Meeting notes——Global Preparers Forum

The Global Preparers Forum (GPF) met in London on 6 November. The meeting was chaired by Martin Edelmann, IASB Board member.

Members discussed the following topics:

- IASB Technical Update (paragraph 1);
- Primary Financial Statement (paragraphs 2-20);
- Management Commentary (paragraphs 21-35);
- Goodwill and Impairment (paragraphs 36-49); and
- Financial Instruments with Characteristics of Equity (FICE) (paragraphs 50-52).

IASB Technical Update (Agenda Paper 1)

1. Michelle Sansom, member of the IFRS Foundation's technical leadership team, presented an update on the IASB activities since the last GPF meeting. GPF raised comments on the following topics:

(a) Regarding the amendment to IFRS 3 *Business Combinations–Definition of a Business* a member enquired if goodwill is as an asset included in the optional concentration test. It was noted that goodwill is not an asset included in the test.

(b) On disclosures about accounting policies, a member asked if IFRS information outside the financial statements is listed as a priority for the Board's consideration. The staff said, based on the comments received to the *Disclosure Initiative—Principles of Disclosure* Discussion Paper it was not listed as a high priority; thus it was removed from the consideration.

(c) A member suggested that Dynamic Risk Management (DRM) should not only focus on financial services. He added that trading entities need to be made aware of relevant DRM information.

(d) One member enquired about the scope of the IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, in the research pipeline. The staff explained the project will aim to align the definition of a liability in IAS 37 with the *Conceptual Framework*.

(d) In the light of Argentina having become a hyperinflationary economy and Turkey at risk of becoming one, two members suggested, the Board considers providing guidance on the application and outcomes of hyperinflationary accounting. They noted users need to understand the effects of applying IAS 29 *Financial Reporting in Hyperinflationary Economies* as it is a Standard that is not easy to be applied with outcomes that might be material and not intuitive.

Primary Financial Statements (Agenda Paper 2)

2. The purpose of this session was to seek feedback on the Board's tentative decisions in the Primary Financial Statements project, including:
   (a) defined subtotals in the statement(s) of financial performance;
   (b) management performance measures; and
   (c) disaggregation.

3. GPF members were asked to assess whether the Board's tentative decisions will:
   (a) lead to better economic decision-making by investors;
   (b) result in changes to current practice;
   (c) be costly to implement.

4. In preparation for the session, GPF members completed a written assessment of the Board's tentative decisions, the results of which were discussed during the meeting and are summarised in these notes.

Defined subtotals in the statement(s) of financial performance

5. In their written assessment, many GPF members expressed the view that the Board's tentative decisions would not affect economic decision-making by investors. Some members expressed the view that they would. However:
   (a) one member did not consider the proposed classification between integral and non-integral for associates and joint ventures would improve economic decision-making because the classification is subjective and subject to change from period to period. In contrast, two members disagreed and considered the classification would lead to better economic decision-making by investors.
   (b) one member also disagreed with the proposed classification between integral and non-integral associates and joint ventures and did not support the presentation of the share of profit or loss of all associates and joint ventures below operating profit.
   (c) one member said the 'profit before financing and income tax' subtotal would have a negative effect on economic decision-making by investors, because they disagreed with the proposed inclusion in the financing section of interest on defined benefit obligations.
   (d) another member said using the term 'profit before financing and income tax' to label one of the Board's defined subtotals could be misleading because the label does not reflect that the defined subtotal includes the share of financing and income tax of associates and joint ventures.

6. GPF members provided comments on the proposed use of the term 'operating profit' as a subtotal:
   (a) some members said many entities would resist the Board claiming the 'operating profit' label.
   (b) one member was concerned that companies may need to now consider disclosing their current 'operating profit' measure as a management performance measure as it does not meet the new definition.
   (c) one member suggested that operating profit should be defined positively, rather than as a residual.

7. In their written assessment, many GPF members said that the Board's tentative decisions on subtotals would not be costly to implement. One GPF member explained the cost of implementation would be limited because accounting systems record income and expenses at a lower level of granularity than financial statements, which means that they only need to remap those income and expenses to different line items and subtotals in the statement(s) of financial performance.

