Summary note of the Accounting Standards Advisory Forum

Held on 16 April and 17 April 2018 at the IASB office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards Board (the Board), and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF).[1] A full recording of the meeting is available on the IASB® website.

ASAF members and specialist attending

Andreas Barckow Sven Morich	Accounting Standards Committee of Germany (DRSC)
Yu Chen	China Accounting Standards Committee (CASC)
Patrick de Cambourg Cédric Tonnerre	Autorité des normes comptables (ANC)
Rodrigo Andrade de Morais	Group of Latin American Standard-Setters (GLASS)
Alberto Giussani Tommaso Fabi	Organismo Italiano di Contabilità (OIC)
Russ Golden Jim Kroeker	Financial Accounting Standards Board (FASB)
Linda Mezon	Accounting Standards Board of Canada (AcSB)
Yukio Ono Yasunobu Kawanishi	Accounting Standards Board of Japan (ASBJ)
Kris Peach/Kimberley Crook	Australian Accounting Standards Board (AASB) / New Zealand Accounting Standards Board (NZASB)
Andrew Watchman Patricia McBride	European Financial Reporting Advisory Group (EFRAG)
Huaxin Xu Il-Hong Park Yasunobu Kawanishi	Asian-Oceanian Standard-Setters Group (AOSSG)

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Rate-regulated Activities

1. ASAF members were updated on the International Accounting Standards Board's (Board) tentative decisions on two aspects of the accounting model being developed for defined rate regulation (the model):

   (a) unit of account and asset/liability definitions; and

   (b) scope of the model.

2. ASAF members were asked for advice on how best to communicate the Board's tentative decisions.

Unit of account and asset/liability definitions

3. ASAF members were informed that the Board has tentatively decided:

   (a) the model being developed for rate-regulated activities should identify the unit of account as the individual timing differences arising from incremental rights and obligations identified in the regulatory agreement;

   (b) the present regulatory right is the right to charge a rate increase as a result of past events, and meets the definition of an asset as defined in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*); and

   (c) the present regulatory obligation is the obligation to provide goods or services at a rate reduced by an amount as a result of past events, and meets the definition of a liability as defined in the *Conceptual Framework.*

4. ASAF members provided the following advice:

   (a) the AASB/NZASB member said the rationale supporting the unit of account is consistent with the rationale provided for why the incremental rights and obligations meet the asset and liability definitions in the *Conceptual Framework*.

   (b) the AOSSG member said that the rationale about what economic resource is to be transferred in order for the regulatory obligation to meet the liability definition was not clear. The AASB/NZASB member thought this could be addressed by linking 'incomplete fulfilment of a service requirement' notion in the rationale to the concept of an incomplete performance obligation in IFRS 15 *Revenue from Contracts with Customers*. The AASB/NZASB member gave other examples from IFRS literature which, together with the incomplete performance obligation concept in IFRS 15, which may help to explain that a regulatory liability does not need to be the result of an onerous contract.

(c) the CASC member expressed concerns that entities may manage earnings by reflecting differences between management's forecasts and actual results as regulatory assets and liabilities. The AcSB and OIC members noted the importance of timing differences being both identifiable and enforceable in accordance with the regulatory agreement to help reduce the risk of earnings management.

Scope

5. ASAF members were informed that the Board has tentatively decided that the model being developed for rate-regulated activities should apply to defined rate regulation established through a formal regulatory framework that:

(a) is binding on both the entity and the regulator; and

(b) establishes a basis for setting the rate for specified goods or services that includes a rate-adjustment mechanism. That mechanism creates, and subsequently reverses, rights and obligations caused by the regulated rate in one period including amounts related to specified activities the entity carries out in a different period.

6. ASAF members provided the following advice:

(a) the DRSC member expressed concern that removing references to 'services and goods that are essential' from the scope of defined rate regulation may unintentionally broaden the scope. This member and the OIC member questioned whether other types of contracts which are not rate-regulated could be within the scope of the model.

(b) the CASC member commented that some self-regulated entities could have similar monopolistic positions as entities carrying out defined rate-regulated activities, and that creating a model that applies to only one of these sets of entities could reduce comparability between the financial statements of entities subject to similar economic conditions.

(c) the AcSB, OIC and DRSC members noted to be within the defined scope, it is important that the regulatory framework is enforceable/binding on both the entity and the rate regulator, and that a rate-adjustment mechanism of the type specified exists. The EFRAG and AASB/NZASB members said that the definitions of 'rate regulator', 'regulatory framework' and 'rate-adjustment mechanism' are important because they contribute to limiting the possibility that the model would be applied by analogy to 'self-regulated' entities. The AASB/NZASB member suggested it would be important to consider situations in which the rate regulator is a related party of the entity.

(d) the AcSB and DRSC members commented that it is essential that the scope refers to activities rather than industries because this provides a principle that focuses on the contents of the regulatory agreement. The members also observed there are entities that have both rate-regulated and non-rate regulated operations.

Communication

7. ASAF members commented that the development of communication materials addressing the following aspects of the accounting model would be helpful to support stakeholders in their understanding of the model:

(a) the AcSB member recommended developing communication materials using plain English to help stakeholders understand the characteristics of defined rate regulation and determine whether the activity is within the scope of the model. The DRSC, CASC and AASB/NZASB members suggested IASB staff develop examples illustrating:

(i) the types of activities likely to be in or out of the scope of the model;

(ii) various related party relationships between the rate regulator and entity that are likely to be in or out of scope of the model; and

(iii) the mechanics of the model and the effects on entities' financial statements.

