Summary note of the Accounting Standards Advisory Forum

Held on 11 July and 12 July 2019 at the IFRS Foundation office, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD.

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 IFRS Foundation® website.*

Region	**Members**
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Asian-Oceanian Standard-Setters Group (AOSSG) Accounting Standards Board of Japan (ASBJ) Korea Accounting Standards Board (KASB)
Europe (including one at large)	European Financial Reporting Advisory Group (EFRAG) Autorité des normes comptables (ANC) Financial Reporting Council, UK (FRC) Organismo Italiano di Contabilità (OIC)
The Americas	Group of Latin American Accounting Standard Setters (GLASS) Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, US (FASB)

APOLOGIES:

Accounting Regulatory Department, Ministry of Finance PRC (ARD)

[1] IFRS, IAS, IFRS Foundation, IASB, IFRIC and SIC are trademarks of the IFRS Foundation in the UK and in other countries. Please contact the IFRS Foundation for details of where these trademarks are registered.

Business Combinations under Common Control

1. The objective of this session was to seek ASAF members' views on:

   (a) the technical staff's updated analysis of when a current value approach and a predecessor approach should be used for transactions within the scope of the project, including those that affect non-controlling shareholders and those between wholly owned entities; and

   (b) particular aspects of a current value approach and a predecessor approach.

When alternative approaches are applied

2. The AcSB, FRC, ANC, EFRAG, OIC, PAFA and GLASS reiterated their support for using a current value approach for transactions that affect non-controlling shareholders of the receiving entity. Most AOSSG members reiterated their support for using a current value approach for BCUCC transactions that have similar economic substance as business combinations that are not under common control.

3. The AcSB, ANC, OIC, PAFA, GLASS and some members of AOSSG and some members of EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) agreed with the basic idea that the presence of external non-controlling shareholders in the receiving entity is an indicator that the transaction is an acquisition similar to business combinations that are not under common control. The FASB member also agreed that some business combinations under common control are similar to business combinations that are not under common control; however, FASB argued that there is no 'bright line' between business combinations under common control and those not under common control based on whether they affect non-controlling shareholders of the receiving entity. KASB and ASBJ argued that accounting treatment should not depend on the presence of non-controlling shareholders in the receiving entity; however, KASB agreed that transactions that affect public non-controlling shareholders could be similar to business combinations that are not under common control.

4. ASAF members expressed the following views on whether and how to make a distinction between transactions that affect non-controlling shareholders to which a current value approach should apply and those to which a predecessor approach should apply:

(a) ANC, OIC, PAFA, GLASS members and some members of AOSSG did not support a distinction between public and private non-controlling shareholders and advocated using a current value approach for all transactions that affect non-controlling shareholders. They argued that information needs of all non-controlling shareholders of the receiving entity are the same and expressed concerns about operational challenges and costs of the so called 'opt in / opt out' approach for private non-controlling shareholders.

(b) KASB, EFRAG and some members of AOSSG in contrast, would prefer using a current value approach only if the receiving entity's equity instruments are traded in a public market (some members of EFRAG CFSS also advocated a current value approach when debt instruments are traded in a public market and noted there may be no 'bright line' between debt and equity holders). Those members:

    (i) noted that listed entities are subject to robust capital market regulations and corporate governance requirements;

    (ii) argued that the benefits of providing current value information to private non-controlling shareholders would not justify the costs; and

    (iii) echoed concerns about the 'out in / opt out' approach.

(c) FRC and some members of AOSSG expressed a view that the 'opt in / opt out' approach could provide a balanced solution taking into account both information needs of private non-controlling shareholders and costs of providing current value information. However, FRC acknowledged the concerns about the 'opt in / opt out' approach expressed by other ASAF members.

(d) AcSB suggested using a set of indicators in determining when a current value approach should be applied (eg whether non-controlling shareholders are related parties, the size of and the change in non-controlling interest as a result of the transaction) similar to the approach adopted in Canadian GAAP. EFRAG reiterated its view that a quantitative thresholder should not be used.

