Summary of the Capital Markets Advisory Committee discussions

The IASB's user advisory group, the Capital Markets Advisory Committee (CMAC), held their first meeting of 2014 on 27 February.

The meeting took place in the IASB offices in London. Recordings of the meeting discussions, the agenda and related papers are available on the **meeting page**.

The topics for discussion were:

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Welcome from the Chairman of the IASB

Hans Hoogervorst started the first meeting of 2014 by welcoming the CMAC members. He reminded them how important they are to the standard-setting process, especially in providing input to the IASB on investor and analyst views. The IASB is aware that it is important to continue to engage actively with investors and analysts. He thanked the CMAC members for taking the time to participate on the CMAC and for contributing their views on the IASB's proposals.

Leases: Lessee accounting model

The IASB staff described the alternative approaches to recognising lease expenses in a lessee's income statement that are being considered by the IASB and the FASB as part of their redeliberations on their joint proposed changes to lease accounting.

The staff then asked the CMAC for feedback on which of the proposed approaches would provide the most useful information for their analyses.

Most of the CMAC members indicated their preference for a single model, which would require a lessee to present amortisation and interest separately for all leases. This reflects their view that leases creates debt-like liabilities and that it is important to see a link between the balance sheet and income statement. Accordingly, a lessee should recognise a corresponding interest expense in the income statement. Some members highlighted that a single model would also avoid arbitrage and would ensure comparability. Some reference was made to the accounting model being supported by high quality disclosures that would enable users to identify different leased assets and make further adjustments (eg for the whole asset) should they wish to.

A few CMAC members supported the proposals for dual income statement presentation that were included in the May 2013 Exposure Draft (2013 ED). These members' views were that there are economic differences between real estate leases and equipment leases and that the proposed dual approach is a practical way to reflect this.

In addition to the other approaches discussed, the CMAC members also considered an approach that would permit lessees of real estate to either recognise interest and amortisation separately, or a single lease expense, in its income statement. They then discussed what they would prefer as an alternative solution if the single income statement model was not achieved. The majority of the CMAC members indicated that the dual model approach included in the 2013 ED would be the preferred alternative income statement treatment.

Leases—next steps

The boards will discuss the lessee income statement model at the March 2014 joint board meeting.

Post-implementation Review of IFRS 3 *Business Combinations*

The IASB staff updated the CMAC members on the status of the Post-implementation Review of IFRS 3 *Business Combinations*. They provided an overview of the Request for Information (RfI) published by the IASB on 30 January 2014. The IASB staff explained some of the issues and questions that were included in the RfI and asked the CMAC for feedback on those items. The main messages from CMAC were as follows:

Business combinations versus assets acquisitions

The staff asked the CMAC whether they thought there were benefits to separate accounting treatment for business combinations versus asset acquisitions, and, if so, what they were.

- Some members did think that the accounting for a business combination should be different from the accounting for an asset acquisition.
- However, some members thought that some of the existing accounting differences could be eliminated; for example, the accounting for deferred tax assets and liabilities and the accounting for the acquisition-related costs.
- Some members did not expect the recognition of a significant amount of goodwill when it is not clear whether a group of assets is a business, as defined by IFRS 3. In other words, the existence of goodwill could be an indicator that a group of assets is a business.

Separate recognition of intangible assets from goodwill

The IASB staff asked the CMAC whether they found recognition of intangible assets separately from goodwill useful, and how it contributed to the CMAC's understanding and analyses of acquired businesses.

- Some members noted that they do not need the split between intangible assets acquired in a business combination (such as customer lists and internally generated brand names) and goodwill. Because such intangible assets are not traded, and their resulting measurement is complex and subjective, some members do not use the values of the intangible assets acquired in a business combination in their analyses.
- Some members thought that the recognition of these intangible assets may give the wrong impression—that is, that the entity does not need to make future capital expenditures.
- Some members thought that these intangible assets are only being recognised to avoid the recognition of goodwill, to recognise negative goodwill, or for tax purposes.
- Another member thought that the separate recognition of intangible assets from goodwill is useful because it permits comparison between different accounting policies that management choose to make (eg one entity may amortise customer lists over ten years, whereas another entity may decide to amortise customer lists over twenty years). This member thinks that this type of information provided by accounting for intangible assets is more useful than information provided by goodwill.

Goodwill: non-amortisation versus amortisation

The IASB staff then asked the CMAC whether they found impairment (versus amortisation) of goodwill and indefinite-lived assets useful.

- Some members supported the non-amortisation of goodwill and indefinite-lived intangible assets because:
    - they find it useful for calculating the Return on Investment (RoI);
    - it gives them a better understanding of whether the management has overpaid and/or whether the acquisition was successful;
    - it enables them to assess management (eg whether the acquisition was a good business decision); and
    - it helps them to verify whether an acquisition is working as expected.
- Other members supported the amortisation of goodwill and indefinite-lived intangible assets, because:
    - they believe that the impairment test is unrealistic; goodwill is always recoverable even if the market capitalisation is low and the value of goodwill is significant;
    - they believe that the impairment test is not effective, so the market ignores the impairment test results;
    - they believe that estimating the useful life of goodwill is possible and is no more difficult than estimating the useful life of other intangible assets; and
    - that goodwill has been paid for and so, sooner or later, it should have an impact on profit or loss.
- Many members also think that the impairment test disclosures are useful (even though some of them think that goodwill should be amortised).