(b) the AcSB member recommended providing a comparison of the model and requirements in US Generally Accepted Accounting Principles when the model is further developed.

(c) the AcSB and OIC members stated that it is important to analyse and communicate the interaction between the model and the requirements of IFRIC 12 *Service Concession Arrangements*.

(d) the FASB and OIC members recommended that the staff reach out to:

(i) entities close to the boundary of the scope of the model. This could help raise awareness of the scope of the model and help identify real-life illustrative examples; and

(ii) rate regulators to understand how current and any changing regulatory requirements could affect the requirements of the model and the timing of this project.

8. The OIC and DRSC members expressed their support for developing an Exposure Draft as the next consultation document whereas the AOSSG and CASC members expressed support for a second Discussion Paper.

9. In addition, the AcSB member reminded ASAF members about the research previously carried out by AcSB staff, with help from ASAF members. The AcSB will consider in mid-2018 how to update and communicate the research findings. The AcSB member asked ASAF members with further input to forward it to the AcSB as soon as possible.

Disclosure Initiative – *Principles of Disclosure*

10. At this meeting, ASAF members provided their advice on the following topics:

(a) location of information—specifically, IFRS information outside the financial statements and non-IFRS information inside the financial statements; and

(b) accounting policy disclosures.

Location of information—IFRS information outside the financial statements

11. ASAF members commented on the application of the term 'annual report' to their jurisdiction, as follows:

    (a) the OIC and AASB/NZASB members said there is a definition of annual report in their jurisdictions whereas the AcSB member said that the term is not defined in Canada;

    (b) the OIC member said that the definition of annual report has legal consequences in their jurisdiction, such as companies having responsibility for any false or misleading documents;

    (c) the ASBJ member said that the annual report may not necessarily be required to be filed under law in their jurisdiction. The AcSB and AOSSG members said that the financial statements and other reporting documents are often not filed at the same time in their jurisdictions.

12. Many ASAF members agreed with the use of cross-referencing; however the AOSSG and OIC members did not support this. The OIC member was concerned that cross-referencing would make it difficult to identify the complete set of information that makes up the financial statements. That member thought that the annual report should be a self-contained document that includes only necessary information as required by the IFRS Standards.

13. The FASB, CASC, AcSB and EFRAG members said that some stakeholders in their jurisdictions expressed concerns over the audit implications of cross-referencing. Specifically, their stakeholders were concerned about the risk of:

    (a) increasing the cost and complexity of performing an audit; and

    (b) reducing clarity about what information falls within the scope of an audit.

14. The EFRAG member added that some auditors, in its jurisdiction, think that, if the use of cross-referencing improves effective communication in financial reporting, the audit community should find a way to address any audit concerns.

15. ASAF members had the following comments on the four potential solutions that the staff identified to address concerns about providing IFRS information outside the financial statements:

(a) the FASB, AASB/NZASB, DRSC and ASBJ members were not supportive of using the term ‘single document’. Some of these members suggested that the term might not be applicable in a digital reporting context.

(b) the FASB, AcSB, AASB/NZASB, EFRAG and ASBJ members supported developing principles about the location of IFRS information instead of using a specific term such as annual report, to describe where IFRS information may be located. However, some of these members expressed concerns over the suggested requirement that such information should be located in a document that ‘cannot be changed after the financial statements have been issued’. This is because, in their view, any document can be changed, and is required to be changed if there has been a misstatement of information. The FASB and EFRAG members added that concerns over the interaction of any guidance developed with local laws and regulations could be mitigated by developing non-mandatory guidance.

(c) the CASC member said that the Board should not develop general requirements about IFRS information outside the financial statements but should instead specify the particular disclosure requirements in IFRS Standards that can be located outside the financial statements. This member added that this would provide local regulators and standard-setters with the flexibility to enforce their specific laws and regulations while allowing preparers the ability to make judgements about where to disclose information.

16. The AcSB and AASB/NZASB members encouraged the Board to liaise with the International Auditing and Assurance Standards Board (IAASB) in considering the audit implications of any guidance developed. The AcSB added that the Board should also liaise with local auditing bodies for jurisdictions that do not fully adopt the IAASB Standards. In addition, the DRSC member suggested that the Board also collaborate with the International Federation of Accountants (IFAC) to understand audit implications of providing IFRS information outside the financial statements, particularly in a digital reporting environment.

Location of information—non-IFRS information inside the financial statements

17. ASAF members provided the following views on whether the Board should define non-IFRS information:

    (a) the EFRAG, AASB/NZASB, ANC, AOSSG and ASBJ members said that the Board should not define non-IFRS information, but should *instead* develop principles to address issues that could arise from entities providing in their financial statements additional information that is not necessary to comply with IFRS Standards. Some of these members said that the principles should emphasise the importance of fair presentation and consequently, entities should be required to clearly identify such additional information and explain why the information is useful and has been included in the financial statements.

    (b) the AcSB member said that the Board should undertake educational initiatives to explain the distinction between IFRS and non-IFRS information. The AcSB member added that in their outreach with users, they learnt that users prefer non-IFRS information to be provided outside the financial statements because including it inside the financial statements makes it difficult to identify the audited information.

