

## Introduction

1. The Global Preparers Forum (GPF) met in London on 4 October 2017. With apologies from Martin Edelman, the meeting was chaired by IASB Board member Takatsugu Ochi and GPF newly elected Chair Christoph Hütten.
2. The meeting was started by introduction of two new GPF members and three International Accounting Standard Board (Board) members attended the meeting for the first time:
  - (a) GPF members Colin Pavlovich from Australia and Srinath Rajanna from the United Arab Emirates; and
  - (b) Board members Ann Tarca, Nick Anderson and Jianqiao Lu.
3. In this meeting, GPF discussed the following topics:
  - (a) IASB Update (paragraphs 4–7);
  - (b) Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16) (paragraphs 8-20);
  - (c) Reputation Survey (paragraphs 21-28);
  - (d) Exposure Draft *Definition of Material* (paragraphs 29-39);
  - (e) Exposure Draft *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) (paragraphs 40-44).

## IASB Update (Agenda Paper 1)

4. The IASB staff provided an overview of the work of the Board since the last GPF June 2017 meeting.
5. GPF members discussed the following topics:

- (a) Goodwill and impairment: a GPF member queried what the structure of the Discussion Paper will be. IASB staff clarified that it will include four inter-related issues:
    - (i) whether the impairment test for goodwill can be made more effective and /or simpler;
    - (ii) whether to consider reintroducing amortisation of goodwill;
    - (iii) whether to consider narrowing the range of intangible assets recognised separately in a business combination; and
    - (iv) disclosure.
  - (b) Transition Resource Group (TRG):
    - (i) some members noted that, although TRG meeting summaries are not authoritative, preparers and auditors consider them significant in deciding how to apply the Standard if there is any doubt.
    - (ii) some members asked whether there are any guidelines to help the Board decide when it should create a TRG. The IASB staff replied that the Board decides on a case-by-case basis whether to create a TRG, after considering whether such a group would help in implementation or whether other ways could be more effective.
6. The IASB staff also provided informal update on investor feedback on the Post Implementation Review of IFRS 13 *Fair Value Measurement*. The staff noted that analysis of responses to the Board's Request for Information is in progress. Some GPF members questioned investors' preference for using the share price in an active market to determine the fair value of an equity investment, even if the share price was quoted for fewer shares than those included in the unit of account.
7. The IASB staff provided an update on how GPF members' feedback on educational materials during the November 2016 meeting was addressed. The staff informed GPF members that, responding to GPF members' requests, two versions of the Green Book (the official title is *The Annotated IFRS Standards*) will be available from 2018, one based on the Red Book and one on the Blue

Book<sup>1</sup>. The staff also noted that the Green Book is now available in Spanish. GPF members had further comments as follows:

- (a) One GPF member suggested including all the applicable Standards, both for early adopters and for those not adopting Standards early, in a single edition of the Green Book.
- (b) One GPF member referred to the idea discussed in the November 2016 GPF meeting that adding TRG references to the Green Book may be helpful. However, another GPF member questioned whether adding such references would elevate the authority of TRG guidance, which, by design, is not authoritative. The IASB staff further explained that the references to the TRG meeting summaries have not been included in the Green Book because they have not been subject to any due process.
- (c) One GPF member asked whether bound volumes with more than one version of IFRS 9 in them will be produced. His company had adopted the 2013 version of IFRS 9 but not later versions. The IASB staff noted that as IFRS 9 is effective next year, this issue does not apply from next year onwards.
- (d) Another GPF member noted that the Green Book is very helpful but it would be even more useful if translated to other languages (eg Portuguese) and if discounts were available for example to students or academics. The IASB staff commented that discounts are available for students and academics and a Board Member commented that IAAER membership gives very affordable access to eIFRS for students and academics.

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<sup>1</sup> The Red Book includes official pronouncements issued at 1 January. It includes Standards with an effective after 1 January of that year but not the Standards they will replace.

The 2017 Blue Book includes official pronouncements applicable on 1 January. It does not include Standards with an effective date after 1 January of that year.

## **Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16) (Agenda Paper 2)**

8. The staff sought feedback from GPF members on the proposed narrow-scope amendments to IAS 16 *Property, Plant and Equipment* published in June 2017. These proposed amendments would prohibit deducting from the cost of an item of property, plant and equipment (PP&E) any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise those proceeds in profit or loss.

