Meeting summary

Global Preparers Forum

Date	**3 March 2023**
Contacts	**fnieto@ifrs.org** **asimpson@ifrs.org**

This document summarises a meeting of the Global Preparers Forum (GPF), a group of members with considerable practical experience of financial reporting and established commentators on accounting matters in their own right or through working with representative bodies in which they are involved. The GPF 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.

GPF members who attended the meeting.

Region	Members
Africa	Godfrey Byekwaso[a]
Asia-Oceania	Feifei Wang[a] Lily Hu Kazuhiro Sakaguchi[a] Srinath Rajanna Jeong Hyeok-Park
Europe	Ian Bishop[a] Stephen Morris Stefan Salentin[a] Ernesto Escarabajal Baadenhuijsen Frédéric Agnès
The Americas	Jeff Davidson[a] Michael Tovey[a] Patrick Matos[a]

[a] Remote participation via videoconference.

Primary Financial Statements Project

1. The purpose of this session was to update the GPF members on the Primary Financial Statements project and to seek members' views on:
   (a) the factors that the IASB should consider in determining the transition period and effective date of the forthcoming IFRS Accounting Standard *General Presentation and Disclosures*; and
   (b) the expected benefits and costs for preparers of the forthcoming IFRS Accounting Standard—to help develop the Effects Analysis that will be published with the Accounting Standard.

Update on the project

2. IASB technical staff provided GPF members with a status update on the Primary Financial Statements project, including an overview of the feedback from targeted outreach activities conducted in 2022.
3. GPF members had no comments or questions on this topic.

Transition period and effective date

4. Staff asked GPF members for input on the information entities would need in order to apply the new requirements. They asked specifically about:
   (a) information that would be readily available; and
   (b) new information that would need to be gathered, and whether this new information is likely to be easily obtainable or would require changes in systems and processes.

General comments

5. A few members said that they already have the required information and that it will be relatively straightforward for entities in their position to apply the new requirements. They said that if an entity does not have the information readily available, gathering it could be a large and time-consuming exercise.

6. One member said that the information required to apply the new requirements is readily available and that the changes required are mainly a matter of changing the mapping of accounts in the consolidation system.
7. One member said that it would be time-consuming if the information required to apply the new requirements is not captured in the consolidation system and is required to be collected from other systems at the operating unit level. In such cases, additional reporting from the operating units or extra mapping of accounts in the consolidation system would be required. This member said changes to the mapping of accounts in the consolidation system cannot be done retrospectively.
8. One member noted that in cases where the necessary IT systems rely on third-party vendors, some vendors may not have sufficient capacity to make the necessary changes to an entity’s IT systems for several years. Therefore, the member thinks that a longer transition period is required.
9. One member stated that entities in the insurance industry are now in the process of implementing IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* and therefore those entities might need a longer transition period. The member asked whether any amendments to IFRS 17 are planned. Staff said that there are no planned amendments to IFRS 17 and illustrative examples, including an example for an insurance entity, will be discussed at the joint GPF and CMAC meeting in June.
10. One member said that the items included in general accounts such as ‘other operating income/expenses’ and ‘other finance income/expenses’ of each group company will need to be checked because these accounts may contain items which would be required to be classified in different categories in the statement of profit or loss. Analysis of the items included in each account would not take long, but changing the accounts where the items are classified could require multiple internal discussions, especially when the items are included in budgets and internal KPIs that are linked to bonuses.
11. A few members noted that the new requirements would affect budgeting, internal reporting, strategic planning, and internal controls which are linked to the financial reporting system. They said that time would be required to change these processes and educate employees on the changes.

Comments on proposals related to disaggregation

12. One member welcomed the revised proposal for the disclosure of operating expenses by nature when an entity reports operating expenses by function in the statement of profit or loss. The member said the revised proposal will be easier to implement than the proposal in the Exposure Draft.
13. A few members asked whether this disclosure requirement can be met by disclosing the cost incurred in a reporting period including the amount capitalised in assets because in their view it is not feasible to calculate the expense amount included in the statement of profit or loss in a reporting period. Staff responded that this will be discussed in a future IASB meeting. Staff and an IASB member noted that it would be important for entities to explain the amount disclosed and that labelling of amounts disclosed in the notes would be required to be a faithful representation.