18. Those ASAF members that did not support defining non-IFRS information provided the following reasons:

    (a) the EFRAG member said that it is likely to be rare that entities provide additional information that is not necessary to achieve fair presentation. The member also noted that different types of non-IFRS information have different risk levels—for example, non-financial non-IFRS information is less likely to mislead or confuse users than financial non-IFRS information. Consequently, the member thought that Board should consider the risks associated with different types of non-IFRS information if it defined non-IFRS information;

    (b) the AASB/NZASB member expressed concerns over how the definition of non-IFRS information can be operationalised, particularly in differentiating such information from Category B[2] information. The member added the AASB/NZASB would have to issue interpretative guidance on whether some additional mandatory disclosures in New Zealand or Australia are IFRS or non-IFRS, if the Board were to define non-IFRS information;

(c) the AOSSG member thought defining non-IFRS information would be difficult, as the definition may conflict with some specific laws and regulations in some jurisdictions.

19. The CASC and DRSC members said that if the Board defines non-IFRS information, it needs to address information that is required by a local law or regulatory framework to be included in the financial statements.

20. The FASB member expressed concerns about using the term 'non-IFRS information' to refer to information that is an aggregation of two or more pieces of information specifically required in an IFRS Standard. This is because, in their view, using that term for such information might discourage entities from providing useful information that is consistent with the overall principles of IFRS Standards.

21. The GLASS, AcSB and AOSSG members said that the Board should consider the audit implications of providing non-IFRS information inside the financial statements. The GLASS member added that in Brazil, companies find it very difficult to obtain an unqualified audit opinion if they provide integrated annual reports that include both non-GAAP and GAAP information.

Accounting policy disclosures

22. The AASB/NZASB, AcSB and CASC members said that the Board's recent publications to help entities apply judgment about materiality will also be helpful to entities in deciding which accounting policies to disclose.

23. Some members commented on the application of materiality to accounting policy disclosures:

(a) the DRSC and ASBJ members said that an entity should provide accounting policy disclosures *only* when its management has made a

[2] Additional information *necessary* to comply with IFRS Standards, for example, information required by IAS 1.

choice between the different policies allowed. The DRSC member added that such disclosures should also be subject to materiality considerations.

(b) the AASB/NZASB and FASB members said that all material accounting policies should be disclosed regardless of whether the entity had a choice in selecting the policy.

24. Regarding whether there is a need to develop guidance for entities on which accounting policies to disclose:

(a) the AcSB, FASB, AOSSG and CASC said the Board should develop educational materials on the application of materiality to accounting policy disclosures. These members added that such guidance should emphasise the importance of providing entity-specific information. The AOSSG member suggested that the guidance could be located in the Materiality Practice Statement. However, the ASBJ member said that if the Board develops any materials about accounting policy disclosures, then it should take the form of mandatory requirements.

(b) the AASB/NZASB member said that the Board does not need to develop additional guidance because entities would still have to exercise judgment when determining which accounting policies to disclose. The member noted that entities already have the appropriate tools to help with such judgment, including documents recently published by the Board.

Commodity loans and related transactions

25. ASAF members were provided with a summary of items discussed by the Board at its meeting in January 2018. Those items included commodities, digital currencies, emissions allowances and other assets such as artwork held for investment purposes and/or for use in a similar way to cash.

26. ASAF members were also provided with three options for possible standard-setting projects that the staff are currently considering for the Board or IFRS Interpretations Committee to undertake to address some or all of the items identified above. The advice of ASAF members was being requested in advance of discussion with the Board.

27. ASAF members provided advice on:

(a) the extent that entities in their jurisdictions enter into transactions involving the items described in paragraph 25;

(b) whether they had observed diversity in the accounting for those items;

(c) if they were undertaking any standard-setting activities relating to those; and

(d) whether the Board should explore further or, in contrast, avoid any of the possible standard-setting activities outlined by the staff.

Transactions

Digital currencies

28. Prior to ASAF members discussing the items described in paragraph 25, the ASBJ member provided a summary of its standard-setting activities under Japanese GAAP relating to virtual currencies. The ASBJ representative noted that the ASBJ issued a standard in March 2018 that provided requirements for digital currencies except those that were issued by the entity itself (eg issued in Initial Coin Offerings (ICOs)). This standard requires entities to measure digital currencies at fair value through profit or loss if there is an active market for those assets. If no active market exists the entity is required to measure assets at cost, written down to estimated disposal value if such value is lower than cost.

29. The ASBJ member also highlighted diversity in the accounting for digital currencies held by entities applying IFRS Standards and noted the difficulties encountered by issuing entities when accounting for ICOs.

30. The prevalence of digital currencies in ASAF members' jurisdictions was mixed. The AcSB member noted that transactions involving cryptocurrencies are becoming more common in the Canadian market (for example, aware of ICOs taking place, regulated investment funds holding cryptocurrencies and entities involved with blockchain technology and cryptocurrency mining listing on the Canadian stock exchanges).

31. Other ASAF members (eg the FASB, DRSC, CASC and EFRAG members) said that they are not aware of any entities holding material balances of digital currencies. Some ASAF members (eg the AASB/NZASB and ANC members) said that although they are not aware of entities currently holding material balances of digital currencies,

they are aware there is an increase in interest in this area and that they thought it would be helpful if the Board undertook some short-term activities to help entities apply existing requirements as well as work on a longer-term project to develop new requirements.