### ***General feedback on the Exposure Draft***

9. GPF members expressed mixed views on the proposed amendments to IAS 16. One member explicitly agreed with the proposed amendments. Nonetheless, he said a better solution would be to clarify when an asset is available for use. Another member explicitly disagreed with the proposed amendments and said that the existing requirements of IAS 16 should remain unchanged. One member questioned whether the benefits from the change would outweigh the costs, especially because, in the member's experience, proceeds are generally not material. That member stated that dealing with such changes would be unwelcome when entities are implementing several new IFRS Standards.

### ***Materiality of proceeds and industries affected***

10. Most of the GPF members reported that proceeds from testing and other activities before an item of PP&E is available for use are generally not material. Some members said that if proceeds are material, entities may need to revisit the assumptions about whether the asset is available for use or whether the testing period has been completed. One member said that although the proceeds may be insignificant, the related testing costs could be material (for instance, because of significant 'set-up' costs).
11. Two GPF members said the amendments would affect companies operating in the petrochemical and technological industries. The amendments could also affect industries that require government approval before using an asset.

### ***Allocation of costs between the cost of inventory for the items sold and the cost of the asset***

12. Several members said the allocation of costs would be complex and entities would be required to apply significant judgement. This is mainly because entities may not have developed standard costs for items produced when the asset is being developed. One member said that additional complexities could arise from the interaction of these requirements with those set out in IFRS 15 *Revenue from Contract with Customers* for costs to fulfil a contract.
13. One member acknowledged that the proposed amendments do not create any new judgements; however he said that the Board should clarify the interaction between the cost allocation requirements in IAS 16 and those in IAS 2 *Inventory*.
14. Some members were concerned that the cost would not include depreciation of the asset. They said the cost of items sold before the asset is available for use might not be consistent with the cost of items sold afterwards, distorting reported margins.
15. Some members said the proposed amendments might affect an entity's decision to sell items produced before an asset is available for use. For example, an entity could decide not to sell an item produced during the testing phase if doing so would result in the recognition of a loss or would affect the entity's key performance indicators for a particular period. One member said the amendments would clarify that an entity applies the requirements of IAS 2, regardless of whether it sells the item. However, another member said that the item produced may not meet the definition of inventory—particularly if an entity decides to keep or scrap the item.
16. Two members said the cost allocation requirements focussed on inventory produced and suggested expanding the wording to cover other types of output that may be generated by an item of PP&E (such as service revenue).

### ***Definition of testing activities***

17. One member said the lack of a definition for testing activities had created practical issues and had led to diversity in practice.

18. Two members said the proposed wording was unclear about whether the assessment refers to the asset:
  - (a) being capable of producing the intended output (regardless of whether the asset is generating the intended level of output); or
  - (b) operating as intended by management (which could include a consideration of whether the asset is generating the intended level of output).
19. Another member said the proposed definition fails to cover all the activities that it should cover (for example, research and development).

### ***Next steps***

20. The staff will consider comments from GPF members in their analysis of the feedback received on the proposed amendments to IAS 16.

### **Reputation Survey (Agenda Paper 3)**

21. The purpose of the session was to present the results of the Reputation Survey to GPF members and seek their views. This will help the staff with the development of recommendations.
22. The survey had generally positive results, but certain key themes emerged, consistent with feedback received through other channels. The staff asked GPF members the following:
  - (a) How can the IFRS Foundation (Foundation) improve its engagement with its stakeholders, what does great engagement look like?
  - (b) How do you think the Global Preparers Forum could be better utilised as ambassadors for the Foundation?
  - (c) How do you think we can improve timeliness without adversely affecting the quality of IFRS Standards or while still conducting wider outreach and consulting more widely?

23. Several GPF members felt that outreach should be more focused on identifying ‘need to know’ information for investors. Several members highlighted simplicity as key to standard setting and to the stakeholder engagement process.
24. Some members described the level of engagement as high, but questioned the transparency of that engagement. They queried whether the Foundation’s outreach activities are “marketed” well enough. They highlighted the Foundation’s engagement with GPF as one example and suggested the Foundation do more to promote its relationship with GPF and the other advisory bodies.
25. GPF members said they were willing to assist the Foundation; however, they queried whether the Foundation has always called on GPF members, for example, when making trips to their respective jurisdictions. As a result, members are not always involved in these events at an early stage.
26. One GPF member stated that visibility of engagement is especially vital with jurisdictions who are considering adopting IFRS Standards. The member expressed the view that a jurisdiction’s decision to converge rather than adopt is often based on perceptions that may be overcome by building better relationships with these jurisdictions.
27. A lack of transparency about some parts of the process was also highlighted as a potential driver of perceptions that the Foundation is not always timely. Some members said the Foundation could better communicate about the work leading from an Exposure Draft to a final Standard. Some members suggested process analysis might also help the Foundation identify any internal barriers to timeliness.