5. ASAF members (ANC, OIC, PAFA, GLASS, KASB, EFRAG, some members of AOSSG, FASB, ASBJ and AcSB) who expressed concerns about the 'opt in / opt out' approach made the following specific points:

(a) giving non-controlling shareholders the choice of accounting treatment has no conceptual basis;

(b) non-controlling shareholders may be unsophisticated and unaware of the consequences of 'opting in for / opting out of' a particular approach;

(c) such an approach could result in reduced comparability and consistency, for example if transactions are accounted for differently in different periods depending on the choices made by non-controlling shareholders over time;

(d) such an approach would require tracking non-controlling shareholders which would be costly; and

(e) it is unclear how the entity would communicate with the non-controlling shareholders to obtain their consent.

6. The vice-chair reported feedback received in outreach with Chinese stakeholders who supported the use of a predecessor approach for all business combinations under common control.

How to apply a current value approach

7. Most ASAF members (EFRAG, ANC, OIC, FRC, GLASS, FASB, AcSB, ASBJ and KASB) stated that there are laws and regulations in their jurisdictions that either directly require business combinations under common control to be undertaken at fair value (for example, capital market regulations of related party transactions) or would indirectly result in those transactions to be undertaken at fair value (for example, provisions in tax laws setting out tax consequences for transactions that are not conducted on market terms).

8. Because of the existence of such regulations:

(a) The EFRAG and FRC members suggested a rebuttable presumption that business combinations under common control to which a current value approach is applied are undertaken at fair value so that entities are not required to 'look for' distributions or contributions when the transaction price is regulated. However, when the rebuttable presumption is not met, EFRAG and FRC supported recognition of a distribution or contribution rather than disclosure in the notes to financial statements. They did not express a view of whether a distribution should be measured from a market-participant or entity-specific perspective.

(b) OIC, ANC and GLASS members did not think that distributions in business combinations under common control would happen in practice.

9. Some ASAF members (KASB, some members of AOSSG, AcSB) agreed with the need to provide information about any distribution or contribution in a business combination under common control and expressed the following views:

(a) three members of AOSSG preferred recognising a distribution or contribution. They would measure distribution as a difference between consideration and fair value of the acquired business.

(b) three other members of AOSSG were concerned about measurement uncertainty involved in measuring a distribution. Consequently, they preferred disclosure of information about any distribution in the notes of financial statements.

(c) KASB supported recognition of a contribution. KASB also suggested that recognition of a distribution is theoretically attractive but would involve significant measurement uncertainty. Consequently, KASB advocated disclosure of information about any distribution instead of recognition.

(d) AcSB suggested it is important that information about a distribution or contribution is provided in the financial statements and did not have a preference for whether distribution is recognised or disclosed.

10. ASBJ and FASB commented on the conceptual basis for recognising a distribution or contribution:

(a) ASBJ argued that IFRS Standards generally assume that the exchange takes place at fair value with any Day 1 gains and losses recognised in the statement of profit or loss. Consequently, ASBJ asked for consideration of whether any overpayments or underpayments in a business combination under common control should be recognised in the statement of profit or loss rather than in equity.

(b) FASB argued that if a current value approach is applied to business combinations under common control that are similar to business combinations between unrelated parties, the question about reporting distributions or contributions should not arise.

How to apply a predecessor approach

11. Only a few ASAF members (EFRAG, FRC and AOSSG) commented on this topic. Those members generally agreed that pre-combination information for all combining entities is useful for assessing trends. However, EFRAG, FRC and one member of AOSSG suggested that such information should be provided in the notes (or in management commentary) rather than on the face of financial statements. This is because:

    (a) preparing such information could be challenging and involve uncertainties (in particular in the carveout scenario); and

    (b) providing pre-combination information for the receiving entity would better reflect the legal form of the transaction.

12. Four members of AOSSG supported providing pre-combination information for all combining entities on the face of the financial statements because such information is useful for investors to perform trend analysis. One of these members also argued that an approach based on the identity of the receiving entity applying a predecessor method would not provide useful information. Two other members of AOSSG requested clarifications on how the identity of the receiving entity would be determined. Another member of AOSSG also argued that there is an interaction between taking the perspective of the controlling party vs the receiving entity and how pre-combination information should be provided.

Management Commentary

13. The objective of this session was to receive the ASAF members' views on whether the staff's proposals include sufficient guidance on:

    (a) applying the notion of narrative coherence; and

    (b) identifying and reporting matters that could affect the entity's long-term success, including intangible resources and relationships that the entity depends on for its long-term success.