32. In addition, members from the ANC, CASC and AOSSG noted that there are three distinct accounting issues related to digital currencies:

    (a) Holding digital currencies;

    (b) 'Mining' coins; and

    (c) ICOs.

    Those members suggested the Board should consider a holistic project for digital currencies.

33. The AOSSG representative noted that the Korea Accounting Standards Board had published a view that holders of digital currencies for which there is an active market, measuring those assets at fair value through profit or loss is appropriate..

Commodities

34. ASAF members from AASB/NZASB, FASB, AOSSG, CASC and the OIC noted that commodity based transactions are common in their jurisdictions. Those members particularly noted transactions based on gold, including variants of the gold leasing transaction identified in Agenda Paper 3 for this meeting. Some of those members stated that commodity transactions are a higher priority than digital currencies.

35. Members from AASB/NZASB and AOSSG noted diversity in the accounting for those commodity transactions.

Emissions rights and other assets

36. Some ASAF members said that trading of emissions allowances were common in their jurisdictions. The AASB/NZASB member highlighted other assets traded in their jurisdiction (eg bed licences held by retirement homes and water rights).

37. The AcSB member said that trading of emissions allowances are becoming more prevalent as cap and trade programs exist in certain parts of Canada. For other assets such as artwork holdings, generally only not-for-profit organizations hold material

amounts of artwork but these pieces are donated to them and not for investment purposes. Those entities do not apply IFRS Standards.

Possible standard-setting

38. Staff identified the following potential standard-setting projects in Agenda Paper 3:

(a) An investments Standard;

(b) Standards-based project: Characteristics of transactions; and

(c) IAS 8 project: Characteristics of transactions.

39. ASAF members from AASB/NZASB and CASC said they would prefer the Board to concentrate on approach (a). The EFRAG member said they would not object to the Board pursuing a project of this type.

40. Members from FASB and AOSSG said they would support the Board considering approaches (a) and (b) together because these could be complementary approaches that would resolve different problems associated with the transactions discussed above.

41. The ASBJ, EFRAG, AASB/NZASB, FASB, CASC, AOSSG and DRSC members said the Board should not pursue approach (c). Those members said that it was not clear how this proposed project would address the difficulties identified in Agenda Paper 3—especially because the Board would be required to amend other Standards to indirectly address those problems.

42. The EFRAG member stated that the Board should consider as part of the next Agenda Consultation whether to undertake any of these projects. However, the AcSB member and the vice-chair of the Board noted that the Agenda Consultation process does not prevent the Board from adding new projects to its agenda between consultations. The AcSB member noted that a short-term approach is needed to narrow the diversity in practice, and such approach could be guiding stakeholders to existing standards based on the characteristics of the transactions. The vice-chair said the Board would consider the priority of the projects in paragraph 38 compared to other projects on the Board's work-plan and research pipeline.

43. The AASB/NZASB and AOSSG members said that commodity based transactions should be a higher priority for the Board than other transactions in the paper.

Accounting Policies and Accounting Estimates (Amendments to IAS 8)

44. The Board published the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) (Exposure Draft) in September 2017. The comment period closed on 15 January 2018. The Board discussed the summary of feedback on the Exposure Draft at its meeting in March 2018.

45. The objective of the discussion with ASAF members was to seek ASAF members' advice on the next steps in the project.

46. ASAF members' views were sought on whether to include illustrative examples, as requested by some respondents to the Exposure Draft. ASAF members expressed the following views:

    (a) illustrative examples for specific fact patterns can be helpful (AOSSG, EFRAG and AASB/NZASB), but they are difficult to draft because answers often depend on very specific facts and circumstances (DRSC and CASC);

    (b) the ANC and OIC members were not supportive of specific illustrative examples in principle-based guidance; and

    (c) the AcSB member empathised with the Board's dilemma about providing and drafting illustrative examples.

47. ASAF members' views regarding the example provided in the Agenda Paper 4 for this meeting were requested; the example aims to demonstrate the thought process on how to distinguish accounting policies from accounting estimates. Although ASAF members considered the example somewhat helpful, they were of the view that it would not enhance the amendments proposed in the Exposure Draft.

48. In relation to the next steps in the project ASAF members recommended that the Board proceed with the proposed amendments. ASAF members' advice included:

    (a) the EFRAG member stated that the proposed amendments would improve IAS 8, even though the principles-based guidance proposed in the Exposure Draft probably left some 'grey areas'. He also asked the Board to consider further defining or explaining the term 'practices' which is currently used in the definition of accounting policies and was proposed in the Exposure Draft to be retained;

(b) the FASB member said that the proposed amendments would be useful. He recommended that the Board should be cautious about extending the scope of the project.

Is financial reporting still an effective tool for equity investors in Australia?

49. ASAF members received a presentation on an academic group's research on financial reporting's effectiveness for equity investors in Australia. Professor Michael Davern and Dr Dean Hanlon presented their research on behalf of the AASB. There were two main research questions:

(a) are financial statements relevant for equity investors in making investment decisions, and has this changed across time?

(b) what other types of information are considered relevant for equity investors in making investment decisions?

50. ASAF members stated that they were appreciative of the work produced by the AASB and noted the results supported the usefulness of financial statements for investment decisions.

51. In expressing their support:

(a) A Board member questioned why the results are so vastly different from the results of other research, particularly in the US. The academics explained that the results from the interviews suggest that equity investors are using financial information as a reliable starting point. The differences maybe due to quarterly reporting requirements in the US as this is not required in Australia, as was further clarified by a member of the AASB/NZASB.

