# Joint CMAC and GPF minutes
# June 2014



| CONTACT(S) | Li Li Lian | llian@ifrs.org | +44 (0)20 7246 6486 |
| --- | --- | --- | --- |
| | Fred Nieto | fnieto@ifrs.org | +44 (0)20 7246 6956 |
| | Barbara Davidson | bdavidson@ifrs.org | +44 (0)20 7246 6907 |



## Introduction

1. The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a joint meeting in London on 30 June 2014. Stephen Cooper welcomed all members.

2. In this meeting, CMAC and GPF members discussed the following topics:

   (a) IASB Update (paragraphs 3-4)

   (b) *Conceptual Framework* (paragraphs 5-23)

   (c) Disclosure Initiative (paragraphs 24-31)

   (d) Leases (paragraphs 32-49)

   (e) Post-implementation Review of IFRS 3 *Business Combinations* (paragraphs 50-60).

   CMAC and GPF members discussed items (b) to (e) in separate break-out groups before coming together to discuss the feedback from the groups.

## IASB Update (Agenda Paper 1)

3. CMAC and GPF members noted IASB's recent technical activities. They include:

   (a) Active projects: the IASB was still working to complete its Leases and Insurance Contracts projects. In addition, the IASB was debating issues that arose from its *Conceptual Framework* Discussion Paper.

   (b) The IASB was also working on its Disclosure Initiative project. This issue arose from its Agenda Consultation, in which many parties thought that the IASB should work towards making financial statements

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/CMAC/Pages/CMAC.aspx

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx provide more effective communication to investors. The Disclosure Initiative project comprised a number of projects, which include:

(i) Narrow-scope amendments to IAS 1 *Presentation of Financial Statements*, which was published in March 2014.

(ii) Understanding how materiality is applied in practice.

(iii) A longer-term project to update IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Estimates and Errors*.

4. CMAC and GPF members also noted recent and forthcoming Standards:

(a) The IASB had issued IFRS 15 *Revenue from Contracts with Customers*. This was jointly developed with the US Financial Accounting Standards Board (FASB). Companies using IFRS will be required to apply IFRS 15 for reporting periods beginning on or after 1 January 2017. Early application is permitted. The IASB and FASB have also formed a joint Transition Resource Group in order to support transition to the new Standard.

(b) The IASB expected to issue an updated IFRS 9 *Financial Instruments* in July 2014. The updated IFRS 9 will include updated requirements on impairment of financial assets and on classification and measurement.

## Conceptual Framework

5. The purpose of this session was to gain input on two topics that are being considered in the *Conceptual Framework* project:

(a) the distinction between liabilities and equity (Agenda Paper 2A); and

(b) the distinction between profit or loss and other comprehensive income (OCI) (Agenda Papers 2B and 2C).

### *Distinction between liabilities and equity*

6. The CMAC and GPF members discussed three approaches to distinguishing between liabilities and equity (the settlement approach, the narrow equity approach, and the value approach):

(a) GPF members appeared to prefer the settlement approach, but CMAC members appeared to prefer the narrow equity approach. This reflected concerns that each had regarding the approaches they did not favour:

   (i) Regarding the settlement approach, some CMAC members were concerned that it could classify some debt-like instruments as equity.

   (ii) Regarding the narrow equity approach, some GPF members were concerned that changes in some equity-like instruments could be recognised in profit or loss. Some CMAC members suggested using OCI for remeasurements of puttable shares. In addition, some participants expressed concern that it may be difficult to define narrow equity.

(b) One GPF member suggested that it was a complex area and that the narrow equity approach might reduce that complexity; however, it might also shift the complexity to another area: presenting performance.

(c) There was little support for the value approach, because it was considered to be the most difficult to understand. A few participants believed that it had some merit but would not support it, for practical reasons.

(d) Views were driven primarily by concerns about complexity. Some GPF and CMAC members preferred a simpler and more intuitive and understandable approach. They found the settlement and narrow equity approaches to be more intuitive and understandable.

7. The GPF and CMAC members discussed factors that could be considered when distinguishing between equity and liabilities:

   (a) Some stated that disclosure about liquidity was important, but not a determining factor.

   (b) No one thought that voting rights were relevant to the classification.

   (c) There were mixed views on whether consideration should be given to how claims would be classified in case of liquidation.

   (d) Some thought that equity must be permanent.