Comments on the proposals related to management performance measures

14. A few members asked what will be expected of auditors when auditing the disclosures for management performance measures. Some members said that they are concerned that auditors and regulators may challenge the income and expenses they have included in and excluded from their management performance measures.
15. Staff explained that an auditor is expected to verify that the management performance measure has been calculated consistently with what the entity has explained about the measure. A change in management's view of whether an expense is recurring would not be an error but a change in the management performance measure. An entity is required to disclose the reason for that change. An IASB member added that regulators might challenge some of the items that have been included in or excluded from a management performance measure but that is part of their enforcement activity.
16. One member said that management performance measures are a new concept in that member's jurisdiction and that time will be required to check whether the requirements for management performance measures are consistent with current regulations. In response to the member's questions, the staff and an IASB member explained that an entity would be permitted to choose whether or not to have

management performance measures and that the measures could be presented in the statement of profit or loss if they fit the proposed structure. The disclosure requirements will provide transparency on how management performance measures are calculated.

Early application of the new IFRS Accounting Standard

17. Staff asked GPF members whether they plan to apply the new IFRS Accounting Standard prior to the effective date.

18. Several members said that they are considering applying the new IFRS Accounting Standard early because:

    (a) they want to take advantage of benefits they expect from the new requirements, including better communication of management performance measures;

    (b) they expect the information required to apply the new requirements to be readily available;

    (c) the system changes that will be required to implement the new requirements can also be used to implement the changes required for other projects, meaning it is possible to give them priority; and

    (d) the transition period proposed in the Exposure Draft is a reasonable period to educate internal and external stakeholders.

19. One member will decide whether to apply the new IFRS Accounting Standard early after observing whether other entities in the same industry will apply it early.

20. A few members said that they are not considering applying the new IFRS Accounting Standard early because of:

    (a) loss of comparability with other entities in the same industry that do not apply the new IFRS Accounting Standard early;

    (b) other projects that need to be prioritised, such as sustainability reporting; or

    (c) the time needed to understand and apply the concepts in the new IFRS Accounting Standard.

21. One member will consider making some additional disclosures before applying the new IFRS Accounting Standard.
22. One member said that in that member's jurisdiction listed entities are required to submit extensive information to the government, and therefore whether an entity can apply the new IFRS Accounting Standard early will depend on when the government endorses it.
23. One member said that in that member's jurisdiction auditors are reluctant for entities to apply new IFRS Accounting Standards early. An IASB member commented that it would be a good experience for auditors if an entity applies the new IFRS Accounting Standard early.
24. One member said that to encourage entities to apply the new IFRS Accounting Standard early, the IASB should issue it in the first part of the year, rather than the latter part of the year. The member asked for an indication of when the IASB is likely to publish the new IFRS Accounting Standard. Staff and an IASB member explained the due process and said that the new Accounting Standard would not be issued before 31 December 2023.
25. One member asked whether the taxonomy for the new IFRS Accounting Standard would be available to implement with the new IFRS Accounting Standard. Staff explained that the taxonomy will be published soon so that it is available to apply with the new IFRS Accounting Standard.

Expected benefits and costs

26. Staff asked GPF members for comments on the expected benefits and costs to preparers of the new requirements.
27. A few members commented that application of the proposals relating to management performance measures would be beneficial because:
    (a) the proposals will facilitate communication of these measures in a more structured and standardised way; and
    (b) over time, the proposals will allow users and other entities in the same industry to observe management's view of changes in the industry.

28. A member said that entities might create management performance measures to adjust for items included in operating profit that management do not view as arising from operating activities. The member said that this would increase implementation costs.
29. A member said that if the IASB were to change the proposal for classifying income and expenses from associates and joint ventures accounted for using the equity method from the investing category to the operating category it would reduce implementation costs because such an approach would align with the entity's management performance measures.
30. A member said that it would be a change in current practice if an entity is required to start the reconciliation from the management performance measure rather than the subtotal or total required by IFRS Accounting Standards as shown in the illustrative example. The staff explained that the IASB's objective is not to be prescriptive and that an entity is not prohibited from starting the reconciliation from the subtotal or total required by IFRS Accounting Standards.
31. One member said that the amendments in IAS 7 *Statement of Cash Flows* would also be beneficial for preparers.

Next steps

32. The IASB will consider the feedback from the members in a future agenda paper on transition and effective date. Illustrative examples for this project will be discussed at the joint GPF and Capital Market Advisory (CMAC) meeting in June 2023.