(b) A Board member expressed the view that the totality of primary financial statements provides more relevant information than one particular statement. It was suggested that carrying out research using operating cash flows minus capital expenditures may produce more informative results. The presenters commented that they would consider this suggestion and further explained that the results from the interviews revealed that while operating cash flow mattered, the operating cashflows as reported on the cashflow statement was not a major driver for equity investors when making decisions, and they had not expected this finding.

(c) The ANC member asked whether the research analysis included ‘Other Comprehensive Income’ (OCI) when using measures such as ‘Earnings Before Interest and Taxes’ (EBIT) and ‘Earnings Before Interest, Taxes Depreciation and Amortisation’ (EBITDA). The academics responded that EBIT and EBITDA were calculated by the team and were used in order to avoid inconsistencies with the data.

(d) The CASC members stated that China had conducted a similar empirical study. The study concluded that the usefulness of financial statements/information for equity investors had increased, in a similar time frame, 1990 to present.

Goodwill and Impairment

52. The purpose of this session was to seek ASAF members’ views about the following issues the Board has been discussing in the Goodwill and Impairment project:

(a) a staff proposal for an approach that would amend the impairment testing of goodwill by considering movements in headroom. Headroom is the excess of the recoverable amount of a cash-generating unit (or group of units) over the carrying amount of that unit (or group of units).

(b) the requirement in IFRS 3 *Business Combinations* to recognise all identifiable intangible assets acquired in a business combination separately from goodwill.

Simplifying the value in use calculation, improving disclosure, and amortisation of goodwill

53. ASAF members were generally supportive of the Board’s tentative decisions on simplifying the value in use calculation and improving disclosure about business combinations. However, some ASAF members expressed the following concerns:

(a) the AASB/NZASB member suggested a more fundamental review of whether the information required to be disclosed meets the needs of users of financial statements.

(b) the OIC member commented that tracking goodwill by past business combinations over time might not be possible because of changes in a business or a unit after acquisition.

(c) the ANC member stated that users of financial statements need useful information, such as information about changes in cash flow projections and a comparison between actual cash flows and previous cash flow projections.

(d) in relation to the tentative decision to remove the requirement to use and disclose pre-tax inputs in calculating value in use, the EFRAG member commented that whether this would provide significant simplification would depend heavily on how the new requirement is articulated, for example whether it is prescriptive.

(e) the DRSC and AcSB members said that the objective of simplifying impairment testing without making it less robust might be unattainable because simplification and robustness seem contradictory and may not achievable at the same time.

(f) the AOSSG member said AOSSG members have mixed views on the Board's tentative decisions on how to improve disclosure but they generally support simplifying the impairment test for goodwill.

54. Some ASAF members (AASB/NZASB and ANC) supported the Board's tentative decision not to propose reintroducing amortisation of goodwill. The AASB/NZASB member stated that there are no new arguments for amortisation. In contrast, other members (ASBJ, OIC, and CASC) suggested that the Board should ask stakeholders in a Discussion Paper for feedback about whether to reintroduce amortisation of goodwill.

(a) in particular, the ASBJ member supported reintroducing the amortisation of goodwill. The CASC member stated that their stakeholders supported reintroducing amortisation of goodwill.

(b) the DRSC and AcSB members commented that there is no conceptual basis for amortising goodwill but if the Board's objective is to remove goodwill for cost/benefit reasons given the difficulties in applying the impairment test, then consider reintroducing amortisation of goodwill as opposed to a conceptual approach that is challenging to operationalize.

(c) the AOSSG member said AOSSG members have mixed views about amortisation of goodwill. The AOSSG member further noted that one AOSSG member did not support the current impairment-only approach for goodwill and suggested that the Board should consider all possible approaches to address the ‘too little too late’ issue.

55. The FASB member noted that the FASB introduced an optional qualitative test for testing goodwill for impairment of goodwill in 2011. He said that a steadily increasing number of companies are electing to use the qualitative test as the first step in impairment testing for goodwill. He added the caveat that markets have been rising since then and the application of the qualitative test has not yet been seen when markets are falling. He noted that the FASB had also eliminated step 2 of its goodwill impairment test in 2017. In deciding on those two changes, the FASB focused on reducing the cost of the impairment testing model and on considering what information users need to help them assess the quality of an acquisition, and for how long they need that information. In addition, he stated that the FASB had reintroduced amortisation for private companies.

Using movements in headroom in testing goodwill for impairment (headroom approach)

56. ASAF members expressed concerns that the headroom approach would lead to the following additional costs:

(a) costs of tracking the components of the recoverable amount. Those costs might be particularly significant if an entity has a number of cash-generating units that are affected by numerous acquisitions and by restructuring;

(b) costs of determining a single point estimate of recoverable amount, rather than the range that currently might sometimes be sufficient to conclude that no impairment has occurred.

(c) costs of gathering information to rebut the presumption that a decline in recoverable amount relates only to acquired goodwill, as well as costs of justifying the rebuttal to auditors and regulators and costs of disclosing the reasons for rebutting presumption

57. In response, the staff emphasised the following points:

(a) The existing impairment test already requires an entity to determine at least annually whether the recoverable amount of cash-generating units exceeds their carrying amount. The headroom approach takes the unrecognised headroom determined at the previous testing date and uses it as an additional input in the impairment test for the current year. To perform that calculation, no tracking is required.

