, the members asked for clarifications on the relationship between IFRS 15 and:

        (i) IFRS 10 *Consolidated Financial Statements*—the EFRAG, ANC and ARD members said that opinions vary on whether IFRS 15 or IFRS 10 would be applied to account for a transaction in which an entity, as part of its ordinary activities, sells an asset by transferring its equity interest in a single asset entity that is a subsidiary (the so-called 'corporate wrapper' issue). Such transactions are common in the real estate, renewable energy and utilities industries.

        (ii) IFRS 9 *Financial Instruments*—the ARD, AcSB, ANC and EFRAG members asked the IASB to clarify what guidance to apply in accounting for some commodity trading transactions, gift cards and impairment of contract assets.

        (iii) IFRS 11 *Joint Arrangements*—the ARD, KASB, AOSSG, ANC and EFRAG said determining whether a partner is a customer under IFRS 15 or whether both parties participate in joint activities can be challenging. This issue is common for collaborative arrangements in the biotech, automotive, pharmaceutical, construction and film production and distribution industries.

        (iv) IFRS 3 *Business Combinations*—the EFRAG, ANC and ASCG members suggested that the requirements for measuring contract assets and contract liabilities in IFRS 3 and IFRS 15 are inconsistent. The ASCG member suggested that the IASB consider the amendment made by the FASB in relation to this topic.

(v) other IFRS Accounting Standards—a few ASAF members requested that the IASB clarify the relationship between IFRS 15 and IFRS 16 *Leases*, IFRS 17 *Insurance Contracts*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IFRIC 12 *Service Concession Arrangements*.

(b) principal versus agent considerations—the ARD, EFRAG, AcSB, ASCG, ANC, AOSSG, FASB, KASB and PAFA members said that applying principal–agent guidance is challenging, involves a high degree of judgement and sometimes results in diversity in practice. However, the UKEB and FASB members suggested that the challenges with principal–agent accounting could be partly due to the complexity of related transactions. The PAFA member said that some stakeholders, in particular, in the tourist industry, found the principal–agent guidance very helpful. The EFRAG and ARD members suggested that the IASB providing additional guidance and examples could help entities apply the requirements more consistently and the ANC member suggested that more disclosure requirements related to judgements on the principal–agent issue may be helpful.

(c) the challenges mentioned by the members in relation to principal–agent considerations included:

(i) identifying a customer;

(ii) applying the transfer of control principle and the related indicators in identifying whether an entity is a principal or an agent;

(iii) accounting for incentives paid to end customers; and

(iv) applying paragraph BC385Z of the Basis for Conclusions if an entity is a principal and does not know the fee that its intermediary charges the end customer. The members said that the challenges are common for entities using e-commerce platforms, particularly in the gaming, advertising and retail sectors.

(d) the timing of revenue recognition—the ARD and PAFA members reported challenges in applying the guidance on the criteria for over-time revenue recognition in paragraph 35 of IFRS 15 and asked for the IASB to provide more guidance on applying the criteria and on the appropriate method for measuring progress when performance obligations are satisfied over time. The members said that difficulties in applying guidance on over-time revenue recognition were prevalent in the automotive, engineering, construction, equipment manufacturing, software and design and consultative industries.

(e) variable consideration—The ANC, EFRAG, GLASS and ARD members expressed concerns related to accounting for variable consideration. They reported:

 (i) challenges in applying the guidance on constraining estimates of variable consideration.

 (ii) uncertainty about whether it is appropriate to recognise revenue for variable consideration dependent on the customer's actions.

 (iii) concerns over limiting the exception in paragraph B63B to intellectual property licences.

 (iv) challenges in distinguishing between amounts payable to a customer and variable consideration. The GLASS member said entities vary in practice on this issue, particularly in the construction industry. However, the FASB member mentioned that the feedback from users of financial statements about applying the guidance on constraining estimates of variable consideration had been positive.