PiR of IFRS 3—next steps

The Request for Information is open for comment until 30 May 2014. In addition, IASB members and staff will undertake further outreach with investors and analysts during the first half of 2014.

Integrated Reporting

The IASB staff discussed the concept of Integrated Reporting, its history, and what role, if any, the IASB should play. The staff also discussed the messages the IASB received from the IFRS Advisory Council on Integrated Reporting.

The staff then asked the CMAC whether they agree with an Integrated Reporting concept, and, if so, where they believe that Integrated Reporting should sit and what efforts the IASB should give to developing this way of thinking.

There were a variety of views voiced by CMAC members. Some believe that the IASB's role is to provide requirements for reporting financial information and that the IASB should not be focusing its resources on Integrated Reporting. It is the analyst's job to determine whether additional information is needed to value a business. In addition, while information about Integrated Reporting is interesting to investors, they questioned what information it might replace in the reports today. They also indicated how difficult it might be to distinguish, in providing Integrated Reporting information, what information is within, as opposed to outside of, management's control.

Others questioned the objectives of Integrated Reporting, while others asked about the practical approach to it. Others believe that this information is already there. Finally, some members believe that this information needs to be provided but that a more holistic approach should be taken to providing it (eg information about the sustainability of returns to shareholders).

Integrated Reporting—next steps

The IASB will continue to consider its role in Integrated Reporting and will feedback its progress to stakeholders as appropriate.

Overview: Debt Disclosures

The IASB staff introduced the reasons for a possible debt disclosures project and discussed at a high level the findings from a survey on some information related to changes in debt that investors and analysts may need.

The CMAC members were asked for their views on whether a roll-forward of beginning and ending balances for items that are defined as financing items by IAS 7 *Statement of Cash Flows* would meet the needs of investors and analysts, at least on a short-term basis.

Overall the CMAC members supported the staff's proposed recommendations. There were also some additional suggestions about information about debt that could be considered, which included:

- requiring disclosure of the link between the interest/financing costs in the income statement, and the related 'debt' or interest-bearing liabilities in the balance sheet;
- a need for improved disclosures about the maturity of debt; and
- improved information about cash and any restrictions on repatriation of cash.

Debt Disclosures—next steps

The staff will bring a paper to the March 2014 Board meeting that will consider short-term amendments that might improve some of the disclosure information about debt.

Overview: Equity method of accounting

The IASB staff explained that a need for a project on the equity method of accounting had been identified through the Agenda Consultation. The staff had not yet started work on any project. They wanted to understand the information that investors and analysts look for when analysing associate entities and joint ventures accounted for using the equity method.

Some CMAC members mentioned that because IFRS 12 *Disclosure of Interests in Other Entities* was likely to change the information that is currently provided, it is difficult to respond to the question at the moment. However, some members noted that:

- There was no particular support for a fair value model in situations in which there were no market inputs.
- The equity method (and its related shortcomings) are already well understood so any change needs to be carefully considered.
- Understanding the role of an investment, ie whether it is core or non-core to the investor's business, is important.

Equity method of accounting—next steps

The IASB staff will continue to analyse the feedback received from the Agenda Consultation to consider the scope of a possible project on the equity method of accounting.

Disclosure Initiative—Materiality

The IASB staff gave an overview of a proposed short-term project on materiality, which is part of the overall Disclosure Initiative project. Discussions included the scope, objective and approach to a materiality project. The CMAC members were asked whether they think that there are issues today with the application of the concept of 'materiality', and, if so, what they are. They were also asked whether they agreed that the IASB should undertake a project on materiality. The resulting discussion highlighted the following points:

- Many CMAC members agreed that the objective of the project should be to make disclosures more effective, and not necessarily to reduce the amount of

disclosures.
- The CMAC members agreed that the IASB needs to involve others in the project as well (eg regulators and auditors).
- It is not transparent to investors and analysts how the concept of materiality is applied to financial statements. For example, removal of qualitative information from a note disclosure (that had previously been provided) may also be a material item to an investor. The CMAC members suggested that the IASB should investigate ways to make it more transparent—for example, include guidance on what characteristics make information immaterial.

The CMAC was also asked what investors could do to positively change behaviour regarding the application of materiality; for example, whether they could further contribute to the materiality project via increased dialogue directly with preparers. It was suggested that this might make a good topic for discussion at CMAC's joint meeting with the Global Preparers Forum.

Overall the CMAC members supported the IASB undertaking a project on materiality.

Disclosure initiative—next steps

The staff will be discussing the scope of the materiality project at the March 2014 Board meeting.

Next CMAC meeting

The next CMAC meeting will be held jointly with the Global Preparers Forum and will take place on **30 June**. The agenda topics for the meeting will be discussed in the upcoming month.