(e) One CMAC member commented that the distinction between equity and liabilities is the only area in which investors and analysts look to the balance sheet first. Consequently, the IASB should focus on the balance sheet effect when distinguishing between liabilities and equity.

8. Other comments were:

(a) It would be beneficial to achieve convergence on this issue with other major standard-setters.

(b) There could be a separate balance sheet element/item for hybrid instruments.

(c) Some CMAC members suggested that, for equity instruments, investors and analysts need more disclosure about dilution, high level terms or conditions of those instruments, and information to help determine the cost of capital. Others placed less importance on the classification than on receiving the relevant financial information they need.

(d) Many GPF members were concerned about the consequences that changes in the approach to classification could have on governance, capital regulations, covenants etc. However, a few GPF members suggested that classification should not be driven by regulatory capital requirements.

### *Profit and loss and other comprehensive income*

9. The CMAC and GPF members expressed overall support for the direction taken by the IASB in its approach to profit or loss and OCI.

10. There was general agreement with describing profit or loss as the primary source of information about an entity's performance for the period. They generally welcomed the IASB's focus on profit or loss and stated that this was more appropriate than focusing on total comprehensive income, which they believed the IASB had been doing previously.

11. Some GPF and CMAC members suggested that ideally the IASB should define financial performance or profit or loss and OCI, but they acknowledged that that was challenging, if not impossible.

12. One CMAC member urged the IASB *not* to attempt to define financial performance or profit or loss and OCI. That member thought that the very acknowledgement that there is no single conceptual basis for the use of OCI, and the recognition that OCI is used on a case-by-case basis, is a step forward. That member also welcomed the acknowledgment that no single number provides a complete picture of performance.

*Rebuttable presumption on including items of income and expense in profit or loss*

13. Most GPF and CMAC members agreed with the proposed rebuttable presumption that all items of income and expense should be included in profit or loss, unless including them in OCI enhances the relevance of profit or loss for the period.

14. Some GPF and CMAC members discussed how to assess whether an item of income and expense is relevant for profit or loss for the period:

    (a) Some CMAC members thought that this assessment should be made by the IASB in setting Standards and that further guidance in the *Conceptual Framework* is not needed. They recommended that the IASB ought to be cautious and justify what items of income and expense could be included in OCI going forward and why.

    (b) A few GPF members suggested that the *Conceptual Framework* should provide more guidance on what is meant by 'enhancing relevance of profit or loss for the period'.

*Items of income and expense that could be included in OCI*

15. Many GPF and CMAC members agreed that OCI should be only used for items of income and expense resulting from some changes in current measures of assets and liabilities (remeasurements). Some stated that it is appropriate to present remeasurements separately from other types of income and expense, because remeasurements tend to be more volatile and less persistent than other types of income and expense. Accordingly, they stated that such items have a different predictive value and are more difficult to forecast than other types of income and expense, such as those resulting from transactions. Some participants stated that investors and analysts typically make adjustments for remeasurements in their

analysis. Finally, others stated that remeasurements are not sources of dividend distributions.

16. GPF and CMAC members expressed mixed views on whether *some* or *all* remeasurements should be included in OCI. Most thought that only some remeasurements should be included in OCI. Some thought that all remeasurements should be included in OCI.

17. GPF and CMAC members then discussed how to distinguish remeasurements that should be included in OCI from those that should be included in profit or loss. Suggestions included:

    (a) within versus outside management control;

    (b) on the basis of a business model;

    (c) realisation of items of income or expenses; or

    (d) the short-term vs long-term nature of the underlying asset or liability.

    No consensus view emerged.

18. A few GPF and CMAC members made comments about what constitutes a remeasurement. One CMAC member suggested that impairment is not a remeasurement, but is instead a decline in value below the initial cost to acquire the asset.

*Rebuttable presumption on recycling*

19. CMAC and GPF members generally supported recycling of some or all items of income and expense included in OCI and supported the proposed rebuttable presumption on recycling. Some, notably GPF members, supported recycling all items of income and expense included in OCI. Others, notably CMAC members, believed that recycling is appropriate in most, but not all, cases. Actuarial gains and losses on pension liabilities were given as an example of an item that should not be recycled.

20. GPF and CMAC members who advocated recycling all items of income and expense included in OCI offered the following arguments:

    (a) Cumulative profit or loss over the entity's life should equal the total cash flows of the entity.