(f) licensing—The AcSB, KASB, EFRAG, PAFA and FASB members reported challenges in applying the guidance on accounting for licences. These challenges included determining when a licence is transferred to a customer and identifying performance obligations in licensing arrangements that include an obligation to provide additional goods or services, particularly in the pharmaceutical and biotech industries. The PAFA member suggested that it would be helpful for the IASB to include some of the guidance provided in the IFRS Interpretation Committee's agenda decisions in the Standard.

(g) other matters—the ARD, PAFA, AOSSG and EFRAG members suggested other matters to be considered in the PIR, including:

(i) identifying performance obligations;

(ii) accounting for contract modifications;

(iii) accounting for advance payments received from customers; and

(iv) reviewing the threshold for the practical expedient related to accounting for a significant financing component, currently set as one year. The FASB member reported challenges with over-time revenue recognition in short-cycle manufacturing and concerns over the possibility of revenue manipulation with the 'bill and hold' arrangements.

21. Some ASAF members also commented further on application issues:

(a) the ANC member suggested that raising interest rates may lead to issues related to accounting for a significant financing component, although no such issues have yet been reported.

(b) the AcSB member suggested that additional explanation of the disclosure requirements in IFRS 15 may be helpful—for example, how the required information about remaining performance obligations differs from information on order book provided by an entity in its management discussion and analysis.

(c) the KASB member said that in some cases US GAAP provides more guidance than IFRS 15 but whether that guidance could be applied by IFRS adopters is unclear. The AcSB member suggested that as part of the PIR of IFRS 15 the IASB consider whether to add to IFRS 15 some of the additional guidance issued by the FASB on Topic 606.

Transition

22. ASAF members said that various industries found the transition to IFRS 15 challenging, in particular, those with long-term or complex contracts or with many customers. Examples of the most affected industries include the telecommunications, software and technology, pharmaceuticals, consumer products, construction, car and car parts manufacturing, engineering and real estate industries.

23. The AOSSG, PAFA, KASB, ARD and GLASS members said that the modified retrospective method was prevalent in their jurisdictions. The ANC member said the full retrospective transition method was slightly more prevalent in that member’s jurisdiction.

Costs and benefits

24. The ANC, AcSB, PAFA, EFRAG and FASB members said that overall, the benefits of IFRS 15 outweighed its costs. However, the ANC, AcSB and FASB members mentioned that some stakeholders questioned benefit of the Standard because implementing it involved substantial costs with little resulting change in their financial statements. The ANC and EFRAG members mentioned academic studies on the costs and benefits of the Standard that indicated that the effects were in line with the IASB’s expectations.

25. The UKEB member said that after entities incurred high implementation costs, the costs of applying the Standard have come down. The ASBJ member said that because of the substantial implementation costs entities are reluctant for the IASB to make major changes to the Standard. The ARD member said that in some cases implementation costs exceeded expectations, for example, in estimating variable consideration and in identifying performance obligations for goods and services that are insignificant in the context of a contract.

26. The ANC, UKEB, ARD and GLASS members said the benefits of implementing IFRS 15 included improved internal controls, enhanced relationships between accounting and business functions and better understanding of the business by auditors. The EFRAG member mentioned that some jurisdictions developed their local requirements based on IFRS 15.

27. The ANC member said that they had noticed some changes to contracts after the IASB implemented IFRS 15, including some entities renegotiating their contracts so they could apply over-time revenue recognition.

Business Combinations under Common Control

28. This session’s purpose was:

    (a) to provide an update on the Business Combinations under Common Control (BCUCC) project; and

(b) to ask ASAF members' views on particular aspects of the staff's analysis on selecting the measurement method(s) to apply to BCUCCs.

29. The staff provided an update and an overview of their initial views on:

(a) the principle for selecting which measurement method a receiving entity would apply to BCUCCs; and

(b) whether a receiving entity would be permitted or required to deviate from the principle and apply a different measurement method in some circumstances , or prohibited from doing so in other circumstances (referred to collectively as 'exceptions').

The principle of selecting the measurement method

30. The KASB member agreed with the staff's initial views on the principle for selecting the measurement method. The ANC and EFRAG members said they would prefer an entity to evaluate the substance of each BCUCC to determine which measurement method to apply, but, for practical reasons, accepted the staff's initial views.