IASB and IFRS Interpretations Committee Update

33. This session provided GPF members with a summary of the IASB's current work plan and an update on the November 2022 meeting of the IFRS Interpretations Committee (Committee).
34. IASB staff gave a detailed overview of the proposals in the Exposure Draft *International Tax Reform—Pillar Two Model Rules* (proposed amendments to IAS 12).

35. GPF members asked questions about, and shared views on, the proposals in the Exposure Draft.[1]

36. Staff set out the expected timetable for redeliberations and issuance of amendments to IAS 12 (subject to feedback on the Exposure Draft).

Business Combinations—Disclosures, Goodwill and Impairment

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

   (a) the criteria used to select suggestions to be considered in this project (paragraphs 38–40);

   (b) suggested changes to improve the application of the impairment test by reducing management over-optimism (paragraphs 41–61);

   (c) suggested changes to improve the application of the impairment test by reducing shielding (paragraphs 62–73); and

   (d) suggested ways to reduce the cost and complexity of the impairment test (paragraphs 74–77).

Criteria for considering suggestions

38. In identifying suggested changes to the impairment test for further exploration within the scope of this project, staff considered:

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

[1] Agenda papers 12A-12C for the IASB meeting on Tuesday 11 April 2023 include a summary of relevant feedback from this GPF meeting.

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

39. Staff asked whether there were any comments on the criteria. One member raised concerns about costs for preparers. In particular, the member said that if the main response to feedback that the impairment test is not working is to increase requirements for disclosures about business combinations,[2] the IASB should consider reducing, or at least freezing, the disclosure requirements relating to the impairment test.

40. An IASB member responded that the IASB had decided to offer relief on costs of providing disclosures about business combinations, requiring these only for 'strategically important' business combinations and providing an exemption in specific circumstances.

Changes to mitigate management over-optimism

Comparison with past forecasts

41. Members discussed a suggested requirement for entities to disclose a comparison of cash flow forecasts used in impairment tests performed in prior years with actual cash flows. In the view of respondents to the Discussion Paper this requirement could enable users of financial statements (users) to assess the accuracy of those past forecasts.

42. Staff asked members:

(a) how useful information from such a comparison might be;

(b) how costly these forecasts would be to provide; and

(c) considering the costs and benefits of such a comparison, how many prior years the comparison should be provided for.

[2] In September 2022 the IASB tentatively decided to propose requirements to disclose information about management's objectives and targets for business combinations and then in subsequent periods to disclose information about the extent those objectives are being met.

43. Most members raised concerns on the proposed disclosure and said the effect on management over-optimism would likely be limited. However, one member said that a comparison could mitigate management over-optimism to some extent.
44. Most members said the usefulness of the comparison is questionable, given that forecasts rely on judgment and could be affected by events outside management's control (for example, inflation, and commodity prices). In particular:
    (a) one member said that even if underlying cash flows were the same on an undiscounted basis, differences in interest rates could trigger a significant difference in recoverable amount;
    (b) one member said a comparison of past forecasts could be misleading because there could be different reasons for missing a forecast; and
    (c) one member said that, for the business that member is in, accuracy in the short term may not be relevant because the drivers of impairment tend to be longer-term factors.
45. One member said users would find the comparison interesting but not for the purposes of providing discipline to impairment testing.
46. Many members said the comparison could be commercially sensitive and result in additional litigation risk.
47. Many members said impairment testing is an area that is scrutinised and challenged by auditors.
48. Many members said the suggested change is unnecessary:
    (a) some members said the requirements in IAS 36 *Impairment of Assets* are sufficient. These members said the requirements to disclose key assumptions and sensitivity analysis of those key assumptions mean market participants already have information to challenge management over-optimism.
    (b) one member said the requirement in IAS 36 to use reasonable and supportable assumptions helps make the forecasts more disciplined and rigorous.

(c) another member said management is already required to assess the reasonableness of cash flow projections in the light of past results.

49. Some members had practical concerns. For example, they asked whether a comparison would be required for all cash-generating units to which goodwill is allocated, in particular where there is so much headroom that any reasonable change in assumption is unlikely to trigger an impairment. They also asked what would happen when an entity reorganises its reporting structure and reallocates goodwill.

Reasonable and supportable assumptions

50. Members discussed a suggestion regarding requirements in paragraph 33 of IAS 36 and in particular to clarify the interaction between the requirement to base cash flow projections on reasonable and supportable assumptions and the requirement to base the projections on the most recent financial budgets or forecasts approved by management.