8. The staff explained that foreign exchange gains or losses would be presented in the performance statement as part of the subtotal to which the underlining income or expense relates; ie whether the underlining items is operating, investing or financing. Two GPF members expressed concern with such an approach because many entities manage foreign exchange risk on a net basis. Therefore, it would be difficult to allocate foreign exchange gains or losses to the different sub-totals.

Management performance measures

9. In their written assessment, many GPF members said the Board's tentative decisions on management performance measures (MPMs) will improve economic decision-making by investors; although one member thought they should be presented outside the financial statements.

10. GPF members agreed that the reconciliation between an MPM and its closest total or subtotal specified by IFRS Standards would improve transparency.

11. Some GPF members stated they already provide some or all of the proposed MPM disclosures today, such as the reconciliation to subtotals.

12. In their written assessment, many GPF members said that they believe that implementation would not be costly, except for the cost of:

    (a) disclosing the effect of tax and non-controlling interests (NCI) of each MPM adjustment; and

    (b) the audit of MPMs.

13. Some GPF members expressed concern about the requirement to disclose the tax and NCI effect of each MPM. In particular:

    (a) one member said they already provide a simplified tax and NCI effect at a high level and that it would be costly to calculate these effects with greater precision. They noted guidance would be required to ensure entities follow a consistent approach to calculating these effects.

    (b) one member said the tax and NCI effect can be misleading if one company has multiple investments in different jurisdictions with different tax rates. Investors may wrongly use the disclosed tax effects to estimate the tax effects of future, similar transactions.

    (c) one member said it is complex to provide tax disclosure on a line-by-line basis, and the detailed disclosure of the tax effect may also give away commercially sensitive information.

14. However, one member said that:

    (a) they calculate the tax and NCI effect already because they choose to disclose MPMs on a per share basis—albeit using a simplified method;

    (b) for them the initial cost of setting-up processes to calculate the effect of tax and NCI is high, but the recurring cost in subsequent periods is limited; and

    (c) their investors find the disclosure of the effect of tax and NCI useful.

15. One member said that prohibiting the disclosure of some MPMs in the statement(s) of financial performance would remove some flexibility from preparers.

Disaggregation

16. In their written assessment, many GPF members said that the disaggregation principles as well as Board's tentative decisions for disclosure of unusual and infrequent items would lead to better economic decision-making by investors.

17. In their written assessment, members expressed mixed views on whether disclosure of unusual items and infrequent items would result in a change in practice or if the disclosures would be costly.

18. One member said the term 'infrequent' could be problematic as it is hard to interpret and is criticised by regulators. This member also said it could be acceptable to disclose an 'other' expense line item in the notes, if it was small compared to the total expenses recognised in profit or loss.

19. Members had mixed views about the Board's tentative decisions on disaggregation by function or by nature. Some members said it would be very costly, or even practically impossible, to disaggregate all expenses by nature when the primary analysis of expenses is presented by function, because their accounting systems are unable to track the original nature of expenses (for example depreciation that was included into the cost of inventories).

Next steps

20. At a future Board meeting, the Board will discuss whether to publish an Exposure Draft or a Discussion Paper. The Board will consider the feedback received from GPF members about the likely effects of the proposals in making that decision.

Management Commentary (Agenda Paper 3)

21. The purpose of this session was to seek feedback from GPF members on the following staff proposals being developed in a project to update IFRS Practice Statement 1 *Management Commentary* (Practice Statement):

    (a) the objective of management commentary (paragraphs 22–27);
    (b) applying materiality in preparing management commentary (paragraph 28-30); and
    (c) principles for preparing management commentary (paragraph 31–34).

Objective of management commentary

22. A few GPF members raised a concern that the wording included in the agenda paper 3 regarding future cash flows could be interpreted as a need for an entity to disclose its cash flow forecasts. The staff confirmed that this was not the intention and will develop wording to clarify this.