(b) The headroom approach would add the following costs to the costs of applying the existing impairment model:

(i) determining a single point estimate of recoverable amount every year, rather than the range that currently might sometimes be sufficient to conclude that no impairment has occurred;

(ii) gathering information if an entity attempts to rebut the presumption; and

(iii) calculating recoverable amount just before a business combination if the newly acquired goodwill is allocated to an existing cash-generating unit and the unit did not already contain goodwill. Similar issues would arise after an internal reorganisation.

The staff noted that the Board could avoid imposing the costs mentioned in (iii) by deciding not to require a measurement of the unrecognised headroom just before the business combination or when a reorganisation occurs. If so, the information needed to apply the headroom approach for that unit would not be available until the following period. The Board could consider whether cost-benefit considerations would make it appropriate not to require a measurement of the unrecognised headroom of a cash-generating unit in a period when it undergoes a business combination or reorganisation.

58. No ASAF member supported the headroom approach. ASAF members provided the following arguments:

(a) it would be difficult to explain and understand the result of applying the approach.

(b) producing a precise and robust point estimate of recoverable amount would be costly.

(c) the approach would involve a fundamental change to IAS 36 because an impairment loss would be recognised in some circumstances when the recoverable amount of a cash-generating unit exceeds its carrying amount. This would give unintuitive results.

(d) it is unreasonable to presume that all of a decrease in recoverable amount relates to acquired goodwill. One member (EFRAG) suggested that a presumption of pro-rata allocation might be more reasonable.

59. Many ASAF members (FASB, AASB/NZASB, GLASS, ANC, ASBJ, AcSB, and ANC) emphasised that focusing on improving disclosure about acquisitions would be more useful than focusing on unrecognised headroom.

60. The AASB/NZASB member stated that value in use generally tends to recognise impairment losses later than using fair value less costs of disposal. She suggested that the most effective way to make the recognition of impairment losses on goodwill more timely would be to require more rigour in determining when it is appropriate for assumptions used in determining value in use to differ from those used in determining fair value.

61. The ANC member suggested that it would be helpful to provide more guidance on determining discount rates and terminal values.

Intangible assets

62. ASAF members expressed mixed views about separate recognition of intangible assets acquired in a business combination.

63. The ASBJ member commented that some preparers support simplifying the process of identifying and measuring intangible assets in a business combination, but others think separate recognition of intangible assets in a business combination is necessary, not only for accounting purposes but also to provide more useful information.

64. The OIC member suggested that in a business combination, only legally-protected intangible assets should be recognised separately from goodwill, because he doubts the valuation of some intangible assets such as customer relationships and customer lists. He commented that the useful life of customer relationships is very arbitrary.

65. The DRSC member stated his observation in the German capital market that separate recognition of intangible assets is relatively important. In a recent huge merger case, goodwill accounted for approximately 60%~70% of the purchase price, making people concentrate on the large amount of goodwill. He stated that, rather than recognising all identifiable intangible assets in a business combination, it would be better to consider an increased materiality threshold such as separately recognising only legally-protected intangibles or only intangibles with significant value to the business.

66. The EFRAG member stated that users of financial statements think amortisation expense is more relevant for some intangible assets than for others. If the Board pursues approach D (distinction between wasting and organically replaced intangible assets), a clearer description of this distinction would be needed because it would introduce new concepts and terms.

67. The AASB/NZASB member referred to a discussion with a limited number of people. Some of them preferred contractual intangible assets to be recognised separately from goodwill. Those people had expressed mixed views on those intangible assets, such as brands, that are very similar to goodwill.

68. The AcSB member thought that management is reluctant to provide users of financial statements with information about matters that management considers sensitive. She explained that in an AcSB survey, the intangible assets most commonly recognised separately in a business combination were customer relationships, followed by purchase agreements, non-compete agreements, and brands. The valuation of these assets is complex and difficult. So good disclosure is important.

69. The CASC member supported maintaining the current requirement of IFRS 3 in this area, together with requiring additional disclosure about valuation of intangible assets, for example the disclosure required by IFRS 13 *Fair Value Measurement*.

70. The GLASS member noted that they do not view some intangible assets, such as customer relationships, as intangible assets and said that those assets should be

subsumed within goodwill. After some acquisitions, many customers leave within a short time.

71. The ANC member supported approach C (allowing indefinite-lived intangible assets to be subsumed in goodwill). He noted that some of these assets, such as trademarks, are tested at a corporate level, rather than within individual cash-generating units.

Primary Financial Statements

72. The purpose of this session was to:

(a) ask ASAF members' views on the application to financial entities of the Board's tentative decisions to date, with the aim of helping the Board make decisions on this topic at a future Board meeting; and

(b) provide ASAF members with an update on the Board's tentative decisions on aggregation and disaggregation and explore additional ideas for improving the aggregation and disaggregation of line items in the primary financial statements and in the notes.

Approach for financial entities

73. ASAF members (ASBJ, AASB/NZASB, AcSB, FASB, ANC, CASC, EFRAG) said that the subtotals the Board has tentatively decided to require for non-financial entities—ie 'profit before investing, financing and income tax' and 'profit before financing and income tax' (EBIT)—would not provide useful information for financial entities, because investing and financing activities are usually part of their core activities.