51. Respondents to the Discussion Paper had suggested clarifying that the requirements in paragraph 33 of IAS 36 do not conflict and cash flow forecasts based on the most recent financial budgets or forecasts approved by management still need to be based on reasonable and supportable assumptions.

52. Staff asked members whether this suggestion could help mitigate management over-optimism in the impairment test.

53. Feedback was mixed. Some members said existing requirements are clear and there is no need to make any changes. Some members said additional guidance could help; for example one member said additional guidance might help smaller entities. Some other members disagreed, saying additional guidance would have limited benefit.

Segments to which goodwill is allocated

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

55. Respondents to the Discussion Paper had said this information might help users to better assess the reasonableness of assumptions used in impairment tests by improving the ability of users to compare the assumptions used in impairment tests to information disclosed about reportable segments.
56. Staff asked members about the cost and usefulness of providing information about the reportable segments to which goodwill is allocated.
57. Some members said they already provide this information or that the information would be easy to provide. One member said impairment assumptions should be compared with segment information and also said that information about the segment to which goodwill is allocated would be most beneficial for diversified entities.

Indicators of impairment

58. Members discussed a suggestion to improve the list of indicators of impairment in paragraph 12 of IAS 36.
59. Staff asked whether and how to update the list of indicators. Staff also asked if members' response to that question depends on whether the IASB decides to retain the requirement for an annual quantitative impairment test, or provide relief from it.
60. Many members said updating the list of indicators would be unlikely to have a significant benefit regardless of the decision on whether to provide relief from the mandatory annual quantitative impairment test. Some members said the list is fine.
61. Many members said they would still perform an annual quantitative test even if the IASB removed the requirement to do so. In their view, conducting the test is easier than assessing whether there is an indicator of impairment. One member said the group of cash-generating units in which goodwill is tested for impairment is typically large, making it harder to identify indicators of impairment.

Changes to reduce shielding

Allocating goodwill to cash-generating units

62. Members discussed suggestions to reduce shielding by means of providing additional guidance on allocating goodwill to cash-generating units.
63. In particular, staff asked whether and how to:

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

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

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

64. Many members said they would like clarification on what monitoring means or rewording of the requirement in IAS 36 as suggested in paragraph 63(b).

65. Some members agreed it might be helpful to link the level at which goodwill is tested for impairment to the level at which the business combination is monitored for disclosure purposes.

66. However some members expressed reservations about the suggestions:

(a) one member said that in some circumstances the operating segment level might be a helpful level to allocate goodwill for impairment testing purposes, especially because it is consistent with other information available from segment disclosures;

(b) one member said defining monitoring would be difficult because of the complexity of combining businesses;

(c) one member said the requirements in IAS 36 are clear and the issue was more about applying them; and

(d) one member reported experience of allocating goodwill to several different cash-generating units. The member said testing goodwill for impairment at the same level as the monitoring for the proposed disclosures could result in an increase in shielding because such testing could limit allocating goodwill to a lower level for impairment testing purposes.

Impairment testing on reorganisation

67. Members discussed a suggestion to require an entity to perform an impairment test based on its previous reporting structure before reallocating goodwill to different cash-generating units following, for example, a reorganisation of its reporting structure. A few respondents to the Discussion Paper had commented that entities may decide to reallocate goodwill opportunistically to avoid impairments of goodwill.
68. Staff asked:
    (a) whether entities would have the information to be able to perform this test at a reasonable cost; and
    (b) whether, conceptually, an impairment of goodwill should be recognised based on the 'old' reporting structure.
69. Although some members said the suggestion might prevent opportunistic behaviours and some members said they would be able to perform the suggested test, many members said the test would be costly and complex. One member said the information may not be easily available. Another member suggested permitting a simplified impairment testing approach to help mitigate cost concerns.
70. One member said that reallocations are scrutinised by auditors. The member said an impairment test on the 'old' reporting structure would not be needed in all circumstances; for example this test would not be needed when goodwill is reallocated to smaller cash-generating units with less headroom.
71. One member said because there would no longer be management responsible for the forecasts based on the 'old' reporting structure, there would be no ownership of the forecast and the impairment test would be theoretical.
72. Only a few members commented on whether, conceptually, an impairment loss on goodwill should be recognised based on the 'old' reporting structure:
    (a) one member said if the restructuring is intended to achieve better financial results, there is a question whether testing for impairment based on the 'old' reporting structure is appropriate;

(b) one member said that if an event has led to a restructuring, recognising an impairment loss could be correct; and

(c) one member suggested that a reorganisation of the reporting structure could be considered an indicator of impairment, permitting entities to make a judgement about the appropriateness of recognising an impairment loss based on the circumstances.