Narrative coherence

14. Most ASAF members agreed with introducing in the revised Practice Statement the notion of narrative coherence (AcSB, GLASS, FRC, KASB, ANC, PAFA, AOSSG, ASBJ and OIC). Some members asked for more clarity on the meaning of the notion (AcSB, GLASS, FRC, EFRAG, ANC, FASB and OIC). Suggestions on clarity included:

    (a) the notion is broader than just helping to identify relevant information about reportable matters. It should be applied to management commentary as a whole focusing on interrelations or connectivity between different pieces of information (FRC, EFRAG and ANC).

    (b) illustrative examples could be used to explain the meaning of the notion (GLASS and PAFA).

    (c) coherence is important not just within management commentary but also between management commentary and financial statements (a Board member).

15. Some ASAF members commented on terminology used in the proposed guidance:

    (a) the term ‘narrative coherence’ may suggest that it applies only to narrative information rather than to all information included in management commentary, that is to narrative, quantitative monetary and quantitative non-monetary information (ANC);

    (b) some terms used, for example ‘potentially reportable matters’ or ‘content elements’, may be difficult to understand (EFRAG); and

    (c) plain language should be used because non-financial management often prepare the management commentary (AcSB).

16. Some ASAF members agreed the guidance on narrative coherence should be principles-based because overly prescriptive guidance could lead to checklist approach to disclosures or duplication of information in different parts of management commentary (AcSB, GLASS, FASB, ASBJ, KASB and PAFA).

17. The EFRAG member said that the revised guidance in the Practice Statement, for example the guidance on content elements, should require management to provide information only to the extent it is relevant.

18. The OIC and PAFA members suggested emphasising not only the need for coherence but also the need for conciseness in management commentary. In contrast, the ANC member commented that in the digital world the quality of information and organising information to provide a drill-down function is more important than conciseness.

19. Other suggestions on developing guidance on narrative coherence included:

    (a) consider competitive harm (FASB); and

    (b) research how users are currently filling the void where information is unavailable in management commentary (AcSB and FASB).

Identifying and reporting matters that could affect the entity's long-term success

20. Some ASAF members (ANC, PAFA, FRC, EFRAG and FASB) said it is important for the revised guidance to place equal emphasis on an entity providing both negative and positive information about matters that could affect the entity's long-term success (or about risks and opportunities). The ANC member observed that more balance is needed because currently corporate reporting frameworks put more emphasis on reporting risks than on reporting opportunities or resources underlying the entity's success.

21. The FRC and ANC members suggested that increasing the level of assurance for the management commentary could lead to more balance and better quality information in the management commentary. The ANC member further suggested that classification of information as historical and forward-looking and improving governance in preparing management commentary could also help in improving the quality of information in the management commentary.

22. The FRC member agreed with the technical staff's identified areas where more guidance is needed to promote long-term view. However, he questioned whether focusing on the effect on cash flows could be interpreted as focusing on the short term. The FRC and EFRAG members suggested considering whether referring to 'value creation' could provide a better basis than the effect of cash flows. The ANC member expressed a view that although any matter will eventually affect cash flows, the timing of that effect is important because some matters (for example, some environmental, social or governance matters) may not affect cash flows for a very long time.

23. The AOSSG and GLASS members suggested closer alignment between content elements in the revised Practice Statement and the six capitals in the International Integrated Reporting Framework (<IR> Framework). The GLASS member suggested that the revised Practice Statement explains whether and how an entity can apply the <IR> Framework when applying the revised Practice Statement.

24. The KASB member agreed with placing greater emphasis on the long-term, and on intangible resources and relationships. The EFRAG member supported emphasising information about intangibles.

25. The FASB member expressed a view that in practice users hold management accountable for short and medium term. However, the GLASS member suggested that users' preferences differ among jurisdictions, so information needs of all users should be considered.

26. Further comments from ASAF members included:

    (a) The FASB member suggested that requiring information about changes in long-term opportunities and risks may provide useful information and avoid boilerplate disclosures because long-term opportunities and risks do not change often; and

    (b) The FRC member commented on practical challenges of focusing on key risks in the management commentary because security lawyers encourage a broader disclosure of risks as a way of protecting management against litigation.