23. A member asked whether the reference, in agenda paper 3, to assessment of prospects for future net cash inflows and of stewardship of the entity's economic resources was to be interpreted the same way as for financial statements, ie the information provided enables users to predict or forecast the future of the entity. If differences were intended, these need to be explained. Another member thought that having the same objective for the management commentary and the financial statements would diminish the importance of the financial

statements. Staff clarified the similar objective was to emphasise that financial statements and management commentary are one package.

24. Some members were concerned that providing forward-looking information in management commentary would cause litigation risk. They were of the view that entities may be reluctant to predict prospects of future cash flows for investors and are also unsure on how far forward to look. A member expressed a view that requirements to disclose forward-looking information could limit acceptance of the Practice Statement.

25. A few members were of the view that the staff's suggested guidance supporting the objective was too prescriptive. While they did not disagree with the guidance at a high-level, they questioned the use of lists and wondered what level of detail would be expected. They also asked for further emphasis on management's view and for discretion to choose what information to present. Some said that the guidance suggested could lead to disclosure of sensitive information. A member suggested that preparers would find it helpful if the Practice Statement could include 'negative guidance', ie explain what management commentary is not expected to provide.

26. A few members felt that preparers would not understand which matters could reasonably be expected to influence users' assessments of cash flows and stewardship. This is especially because this requirement could lead to identifying a broad range of matters, and because that criterion could be subject to various interpretations.

27. Some members were of the view that references to risks and opportunities needed additional guidance, because there are various types of risks and there are legal and competitive limitations to what an entity can disclose on its opportunities. Members thought that the Practice Statement could provide more specific guidance in this area (including the fact that risks should be entity-specific) or alternatively a definition of risk could explicitly allow management to interpret what risk means in this context.

Applying materiality

28. Some members disagreed with the suggestion by some members of the Management Commentary Consultative Group (Consultative Group) that matters discussed by an entity's board should be considered material in deciding what information to disclose in an entity's management commentary. They felt that various matters discussed by a board would not be suitable for disclosure (e.g. assessment of talents in the organisation).

29. Some members were of the view that due to the narrative nature of the management commentary, providing guidance on qualitative materiality is more important for management commentary than it is for financial statements.

30. One member expressed uncertainty about whether the proposed two-stage approach that involves first identifying material matters and then identifying material information about those matters would be helpful in practice.

Principles for preparing management commentary

31. A member highlighted that they agreed with the concept of narrative coherence, as explained in agenda paper 3, as a means of testing whether management commentary is complete. However, they expressed concern that the suggested guidance included reviewing internal metrics as a way to test whether a management commentary is complete.

32. One member questioned why the suggested guidance on neutrality seemed to treat selecting information to disclose, separately from the guidance on completeness. In their view, if a management commentary is complete, then it would also be neutral. The staff noted that

completeness was mainly about which information to provide, and neutrality was more about how to provide that information.

33. Some members were cautious about a suggestion from some members of the Consultative Group to include *verifiability* in the principles for preparing management commentary. In their view a requirement for verifiability:

    (a) could be an obstacle to disclosing information based on management's judgements and information about future performance; and

    (b) could appear to imply a requirement for assurance over the management commentary.

34. One member raised a concern about the suggestion that an entity should provide comparability by disclosing metrics prevalent in its industry. The member suggested that this could conflict with the principle of providing information that reflects management's view if management's view was that different information would meet the objective of management commentary better than metrics prevalent in the entity's industry.

Next steps

35. The staff reported the feedback from GPF members on the objective of management commentary at the November 2018 Board meeting and will consider the feedback on other topics discussed at the session in preparing future agenda papers for the Board.

Goodwill and Impairment (Agenda Paper 4)

36. The purpose of this session was to seek GPF members' feedback on the disclosure objectives and requirements being developed to provide users with more information about a business combination and its subsequent performance.

Pro forma information

37. One member highlighted that it may be costly to provide pro forma information due to the impact of acquisition accounting entries and suggested that the Board would need to ensure any requirements to provide this information are pragmatic.

Monitoring of acquisition success

38. Several members commented that monitoring of acquisition success would require the tracking of the acquired business's performance. Such tracking would be difficult if the acquired business has been integrated into the acquirer's existing business operations.