31. The ARD member said a book-value method should apply to all BCUCCs because:

(a) the substance of BCUCCs differs from that of business combinations in the scope of IFRS 3 *Business Combinations*;

(b) non-controlling shareholders (NCS) prefer the information provided by a book-value method; and

(c) the acquisition method is costly to apply and involves preparers applying their judgement in purchase price allocation and accounting for goodwill.

32. The AOSSG member said stakeholders in AOSSG jurisdictions have mixed views.

33. The ANC member suggested the IASB clarify the meaning of the terms 'affects' and 'NCS'.

Option to apply the acquisition method to BCUCCs that do not affect NCS

34. The UKEB member said a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS because the information provided by the acquisition method would meet user information needs better than a book-value method. The

UKEB member said comparability and structuring opportunities should not prevent the IASB from allowing this option.

35. The AcSB and ARD members both said this option was unnecessary. The AcSB member said information provided by a book-value method meets user information needs better than information provided by the acquisition method. The ARD member said:

  a. in substance such a BCUCC is a resource allocation within the group—applying the acquisition method does not reflect resource allocation within the group;

  b. an option could create structuring opportunities;

  c. an option would reduce comparability between such BCUCCs; and

  d. due to costs preparers would not choose to apply the acquisition method.

36. The ASCG member said whether a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS depends on why a book-value method would apply:

  (a) if a book-value method would apply for cost–benefit reasons, the receiving entity should have an option to apply the acquisition method; and

  (b) if a book-value method would apply because the information it provides meets user information needs better, the receiving entity should not have an option to apply the acquisition method.

Exceptions to the principle

Insignificant NCS

37. The AcSB, ANC and EFRAG members agreed with an exception for insignificant NCS. The AcSB and ANC members said an insignificant NCS exception could reduce structuring opportunities, but acknowledged the IASB would face potential difficulties in designing and applying this exception.

38. The AOSSG, ASCG, GLASS, and UKEB members disagreed with the insignificant NCS exception because:

  (a) the ASCG and UKEB members said the exception would not meet NCS' information needs;

(b) the GLASS and UKEB members said all NCS (regardless of significance) should have a right to object to a book-value method—that is, the optional exemption should apply instead of an insignificant NCS exception.

(c) the AOSSG member said the exception could lead to opportunities to structure whether NCS are insignificant.

39. The ANC, ARD, EFRAG and GLASS members suggested the IASB provide guidance to help an entity assess whether NCS are insignificant if the IASB decides to include the exception. ASAF members discussed potential guidance including:

(a) terminology—for example, referring to ‘insignificant’ or ‘de minimis’ NCS; and

(b) a quantitative or qualitative threshold—the EFRAG member reported that stakeholders in EFRAG jurisdictions had mixed views and the ANC member said a quantitative threshold has a limited conceptual basis, but may be a pragmatic solution.

40. ASAF members discussed legislation that varies in jurisdictions. The EFRAG member noted that in some jurisdictions a 10% minority threshold triggers particular rights and the GLASS member said legislation in some jurisdictions provides rights to NCS regardless of the amount invested.

Government-related entities

41. The AOSSG, ASCG and EFRAG members disagreed with the proposed government-related entities exception. The AOSSG member questioned whether BCUCCs in which the controlling party is a government are widespread and whether a government being the controlling party changes the nature of the transaction or changes user information needs. The EFRAG member said there was no conceptual reason for this exception, particularly for entities with publicly traded shares.

42. The AcSB member said most government-related entities in Canada are wholly owned and government-related entities with NCS do not apply IFRS Accounting Standards.

43. The ANC member said they saw no conceptual reason for this exception, but would find it helpful to understand views from any jurisdictions in favour of the exception.

Publicly traded shares

44. The AcSB and KASB members disagreed with the publicly traded shares criterion. The AcSB member said the accounting requirements for entities with publicly traded shares and entities with only privately held shares should be the same.

A package of exceptions

45. Of the two packages in the paper, the ANC member preferred the insignificant NCS package and said the criterion for publicly traded shares would be unnecessary in this package.