IBOR Reform

27. The objective of this session was to ask ASAF members for information about the current state of interest rate benchmark reform (IBOR reform) in their jurisdictions and their views on what specific financial reporting issues they have identified and whether and how the Board should address those issues as part of the phase II of the project.

28. Some ASAF members provided an overview of feedback from their constituents in response to the Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) issued by the Board in May 2019 which addresses Phase I issues. The comment period for the Exposure Draft closed on 17 June 2019.

Issues addressed in Phase I

29. The EFRAG member said that, consistent with its comment letter on the Exposure Draft, they support the Board's approach to divide the project into Phase I—addressing pre-replacement issues and Phase II—addressing replacement issues. EFRAG broadly agree with the proposals, however, they suggest before finalising the amendments, the Board consider the following:

    (a) providing relief from including the uncertainties of the IBOR transition in the retrospective assessment in IAS 39 *Financial Instruments: Recognition and Measurement*. Nonetheless, in EFRAG's view (consistent with the Board's view expressed in the Basis for Conclusions to the ED) entities should continue to measure and recognise hedge ineffectiveness as required by IFRS 9 *Financial Instruments* and IAS 39.

    (b) clarifying the accounting for amounts accumulated in other comprehensive income (OCI) at the end of the relief. In EFRAG's view, provided that the effects of any ineffectiveness are recognised in profit or loss according to the prevailing market conditions at the end of the relief, the accumulated amount in the OCI reserve should follow the hedge accounting treatment under an assumption of continuity of the hedge (ie amounts will be reversed when the hedged transaction occurs in future periods).

    (c) allowing entities to apply the amendments retrospectively such that hedge accounting relationships that were discontinued because entities were unable to apply the proposed relief, are reinstated.

    (d) requiring only qualitative disclosure as part of Phase I and consider quantitative disclosures as part of Phase II. In EFRAG's view, this provides a reasonable approach when considering the costs to prepare quantitative information versus the benefits of such information to the users of financial statements.

30. The AcSB member supported the Board providing relief for the retrospective assessment in IAS 39 so that entities can continue to apply hedge accounting even if those hedge accounting relationships breach the 80-125% range in IAS 39.

31. EFRAG and AcSB members highlighted the urgency for the Board to finalise the amendments, to allow sufficient time for the endorsement process to be completed.

The EFRAG member said the European Commission are of the view that if the Board issues the amendments to IFRS 9 and IAS 39 in September 2019 this will allow endorsement process to be finalised for reporting periods ending 31 December 2019. The AcSB member mentioned that they also share the challenges with regards to the timing of the amendments given entities in Canada prepare financial statements for the year ending 31 October 2019.

32. The vice-chair, said that issuing amendments per the timeline described above is challenging but the Board acknowledges the urgency of the matter and will endeavour to undertake actions as quickly as practicable.

33. Furthermore, the vice-chair observed with regard to the request for relief on retrospective assessment in IAS 39, that the effects arising from the uncertainty associated with IBOR reform may not necessarily in itself cause a hedge accounting relationship to breach the 80%-125% threshold in IAS 39, however when coupled with the existing basis risk then the incremental effect arising from IBOR reform could cause such relationship to fail the hedge accounting criteria and result in the discontinuation of hedge accounting. Then the challenge is to identify the incremental effect arising solely from the IBOR reform without allowing the continuation of hedge accounting relationships that would have been discontinued regardless of the effects from the IBOR reform.

Market developments on IBOR reform

34. EFRAG and AcSB members provided the following information on the market developments in their jurisdictions with respect to the IBOR reform:

    (a) in the European Economic Area, there are different transition paths for different benchmarks—EURIBOR is not being replaced with a new benchmark index but instead the calculation methodology changed, hence amendments in the contracts to reflect the new rates are not necessitated. In the case of EONIA, it is expected that it will transition to €STR plus a fixed spread, which in EFRAG's view allows for a clear economic relationship to exist between EONIA and €STR.

    (b) in Canada, a new methodology is out for public comment, referred to as the enhanced Canadian overnight repo rate (enhanced CORRA) which is expected to replace CIDOR, currently widely used as a current rate.