39. Several members stated that they do not monitor the post-acquisition business combinations in the manner envisaged by the draft disclosure requirements. They noted that if an acquisition is integrated with an existing business new performance targets are set for the combined business. Management performance is measured against these new targets. One member pointed out that the basis for the new targets could be different from the acquisition assumptions and another member pointed out that the subsequent performance could be impacted by external and internal factors other than the performance of the business combination.

40. A Board member stated that the intent behind suggesting a requirement to disclose objectives of the acquired business or combined business and their subsequent achievement is to hold

management accountable for the consideration they paid in an acquisition and provide information that will help users to assess stewardship of management.

41. A few members agreed with the Board member that there was a need to improve the information for investors. They commented that management needed flexibility to tailor the disclosures in the light of entity-specific circumstances and that different acquisitions would need different factors to describe the subsequent performance of the acquired business or combined business.

42. One member commented there needs to be flexibility to allow for the circumstance that management's objective for the acquired business or combined business changes over time. Another member stated that management could provide users with an explanation when there is a change in objectives.

43. A few members also stated concerns that requiring the disclosure on the achievement of acquisition objectives may lead to companies having to disclose sensitive information that may harm the entity's competitive position. One member also commented that the information may be difficult to audit.

44. Two members emphasised that many business acquiring deals are driven by strategic rather than financial objectives. The subsequent achievement of these objectives could be hard to quantify.

45. Two members commented that additional disclosure should be required, if at all, only for material acquisitions rather than all acquisitions.

46. One member commented that there was no conceptual difference between the acquisition of assets and the acquisition of a business, and thus there is no reason to disclose additional information for the business combination.

Quantitative disclosures on synergies

47. Several members expressed concern over requiring quantitative disclosure on expected synergies in an acquisition because:

    (a) costs of collecting the necessary information for disclosure can be high;

    (b) the information could be commercially sensitive; and

    (c) it is often hard to assign values to expected synergies.

48. One member emphasised that the Board should not try to use information about goodwill to communicate performance of acquired businesses to users of financial statements. Companies evaluations of acquisitions is not driven by such accounting perspective.

Next steps

49. At a future Board meeting, the staff will report the feedback gathered from GPF members. The staff will consider that feedback in developing recommendations for the Board.

FICE (Agenda Paper 5)

50. The purpose of this session was to provide an overview of the key proposals of the Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity*. The staff also sought initial comments GPF members have or clarification they require on the Discussion Paper proposals.

51. GPF members raised comments or requested clarifications on the following topics:

    (a) Whether a financial instrument needs to be reclassified subsequent to their initial classification. For example, for a financial instrument that contains a redemption option that is exercisable within first year, whether a reclassification is required if the option expires unexercised;

    (b) Scope of the Discussion Paper and interaction of the Discussion Paper proposals with IFRS2 *Share-based Payment* and IFRS 7 *Financial Instruments: Disclosures;*

    (c) Classification of financial instruments that contain features which allow the issuer of the financial instruments to control the timing of payments. For example, financial instruments where the issuer has the ability to defer repayment until liquidation;

    (d) Proposed disclosure on priority of issued financial liabilities and equity instruments on liquidation and its interaction with laws and regulations in different jurisdictions, as well as with different group structures;

    (e) The level of aggregation for information required in the proposed disclosure on terms and conditions that affect the timing and amount of cash flows of the entity;

    (f) Proposed disclosure on maximum dilution of ordinary shares including required guidance on what the term ‘maximum’ represents;

    (g) The extent to which the Discussion Paper proposals such as disclosure of priority of financial instruments should apply to certain financial instruments such as trade payables; and

    (h) Interaction between the Discussion Paper proposal for separate presentation of financial liabilities and accounting for contingent consideration.

Next steps

52. The staff will consider comments from the members as part of their research and present them to the Board at a future meeting.

Next GPF meeting

The next GPF meeting will be held on 22 March 2019. The agenda topics will be posted on the IFRS Foundation’s website[1] prior to the meeting.

[1] https://www.ifrs.org/news-and-events/calendar/