Meeting notes— GPF meeting

The Global Preparers Forum (GPF) held a meeting on 8 October 2019 at the London offices of the International Accounting Standards Board (Board).

Members discussed the following topics:

- IBOR (paragraphs 1–4)
- Primary Financial Statements (paragraph 5–8)
- Accounting Policies Disclosure (paragraphs 9–13)
- Post-implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*; and IFRS 12 *Disclosure of Interest in Other Entities*. (paragraphs 14–17)
- Agenda Consultation (paragraphs 18–23)

IBOR

1. The purpose of this session was to provide an update on the IBOR Reform project and obtain input from GPF members on potential accounting issues to be considered by the Board during Phase 2 of the project.

2. GPF members' comments on potential Phase 2 issues included:

    a. Agreement with the preliminary list of issues identified by technical staff.

    b. A suggestion that issues arising when financial assets are modified be prioritised—there is less guidance on this topic in comparison to when financial liabilities are modified;

    c. The Board should consider the potential impacts of IBOR Reform on IFRS Standards other than IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*.

3. GPF members also noted that the Board should ensure it has adequate resources to ensure that Phase 2 issues are addressed comprehensively and in a timely manner.

4. *Next steps*

    The staff will consider the feedback received from GPF members when it continues discussions on Phase 2 issues at future Board meetings.

Primary Financial Statements

5. The staff provided GPF members with an update on the project status in preparation for publication of an Exposure Draft expected at the end of 2019.

6. GPF members asked for clarification on some of the Board's forthcoming proposals to be included in the Exposure Draft. The technical staff provide responses and noted some of the suggestions made by GPF members could be addressed in drafting the Exposure Draft.

7. GPF members' comments on the forthcoming proposals to be included in the Exposure Draft included:

   a. The Board should be cautious about defining operating profit as a residual category of the statement of profit or loss. In their view, the residual approach to defining operating activities in IAS 7 *Statement of Cash Flows* results in some cash flows being treated as operating that are not operating in nature.

   b. The share of profit or loss of integral associates and joint ventures should be classified in operating profit because, in their view, it is part of an entity's main business activities.

   c. The proposed definition of 'unusual items' is too restrictive.

   d. The requirement to disclose an analysis of expenses by nature adds complexity and would require accounting system changes.

   e. Classifying interest income from cash and cash equivalents in the financing category of the statement of profit or loss and classifying interest received as an investing cash flow in the cash flow statement would not faithfully represent an entity's performance and cash flows.

8. *Next steps*

   Many of the suggested clarifications will be included in the forthcoming Exposure Draft. The staff will continue discussion with GPF members after the Exposure Draft is published.

Accounting Policies Disclosure

9. GPF members provided feedback on the Board's proposals in Exposure Draft Disclosure of Accounting Policies.

10. Some of the GPF members who commented expressed agreement with the proposal to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies because the proposal would help preparers focus only on disclosing that information which is material to the financial statements. However, some members added that so-called 'boilerplate' disclosure can be useful to users of financial statements that are not familiar with the IFRS Standards, especially in emerging markets or where IFRS Standards are not the dominant set of accounting standards.

11. A few members suggested that the proposed new paragraph 117B of IAS 1 *Presentation of Financial Statements* should be clarified to help entities consider accounting policy disclosure of transactions, other events and conditions that may be material only by nature and not by size.

12. A few other members suggested that the Board clarify what is meant by the proposed new paragraph 117B(e) of IAS 1 as all accounting policy disclosures should already reflect how an entity has applied the IFRS Standards to that entity's specific circumstances.

13. *Next steps*

    Feedback from the GPF members will be considered by the Board as part of the analysis on responses to the Exposure Draft in H1 2020.

Post-implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities*

14. GPF members shared views on the Post-implementation reviews (PIR) of IFRS 10 Consolidated Financial Statements, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities*.

15. GPF members' comments on the implementation and application requirements of IFRS 10, included:

    a. the definition of control should be consistent between IFRS 10, IFRS 15 *Revenue from Contracts* with Customers and IFRS 16 *Leases*.

    b. 'the consolidation exemption for investment entities' is useful.

    c. the judgement required to distinguish substantive rights from protective rights is a challenge, for example, when one party has the right to appoint the chief executive and operating officer and another party has the right to appoint the chief financial officer. The GPF member said the use of judgement in distinguishing rights creates ambiguity about control, making it difficult for an investor to assess who has control.

    d. there is a perceived inconsistency between IAS 28 *Investments in Associates* and IFRS 10— relating to sale or contribution of assets between an investor and the investor's associate or joint venture.

16. GPF members commented on the implementation and application requirements of IFRS 11 and IFRS 12. GPF members' comments included:

    a. the reference to 'other facts and circumstances' in classifying joint arrangements is too broad and its application is burdensome.

    b. Example 3 in the Illustrative Examples of IFRS 11 requires a long and complex analysis. In the view of the GPF member who raised this comment, Example 3 does not work properly, and the analysis can result in similar structures being treated differently. The GPF member said the purpose of a joint arrangement is to collaborate with another partner and the accounting treatment should reflect that purpose.

    c. the requirement to present summarised financial information of an associate or joint venture is a challenge when the associate or joint venture issues financial statements at a different date from the parent. The requirement may force the parent to disclose unaudited financial information.

    d. the interaction between IFRS 11 and IFRS 16 *Leases* should be considered, as evidenced by the recent IFRS Interpretation Committee discussion about a lease arrangement between one of the joint operators and a third party when the leased asset is used by the joint operation.

e. information disclosed about an entity's involvement with unconsolidated structured entities is considered by users to be excessive.