(c) in the United States the new benchmark rate in the United States—SOFR was published in April 2018. In October 2018 the FASB added SOFR as a permissible benchmark rate for hedge accounting purposes.

35. In response to the discussion about transition process in the European Economic Area whereby transition is only changing the calculation methodology and not necessarily requiring amendments in the contracts, the vice-chair highlighted that the IFRS 9 requirements with regards to the assessment on modification or derecognition of financial instruments focus on whether there is a change in the contractual cash flows which in turn may occur even when contracts have not been legally amended.

36. The FASB member described the FASB’s tentative decisions, highlighting that:

(a) the scope criteria of the relief relate to contracts that reference the London Interbank Offered Rate, or a rate that has been discontinued or is anticipated to be discontinued and the changes relate to critical terms that are either essential to or related to the replacement of an interest rate. The principle for the contract amendments is to allow them to be considered a continuation of the contract. The relief is optional and can be applied on a topic by topic basis.

(b) there is also explicit relief from (i) assessment to determine whether an amendment to a loan or debt instrument is a troubled debt restructuring, modification, or extinguishment; (ii) the lease modification accounting requirements; and (iii) the reassessment of embedded derivatives.

37. The FASB will discuss potential relief to address effects of reference rate reform on hedge accounting, the relief period and transition requirements.

38. The vice-chair observed that there might be situations when entities in amending their contracts to reflect the new reference rates, also make other amendments to their contracts that are not necessarily related to the reference rate reform. In this context, she asked the FASB member whether the scope of the relief described is narrowed down to only include changes exclusively arising from the reference rate reform (eg changes in the reference rate only) whereas any other amendment to the contract is outside such scope. The FASB member responded that the specifics of this matter may be discussed at a future FASB meeting.

Issues suggested to be addressed in Phase II

39. The EFRAG member said that EFRAG had not yet discussed nor reached a conclusion on the phase 2 issues, however respondents that replied to EFRAG's draft comment letter suggested the following issues should be addressed in Phase II:

    (a) *Derecognition of financial instruments*. A potential relief from the required assessment as to whether the changes to reflect the new risk free rate (RFR) result in derecognition of the old financial instrument and recognition of a new one. In their view, this could represent a pragmatic solution particularly considering paths such as that of EURIBOR and EONIA described above whereby it is expected that there will be legal continuity in the contractual terms.

    (b) *Modification of financial instruments*. Whether the modification gain or loss could be reflected in the effective interest rate throughout the life of the financial instrument rather than being reported as a gain or loss at the modification date.

    (c) *Recalibration of hedging accounting relationship*. For example, changes in the hypothetical derivative and how to treat any valuation differences arising on transition to a new RFR rate.

    (d) *Changes in hedge documentation.* Changes needed to reflect the new benchmark rate similar to the amendments in the loan contracts.

40. Other ASAF members (AcSB, FRC, AOSSG, ASBJ) agreed with the above list, as the main issues that need to be addressed in Phase II, in particular derecognition and modification of financial instruments and changes in hedge documentation. Some of these members also highlighted:

    (a) that derecognising a financial instrument and recognising a new one as a result of the changes from IBOR reform could also have a consequential effect on the potential move of those financial instruments between different impairment stages.

    (b) given the large number of contracts that are referenced to IBOR, the Board should consider if there is a possibility to allow for some type of practical expedients when considering the scope of the amendments so that the transition process becomes less burdensome for entities.

(c) there is a need for information on the timeline for Phase II.

41. The AOSSG and KASB members expressed the view that modification and derecognition requirements in IFRS 9, are clear with respect to financial liabilities. However, further clarity is required on those requirements with respect to financial assets. They suggested that the Board may consider addressing this issue as part of Phase II of the project on IBOR reform.

42. AcSB and ASBJ members suggested the Board consider aligning to the extent possible, the proposed amendments with other standard-setters, in particular the FASB, that are also undertaking standard-setting activities to address similar matters.

43. A member of the IASB technical staff informed participants that a joint IASB-FASB educational meeting is scheduled to be held on 23 July 2019 for the purpose of updating members of both Boards on the developments for each of their projects related to IBOR reform.