(b) Recycling of all items of income and expense included in OCI is consistent with describing profit or loss as the primary source of information about an entity's performance for the period.

21. GPF and CMAC members who supported recycling as a principle that applies in most, but not all, cases believed that recycling should take place when it reflects the entity's performance for the period.

22. Some GPF and CMAC members made comments about *when* recycling should take place. Some stated that recycling should take place when it reflects the entity's performance for the period. Some supported recycling when items of income and expense are realised.

*Other comments*

23. Other comments on the proposed approach to profit or loss and OCI included:

(a) One CMAC member noted that consistent application of the requirements is very important for investors and analysts.

(b) One CMAC member noted that OCI is a relatively recent phenomenon. Consequently, it was important to educate investors and analysts so that they understand OCI and its significance for their analysis.

(c) Some GPF and CMAC members seemed to imply that items included in OCI do not reflect the performance for the period.

## Disclosure Initiative

### *Introduction*

24. The Disclosure Initiative project is a portfolio of implementation and research projects by which the IASB is seeking to improve disclosures in financial statements. The objective of the session was to seek advice from GPF and CMAC members on one item from the implementation project and one item from the research project.

(a) In relation to the implementation project, the objective of the session was to consider the proposal to introduce a requirement into IAS 7

*Statement of Cash Flows* requiring a reconciliation of the opening and closing liabilities, as presented in the Statement of Financial Position, and the cash flows from financing activities, as presented on the Statement of Cash Flows. CMAC and GPF members were asked to consider whether the disclosures would improve disclosures about liabilities relating to financing activities, and the costs versus the benefits of the draft proposals (Agenda Paper 3A).

(b) In relation to the research agenda item, participants discussed:

(i) recommendations from constituents regarding the use of cross-referencing as a potential way to address duplication of information (Agenda Paper 3B); and

(ii) different ideas for highlighting information of special importance disclosed in the notes to the financial statements (Agenda Paper 3C).

### *Feedback from the break-out sessions and general discussion*

*Amendments to IAS 7*

25. GPF and CMAC members supported the proposed amendment. They also made the following points:

(a) Some CMAC members suggested that reconciliation of liabilities relating to financing activities provides investors and analysts with the raw data required to perform their analysis of the entity. Providing this information will assist them in predicting free cash flows and in estimating the amount of cash generated from operating activities.

(b) Some GPF members suggested that the amendment to IAS 7 should not prohibit disclosures from being provided on a net basis, that is, liabilities relating to financing activities, less cash and cash equivalents, and financial assets managed as net debt. This is because some preparers may manage debt on a net basis and may already provide this information in the financial statements today—changing to a 'gross reconciliation' could be perceived as reducing information and limit management's ability to explain financial and risk management strategies.

(c) It was agreed that investors and analysts need to be able to understand the components of financing activities so that they can understand the nature of financing liabilities, for example distinguishing between short- and long-term liabilities.

(d) It was observed that much of the information is currently available in the financial statements, but it is helpful if the information is collated in a table, because this makes the information more accessible. In addition to this improvement, other areas that the IASB could consider in its research project *Principles of Disclosure* include:

(i) Disclosure of interest paid and interest received.

(ii) Disclosure of tax paid.

(iii) Improved disclosures about debt covenants and encumbered assets related to liabilities.

(iv) Improved disclosures regarding the cash generated from operating activities. CMAC members noted that they used financial statements to estimate free cash flows and hence they need information on operating and financing activities.

(v) The definition of cash and cash equivalents should be reviewed.

26. There were some questions raised as to how the proposal worked alongside the Leases project (was a right-of-use asset to be considered as financing?) and whether the Revenue Standard would require bifurcation in cases in which financing is a significant component.

### *Principles of Disclosure Project—cross-references and organisation of information*

#### ***Permitting the option of using cross-references***

27. Some GPF and CMAC members supported the option of using cross-referencing as a way to minimise duplication of information. However, those GPF members raised concerns regarding audit issues. Some CMAC members supported cross-referencing if it is carried out in a clear and organised manner, both in the cross-reference and in the information to which it refers; others suggested that a potential way to overcome cross-referencing concerns is to only allow cross-referencing to financial reports that are issued together as a package. For

example, an entity could cross-reference information within the financial statements to information in the Annual Report.