46. The AOSSG member reported that stakeholders in AOSSG jurisdictions had mixed views about the packages and said the staff's views are a suitable starting point subject to concerns about the insignificant NCS exemption (see paragraph 38).

47. The AOSSG member said stakeholders in one jurisdiction were concerned that creating more exemptions could lead to more diversity in practice. The FASB member said exceptions could create complexity and result in inconsistent application.

Provisions—Discount rates

48. In this session, ASAF members provided views on:

    a) discount rates for provisions:

        i) whether the IASB should amend IAS 37 to specify the treatment of non-performance risk (paragraphs 2–4);

        ii) if so, which of nine factors already identified by the IASB should carry most weight in deciding whether to require or to prohibit the inclusion of non-performance risk (paragraphs 5–10); and

        iii) whether the IASB should consider other factors (paragraphs 11–13); and

    b) disclosure of information about rates used to discount provisions:

        i) whether the IASB should add to IAS 37 a requirement to disclose information about rates used (see paragraph 14); and

        ii) if so, what information IAS 37 would require an entity to disclose (paragraphs 15–17).

Discount rates for provisions

Whether to specify the treatment of non-performance risk

49. The GLASS, AOSSG, EFRAG, KASB, UKEB and FASB members said they (or most of members of their group) agreed that the IASB could reduce diversity in practice by amending IAS 37 to specify the treatment of non-performance risk.

50. The AcSB and ANC members suggested that specifying the treatment of non-performance risk might be unnecessary—enhanced disclosure requirements might be enough to allow investors to compare the amounts reported by entities using rates calculated on different bases. The AcSB member said diversity in practice among Canadian entities is unproblematic for investors because Canadian entities disclose extensive information about the rates they have used. The PAFA member said the same was true in his region. He said a bigger problem is the lack of guidance from the IASB on the starting point for calculating the discount rate. Without such guidance, IAS 37 is difficult to apply and creates tension between preparers of financial statements and their auditors. Amendments to IAS 37 would be most helpful if they clarified the starting point. The FASB member agreed that amendments would be worthwhile if they helped to clarify IAS 37, reducing costs and complexity.

51. Some ASAF members commented on whether discount rates for provisions should include or exclude non-performance risk. The GLASS and AOSSG members said the majority of their members think non-performance risk should be excluded. The ARD member said most of its stakeholders think non-performance risk should be included. The EFRAG and ASCG members reported mixed views among their stakeholders.

Which of the nine factors identified by the IASB should carry most weight in the decision?

52. Several members commented on the measurement uncertainty associated with estimates of non-performance risk. The GLASS, AOSSG, EFRAG, ASCG, KASB, UKEB and ARD members reported concerns that a requirement to estimate non-performance risk could be complex or challenging to operationalise, or that the subjectivity of the measures could lead to loss of comparability. The ASCG member questioned whether adding another subjective estimate to the calculation of an already very uncertain measure would improve the information provided to investors. The GLASS member suggested that investors could make

their own assessments of non-performance risk if they wished to include it in their analysis. The ANC member said concerns about measurement uncertainty are less compelling now than they were 10 or 20 years ago—preparers of financial statements have become more familiar with estimating credit risk as a result of applying IFRS 9, and entities applying US GAAP manage to estimate credit-adjusted discount rates. The FASB member said that entities applying US GAAP estimate a credit-adjusted rate only on initial recognition—the rate is not updated thereafter. The UKEB member said, although an entity's credit risk might be relatively easy to measure, other components of non-performance risk—for example, regulatory, operational and commercial risks—are harder to measure.

53. The ANC, UKEB and ARD members stressed that alignment with the *Conceptual Framework* is an important factor.

54. The EFRAG and ASCG members acknowledged the conceptual arguments for including non-performance risk. The AcSB member said non-performance risk can be a major economic issue in some jurisdictions—for example, Canada has a problem with oil wells that become 'orphaned' when their owners are unable to decommission them.