74. A Board member said that some stakeholders had suggested requiring an EBIT-type subtotal for financial entities, in which the 'I' consists only of interest expenses on debt included in regulatory capital. The AASB/NZASB member said she understood the rationale behind such an approach, but questioned how easy it would be to implement.

75. The AcSB summarised the feedback from their outreach to the large Canadian banks

76. EFRAG and FASB members suggested the Board could instead explore defining and requiring alternative subtotals that are commonly used in practice by financial entities,

such as net interest margin and operating profit. The EFRAG and AcSB members said that entities define some of these measures inconsistently.

77. The ASBJ, AASB/NZASB and FASB members said that if the Board provides specific requirements or exemptions for 'financial entities', it will need to define 'financial entities', which will be difficult. For example, they said any definition would be difficult to apply to conglomerates that have both non-financial and financial activities.

78. The ASBJ and AASB/NZASB members suggested that instead the Board should allow entities not to present the proposed subtotals if an alternative approach is more useful. These members referred to a similar approach in IAS 1 *Presentation of Financial Statements*, paragraph 60, which requires entities to use a current/non-current distinction in the statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant.

79. ASAF members made the following additional comments about the application of the Board's tentative decisions to financial entities:

   (a) the ANC and AOSSG members said that the statement of cash flows is not useful for financial entities. The ANC member also referred to the EFRAG Discussion Paper *The Statement of Cash Flows—Issues for Financial Institutions* on this subject.

   (b) the AcSB member reported the views of preparers in Canada, that did not support including management performance measures in banks' financial statements, because it would lead to duplication with the management commentary, nor did they support developing guidance on disaggregation. However, the AcSB member did not necessarily agree with these views.

80. The AASB/NZASB member said another issue the Board may want to address is excessive offsetting of income and expenses by financial entities.

81. ASAF members also shared examples of research available to help the Board in its decision-making.

Guidance on aggregation and disaggregation

82. The CASC, EFRAG and AASB/NZASB members supported the criteria suggested by staff to determine whether a by-function or by-nature presentation provides the most

useful information about an entity's business. Members made the following comments about these criteria:

(a) the CASC member expressed the concern that applying the criteria would involve significant judgement. She suggested the criteria should not be included in IFRS Standards, but should be included in accompanying guidance.

(b) the EFRAG member said the impact on reporting practice of introducing the criteria would be limited in their view. He added that there may be some tension between the proposed criterion of peer industry practice and the proposed criteria that are more entity-specific.

(c) the FASB member said that these criteria would direct entities towards a particular presentation. In his view, this would mean that entities effectively no longer have a choice between an analysis of expenses by-nature or by-function.

83. The staff suggested that paragraph 104 of IAS 1 could be clarified to indicate that entities that provide a by-function analysis should be required to provide a by-nature disaggregation of each of the by-function line items. The CASC member expressed their support for this suggestion.

84. ASAF members' advice included:

(a) the AASB/NZASB and EFRAG members said that the staff suggestion would constitute a change rather than a clarification of the Standard, because paragraph 104 of IAS 1 is not interpreted in practice as requiring entities that provide a by-function analysis to provide a by-nature disaggregation separately for each of the by-function line items. Furthermore, in their experience, entities currently only provide some selected amounts by nature, such as depreciation and amortisation expense and employee benefits expense.

(b) the ASBJ and EFRAG members said that entities presenting their primary analysis of expenses by-function would have to provide more information than entities presenting their primary analysis of expenses by-nature because they would also have to provide information by-nature. The ASBJ member added that the staff suggestion would therefore create an incentive for entities to present their primary analysis of expenses by-nature.

(c) the AASB/NZASB and FASB members were concerned about the cost of the staff suggestion for preparers, because changes to their accounting systems may be required.

85. Some ASAF members suggested alternative approaches:

(a) the FASB member said they are currently exploring an approach that consists of identifying some specific line items that are typically highly aggregated (eg cost of goods sold) and requiring entities to provide an analysis of these line items. He added that such an approach would avoid relying on the concepts of 'nature' and 'function', which they found difficult to define.

(b) the AASB/NZASB and FASB members said some entities use a mixed presentation that combines by-nature and by-function line items. These members encouraged the Board to consider whether such an approach should be allowed in some cases. The FASB member added that this mixed presentation should be considered as some expenses, such as impairments and litigation expenses, are difficult to present in a by-function presentation.

(c) the ASBJ member suggested entities should be required to present their primary analysis of expenses by nature or by function, but should have flexibility to determine how they disaggregate this information further, for example by segment.

86. ASAF members expressed mixed views on the staff's suggestion to introduce quantitative thresholds to promote more disaggregation:

(a) the ASBJ member said their experience with quantitative thresholds in Japan (for JGAAP reporting) was positive. They consider quantitative thresholds to be an effective tool to promote more disaggregation, in particular to avoid the presentation of large 'other' items.

(b) ASAF members (AASB/NZASB, AOSSG, CASC, OIC, EFRAG) did not support introducing quantitative thresholds for the following reasons:

(i) quantitative thresholds would conflict with the existing guidance on materiality, because the IFRS Practice Statement 2 *Making Materiality Judgements* specifies that making materiality judgements involves both quantitative and qualitative considerations;

(ii) they prefer principle-based requirements to rule-based requirements;

(iii) it will be difficult for the Board to develop thresholds; and

(iv) setting quantitative thresholds may deter entities from disclosing material items that do not meet the quantitative thresholds.