28. Other CMAC members did not support the idea of placing information required by IFRS outside the financial statements at all. They indicated that other reports should cross-reference to financial statements and not the other way round. They raised the prospect of potential scattering of information if the cross-referencing was used too broadly.

### *Organisation of information*

29. Regarding organisation of information (Agenda Paper 3C), GPF and CMAC members did not support the option to order information in the financial statements by importance. Concerns raised and comments made were:

(a) It could be difficult to audit and to make the necessary judgements.

(b) Constant reordering of information would be very confusing.

(c) The management report already provides insights about important information.

(d) There was broad support for keeping the ordering of the notes in accordance with the line items in the financial statements.

30. CMAC members had mixed opinions about the use of a summary of important information at the beginning of the notes. Some stated that it would be useful, while others stated that the summary would eventually create boilerplate information. Some GPF members also agreed with the latter response.

31. One participant suggested exploring whether there should be a split between primary information and secondary information. Secondary information would be the information for more sophisticated users, while primary information is information that would be relevant and more important for all users. However, other participants disagreed with that suggestion, because it is unclear who should decide what would be primary or secondary information. A few CMAC and GPF members emphasised that a general disclosure about accounting policies is useful, because not all investors or analysts are knowledgeable about all IFRSs and their detailed requirements, and therefore a brief description of a particular Standard is appreciated by them.

## Leases
## (Agenda Paper 4)

32. GPF and CMAC members discussed three areas of lessee disclosures arising from the proposals in the 2013 Exposure Draft (ED):

    (a) maturity analysis of the contractual lease payments included in lease liabilities;

    (b) reconciliations of the opening and closing balances of right-of-use (ROU) assets and lease liabilities and alternative quantitative disclosures; and

    (c) qualitative disclosures.

### *Maturity analysis of the contractual lease payments*

33. GPF and CMAC members discussed the ED's proposal that a lessee should disclose a maturity analysis of the lease liability, showing the undiscounted future lease payments for each of the first five years and in total for the remaining years. A lessee should also provide a reconciliation between the undiscounted lease payments and the lease liability recognised in the balance sheet.

34. Most CMAC members confirmed that the proposals in the ED would provide them with useful information in order to assess the entity's liquidity risks. They also made the following comments:

    (a) Some thought that this disclosure was only necessary if leasing activities constitute a material part of an entity's activities.

    (b) While there was no appetite for mandating additional specific time bands beyond those proposed in the ED, one member noted that requiring time bands to cover, for example, up to 75 per cent of lease commitments, would be a way of linking this disclosure to the significance of leasing activities to an entity.

    (c) Some thought that the level of detail of the information to be provided should depend on the lease portfolio structure of a lessee. For example, if a lessee has an average lease portfolio of less than five years, these members believed that it would be appropriate to provide a maturity analysis for each of the first five years.

35. Some GPF members stated that, mainly as a consequence of the proposed definition of a lease, implementing the IASB's proposal on the maturity analysis would be more costly than implementing existing requirements. This is because they thought that the IASB's proposal would require a maturity analysis for a larger pool of lease commitments, compared to today.

36. There was also some discussion between CMAC and GPF members as to whether there was a need for specific requirements for maturity disclosure for leases, or whether guidance for all financial liabilities could be applied instead.

37. GPF and CMAC members also discussed the provision of information relating to unrecognised leases (eg short-term leases or small ticket leases) and unrecognised components of leases (eg variable lease payments and payments in an optional period).

    (a) Some CMAC members expressed general interest in this information.

    (b) Some GPF members thought that including these amounts within the general lease disclosures (eg including them within the maturity analysis) would, in effect, eliminate the cost savings of the proposed recognition and measurement exemptions.

    (c) One GPF member would prefer the IASB to focus on the main issues when considering disclosures and not try to solve each specific issue.

### *Reconciliations of the opening and closing balances of ROU assets and lease liabilities*

38. GPF and CMAC members discussed the ED's proposals for lessees to provide reconciliations of the opening and closing balances of ROU assets and lease liabilities.

39. CMAC members thought that the reconciliation of ROU assets provides them with useful information, particularly with regard to 'new' leasing activities—ie new lease contracts and renewals. They observed that if information about new

leasing activities were available via an alternative disclosure, then the ROU asset reconciliation would be of less benefit to them.