### ***Next steps***

28. The comments from GPF members will be considered alongside feedback from other consultative groups as the staff develop their recommendations.

## **Exposure Draft *Definition of Material* (Agenda Paper 4)**

29. The purpose of this session was to inform the GPF members about the proposals included in the Exposure Draft published in September 2017 and seek their initial comments.
30. GPF members generally agreed with the Board's intention to align and refine the definition of material (definition) in IFRS Standards and the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, although some GPF members expressed concerns about the practical implications of some proposed changes to the definition. The following paragraphs summarise their main concerns.

### ***Including the term 'obscuring' information in the definition***

31. Some GPF members were concerned about the practical implications of including the term 'obscuring' in the definition, as they believed it could be interpreted broadly. For example, if something has not been presented with enough prominence, members wondered whether that means it has been obscured. They suggested that the Board clarifies what would constitute 'obscuring' information. In their view, the proposed wording makes it difficult for:
  - (a) preparers to identify instances when information might be obscured when preparing the financial statements; and
  - (b) auditors and regulators to assess whether information has been obscured.
32. These members were also concerned about the possible legal implications of having to justify the way information has been disclosed in the financial statements.

### ***Using the expression 'individually or collectively'***

33. One GPF member was concerned that using the expression '*either* individually or in combination with other information' when referring to material information would change the current understanding of materiality, setting a lower threshold for assessing material information.



### **Location of the definition**

34. A few GPF members suggested that the Board include the definition in one location only (for example, the *Conceptual Framework* or IAS 1 *Presentation of Financial Statements*) and place a cross-reference to that definition in other IFRS Standards.
35. These GPF members said repeating the same definition in different IFRS Standards would create unnecessary duplication and might imply that there are subtle differences in its wording or application depending on the Standard where the definition is located.

### **Clarifying the term 'primary users'**

36. A few GPF members suggested the Board consider clarifying the description of 'primary users' to emphasise that the entity does not need to consider all possible users in preparing financial statements. These members also suggested the Board clarify that preparers should expect users to have a reasonable knowledge of IFRS Standards.

### **Other comments**

37. A few GPF members were concerned that changes proposed in the Exposure Draft might diverge from the Financial Accounting Standard Board's proposed amendments to the definition of materiality.
38. The staff noted that the practical application of most of the concepts introduced in the amendments to the definition are discussed in detail in the IFRS Practice Statement 2 *Making Materiality Judgements*.

### **Next steps**

39. The comments received from the GPF members will form part of the feedback received on the Exposure Draft that would be presented to the Board at a future meeting.

## **Exposure Draft *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) (Agenda Paper 5)**

40. The Board published the Exposure Draft *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) in September 2017.
41. The purpose of the discussion with GPF members was to gather their initial feedback on the proposals in the Exposure Draft.
42. Overall, GPF members tentatively supported the proposals in the Exposure Draft and said that it would provide clarity on the distinction between accounting policies and accounting estimates.
43. However, GPF members raised the following detailed points:
  - (a) the discussion of changes in cost formulas for interchangeable inventories could be included not in IAS 8, as proposed in the Exposure Draft, but in IAS 2 *Inventories*. The staff suggested one approach could be to place the discussion of cost formulas in IAS 8, with cross-references to and from IAS 2;
  - (b) IAS 8 includes undefined terms, for example ‘practices’ and ‘measurement basis’. It would be useful to define them;
  - (c) deleting Example 3 from the Guidance on Implementing IAS 8 might have unintended consequences. Some preparers, especially first-time adopters of IFRS Standards, rely on Example 3 in assessing how to account for changes that result from applying a components approach more fully for depreciation purposes; and
  - (d) it would be useful for national standard-setters and preparers if the effective date of this amendment was aligned with any other planned amendments to IAS 8, for example, with the effective date of the proposed amendment to the definition of ‘material’.

### **Next steps**

44. Staff will consider feedback from this meeting and other comments on the Exposure Draft once the comment period ends in January 2018.

## **Next meeting**

45. The next GPF meeting will be held on 6 March 2018.