Better Communication—Primary Financial Statements

44. The objective of this session was to seek ASAF members' advice on:

(a) possible approaches to structuring the Board's proposed requirements arising from this project; and

(b) outreach planning.

Possible approaches to structuring the new requirements

45. The technical staff outlined three approaches to structuring the proposed requirements:

(a) Approach 1—withdraw IAS 1 *Presentation of Financial Statements* and replace it with a new Standard;

(b) Approach 2—amend IAS 1 to remove requirements on the structure and content of the primary financial statements and on disaggregation of financial information, and include those requirements in a new Standard; or

(c) Approach 3—amend IAS 1 without developing a new Standard.

46. The technical staff presented an analysis of the advantages and disadvantages of Approach 1 and Approach 2 and asked for comments.

47. The technical staff did not present a detailed analysis of Approach 3 because they considered this approach to have significant disadvantages. However, the ASBJ, EFRAG and OIC members suggested the technical staff also consider Approach 3.

48. Some members (FRC, EFRAG, OIC and AcSB) said that timing is an important factor in deciding which approach to adopt.

49. The ASBJ, OIC and AcSB members said unnecessary drafting changes to existing requirements create work as stakeholders try to understand the effects of the change. This is likely to be the case, even if the Board explains it does not intend to change the requirements. The ASBJ member said this problem is amplified by translation process.

50. The FRC, KASB and AOSSG members said that updating the drafting of existing requirements of IAS 1 could be beneficial. IAS 1 was developed a long time ago and some of the drafting could be improved. The FRC member also said that the Board could minimise the risk by making only substantial improvements, and by clearly indicating and asking questions about the proposed changed paragraphs in the Exposure Draft.

51. Most members said that splitting the requirements of IAS 1 into two Standards would be confusing, noting that the issues covered by IAS 1 logically belong in a single Standard. A few commented that if the Board were to split the requirements in IAS 1, it should move the remaining parts of IAS 1 to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

52. The KASB and AOSSG members commented the identified disadvantages of Approach 1—that users might not know what is updated and what remains unchanged in IAS 1—could be overcome by clear communication in the Basis for Conclusions.

53. The ANC member asked whether the presentation requirements of other Standards would be included in a new or revised Standard. The technical staff said they will consider including such requirements in a new or revised Standard.

Outreach planning

54. ASAF members said the proposals will be of great interest to stakeholders in their jurisdictions and they plan to arrange outreach events during the comment period.

55. The AcSB member said that management performance measures will be a hot topic in its jurisdiction. The securities regulators in Canada are planning to publish a document by the end of the year that seeks feedback on non-GAAP measures, which will have some overlap with the Board's proposals on management performance measures.

56. The KASB member said that operating profit will be of interest in its jurisdiction, because they already have a definition of operating profit, which differs from the Board's proposed definition. Understanding the effects of this difference will be important.

57. The AOSSG member said operating profit, management performance measures and classification of integral and non-integral associates and joint ventures will be of particular interest to its stakeholders.

58. A few members mentioned other topics they considered the Board should address to the ones included in the project proposals, such as improvements to the statement of cash flows, creating clearer links between the statement of financial performance and the statement of financial position and the presentation of reverse factoring in the primary financial statements.

59. The ANC member asked whether the objective of the outreach was to communicate the aims of the project or to obtain feedback for the effects analysis. The technical staff responded that there will be an element of both but the main objective will be to ensure the proposals are well understood to facilitate quality feedback on the Exposure Draft.

Variable and Contingent Consideration

60. The objective of this session was for ASAF members to discuss the FRC's project exploring the conceptual basis for transactions involving variable and contingent consideration.

61. All ASAF members who commented on the topic (ASBJ, AcSB, AOSSG, FASB, KASB and GLASS) welcomed the initiative undertaken by the FRC. Notably:

(a) The KASB member said the project is particularly important due to the increasing importance of intangible assets for the value of the business and a growing number of transactions which involve the transfers of intangible assets for variable or contingent consideration.

(b) The AOSSG member observed that the project is needed because of current inconsistencies in accounting for variable and contingent consideration.

62. ASAF members made the following suggestions for developing the analysis:

(a) The KASB and AOSSG members suggested the FRC consider the differences between variable consideration and contingent consideration and whether different accounting principles are needed depending on the type of consideration involved.