40. CMAC and GPF members observed that many preparer respondents to the ED thought that the proposals for reconciliation disclosures were costly, particularly for high-volume leases and for leases held by subsidiaries. Some CMAC members asked why preparers would hold that view if they did not hold that view for the proposals regarding debt reconciliations (see the Disclosure Initiative section above). GPF members responded as follows:

    (a) Existing property, plant and equipment (PPE) accounting systems are not designed to produce the proposed disclosures and new systems would need to be implemented.

    (b) While debt is often held within only a few financing affiliates or corporate headquarters, leasing activities are generally implemented all over the world in various subsidiaries.

    (c) An entity would have lease contracts that have a range of lease terms. Unlike PPE, which can normally be grouped into similar economic useful lives or types of assets, the nature of the various lease contracts makes producing reconciliation disclosures a more complex exercise.

    Some CMAC members acknowledged the cost involved and confirmed that they would not want high costs to be incurred in producing disclosures that are considered to be immaterial. However, one GPF member responded that even if the requirement was only to provide disclosure for material leases, preparers would need to collect data for all leases in order to demonstrate that the data for other leases is immaterial.

41. On the lease liability side, some CMAC members stated that a reconciliation for lease liabilities would be relevant to their analyses, as would a reconciliation for other similar financial liabilities.

42. Participants also discussed whether there were quantitative disclosures that would be useful to investors instead of the reconciliations proposed in the ED.

    (a) Some CMAC members were of the view that the most important information for investors and analysts was lease data by asset type (for example, property, land, aircraft and vehicles, although the appropriate split of classifications would vary by entity). Some GPF members thought that the suggested alternative disclosure should not be too costly to implement, although that would depend on the level of detail of the disclosure requirement.

(b) CMAC and GPF members discussed whether disclosure requirements for ROU assets and lease liabilities should differ from those for property, plant and equipment and financial liabilities, respectively.

(i) One CMAC member suggested requiring the same disclosure for items that a lessee purchases (that is, disclosure required for PPE) and for items that it leases. This would enable investors to compare information between lessees that purchase their assets and lessees that lease them.

(ii) Some GPF members observed that for some particular leases, not all amortisation of ROU assets and interest expense on lease liabilities would be recognised in the income statement, because they would be capitalised, eg in construction contracts. Consequently, in their view, a breakdown of the lease expense would not provide investors and analysts with comprehensive information about changes in ROU assets and lease liabilities.

### *Proposed qualitative disclosure requirements*

43. Lastly, GPF and CMAC members discussed the types of qualitative disclosures that were proposed in the ED to assist investors and analysts in their understanding of lease contracts and that could be provided at a reasonable cost. In particular, they focused on disclosures relating to variable lease payments and renewal options (see paragraphs 45 and 46) and disclosures about the nature of the leased asset (see paragraphs 47-49).

44. GPF and CMAC members also discussed the role of materiality when discussing these qualitative disclosures.

(a) CMAC members noted that they need to see material information disclosed; however, only preparers can judge what information is material for their business. They noted that leasing activities could be material in aggregate, giving the example of a retailer whose store leases are not material individually but are material in aggregate.

(b) GPF members agreed with CMAC members that qualitative disclosure should be required only for material information. They emphasised that disclosures should be considered within the context of the business being looked at and should not be considered on an ad hoc basis.

*Disclosures relating to variable lease payments and renewal options*

45. Most CMAC members thought that the qualitative disclosures should provide information about renewal options and variable lease payments.

(a) Some members thought that, considering the highly diversified lease portfolio of some lessees, quantitative disclosure about variable lease payments would be more informative in many circumstances than qualitative disclosure. This would be particularly useful in some industries (for example, the retail industry), for which investors and analysts need to understand the link between revenue and lease expenses that are based on revenue. They also noted that details of variable lease payments, combined with a total rent disclosure, would give them useful information.

(b) Some members expressed an interest in obtaining qualitative information about variable lease payments, such as what drives the amount of variable lease payments.

(c) Some members thought that the qualitative disclosures would also provide insight into why companies are using variable terms and how those terms are used across a lease portfolio.

(d) Some members also suggested that the IASB should consider requiring disclosure of the average remaining contract life because, when combined with the maturity analysis discussed in Question 1, the average provides them with better information than a range of contract lives.