55. The ANC, AcSB, ARD and FASB members referred to the need to give weight to user needs. The AOSSG, UKEB, ASCG and FASB members referred to concerns about the counterintuitive effects of changes in non-performance risk. The UKEB and FASB members said those effects could be difficult for investors to understand. The ANC member said the IASB had allayed these concerns in IFRS 9 through requirements to present the effects of changes in non-performance risk in other comprehensive income, instead of in profit or loss. The AOSSG member referred to a concern from one of its members that recognising changes in non-performance risk (whether in profit or loss or in other comprehensive income) would add complexity for both users and preparers and possibly hinder the useability and usefulness of information in financial statements.

56. The AOSSG, ASBJ and KASB members referred to the differences between provisions and other liabilities. The AOSSG member said the measurement objective of IAS 37 differs from the measurement objective of other IFRS Accounting Standards.

57. The KASB, UKEB and ARD members referred to the intentions of the International Accounting Standards Committee (IASC) when it developed IAS 37, with the ARD member

stating that non-performance risk is 'specific to the liability'. The UKEB member said the rate specified should be consistent with the measurement objective specified by the IASC—the best estimate of the expenditure required to settle the provision.

Other factors the IASB should consider

58. The AcSB member suggested the IASB consider the discount rates required by other IFRS Accounting Standards—preparers, users and auditors of financial statements complain more about differences between the rates required for different types of assets and liabilities than about variations in the rates used by entities for provisions. The ASBJ member said discount rates might need to vary among IFRS Accounting Standards because the types of cash flows being discounted also vary—the Japanese domestic accounting standard for asset decommissioning provisions requires those provisions to be discounted using a risk-free rate, and the major reason is the difference between the cash flows required to settle a provision and those required to settle other liabilities. The UKEB member said, although the discount rate required by IAS 37 need not be the same as those required by other IFRS Accounting Standards, the IASB should be able to explain clearly why it differs from the rates required by other IFRS Accounting Standards—in particular, the rates required by IFRS 17 *Insurance Contracts* and IAS 19 *Employee Benefits*.

59. The ANC member suggested the IASB consider aligning IAS 37 and IFRS 3 *Business Combinations*. Including non-performance risk would reduce the need for post-acquisition adjustments to the carrying amount of provisions assumed in business combinations.

60. The ANC member also suggested the IASB consider the implications of funding requirements for some type of provisions. He said some European jurisdictional authorities specify or cap the discount rates that entities in some sectors use when applying IAS 37 to measure funded asset decommissioning provisions.

Disclosure of information about rates used to discount provisions

Whether to add to IAS 37 a requirement to disclose information about rates used

61. ASAF members said they thought IAS 37 should require an entity to disclose information about the rates it uses to discount provisions. In explaining that view:

a) the KASB and AOSSG members said the overarching requirements in IAS 1 *Presentation of Financial Statements* are too imprecise.

b) the AcSB member said investors need to be able to compare the discount rates entities have used to measure impairment losses with those they have used to measure decommissioning provisions. Using a lower rate to measure provisions can shield the entity from recognising an impairment loss.

c) the ANC member suggested that without a clear consensus on whether to require or prohibit the inclusion of non-performance risk, enhancing disclosure requirements could be a first step in the IASB alleviating the comparability problems created by diversity in practice.

What information IAS 37 should require an entity to disclose

62. ASAF members said, as requested by investors, IAS 37 should require an entity to disclose the discount rates it has used, the basis for determining those rates, the undiscounted cash flows and the assumptions made about the timing of those cash flows.

63. Some ASAF members added further suggestions and observations:

a) the FASB member said investors often want to do their own analysis. The information they had requested was the minimum they would need for such analysis.

b) the ASBJ member suggested that investors might need less information about the basis for determining a discount rate if IAS 37 required an entity to use a risk-free rate, as opposed to a rate that included non-performance risk. However, the ANC member said even risk-free rates—especially those for very long-term provisions—are hard to observe and might be subject to significant measurement uncertainty. The member suggested the IASB require an entity to disclose how it has estimated an appropriate risk-free rate.