(b) The KASB member suggested considering whether different accounting principles are needed depending on the type of assets acquired, for example, tangible assets, intangible assets or leased assets, and on the form of payment.

(c) The ASBJ member recommended the guidance on unit of account in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) be considered in determining whether transactions involving variable and contingent consideration result in the acquisition of a single right or several rights.

(d) The technical staff emphasised the importance of identifying exactly what is acquired as a result of a transaction (the whole of the underlying asset, a portion of the asset or a right and an option to acquire another right). Identifying what has been acquired will help identify what obligation was incurred in exchange. The technical staff also suggested that it may be helpful to consider whether variable consideration arises because:

(i) there is performance uncertainty associated with the right of use received;

(ii) the value of the right received is uncertain; or

(iii) there is an option to draw down further right of use. If the entity does not draw down that further right, the seller retains it.

(e) The FASB member suggested considering whether it is necessary to determine whether a contract involving variable consideration is executory, especially in case of purchasing intangible rights.

(f) The AOSSG member proposed the FRC consider when a liability for variable or contingent consideration should be recognised—when the contract is signed or after the occurrence of a particular event that triggers additional consideration.

(g) The AOSSG member also suggested considering how depreciation would have to be calculated if remeasurement is added to the cost of the asset.

(h) The KASB and AOSSG members proposed exploring further practical examples covering various assets, industries and jurisdictions by:

(i) applying the principles in the *Conceptual Framework* to those examples; and

(ii) considering what the differences in initial recognition and measurement are in practice.

(i) A member of the AOSSG proposed a comparison be made of IFRS Standards' requirements on accounting for transactions that involve variable and contingent consideration to identify any inconsistencies. The AcSB member questioned whether numerous issues related to contingent consideration indicate that there may be a need to reconsider the treatment of all contingencies in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(j) The AcSB's IFRS Discussion Group suggested reviewing the materials that discussed several examples of transactions involving variable and contingent consideration.

63. Comments on the scope of the project included:

(a) The AOSSG member suggested extending the scope of the project to include accounting by the seller. This would allow comparing accounting treatment of the same transaction by the seller and the acquirer and possibly lead to requiring consistent treatment by both parties (mirroring). The technical staff noted that the *Conceptual Framework* states that for every liability there will be an asset even though that asset will not necessarily be recognised by the counterparty. Considering the counterparty's rights may help to identify an entity's obligations even if it does not lead to mirroring.

(b) The FASB member questioned whether transactions that involve assets that are immediately consumed are within the scope of the project. This would broaden the scope because pensions and share-based remuneration paid in cash would have to be considered.

64. The FASB member also suggested extending the analysis to cover transactions that involve consideration that may need to be returned in the future and examining whether accounting outcomes will be the same for contracts that require a smaller upfront payment with an additional contingent consideration and for contracts with a larger upfront payment with a contingent refund.

65. The AOSSG member agreed with the FRC suggestion that the findings of the project would provide a basis for the Board's future standard-setting projects.

Business Reporting of Intangibles: Realistic Proposals

66. The objective of the session was to seek ASAF members' views on the recent FRC Discussion Paper and respondents' views on them. The FRC presented an overview of the proposals.

67. Most ASAF members (AcSB, ANC, AOSSG, ASBJ, EFRAG, FASB, GLASS, KASB and PAFA) supported the initiative taken by the FRC and agreed the business reporting of intangibles requires improvement.

68. ASAF members made following comments on the FRC's Discussion Paper:

(a) The GLASS member supported narrative reporting including metrics such as Key Performance Indicators (KPIs) that can assist users of financial statements in assessing an entity's intangibles. He suggested that for information about intangible assets to be useful, KPIs should be linked to the intangibles assets that are reported.

(b) A Board member said expenditure which is for future-oriented intangibles assets is not always captured. For instance, some entities are reluctant to recognise development expenditure as an intangible asset because of the risk of future impairments. The member added that the FRC's work on intangible assets will be particularly important to the Board's Management Commentary project.

(c) The AOSSG member noted separate reporting of expenditure on future-oriented intangible assets can be subject to manipulation because judgement is required to decide what expenditure should be considered as future-oriented intangibles assets. The AOSSG member believed Integrated Reporting or Management Commentary should be considered for reporting intangibles.