73. Some members said opportunistic behaviour could also be aimed at reducing goodwill balances and recognising impairment losses on goodwill when it is reallocated.

Suggestions on reducing cost and complexity

Paragraph 99 of IAS 36

74. Paragraph 99 of IAS 36 offers relief to help reduce the costs of performing an impairment test annually, without compromising its integrity. Feedback from the Discussion Paper suggested the relief might not be working as intended and is used infrequently because of the perceived lack of clarity on some of the criteria. Some respondents to the Discussion Paper had said making the relief easier to apply could reduce cost and complexity and could be an alternative to removing the requirement for an annual quantitative impairment test.

75. Staff asked:

(a) what is preventing entities from applying the relief;

(b) whether the IASB could do anything to remove obstacles; and

(c) whether making the requirement easier to reply could help reduce cost and complexity of the impairment test.

76. Many members said that paragraph 99 is rarely used but most of these members said the wording of the requirement is fine. One member said the criteria set a high hurdle, but in the rare circumstances they are met, entities should be allowed to perform a simplified version of the impairment test as permitted by paragraph 99.

77. One member suggested providing relief from performing the quantitative impairment test in the year an acquisition is made because an impairment is unlikely so soon after the acquisition.

Next steps

78. The suggestions are being discussed at the IASB's other consultative groups and by the Committee. The IASB will decide whether to explore any of these suggestions further at a future IASB meeting. In reaching its decisions, the IASB will consider the feedback from GPF, its other consultative groups and the Committee.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

78. The IASB is redeliberating the proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* to develop a new IFRS Accounting Standard (new Standard). The new Standard would enable an eligible subsidiary to prepare its financial statements applying IFRS Accounting Standards with reduced disclosures.

79. Staff asked for members' views on:

    (a) proposed disclosure requirements for IFRS 7 Financial Instruments: Disclosures and IFRS 12 Disclosure of Interests in Other Entities; and

    (b) expected costs and benefits of applying the Standard (effects analysis).

80. One member said the staff proposal to respond to feedback on the proposed disclosure requirements for IFRS 7 are useful. He said the omission of IFRS 7 narrative disclosures from the Standard would be a relief for preparers.

81. Overall, GPF members supported the development of the new Standard. GPF members said the new Standard would reduce the costs of preparing subsidiaries' financial statements by:

(a) streamlining the consolidation process because it would enable eligible subsidiaries to apply the same recognition and measurement requirements as their parent company.

(b) simplifying preparation of subsidiaries' financial statements.

82. One member said that many disclosures required in subsidiaries' financial statements applying local GAAP in their jurisdiction are not required in consolidated financial statements prepared applying IFRS Accounting Standards.

83. One member noted that the new Standard could lead to wider application of IFRS Accounting Standards and therefore improve comparability of financial statements.

84. Several members commented on how the new Standard might affect adoption of the IFRS Accounting Standards:

(a) one member said that there will be initial implementation costs for the new Standard, but could be appealing to jurisdictions seeking to encourage foreign investments;

(b) one member said that if the proposed disclosure requirements were too 'reduced' some jurisdictions might not endorse the new Standard; and

(c) one member said that the application of the new Standard is voluntary. Therefore, a subsidiary will assess whether the benefits outweigh the costs of electing to apply the new Standard.

Next meeting

85. The IASB will consider the feedback from GPF members in discussing the proposed disclosure requirements and effects analysis of the Standard.

ISSB Update

86. This session aimed to provide GPF members with an update on the recent activities of the International Sustainability Standards Board (ISSB), including:

(a) the current status (including recent redeliberations) of Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related

Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures and the pathway to finalisation;

(b) the ISSB’s developing objectives, including collaboration with multiple jurisdictions to support the global baseline and building block approach (so-called ‘interoperability’); and

(c) the ISSB’s next steps.

87. Staff will share relevant educational materials with GPF members as discussed during the meeting.

Next meeting

88. The next GPF meeting will be held jointly with CMAC on 15–16 June 2023.