87. The EFRAG and AASB/NZASB members expressed their support for the staff's other suggestions for improving the level of aggregation and disaggregation.

88. The EFRAG member said that, because the scope of the staff suggestions is both the primary financial statements and the notes, the Board should consider the interaction of the suggestions with:

(a) proposals on subtotals, minimum line items and templates developed in the Primary Financial Statements project;

(b) proposals developed in the Disclosure Initiative; and

(c) existing principle-based disclosure requirements in IFRS Standards.

IFRS Foundation *Due Process Handbook* – Review

89. The IASB staff presented an update on the Trustees' Review of the *Due Process Handbook* (DPH) and asked ASAF members for their views on its scope.

90. The DRSC member recommended that the DPH include an explanation of what should happen when the Board decides to stop a project, for example, if the Board decides not to proceed with the proposals in an Exposure Draft.

91. The ASBJ member said the Basis for Conclusions, and the objective of the Basis for Conclusions, should be addressed in the DPH.

92. The AcSB member noted the importance of the DPH within Canada, as it forms a part of their endorsement process. The AcSB had recently updated its own due process

manual and had put a lot of emphasis on making the document more understandable to stakeholders, including with the use of flowcharts. They would be happy to discuss their work with the Trustees.

93. The AcSB and ANC members supported the proposal to consider in the Review improvements to the interactions between the Board and the IFRS Interpretations Committee.

94. The AcSB agreed the DPH should specify the procedure to be followed when an anonymous complaint is received by the DPOC.

95. The ANC member:

    (a) supported the proposals in the Review relating to the effects analysis process, noting that effects analysis was considered highly important both within France and for EFRAG's analyses; and

    (b) suggested that the due processes relating to non-mandatory guidance should be considered in the Review as the guidance can quickly become *de facto* required.

96. The AOSSG member noted that most AOSSG members agreed with the proposed scope of the review. They recommend the review considers implementation support activities and the publication of educational materials, highlighting that an important role of the Board is to ensure consistent application of IFRS Standards. The AOSSG member stated that an AOSSG member suggested that paragraph 5.2 of the *Due Process Handbook* would require amendment if the Board finalises the proposals in the recent Exposure Draft *Accounting Policy Changes* (amendments to IAS 8).

97. Some ASAF members suggested that in the Review cooperation with National Standard Setters should be considered in more areas of the DPH, such as in the development of an Effects Analysis and Educational Material.

98. The OIC member recommended that the Trustees introduce a (simplified) version of the due process requirements for the IFRS Interpretation Committee agenda decisions.

99. The FASB member observed that only one of the suggestions outlined in the scope of the Review focused on increasing efficiency and timeliness. He noted that in the Review the Trustees need to balance improvements to the Board's already transparent processes and the Board's ability to respond to stakeholder needs in a timely manner.

Project updates and agenda planning

Research Pipeline Update

100. The IASB staff presented an update on the Board’s Research pipeline. The ASAF members’ advice was requested on whether the post-implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* should be undertaken as:

    (a) one project (that is the PIRs of all three Standards are combined into a single project); or

    (b) two or more separate projects (for example, IFRS 11 separately from IFRS 10 and IFRS 12, or the requirements for investment entities separately from other aspects of those Standards).

101. Some ASAF members (DRSC, EFRAG, AcSB, AASB/NZASB and AOSSG) supported starting the projects as soon as possible and as one project. However, members highlighted outstanding issues associated with the Equity Method of Accounting. Thus, they suggested that if resources were short then the PIR of IFRS 11 (and the related disclosures in IFRS 12) should be prioritised.

102. The AOSSG member reported that one of its members had highlighted a significant number of issues with IFRS 10 and urged the Board to begin with this project.

103. The CASC member suggested that the Board should begin each of these PIRs at the same time as separate projects.

Other comments on the Research pipeline

104. The FASB member noted that only one project in the Board’s research pipeline is similar to what the FASB is working on: variable and contingent consideration.

July 2018 ASAF Meeting Agenda

105. The IASB staff presented topics for inclusion on the agenda of the July 2018 ASAF meeting. In response, ASAF members made the following observations:

    (a) The AcSB member said the AcSB is publishing its first draft guidance on corporate performance measures (alternatively known as alternate performance measures) in mid-June. They would like to discuss at the July ASAF meeting as the work is relevant to the Board's Primary Financial Statements project.

    (b) The EFRAG member noted that EFRAG was unlikely to have come to a position on its discussion paper *Equity Instruments–Impairment and Recycling* by July and it might be best to delay the ASAF discussion until later in 2018.

    (c) The AOSSG member agreed with the proposed agenda topics for the July meeting. They also noted that one AOSSG member had suggested that the Board and ASAF might take stock of the implementation status of major new IFRS Standards at their next meeting.

106. The DRSC member noted that two of the proposed agenda items (Business Combinations under Common Control and Equity Instruments–Impairment and Recycling) had previously been discussed at an IFASS meeting. Given there was some overlap between the membership of IFASS and ASAF he questioned if there was any particular areas the Board was seeking to explore that had not been covered at the IFASS meeting.

107. The IASB staff noted that, in the case of Business Combinations under Common Control, the proposed agenda for the July ASAF meeting had been drawn up when the IFASS agenda was still under discussion. Nonetheless, they felt that it would be useful to discuss the tentative decisions the Board would have made by July.