46. Many GPF members indicated that the proposed disclosures in the ED would be costly for preparers to provide.

(a) One member noted that the new proposals could capture more contracts within the definition of a lease, and consequently, additional disclosure costs will be incurred, because these contracts are spread across many IT systems. For example, some existing operating leases are allocated to capital projects and consequently it would be costly to track these contracts.

(b) In addition, members expressed concern about the usefulness of the proposed qualitative disclosure for a lessee's lease portfolio as a whole. For example, an average discount rate for the lease liability could be calculated by aggregating data, but it would be difficult to explain what that means for a diverse lease portfolio.

*Disclosures about the nature of the leased asset*

47. CMAC and GPF members also discussed quantitative disclosures about the nature of lease assets.

48. CMAC members made the following comments:

(a) A few thought that disclosure would be useful because it would help them to obtain a better understanding of an entity's returns in relation to capital employed.

(b) Some did not think that quantitative disclosures, such as those presented on page 12 of Agenda Paper 4, are needed in all cases. They thought that the usefulness of such information would depend on the industry; for example it might be more useful in the retail or hotel industries.

(c) Some were interested in obtaining disclosures that would help them to construct a 'whole asset number' (that is, information about how much would be capitalised if the entity had purchased, rather than leased, the asset). An example of such a disclosure would be the useful life of the underlying asset compared to the average lease term, by class of underlying asset.

49. GPF members were generally concerned that it might not be possible to get all the information needed on a group level to comply with this proposal and that this proposal could lead to boilerplate information.

## Post-implementation Review of IFRS 3 *Business Combinations* *(Agenda Papers 5, 5A and 5B)*

50. IASB staff provided an overview of the current status of the Post-implementation Review of IFRS 3 *Business Combinations* and of the main comments received during the outreach. The objective of this session was to receive input from CMAC and GPF members on some of the more significant issues included in the Request for Information.

### *Intangible assets: separating intangible assets from goodwill*

51. GPF and CMAC members discussed:

    (a) whether the requirement to separate intangible assets (such as customer lists and internally generated brand names) from goodwill assisted them in their analysis of the company; and

    (b) the implementation challenges to this requirement.

52. CMAC members had mixed views about the requirement to separate intangible assets from goodwill:

    (a) Some disagreed with this requirement because they had observed that it had created diversity in practice, and reduced comparability. Moreover, in their view, this requirement made it difficult for investors and analysts to compare acquired business with businesses that had grown organically.

    (b) Some supported this requirement because it gave them an insight into why a company had purchased another business and provided them with information on the future cash flows arising from the acquired business. They acknowledged that separating goodwill from other intangible assets required more judgement than is required in identifying other types of asset acquired in a business combination.

(c) Some supported separating goodwill only from finite-life intangible assets (eg licences).

(d) Some also raised a concern about the amortising of capitalised acquired indefinite-life intangible assets. They thought that this requirement:

   (i) leads to double counting, because the group would recognise two sets of expense for the same intangible assets: amortisation, and the costs (eg marketing expenses) implicitly incurred in maintaining them; and

   (ii) is inconsistent with the existing prohibition on recognising internally generated goodwill.

53. Some CMAC members observed that many acquirers would report more purchased intangible assets if the acquired entity had not reported those internally generated intangible assets prior to a business combination. Consequently, they raised a question on the validity of those acquired intangible assets.

54. GPF members made the following comments:

(a) With regard to implementing the requirement to separate intangible assets from goodwill, a few GPF members observed that top management would typically decide on how much they would be willing to pay to acquire another entity, without necessarily considering the value of the individual assets and liabilities of the acquired entity. Once the acquisition has been completed, the accounting staff would then have to identify the individual assets and liabilities, and allocate the purchase price to them. Consequently, the allocation of the amounts could be viewed as purely an accounting exercise.

(b) They agreed with some CMAC members that that there is a high degree of judgement needed to separate intangible assets from goodwill.

(c) They thought that the information provided has limited life in terms of informational value and questioned whether the benefits of requiring the separation of intangible assets from goodwill in a business combination would exceed the cost.

### *Goodwill: impairment test versus amortisation*

55. GPF and CMAC members discussed:

    (a) whether goodwill should be amortised, or simply be subject to an impairment test; and

    (b) the implementation issues arising from the requirement in IFRS 3 to assess test goodwill for impairment, without amortising it.