17. *Next steps*

In Phase 1 of the PIR, the technical staff will undertake outreach with stakeholders to collect information regarding IFRS 10, 11 and 12. At the end of Phase 1, the staff will present to the Board the suggested contents (questions) to be included in Request for Information for Phase 2 of the project.

Agenda Consultation

18. The purpose of this session was to brief GPF members on the status of the 2020 *Agenda Consultation* and ask for their help in developing a Request for Information.

19. GPF members discussed:

    a. high-level messages for the Board to consider during the agenda consultation (paragraph 19); and

    b. suggestions for potential projects to include in the Request for Information for stakeholder comment (paragraphs 20-21).

High-level messages

20. The chair of the GPF introduced the discussion setting out the following positions, on which GPF members are aligned:

    a. Preparers, in the view of the GPF, still prefer a stable platform, having undergone significant efforts to implement recently issued IFRS Standards. The GPF believes preparers would prefer not to see frequent changes to IFRS Standards, and they need to be convinced that the benefits of any changes exceed the costs.

    b. A focus area of the Board's 2022-2026 Work Plan should be to simplify IFRS Standards for the benefit of preparers and users of financial statements. The GPF recommends that the Board should make IFRS Standards clearer and more understandable without adding too much costs for preparers. The GPF suggested that the number of issues the IFRS Interpretations Committee receives could be used as one of the indicators to determine which IFRS Standards might need simplifying.

    c. A comprehensive project on intangibles would be welcomed by the GPF—see specific suggestions in paragraph 21a. Such a project would be a headline project for the Board's 2022-2026 Work Plan. The GPF acknowledges, however, that it would be a tricky project. If asked to choose, the GPF believes that the preparer community would most likely prioritise simplifying IFRS Standards over a project on intangibles.

Suggestions for potential projects

21. GPF members were asked, in advance of the meeting, to suggest up to three new potential projects to include in the Request for Information for stakeholder comment—see Agenda Paper 6A. At the meeting, GPF members discussed those potential projects, explaining the problem and their importance. The following potential projects were discussed:

    a. A comprehensive project on the accounting for intangibles; that is, a project that would explore the definition, recognition, measurement and disclosures of intangible assets. GPF members suggesting this project expressed concerns that intangible assets that are important to a company's financial position are currently not recognised on the statement of financial position. Consequently, they proposed a project to assess which intangibles should be recognised and to address differences between internally-generated and acquired intangibles. However, a few other GPF members said that need for such a project would vary across industry groups. These members expressed concerns about measurement uncertainty and asked the Board to consider the cost-benefit of such a project.

    b. A project to fundamentally review the requirements in IAS 7 *Statement of Cash Flows*. GPF members suggesting this project said that IAS 7 does not accurately reflect how they operate their company and suggested that free cash flows used by management might provide more useful information to users. However, other members disagreed and said the IAS 7 cash flow statement is useful to users and reflects how they review cash flows internally. Consequently, these members cautioned against making changes to IAS 7.

    c. A project that fundamentally reviews the accounting requirements in IAS 29 *Financial Reporting in Hyperinflationary Economies*. GPF members suggesting this project said that IAS 29 is challenging to apply and can provide results that are not useful to users as it fails to accurately reflect an entity's financial position. One member added that this situation is especially pronounced when the parent company in a non-hyperinflationary economy consolidates a subsidiary in a hyperinflationary economy. One of these members suggested that the US GAAP requirement for this topic could be considered as a potential solution. Members said that such a project should be considered first before any project about extending the scope of IAS 29 to cover economies subject to high inflation.

    d. A project that either amends IAS 16 *Property, Plant and Equipment* or introduces a new Standard to allow accretion of value for appreciating assets, for example, artificial intelligence systems. The GPF member suggesting this project said that the asset value of such systems will increase, rather than decrease, over time as companies learn more about them.

    e. A narrow-scope project to clarify the discount rate to be used in discounting post-employment benefit obligations under IAS 19 Employee Benefits in the absence of a deep market for high-quality corporate bonds. The GPF member suggesting this project said that there is diversity in practice on the discount rate to use in such situations.

f. A project to address how technology companies should account for emerging alternatives to income taxes, for example, digital service taxes.

22. GPF members suggested additional projects that would consider whether to:

   a. clarify the accounting for recognising deferred tax asset losses, in particular when the requirements in IAS 12 *Income Taxes* conflicts with regulatory requirements.

   b. provide additional guidance on classifying costs and expenses on the income statement to reduce diversity in practice and increase the usefulness of the Income Statement.

   c. provide an IFRIC Interpretation on whether contracts for public infrastructure with a commercial entity, of which the government is a majority shareholder, should be accounted for as a government grant or a shareholder contribution.

   d. align IFRS Standards, in particular older IFRS Standards with the 2018 Conceptual Framework for Financial Reporting.

   e. update some older IFRS Standards using the approaches in the new IFRS Standards.

23. *Next steps*

The technical staff will report the feedback from GPF members at a future Board meeting and consider their feedback in the Board's deliberations about which potential projects to include in a Request for Information for stakeholder comment.

Next meeting

The next GPF meeting will be held on 5th March 2020.