64. ASAF members also discussed the additional information that investors had requested if discount rates included non-performance risk—a disaggregation of the provision to identify the effect of the non-performance risk adjustment on the amount recognised, and information quantifying the sensitivity of the amount recognised to variations in estimates of the discount rate (a sensitivity analysis). ASAF members had mixed views on requirements to disclose these types of information:

a) the AOSSG, GLASS and EFRAG members said their group members accepted that a sensitivity analysis would be useful if discount rates include non-performance risk. However, the AOSSG member also reported a view that the costs might outweigh the benefits.

b) the ASCG member was unsure about a requirement for a sensitivity analysis, stating that a decommissioning provision is sensitive to many factors other than (and possibly more important than) the discount rate—for example, the amount and timing of the cash flows and rates of price inflation. Information quantifying the sensitivity of the provision to variations in all these (potentially interrelated) factors could be very complicated.

c) the UKEB member said UK companies with large long-term provisions already provide sensitivity analyses, so a requirement to provide them would impose only minimal cost or effort on these companies. However, a requirement to disaggregate a provision could be costly and burdensome—it would be important for the IASB to word the requirement in a way that ensured an entity disclosed the information only when it was material. The ASBJ member suggested that a sensitivity analysis might be necessary only for entities with very large long-term provisions—for example, entities in the oil and gas, mining and power generation sectors.

d) the FASB member suggested the IASB ask investors how they would use the additional information about the effects of non-performance risk on the provision. If investors would use the information to 'back out' the entity's estimate of the effects of non-performance risk, the benefits of requiring companies to include non-performance risk might be outweighed by the costs and complexity of calculating the risk adjustment and disclosing information about its effects.

Equity Method

65. This session's purpose was:

(a) to ask ASAF members for views on four alternatives identified to answer the application question: How should an investor recognise gains and losses that arise from the sale of a subsidiary to its associate applying the requirements of IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; and

(b) to provide ASAF members with an update on the Equity Method project.

Four alternatives identified to answer the application question

66. The first alternative would require an investor to recognise the full gain on all contributions and sales of assets or business, regardless of whether they are housed in a subsidiary. Regarding Alternative 1:

    (a) the AcSB, ASCG and UKEB members said there was a preference for Alternative 1 in their jurisdictions. The UKEB member favoured Alternative 1 because it is the simplest approach and prioritises the requirements in IFRS 10 to reflect that the nature of, for example, an asset has changed due to the loss of control in the transaction. The AcSB member agreed with the UKEB member's comment.

    (b) similarly, the AOSSG and ARD members stated that Alternative 1 would be simple to apply; however, it would be a fundamental change to the equity method procedures set out in IAS 28.

    (c) the FASB member said Alternative 1 has technical merits.

    (d) the ANC and GLASS members were not in favour of Alternative 1. The GLASS member said Alternative 1 is inconsistent with the elimination requirements in applying the equity method. In his view elimination requirements avoid the recognition of unrealised gains and losses. The ANC member cautioned that Alternative 1 might lead to earnings management, especially when preparers apply the equity method to joint ventures.

67. On the second alternative, which would require an investor to recognise a partial gain on all contributions and sale of an asset or business, regardless of whether they are housed in a subsidiary (Alternative 2):

    (a) the ANC, AOSSG, ASBJ, ASCG, FASB, GLASS, KASB and UKEB members said there was a preference for Alternative 2 in their jurisdictions:

        (i) the ANC member said the IASB should explore Alternative 2 because it shows two IFRS Accounting Standards can be applied simultaneously in addressing specific transactions, such as the transaction described in the application question.

(ii) the AOSSG member said some member jurisdictions had commented that Alternative 2 strikes the right balance between IFRS 10 and IAS 28. However, a few member jurisdictions had said it may be difficult to obtain the information required for the elimination requirements, although such a procedure is already part of the equity method.

(iii) the ASBJ and ASCG members said that Alternative 2 is consistent with the view that the equity method is a one-line consolidation method.

(iv) the GLASS member said applying Alternative 2 results in a faithful representation of the transaction described in the application question. Similarly, the UKEB member acknowledged that Alternative 2 has technical merits.

(v) the KASB member said the requirements in IFRS 10 and IAS 28 should be applied as an overlay because there is no difference between the sale of a business and the sale of an asset. The KASB member said this parity was similarly implied in paragraph BCZ183 of the Basis for Conclusions on IFRS 10.