56. Their comments include:

    (a) Some GPF and CMAC members thought that goodwill should be amortised, because it represents future profits, and thus should be allocated over time. Some also thought that this method was more straightforward to explain and would be less subjective to implement.

    (b) Some GPF members stated that amortising goodwill reflected the fact that the parent needed to 'maintain' the revenue-generating capability of the acquiree.

    (c) Some CMAC members disagreed with the requirements in IFRS 3 not to amortise goodwill, because they thought that goodwill acquired in a business combination is subsequently replaced progressively by internally generated goodwill.

    (d) Other CMAC members supported the impairment test for goodwill because they thought that it helps them to assess the stewardship of the management of the company and helps them to monitor the synergies from the acquisition. They did not support amortisation of goodwill, because they thought that the goodwill has an indefinite life and they considered amortisation to be merely an arbitrary allocation exercise.

    (e) Some GPF members thought that testing goodwill for impairment is difficult, because it is difficult to allocate the cash flows relating to the goodwill acquired separately from other cash flows. They stated that the judgements required for this disclosure were not only complex, but could also result in inconsistent application.

    (f) Some GPF and CMAC members suggested that the IASB should reconsider this decision, because they were of the view that existing impairment requirements did not provide investors and analysts with timely information.

(g) Many GPF and CMAC members stated that if the IASB were to reconsider this requirement, it should do so jointly with the FASB.

### *Step acquisitions and loss of control*

57. GPF and CMAC members discussed whether the current requirements in IFRS 3 on step acquisitions and on loss of control provide useful information, and the implementation challenges arising from these requirements. Comments include:

(a) Many did not support the current requirements, because they thought that:

(i) the unit price for a large block of shares is different from the unit price for the last few shares needed to acquire control. A previously held large minority interest should not be remeasured at the price paid to acquire the last few shares that were publicly traded; and

(ii) the remeasurement at fair value of the previously held equity interest would not give better information about future cash flows than a carry-over basis.

(b) Some CMAC members thought that the remeasurement of the retained interest is not useful, because the earning process is not complete and the gain has not been realised.

### *Disclosures*

58. GPF and CMAC members discussed whether other information is needed to properly understand the effect of a business combination, and the implementation challenges in preparing the disclosures required by IFRS 3. Comments include:

(a) Some GPF members thought that it would be difficult to provide information on the subsequent performance of the business acquired, because the acquiree is generally integrated rapidly into the acquirer's operations. They also noted that the acquirer generally prepares plans and budgets for the entire operation/territory that will include the acquiree.

(b) Some CMAC members thought that it would be useful if the acquirer could publish information about the plans for the entire operation/territory, and comparison with the subsequent outturn. This information, together with pro forma information, could be given in management commentary (ie not in audited financial statements).

### *Contingent consideration*

59. GPF and CMAC members discussed whether the accounting for contingent consideration provides useful information, and the implementation challenges in measuring contingent consideration at fair value. Comments include:

(a) Many GPF and CMAC members did not support the current requirements on the subsequent measurement of contingent consideration. They thought that they are counterintuitive, because the acquirer recognises a loss if the acquiree is performing better than expected. They also thought that the requirements in IFRS 3 are not consistent with the existing requirements for asset acquisitions, eg in IAS 16 *Property, Plant and Equipment*.

(b) Some CMAC members thought that the current requirements help the user to understand how the acquirer is performing and they considered that this is useful information.

(c) Some GPF and CMAC members thought that the changes in the fair value of the contingent consideration should be capitalised.

### *Transaction costs*

60. GPF and CMAC members discussed whether transaction costs should be included in the consideration paid or recognised in profit or loss (as currently required by IFRS 3). Comments include:

(a) Many GPF and CMAC members supported the current requirement, because they thought that transaction costs should not be included in goodwill. The value of the acquiree does not include these costs. They also thought that recognising these costs as an expense is consistent with the fact that IFRS 3 is a Standard based on fair value.

(b) Some CMAC members supported the current requirements, because they thought that it is useful to know how much the acquirer pays for advisory, legal and other services (it permits users to assess stewardship).

(c) Some GPF and CMAC members thought that recognising these costs as an expense is not consistent with the treatment of similar costs in asset acquisitions.

## Next meetings

61. The next CMAC meeting will be held on 16 October 2014.

62. The next GPF meeting will be held on 6 November 2014.