(d) The ABSJ member supported information on intangibles being reported outside financial statements such as in the Management Commentary. The member provided three reasons:

(i) information on intangible assets is more useful when combined with management's view;

(ii) recognition criteria for intangible assets can be ignored when it is reported in the management commentary; and

(iii) allows flexibility to present information on intangible assets—quantitative and qualitative information.

69. The KASB member provided an overview of the KASB's research work on intangible assets. He explained the KASB's most recent project focuses on developing a 'statement' of 'core business intangibles'. The 'statement' will report the monetary value of 'core intangibles' and initially will be independent from the financial statements.

70. ASAF members made following suggestions for developing FRC's analysis on intangible assets further:

(a) research how information about intangible assets is consumed by users, before considering accounting solutions. The EFRAG member suggested conducting joint outreach involving users, preparers and standard-setters.

(b) consider performing outreach and consultation with investors who focus and monitor innovation (AOSSG).

(c) consider the quality of information about intangible assets irrelevant of where it is reported—narrative section of the annual report or the financial statements (AcSB and PAFA).

(d) the objective of future oriented intangibles (FASB).

(e) maintain balance between historic and forward-looking information on intangibles when it is reported in the narrative section (Board member).

Discussion Paper Accounting for Pension Plans with an Asset-return Promise

71. The EFRAG presented a summary of its Discussion Paper *Accounting for Pension Plan with an Asset-return Promise*, and asked ASAF members for their initial views and comments on the three accounting alternatives (Capped Asset Return approach, Fair Value Based approach and Fulfilment Value approach) explored in the Discussion Paper for the post-retirement employee benefits promising the higher of the return on an identified item or group of items and a minimum guaranteed return.

72. ASAF members (AOSSG, ASBJ, KASB and OIC) expressed mixed views on the three accounting alternatives explored in the Discussion Paper.

(a) AOSSG and OIC members supported the Capped-Asset Return approach because it is easy to apply and less costly than other two alternatives.

(b) The ASBJ member suggested removing the internal measurement inconsistency by adjusting the discount rate used for measuring pension obligations, rather than capping the estimated asset returns used in estimating the pension cash flows. This member expressed the view that the Capped-Asset Return approach would not provide a faithful representation.

(c) The KASB member thought information on planned assets and pension obligations is faithfully represented under the Fair Value Based approach. The member thought the Capped-Asset Return would artificially match planned assets and pension obligations and as a result, provide misleading information. However, a Board member and technical staff noted the objective of the Capped-Asset Return approach is to solve an internal inconsistency that arises in measuring the defined benefit obligation. The technical staff emphasised the focus of this approach is on removing that internal inconsistency for pension benefits that depend on asset returns, not to eliminate any accounting mismatch between plan assets and the defined benefit obligation.

73. A technical staff member suggested that some of the measurement differences identified in the EFRAG Discussion Paper might arise not just from applying different measurement bases, but also from using different units of account. For example, he thought that IAS 19 and the Capped-Asset Return approaches focused mainly on the obligation for services already received from employees, whereas the Fulfilment Value approach looked at employees' entire service period. He also noted that in the particular fact pattern used in the examples, the benefit formula is backloaded, and the largest difference between the approaches arises from the backloading correction applied in IAS 19 and in the Capped-Asset Return approach.

Update and agenda planning

74. The technical staff presented Agenda Paper 5, including the proposed agenda for the October 2019 ASAF meeting. The staff noted that that in addition to the proposed agenda members' advice would be requested on the Exposure Draft for *Disclosure Initiative – Accounting Policies*, which is expected to be published in August 2019 with a 120-day comment period.

75. The staff further noted that as many of the technical teams will be busy drafting consultation documents for several standard-setting and research projects, the agenda for the next ASAF meeting is expected to be relatively light. Consequently, it was agreed that the October 2019 ASAF meeting be a 1-day meeting, instead of a 2-day meeting.

76. The KASB member proposed including on the agenda for the October 2019 meeting its research performed for *Accounting Estimates*. In addition, he suggested the KASB's work on intangible assets could be discussed at the December 2019 ASAF meeting or sometime in 2020.