(b) the AcSB and ARD members disagreed with Alternative 2. The ARD member said Alternative 2 would increase the cost and complexity of applying the equity method.

68. Overall, those members who supported Alternative 2 did not have concerns about applying the IFRS Accounting Standards in order; that is, demonstrating a hierarchy for applying the IFRS Accounting Standards. These members did not think Alternative 2 would introduce complexities to the application of IFRS Accounting Standards for other transactions and suggested the IASB could explain that Alternative 2 provided a solution for the transaction set out in the application question.

69. On the third alternative, which would require an investor to recognise the full gain on transactions outside the scope of IFRS 15 *Revenue from Contracts with Customers* and a partial gain on transactions within the scope of IFRS 15 (Alternative 3):

(a) the AOSSG member said one member jurisdiction supported Alternative 3 because this approach could simplify the process of identifying the sale of assets in ordinary activities for which the Standard requires partial gains to be recognised.

(b) the ANC, AOSSG, ARD, ASCG, EFRAG, FASB, GLASS and UKEB members disagreed with Alternative 3:

(i) the AOSSG, ARD, FASB and UKEB members stated that applying Alternative 3 would involve substantial complexities in practice.

(ii) as with Alternative 1, the GLASS member said the elimination requirements are part of applying the equity method. Similarly, the ANC and ASCG members questioned the conceptual merits of Alternative 3 and the ANC member cautioned that Alternative 3 may introduce other complexities such as those relating to a corporate wrapper.

70. On the fourth alternative, which would require an investor to recognise the full gain on transactions involving a business and a partial gain on transactions involving an asset (Alternative 4):

(a) the ANC, ARD, GLASS and KASB members said there was a preference for Alternative 4 in their jurisdictions:

(i) the ARD member said Alternative 4 would faithfully represent the transaction while coordinating the conflicting requirements in IFRS 10 and IAS 28. Applying this alternative has led to minimal disruption in practice in the ARD jurisdictions.

(ii) the GLASS member favoured Alternative 4 because it differentiates between the loss of control of a business and the sale of an asset. Similarly, the KASB member said proponents of Alternative 4 in KASB’s jurisdiction considered the alternative to have a logic consistent with IFRS 3.

(iii) the ANC and ARD members said any challenges faced by preparers in applying the judgement required by this alternative to determine assets that form a business would be resolved by the clear guidance in IFRS 3 *Business Combinations*.

(b) the AOSSG, ASCG, UKEB and FASB members disagreed with Alternative 4. These members said Alternative 4 (similarly to Alternative 3) would involve considerable complexities in practice. The ASCG member said differentiating the accounting treatment according to whether the transaction involves a business has no conceptual merits.

71. Additionally:

(a) the AcSB member asked the IASB to clarify whether the equity method is a one-line consolidation or a measurement basis.

(b) the EFRAG member said some EFRAG member jurisdictions have suggested measuring an equity accounted investee at fair value, but generally member jurisdictions have mixed preferences for Alternatives 1, 2 and 4.

(c) the UKEB member said the objective of the equity method of accounting was unclear, adding that identifying the objective would help to determine the best alternative.

Other application questions

72. On the IASB's tentative decision for the application question on purchases of an additional interest (and partial disposal of interest) in an associate while retaining significant influence, the ARD member shared concerns regarding the tentative decisions:

(a) to recognise a gain in profit or loss rather than a deduction from goodwill when the additional purchase of interest is a bargain purchase, and the initial and subsequent purchase of interest in an associate are part of a bundled transaction. This member said recognising a bargain purchase gain would not reflect the economic substance of the transaction.

(b) to measure the portion of the carrying amount of an investment in an associate to be derecognised in a partial disposal using either a specific identification method or a last-in, first-out method instead of a weighted average method. The ARD member enquired why the weighted average method is not introduced.

(c) to account for indirect changes of an investor's interest in an associate (such as dilution) in the same manner as for transactions arising from direct investor participation. The ARD member said changes in an investor's ownership interest should be accounted for differently when the investor is not directly involved in the purchase or disposal of such interest.